

This is an abridged translation of the original Japanese document and is provided for informational purposes only. If there are any discrepancies between this and the original, the original Japanese document prevails

# FY2023 Second Quarter IR Presentation Materials

October 10, 2023



**AEON Financial Service**

Stock Listing: Tokyo Stock Exchange, Prime Market

Code No: 8570

Let us start by outlining the financial results for the second quarter.

## Contents

---

- 1** Financial Results Highlights
- 2** Priority Measures
- 3** Earnings and Dividend Forecasts
- Appendix

# 1 Financial Results Highlights

## Summary of Financial Results

---

### (1) First Half Performance

- Although revenues increased due to an increase in transaction volume, consolidated operating profit was ¥20.2 bn (YoY 64%) due to an increase in expenses

### (2) Stock stacking

- Outstanding operating receivables steadily increased in Domestic and Global

### (3) Increased expenses

- Domestic : Costs are ahead of investment in expanding customer base, including AEON Pay.
- Global : Bad debt related expenses increased over the previous year due to the impact of inflation on households.

### (4) Dividend

- The interim dividend will be ¥25 per share as originally forecasted

AEON Financial Service Co., Ltd.

4

- I will give a summary of the financial results.

- Firstly, on the first half performance.

With the lifting of COVID-19-related restrictions, domestic and global consumption became active. By meeting the demand for payment and financing, revenue increased for domestic and global businesses.

However, consolidated operating profit decreased due to an increase in expenses.

- The second point is the consistent increase in revenue sources.

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

In global markets, the growth in outstanding operating receivables has slowed for the time being in Thailand due to tightened screening standards considering the recent economic environment. In contrast, the balance is steadily growing in China and Malay areas.

- The third point is the increase in expenses.

During the 1H, active promotion to increase the customer base for the barcode settlement “AEON Pay” in the domestic market resulted in increased sales promotion expenses before revenue generation.

For global markets, in addition to special factors, including COVID-19 support measures by various governments implemented a year ago, the increased burden on households from inflation, among other factors, resulted in an increase in bad debt-related expenses over the previous year.

- The fourth point is dividends.

We are not changing the forecast announced in April and plan to make an interim dividend payout of 25 yen per share.

## The Highlights of the Consolidated Results

[Domestic] : Operating profit decreased due to an increase in bad debt related expenses due to an increase in the balance of loans and sales promotion expenses to expand the customer base

[Global] : Although bad debt related expenses increased, top line sales grew steadily

	Consolidated		Domestic		Global		FY2023 Forecast	Progress
	YoY		YoY		YoY			
Operating Revenue	107 %	¥237.5 bn	102 %	¥144.2 bn	117 %	¥94.2 bn	¥480.0 bn	49 %
Operating Profit	64 %	¥20.2 bn	16 %	¥1.6 bn	84 %	¥18.4 bn	¥61.0 bn	33 %
Ordinary Profit	62 %	¥21.3 bn	-	-	-	-	¥61.0 bn	35 %
Profit attributable to owners of parent	40 %	¥7.2 bn	-	-	-	-	¥27.0 bn	27 %

※As a result of the domestic business integration, the results of AEON Financial Service Co., Ltd., which had been included in the adjustment amount, are included in the domestic segment. YoY is calculated by reorganizing the previous year's results into the changed segments.

5

- Here are the consolidated results for the first half.
  - Operating revenue was 237.5 billion yen, up 7% year on year.
  - Operating profit was 20.2 billion yen, down 36% year on year.
  - Ordinary profit was 21.3 billion yen, down 38% year on year.
  - Profit attributable to owners of parent was 7.2 billion yen, down 60% year on year.

The first half saw an increase in revenue but a decline in profits.

- The main cause of the profit decline for domestic businesses was the same as the first quarter, that is, the increase in bad debt-related expenses due to the increase in the balance of loans and the increase in sales promotion expenses.

As for global businesses, bad debt-related expenses increased year-on-year primarily due to the special factors that occurred in the previous fiscal year. However, the results have been generally in line with the full-year plan, thanks to the steady top-line growth in each country.

- With the management integration between AEON Financial Service and its consolidated subsidiary Aeon Credit Service as of June 1st, the results for AEON Financial Service previously reported under “adjustment” will be included in the domestic businesses segment.

Consequently, the business management cost for the AFS Group is included in the domestic businesses segment.

## The Highlights of the Consolidated Results -2Q Fiscal Quarter

[Domestic] : ¥400mn in business integration costs recorded as an extraordinary loss

[Global] : Operating profit in the Malay area increased by 145% YoY, and the business turned to higher profits

	Consolidated		Domestic		Global	
	YoY	YoY	YoY	YoY	YoY	YoY
Operating Revenue	¥120.9 bn	106 %	¥72.8 bn	100 %	¥48.8 bn	117 %
Operating Profit	¥11.0 bn	67 %	¥0.2 bn	3 %	¥10.3 bn	114 %
Ordinary Profit	¥11.7 bn	65 %	-	-	-	-
Profit attributable to owners of parent	¥3.6 bn	35 %	-	-	-	-

AEON Financial Service Co., Ltd.

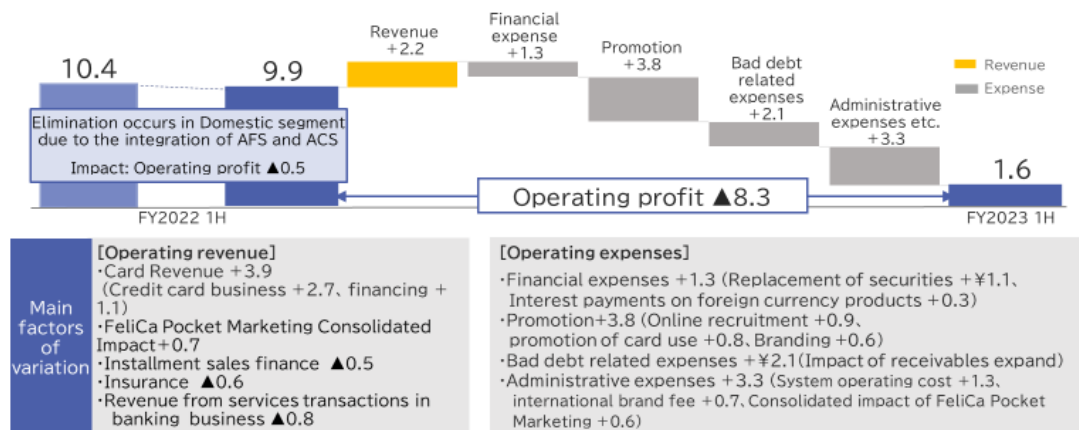
6

- Here are the consolidated results for the second quarter:
  - Operating revenue was 120.9 billion yen, up 6% year on year.
  - Operating profit was 11.0 billion yen, down 33% year on year.
  - Ordinary profit was 11.7 billion yen, down 35% year on year.
  - Profit attributable to owners of parent was 3.6 billion yen, down 65% year on year.
- For domestic business, 400-million-yen management integration-related costs were recorded as extraordinary losses in the second quarter.
- For global business, less impact of special factors in the previous fiscal year compared to the first quarter and an increase in top-line revenue resulted in operating profit increasing year-on-year in the Malay area.

The Mekong area is also showing signs of improvement, and global businesses, on the whole, have turned to higher profits.

## [Domestic] Breakdown of Operating Profit

- Increased sales due to expansion of shopping and cash advance use due to revitalization of consumption
- Profit decreased due to an increase in bad debt related expenses associated with an increase in outstanding balances and sales promotion expenses to expand the customer base



7

- This slide shows the breakdown of the year-on-year changes in the operating profit of domestic businesses.
- Due to the management integration with AEON Credit Service, the results for AEON Financial Service are reported under the domestic businesses segment. Operating profit of 9.9 billion yen for the previous fiscal year was calculated by applying the same standard as the current fiscal year, resulting in a 0.5 billion yen decrease from the results announced last year.
- Operating revenue expanded despite the negative factors, thanks to increased credit card revenues and consolidation of FeliCa Pocket Marketing.
- On the other hand, expenses increased due to the securities portfolio rebalancing for the banking business in the first quarter and bad debt-related expenses associated with increased receivables.
- In addition, sales promotion expenses increased significantly from the previous year due to the focused promotion to increase AEON Pay membership and use during the first half, particularly with substantial investments in online card membership promotion.

The online promotion expenses increased by 0.9 billion yen from the previous year due to aggressive and broad promotion using advertisements on affiliate sites and search engines. However, it included some measures that will take time to produce results, and we will keep a close eye on the outcome.

- As a result, operating expenses increased by 8.3 billion yen, and the operating profit of domestic businesses for the first half decreased.

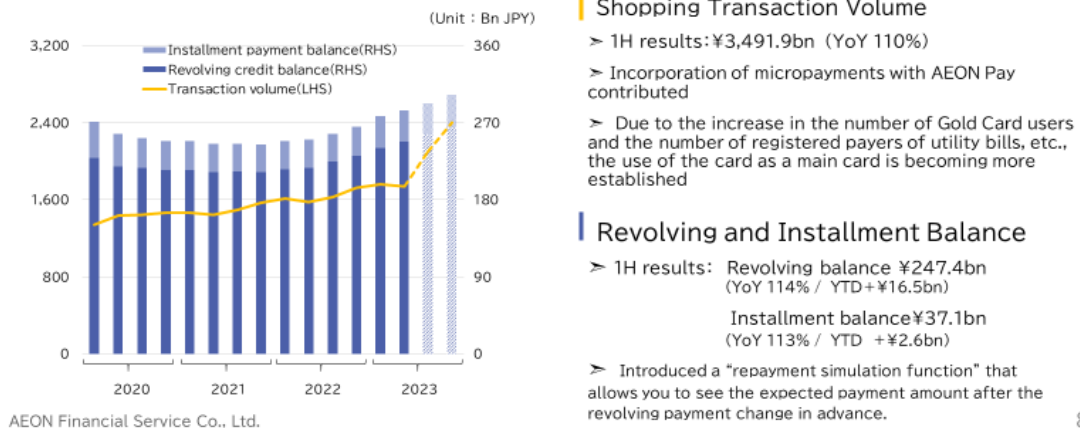
We will aim to increase transaction volume and operating receivables with more effective



sales promotion measures to achieve the performance targets.

## [Domestic] Shopping Transactions and Receivables

- Transaction volume was driven by travel and leisure as daily consumption recovered
- Revolving balances continue to grow at double-digit rates year-on-year due to the expansion of users



- This slide shows the trends in credit card shopping transactions and the balance of receivables in domestic businesses.

In the graph, the yellow line shows the shopping transaction volume, and the blue bars show the balance of revolving credit balance.

- Shopping transactions increased by 10% year on year to 3,491.9 billion yen.  
Consumers had been tightening their budgets due to the higher cost of living, but the trend is easing, and day-to-day consumption is returning to normal levels. The demand for extraordinary spending, such as traveling, also drove the transaction volume.  
Against these backdrops, we enhanced efforts to promote the use of AEON Pay for micropayments, such as for fast food and vending machines, to increase daily use further.
- We also promoted registered payments, such as for utilities and conversion to the Gold Card, which typically leads to higher spending and usage. This has contributed to establishing the position as the main credit card for daily use.
- With regards to the outstanding balance of receivables, the revolving credit balance was 247.4 billion yen, up 14% year-on-year, or an increase of 16.5 billion yen from the beginning of the fiscal year.

The installment payment balance was 37.1 billion yen, up 13% year-on-year, or an increase of 2.6 billion yen from the beginning of the fiscal year, maintaining a double-digit growth rate year-on-year.

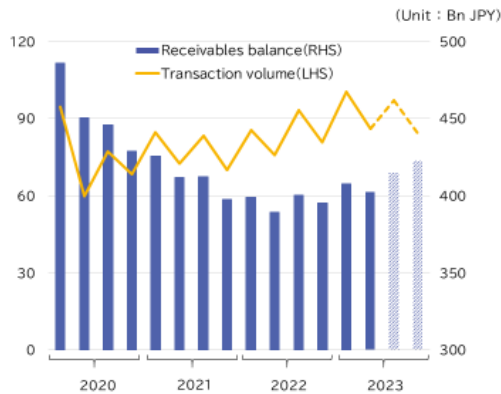
Introducing a repayment simulation function in the first quarter allows users to check the expected total payment amount after switching to revolving payment. This ensured peace

of mind for users, which contributed to user increase.

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

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

- Approach to new and dormant members continues to drive double-digit yoy growth in transaction volume
- The balance also turned positive YoY from FY23 1Q and has been on an upward trend



### Cash Advances Transaction Volume

- > 1H results: ¥186.2bn (YoY 115%)
- > In addition to the recovery in personal fund demand, the optimization of credit lines, which had been tightened due to the pandemic, and the approach to dormant members were successful
- > Online cash advances are expanded by appealing the benefits of instant transfer to a designated account at any time

### Cash Advances Balance

- > 1H results: ¥402.6bn (YoY 103% / Initial difference + ¥7.3bn)
- > In addition to an increase in transaction volume, the online change from lump-sum payment to revolving from this fiscal year contributed to improved customer convenience and increased balance

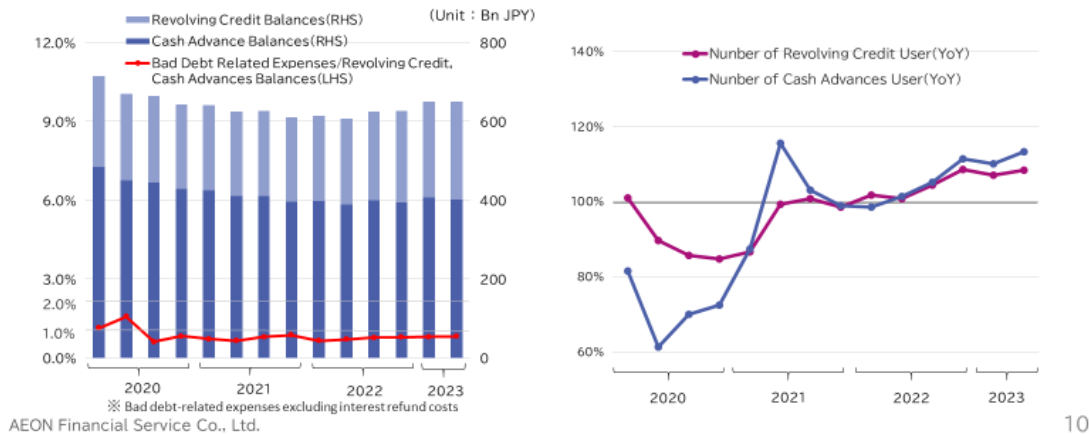
AEON Financial Service Co., Ltd.

9

- This slide shows the transaction volume and outstanding balance of receivables for cash advances.
- Cash advance transaction volume increased by 15% year-on-year to 186.2 billion yen. In addition to recovery in the demand for personal funding, we promoted re-engaging dormant members and approaching customers new to cash advances. The demand for online cash advances is growing as the customers' lifestyle changes. And transaction volume increased by appealing the convenience of 24/7 instant transfer to the customer's designated account.
- The balance of cash advances was 402.6 billion yen, increasing by 7.3 billion yen from the beginning of the fiscal year, maintaining the growing trend.
- Transaction volume and outstanding balance exceeded the plan, and we will try to maintain the growth trend in the 2H and beyond.

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

- The ratio of bad debt-related expenses to outstanding receivables remains low at less than 1%
- The number of users of both revolving and cash advances continued to increase, and the outstanding amount of receivables expanded



- This slide shows the trends in the outstanding balance of revolving credit and cash advance receivables and the ratio 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 receivables.

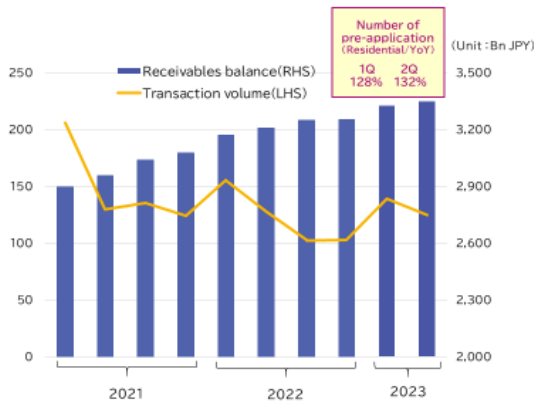
The red line has remained below 1%, indicating that the credit quality of the receivables has stayed stable without any notable variation.

- 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 and blue lines, respectively.

You can see from these graphs that the number of users continues to grow without recording a significant increase in the outstanding balance per customer. This means we have been able to expand our high-quality receivables.

## [Domestic] Housing loan transaction and receivables balance

- Competitive interest rates and expanded AEON Select Club benefits led to a 30% year-on-year increase in pre-registrations
- Transaction volume is currently recovering, and balances are steadily accumulating.



### Housing loan transaction volume

- 1H results : ¥263.2bn (YoY 93%)
- Although the increase in new projects continues to take a long time from application to execution, the number of consultations is 130% yoy
- With the introduction of the simulation function of AEON Select Club benefits and the appeal at stores and online results in recovery trend

Residential loans in August was 117% yoy

### Housing loan balance(before securitization)

- 1H results : ¥3,425.1bn ( Initial difference +105.0bn)
- Transaction volume decreased by YoY, but the balance steadily accumulated

AEON Financial Service Co., Ltd.

11

- Next, I will explain the transaction volume and balance of receivables in our housing loan business.
- The transaction volume was 263.2 billion yen, down 7% year-on-year.

With the recent changes in the interest rate environment, demand for refinancing is decreasing.

On the other hand, despite the increase in new transactions, a substantial number of loans have not been executed, as it takes time from application to execution of housing loans.

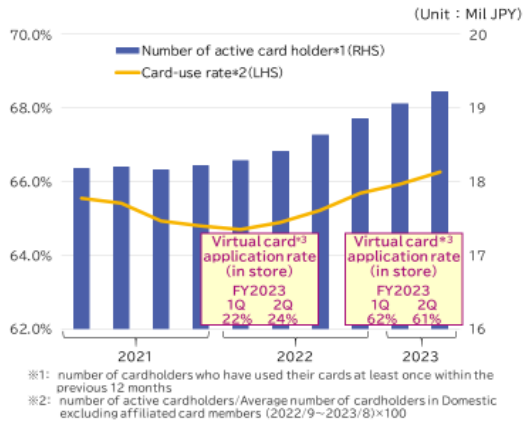
- Due to the revision of the benefits under the AEON Select Club to offer discounts at AEON Group stores to housing loan customers and the competitive interest rate, the number of pre-applications has increased by more than 30% year-on-year.

The latest housing loan execution amount in August exceeded the previous year, clearly indicating the recovery trend.

We will appeal our unique benefits to pre-application customers to ensure steady transaction volume growth.

## [Domestic] Status of ID expansion

- Although the acquisition of new members was sluggish, the number of active members increased due to the success of improving initial operation and promoting the use of gold cards



AEON Financial Service Co., Ltd.

12

### Number of new members acquired

- > New cardholders acquired in the first half: 840,000 (YoY 96%)
- > Due to delays in affiliated cards, the acquisition of new members decreased from the same period of the previous year
- > The AEON Wallet app was renewed in September. Customers other than AEON Cardholders can also use AEON Pay to acquire future cardholders

### Number of active members

- > 1H results : 19.22 million (YoY 104%)
- > In order to improve the initial active rate after enrollment, we promoted the registration of virtual cards at the time of in-store enrollment and the use of gold cards with a high active rate

- This is the last slide from our domestic businesses. It shows the status of ID expansion.
- The graph on the left shows the number of active members in the blue bars and annual usage in the yellow line.

We acquired 840,000 new cardholders, which was down 4% year-on-year, partly due to the delay in the application of benefits for the newly affiliated cards.

- On the other hand, the addition of the charging (preloading) function to AEON Pay enabled customers who do not own our credit cards to use AEON Pay, leading to the acquisition of new customers and the number of AEON Pay members increased to 9 million.
- In addition, the promotion of in-store applications for virtual cards, which allows same-day activation of AEON Group benefits, has improved initial usage.

Together with the continued promotion of Gold Card conversion, the number of active members reached 19.22 million, increasing by 4% year-on-year.

## Global Business by Segment 1H Performance Highlights

- Operating revenue increased in all three and sales and profits continued to increase in China area
- In the 2Q accounting period, profits also increased in the Malay area, and the Global business also turned to higher revenues and profits

1H cumulative period	China area	YoY	Mekong area	YoY	Malay area	YoY
Operating revenue	¥14.2bn	136 %	¥45.0bn	109 %	¥34.8bn	121 %
Operating profit	¥4.2bn	125 %	¥6.8bn	72 %	¥7.3bn	82 %
<Reference> Bad debt related expenses	¥2.9bn	198 %	¥16.6bn	130 %	¥9.5bn	156 %

2Q accounting period	China area	YoY	Mekong area	YoY	Malay area	YoY
Operating revenue	¥7.5bn	128 %	¥23.3bn	112 %	¥17.9bn	121 %
Operating profit	¥2.1bn	112 %	¥4.1bn	95 %	¥4.0bn	145 %
<Reference> Bad debt related expenses	¥1.7bn	195 %	¥8.1bn	116 %	¥4.3bn	89 %

AEON Financial Service Co., Ltd.

13

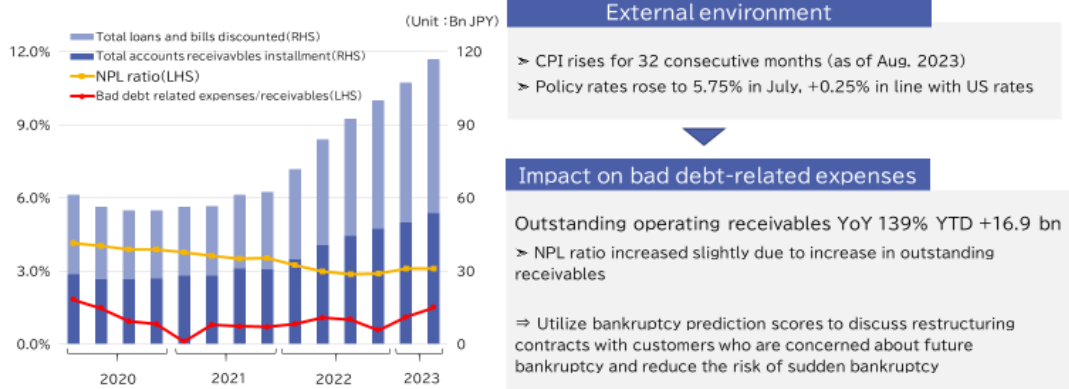
- From here, I will explain the results of our global businesses.
  - The operating revenue expanded for all three areas of China, Mekong, and Malay, but operating profit decreased in Mekong and Malay areas due to increased bad debt-related expenses.
- The China area maintained an increase in revenue and profit, led by the steady increase in transactions in Hong Kong.
- The Malay area also returned to profit growth in the 2Q accounting period, and the global business as a whole has returned to increased revenue and profit.





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

- Outstanding receivables increased steadily to YoY 139%
- Take preventive measures against sudden bankruptcy risk and expect bad debt related expense to peak out in the 2H of the FY



AEON Financial Service Co., Ltd.

15

- I will explain the overseas trends in outstanding receivables and non-performing loans (NPL) ratio, starting with AEON Credit Service (Asia) in Hong Kong.
- The graph on the left shows installment receivables in light blue and operating loans receivables in dark blue bars, while the yellow and red lines show the NPL ratio and the ratio of bad debt-related expenses to the outstanding receivables, respectively.
- ACS Asia steadily increased operating revenue, increasing outstanding receivables.
- In Hong Kong, the consumer price index has been rising for 32 consecutive months, and while the average wage is also growing, slower GDP growth and a rise in the unemployment rate in some sectors have been observed.

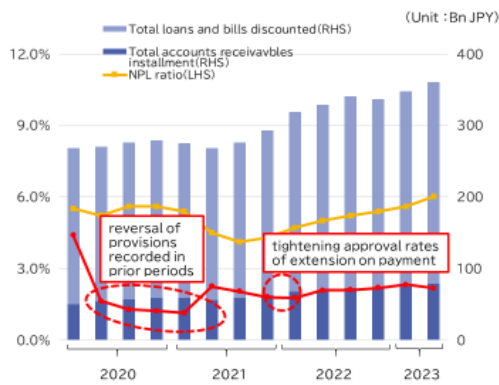
The number of cases where normal credit suddenly becomes unrecoverable has increased, resulting in the rise in the ratio of bad debt-related expenses to the outstanding balance of receivables.

As a preventative measure against sudden bankruptcy risk, we are contacting the customers to discuss loan restructuring contracts to control bad debt-related expenses.

We expect the bad debt-related expense ratio to peak in the 2H.

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

- NPL ratio continues to rise, but revision of provision rate calculation method controls bad debt related expenses



### External environment

- CPI rises for 24 consecutive months (as of Aug. 2023)
- Minimum wage will remain unchanged from Oct. 2022
- GDP growth in April-June '23 was positive but lower than the previous quarter

### Impact on bad debt-related expenses

- Outstanding operating receivables YoY110% YTD+23.8bn
- The unemployment rate among young people in particular continues to be high, and the NPL ratio is rising in the market as a whole
- The revision of the provision rate calculation method lowered the QoQ bad debt related expense ratio
- ⇒ The new administration has set policies to raise the minimum wage and reduce the household debt of the people, and the current cost of living burden is showing signs of improvement. Increase the credit ratio to middle-income earners with stable incomes and aim to expand the outstanding balance of receivables while balancing credit costs.

AEON Financial Service Co., Ltd.

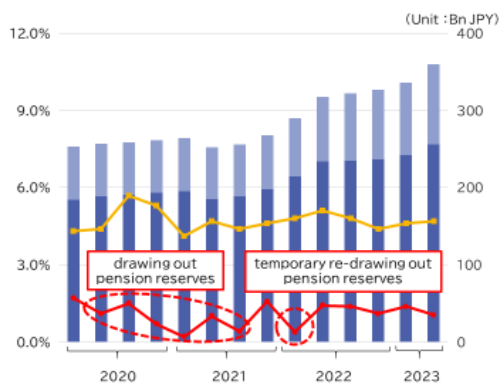
16

- This slide shows the results at AEON Thana Sinsap in Thailand.
- In Thailand, inflation and unemployment among the younger generation remain high, resulting in rising non-performing loans (NPL) ratios across the market, including our competitors.
- The growth in outstanding receivables has plateaued at a high level for Thana Sinsap due to the tightening of screening standards based on the recent environment.
- Although the NPL ratio is rising, the ratio of bad debt-related expenses to the outstanding balance of receivables has decreased from 1Q owing to the revision of the calculation method for the provision rate.

We aim to increase the outstanding balance of receivables by approving credit for stable-income customers while balancing credit costs.

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

- In the 1Q of the previous FY, bad debt related expenses improved significantly due to special factors
- Outstanding receivables mainly personal loans steadily expanded, but NPL ratio remained stable



### External environment

- CPI rises for 31 consecutive months (as of Aug. 2023)
- GDP growth in April-June' 23 was positive, but slowed for three consecutive quarters

### Impact on bad debt-related expenses

Outstanding operating receivables YoY113% YTD+33.3bn

- The NPL ratio remained stable, and the QoQ bad debt related expense ratio also declined due to the expansion of normal loans and the renewal of the provision ratio

⇒ Average wages are currently rising, and screening accuracy has been improved by expanding the use of e-KYC and introducing biometric authentication to merchants. Lower credit costs while expanding personal loans and individual installments.

AEON Financial Service Co., Ltd.

17

- Finally, this slide shows the results for AEON Credit Service in Malaysia.
- The Malaysian Government implemented a program allowing early withdrawal from pension funds in the 1Q of FY2022, which led to a significant reduction in our bad debt-related expenses as a result. Subsequently, the bad debt-related expenses for the 1H FY2023 increased year-on-year.
- Under these circumstances, we continued to improve screening accuracy by introducing e-KYC and in-store biometric authentication to merchants for installment finance and personal loans. This led to an increase in normal credits and reduced bad debt-related expense ratio.
- The NPL ratio remained stable, and we were able to return to a profit increase in the 2Q.
- As we have seen, bad debt-related expenses will continue, significantly impacting global businesses' results. We will consistently work to improve our credit and collection policies in the 2H corresponding to the market conditions.
- Lastly, I would like to explain the situation regarding our measures to improve corporate value.
- We are currently holding continued discussions on improving our corporate value, including a review of the business portfolio.

We are cautiously determining the underlying business policy and are not quite ready to present it today.

- It is unfortunate that we cannot present the policy to you today as we have been saying it will be ready by autumn. We will set an opportunity to explain the policy as soon as it is finalized, including the medium-term management plan and shareholder return.

- This concludes the explanation of the consolidated results for the second quarter of FY2023.

## 2 Priority Measures

AEON Financial Service Co., Ltd.

18

- I'm Kenji Fujita, President and CEO of the Company; I will discuss our priority measures.

## Environment Surrounding the Company and the Direction of Initiatives

- Re-organize Domestic business and reform overseas business models in order to maximize the value provided to customers

**External Environment :** Digitalization / Price Rise / Interest Rate Fluctuation / Wage Increase / Recovery of People Flow / Climate Change

**Internal Environment :** : Continuation of upfront investment ( [Domestic] Points / Insurance [Global] Digital Bank )

### Domestic Business Restructuring

- ① Improve profitability by strengthening sales capabilities
- ② Improve productivity through deduplication
- ③ Cross-sell propulsion

Strengthening sales capabilities

Productivity improvement

Strengthening Governance

### Overseas Business Model Reform

- ① Process transformation through digitalization
- ② Strengthening screening and collection by utilizing AI
- ③ Prospect new revenue source

**Maximize the value provide to customers**

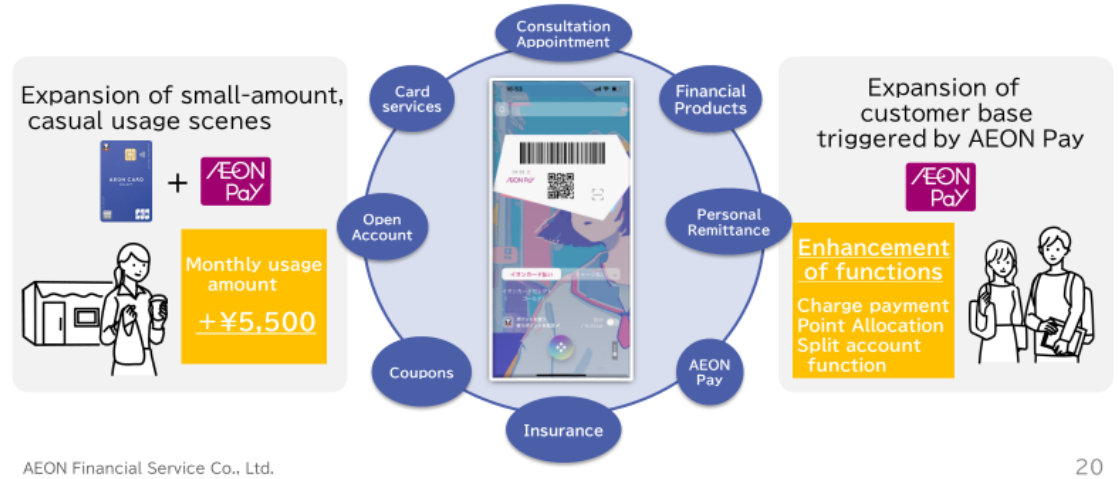
AEON Financial Service Co., Ltd.

19

- This slide is from the FY2022 IR presentation material concerning the environment surrounding the company and the direction of initiatives.
- The global businesses are ahead in digitalization, and domestic businesses are forging ahead with “improving profitability by strengthening sales capabilities,” “improving productivity by eliminating redundancies,” and “promoting cross-selling” through business restructuring to maximize the value provided to customers.
- Various initiatives are being implemented following the domestic management integration on June 1st. We have started the test introduction of office consolidation at AEON Group stores to resolve sales touchpoint redundancies. We expect considerable effect from physical branch touchpoint integration.
- For virtual touchpoints, we will evolve from a credit card app to a financial services app. The first step has been implemented, and we will add functions through agile development to complete the process.
- We are also promoting changes in resource allocation as part of organizational restructuring. Management integration of non-bank IT divisions and structural reform to improve the effectiveness of IT governance have been implemented. At the same time, we are concurrently considering various projects by allocating resources to domestic corporate planning functions and overseas businesses.

## [Domestic] Expansion of Touchpoints (AEON Wallet)

- Expanding the functions of the AEON Wallet app according to the customer's lifestyle
- Expand new customer base and promote cross-selling by accumulating data through apps



- For the domestic market, we started with the renewal of the AEON Wallet, the digital touchpoint with our customers.
- We aim to create a touchpoint with a function as the general service counter that can address the needs of individual customers as their lifestyles, hobbies, and preferences diversify. We aim to increase the frequency of use by consolidating various financial services to create an app that enables customers to enjoy daily, seamless experiences with good value. Then, we will create a cycle of aggregating and analyzing various usage data and returning further convenient services for our customers.
- AEON Pay installed on AEON Wallet is now available to customers who do not own AEON Card, attracting new customers. The app will be developed further to improve convenience by enhancing functions that are high in demand, such as money transfers between individuals, by the end of the year.
- Customers with AEON Card membership who started using AEON Pay have increased use in sectors where credit card payments were not common and contributed to transaction volume with an increase in average monthly card use around AEON Pay usage.
- AEON Pay membership is steadily increasing, exceeding 9 million as of the end of August. We plan to increase accepted locations to 1.7 million in FY2023, mainly in sectors with high demand for small payment needs.
- AEON Pay is currently installed on AEON Wallet and iAEON, and we are considering installation in apps provided by AEON Group and others to promote use by more customers.



## [Domestic] Expansion of the Economic Zone (Strengthening of Regional Cooperation)

- Consolidated FeliCa Pocket Marketing, which provides Community Currency and apps
- Expanding community-based services to local governments



AEON Financial Service Co., Ltd.

21

- Next, I will explain about strengthening regional cooperation.
- FeliCa Pocket Marketing provides solutions closely related to the local community, such as community currencies and community point systems, mainly for municipalities. It became our consolidated subsidiary in 2Q.
- The company has a track record of providing services to more than 100 municipalities and a strong connection with municipalities in various regions.

It will continue to enhance cooperation with regional communities by providing solutions for municipalities.

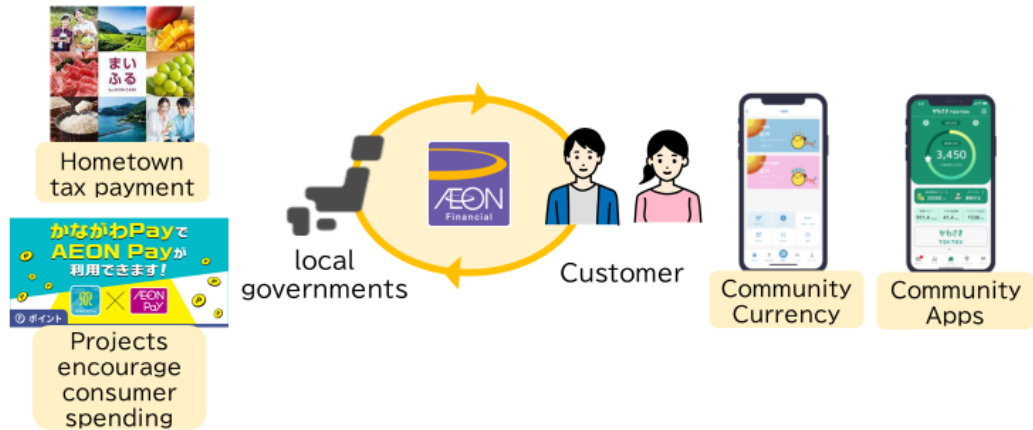
- In addition, we launched “My Furu,” a payment portal for the Hometown Tax (a Japanese system for taxpayers to donate to municipalities) in September. Establishing the portal site has enabled the building of a better relationship with many municipalities. We will aim to provide further services closely related to the regions.
- Furthermore, we will strengthen our initiatives to promote cashless payment and consumption in the regional communities with AEON Pay.

Most recently, AEON Pay was adopted as a payment method for “Kanagawa Pay,” which is the consumption stimulus measure by the Kanagawa Prefecture. This initiative significantly increased the number of AEON Pay users in the prefecture, contributing substantially to the increase in AEON Pay users.

- AEON Pay was also adopted for a lifestyle support campaign by Chiba City in October. We aim to continue strengthening cooperation with the regions with active participation.

## [Domestic] Expansion of the Economic Zone (Strengthening of Regional Cooperation)

- Consolidated FeliCa Pocket Marketing, which provides Community Currency and apps
- Expanding community-based services to local governments



AEON Financial Service Co., Ltd.

21

- The next topic is global businesses.
- As discussed in the first half of the briefing, the increase in bad debt-related expenses in global businesses put downward pressure on operating profit in the 1H.

We recognize that controlling the volatility of results caused by bad debt-related expenses in global businesses is an important management issue, and we have enhanced efforts in each transaction process, i.e., application, screening, and collection.

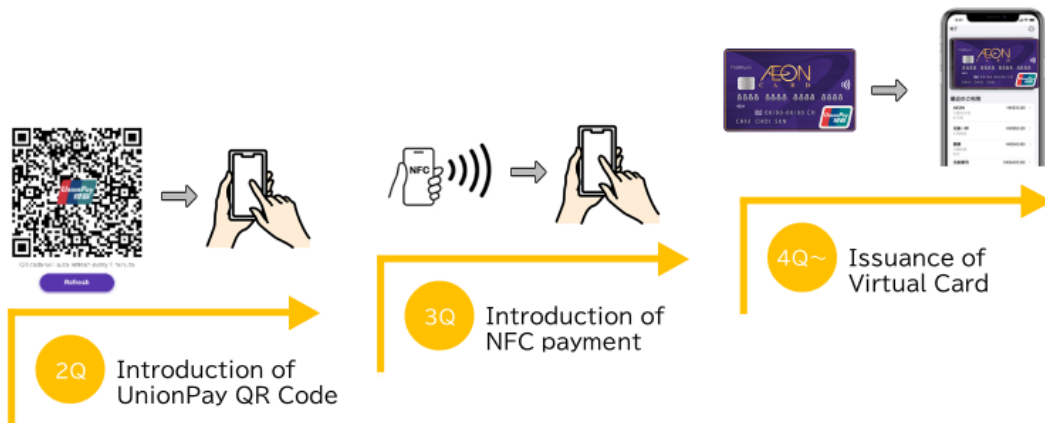
- For application, we enhanced customer identification by expanding the use of e-KYC and introducing in-store biometric authentication to merchants.
- For screening, an initiative to prevent customer bankruptcy has been introduced in Hong Kong, such as by estimating the bankruptcy risk for customers and proposing contract reviews before they fail.
- To improve the appropriateness of credit screening, AI credit scoring was introduced to Aeon Credit Service in Malaysia and Thailand. We will improve the accuracy of credit decisions through AI-enabled multi-faceted screening.
- With regard to debt collection, we will refine risk categorization methods and plan to introduce AI talkbots to contact some customers directly.

We aim to improve the collection rate by establishing a timely and appropriate structure corresponding to the risks.

- With these initiatives using digitalization, we will reduce bad debt-related expenses.

## [Global/Hong Kong] Expansion of payment opportunities

- Expand mobile payment capabilities to improve customer experience



AEON Financial Service Co., Ltd.

23

- This slide shows our initiatives for expanding the revenue of global businesses. We are promoting the digitalization of customer touchpoints in Hong Kong, Thailand, and Malaysia.
- In Hong Kong, we installed the UnionPay QR function in our app in August for a better customer experience, improving the convenience of payment and cash withdrawal for customers traveling from Hong Kong to mainland China.
- We plan to introduce NFC payment using smartphones and issue virtual cards in 3Q. It will improve customer convenience by realizing a seamless payment experience, enabling online and in-store payment with a smartphone.

## [Global/Thailand] Expansion of payment opportunities

- Incorporate the code payment function into the company's app to acquire new customers and expand transaction volume



In Thailand, where the cashless ratio is about 60%

QR code payments through AEON Thana Sinsap's app will be possible in more places

AEON Financial Service Co., Ltd.

24

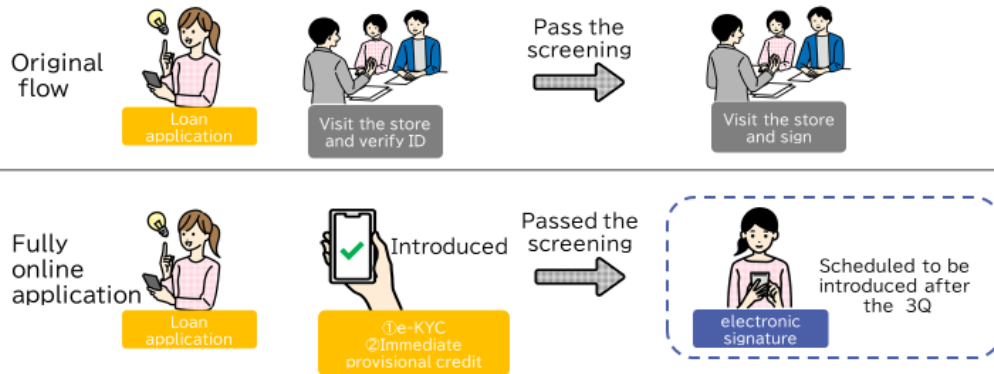
- Thailand also has a high penetration of cashless payment, and we are providing services aligned with the change in the payment environment for customers.
- QR payment is quickly spreading in Thailand, increasing the demand for money transfers to QR payment apps for cash advances and personal loans.
- In response, we plan to link our app with "PromptPay," the leading money transfer and code payment method in Thailand, and the installation of Scan to Pay, a code payment method tied to credit cards.

This will enable use in more places, and we will aim to capture customers and increase transaction volume through improved convenience.

- In Thailand, our app can already complete cash advance and insurance application processes and respond to inquiries. By improving payment convenience, we will increase usage of the app, which is the customer touchpoint, to lead to cross-selling.

## [Global/Malaysia]Expansion of revenues

- Completely online application flow improves the convenience of personal loans



In the conventional operation, it was necessary to visit the store in the flow from application to payment, but it is no longer necessary

In addition to individual installments, personal loans will also be fully online

25

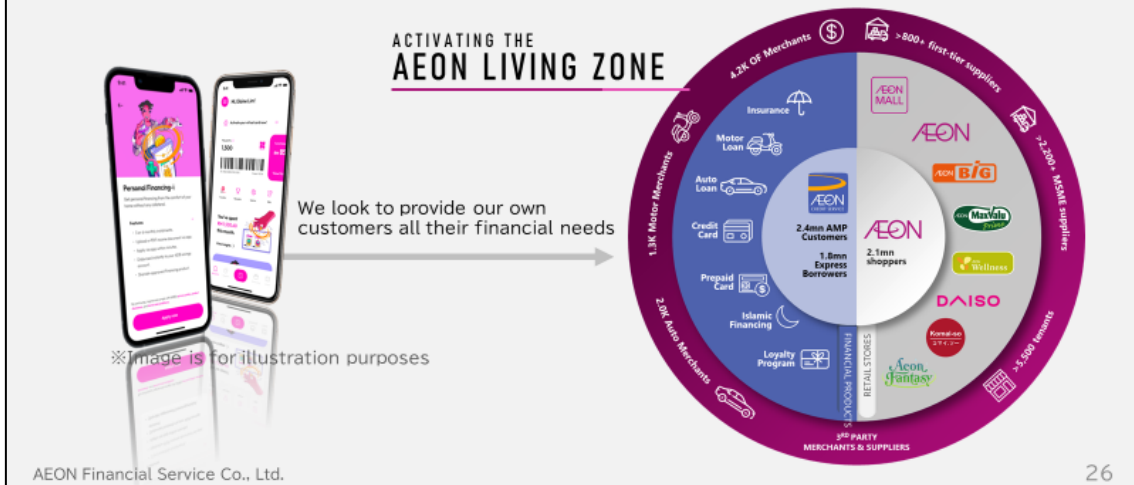
- In Malaysia, personal loans account for a quarter of the revenue and is second only to installment. We plan to build an online system to enable the entire process from application to transfer of money to the designated bank account.
- This will enable customers living in remote areas to use our service. We believe further expansion of our personal loan business in Malaysia can be achieved by improving customer convenience.
- We began offering instant online pre-approvals for installment finance for products such as motorcycles, ahead of the competitors in Malaysia. Many customers have already used this service.

For the customers, it offers the advantages of knowing the loan amount before purchase and a smooth procedure without having to submit documents at the time of purchase.

Merchants can enjoy streamlined administrative procedures, such as customer identification, and prevent loss of business opportunities through shorter screening periods.

## [Global/Malaysia] New Business Models

- AEON Digital Bank caters for our own ecosystem



- This slide is about digital banking in Malaysia.
- Digital banking aims to build the AEON Living Zone in Malaysia by combining ACS Malaysia's payment and loan products and services with banking services to the un-banked class who could not access financial services and linking data with the AEON Group companies. Agile development has been used since December 2022 to develop the system. We are currently promoting the development of a user-friendly UI and UX for the app, which will serve as the touchpoint for our customers. In addition, human resources with IT and risk management expertise and experience have been assembled, making steady progress in preparation for launch in 2024.
- Overseas markets are ahead of Japan in trialing payments, loans, financial inclusion, and data usage, and overseas subsidiaries aim to establish a competitive advantage by leading in these initiatives.

## 3 Earnings and Dividend Forecasts

- Finally, I will present financial performance and dividend forecasts.

## FY2023 earnings forecast, dividend forecast

- There is no change in earnings and dividend forecasts

	Consolidated		Domestic		Global	
		YoY		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 %	

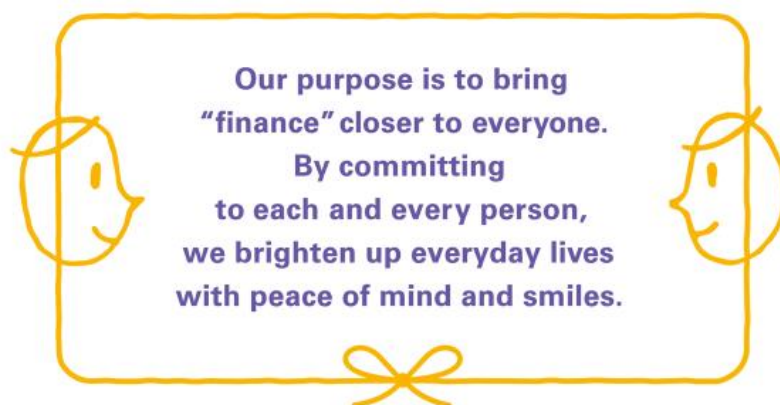
AEON Financial Service Co., Ltd.

28

- The forecast figures remain unchanged from those announced in April.  
During the 1H, domestic and global businesses expanded, steadily increasing the balance of operating receivables.
- For the domestic business, we will build up revolving credit and cash advance receivables, which bring a high profit, enhance cost control, and strengthen the customer touchpoint with AEON Wallet app and AEON Pay.
- As for global businesses, we will address the most significant issue of controlling bad debt-related expenses with the initiatives I explained today and promote measures to improve customer convenience and increase revenue in each country.
- We will steadily implement these measures in 2H towards achieving our performance targets for the full year.



## Our Purpose



AEON Financial Service Co., Ltd.

29

- Lastly, as Mr. Mitsufuji stated earlier, we are conducting various reviews to restructure the business portfolio.

We cannot present specific policies today, but we aim to improve corporate value and achieve sustainable growth through the solution of social issues under our purpose of bringing "finance" closer to everyone.

## Questions and Answers

- Mr. Sato, Analyst, JP Morgan Securities

Q1. You said that the explanation of the policy on business operation with capital cost awareness would be postponed, but considering reference to the restructuring of the business portfolio, if it becomes necessary to increase ownership in a listed subsidiary, do you currently have the financing capacity to cover the required capital?

A1. Tomoyuki Mitsufuji, Director and Managing Executive Officer, General Manager of the Finance and Accounting Division

We are constantly performing debt capacity analysis. External rating is an essential factor for borrowings, and we believe we have sufficient financial capacity from that perspective in such a case.

- Mr. Yanaginuma, Analyst, BofA Securities

Q1. What was the reason for the postponement of disclosure of the measures for improving corporate value?

A1. Tomoyuki Mitsufuji

We could set targets for ROE and dividend payouts, but we believe more scrutiny on the “how” and “when” are necessary. We are simultaneously reviewing the business portfolio, which has significant implications, so the policy presentation will take longer.

Q2. Considering the bank holding company regulations, there would be a limit to share buyback. What is the possible size of the buyback?

A2. Tomoyuki Mitsufuji

The bank’s capital adequacy ratio is close to 10%. We must coordinate the ownership ratio with AEON Co., Ltd.. Although there is theoretical capacity for share buyback based on the bank’s capital adequacy ratio, maintaining sufficient buffers against risks is also important.

Q3. Please explain the status of AEON Bank’s debt portfolio and the need for rebalancing in the 2H.

A3. Tomoyuki Mitsufuji

Unrealized losses account for 10% of the bank’s capital adequacy ratio and are safely manageable. We could also consider increasing holding until maturity to avoid realizing losses. Currently, we are not considering actively reporting losses on sales.

- Ms. Tsujino, Analyst, Mitsubishi UFJ Morgan Stanley Securities

Q. The number of new card members was 840,000. What caused the slowing in 2Q?

A. Tomoyuki Mitsufuji

The number of new members was relatively large in the 1Q thanks to the spring campaign. During 2Q, we implemented measures to promote use, which resulted in increased use but slower growth in new members. We believe sales campaigns require analysis of the effectiveness, as well as selection and focus of targets.

• Mr. Watanabe, Analyst, Daiwa Securities

Q1. Please explain the timeline for disclosure of the capital policy. Can we assume that the KPIs will be set at a higher level than present?

A1. Tomoyuki Mitsufuji

As we are engaged in various initiatives, we believe disclosure should take place after we see some results. Presenting a timeline is difficult, but we'd like to announce it within three to six months. Naturally, we would like to set higher KPIs than present.

Furthermore, our discussions are not merely focused on dividend payout. We would like you to wait for the final result of our reviews.

Q2. Net profit made smaller progress against the full-year forecast. Please explain the reason for the decrease.

A2. Tomoyuki Mitsufuji

The lower outcome for the domestic business is solely due to the shortfall in revenue against the expenses. Cost control, in particular, is a point for reflection for the management. Although there are measures with lagging effects, we must acknowledge that the effect has not been sufficient. From the 3Q, we will review the effectiveness and implement stricter cost control. Controlling bad debt is everything for global businesses, so we will further enhance our efforts.

• Mr. Hara, Analyst, SMBC Nikko Securities

Q1. Regarding the domestic credit card shopping transaction volume, the figures are expected to jump from 3Q. Was this calculated based on the full-year target? If these are not achieved, will it affect the full-year plan?

A1. Kenji Fujita, President and CEO

Starting with FY2022, the trend in domestic credit card shopping transaction volume has been improving year-on-year. There is a slight discrepancy from the market growth, but the gap is closing. We must close the gap with the market and increase the transaction volume in the 2H. We will make efforts to maintain the balance of income and expenditure.

Q2. Regarding the NPL ratio in Thailand, what was the review that resulted in the decrease from the previous quarter? In addition, will the scheduled government handout of electric money have an impact?

A2. Fujita

For the bad debt-related expenses, we reviewed excessive additional reserves.

The Thai government's measures are expected to affect debt collection positively. However, it will also affect our customers' financing needs, so its effect on our revenue should be neutral.

• Mr. Okada, Analyst, UBS Securities

Q1. The full-year plan for the operating profit of domestic businesses has not been revised. How will this be achieved?

A1. Tomoyuki Mitsufuji

For the profit plan, with steady cost control and building up outstanding balance. For the securitization of receivables, we will consider the revenue aspects as appropriate.

Q2. Is there a possibility of a dividend decrease if the company profit is below the target for FY2023? Can we consider 53 yen as the minimum?

A2. Tomoyuki Mitsufuji

We should try to achieve the target net profit, but we won't consider decreasing dividends unless something extraordinary happens. The plan assumes significant profit to be achieved in 2H, so we will strive to accomplish this.

End