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Brief Report of Financial Results (Unaudited)

(For the Nine Months Ended November 30, 2022)

January 12, 2023

Company name **AEON Financial Service Co., Ltd.**

Listings Tokyo Stock Exchange, Prime Market

Security code 8570

URL <https://www.aeonfinancial.co.jp/eng/>

Representative Kenji Fujita, President and CEO

Contact: Yuro Kisaka, Director, Managing Executive Officer

Scheduled dates:

Submission of statutory quarterly financial report January 13, 2023

Commencement of dividend payments -

Supplementary materials to the quarterly results Available

Quarterly earnings results briefing Yes (targeted at institutional investors and analysts)

(Amounts rounded down to the nearest million)

1. Consolidated Financial Results for the Nine Months ended November 30, 2022

(March 1, 2022 to November 30, 2022)

(1) Operating Results

(Millions of yen truncated to the nearest million, %, yen)

	Operating revenue	Percentage Change	Operating profit	Percentage Change	Ordinary profit	Percentage Change	Profit attributable to owners of parent	Percentage Change
Nine Months ended November 30, 2022	331,149	-	41,577	-6.0	44,558	-1.6	22,388	0.2
Nine Months ended November 30, 2021	348,739	-3.5	44,229	78.0	45,283	86.4	22,348	122.3

Note: Comprehensive income: Nine months ended November 30, 2022: 40,462 million (5.0%),

Nine months ended November 30, 2021: 30,520 million (184.4%)

(yen)

	Net Income per Share	Fully Diluted Net Income per Share
Nine Months ended November 30, 2022	103.72	103.72
Nine Months ended November 30, 2021	103.54	103.53

Note: The Accounting Standard for Revenue Recognition, etc. (ASBJ Statement No. 29, March 31, 2020) has been applied from March 1, 2022.

The figures for the Nine months ended November 30, 2022, are those after the application of the said accounting standard.

(2) Financial Position

(Millions of yen truncated to the nearest million, %, yen)

	Total Assets	Net Assets	Capital Ratio	Net Assets per Share
Nine Months ended November 30, 2022	6,623,670	535,663	6.5	2,000.26
Year ended February 28, 2022	6,278,586	509,055	6.8	1,965.47

Reference: Shareholder's equity: November 30, 2022: 431,758 million February 28, 2022: 424,222 million

Note: The Accounting Standard for Revenue Recognition, etc. (ASBJ Statement No. 29, March 31, 2020) has been applied from March 1, 2022.

The figures for the Nine months ended November 30, 2022, are those after the application of the said accounting standard.

2. Dividends

(Yen)

(Base date)	Dividend per share				
	End of 1Q	End of 2Q	End of 3Q	Year-end	Total
Year ended February 28, 2022	—	19.00	—	31.00	50.00
Year ending February 28, 2023	—	20.00	—		
Year ending February 28, 2023 (Forecast)				30.00	50.00

Notes: Amendments from the most recently published dividend forecast: No
 Breakdown of dividend for end of 2Q of the year ending February 28, 2022
 : Ordinary dividend 17yen, commemorative dividend 2yen for the 40th anniversary of the establishment.
 Breakdown of dividend for year-end of the year ending February 28, 2022
 : Ordinary dividend 29yen, commemorative dividend 2yen for the 40th anniversary of the establishment.

3. Forecast of Consolidated Earnings for the Fiscal Year ending February 28, 2023

(March 1, 2022 to February 28, 2023)

(Millions of yen, %)

(% is the percentage of change to the previous year)

	Operating revenue	YoY	Operating profit	YoY	Ordinary profit	YoY	Profit attributable to owners of parent	YoY	Net income per share
Full year	445,000	1.5	55,000 to 60,000	-6.5 to 1.9	55,000 to 60,000	-8.2 to 0.1	27,000 to 29,000	-10.6 to -4.0	125.10 to 134.36

Notes: Amendments from the most recently published projections forecast: No
 The consolidated earnings forecast for the fiscal year ending February 28, 2023 is disclosed in a range format.
 In order to apply the "Accounting Standards for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) from the fiscal year ended February 28, 2023, operating income in the above consolidated earnings forecast is the amount after the application of the relevant accounting standards. The percentage change compared to the previous fiscal year is based on a comparison with the figures after retrospectively applying the relevant accounting standards.

※Notes

- (1) Changes affecting the consolidation status of significant subsidiaries during the period: None
- (2) Application of special accounting treatment for the preparation of quarterly consolidated financial statements: None
- (3) Changes in accounting policy, changes in accounting estimates, and retrospective restatement:
 - 1) Changes in accordance with amendments to accounting standards: Yes
 - 2) Changes other than the above 1): None
 - 3) Change accounting quotation: None
 - 4) Restatement: None
- (4) Number of shares issued (common stock)
 - 1) Number of shares issued at end of period (treasury stock included):
 November 30, 2022: 216,010,128 shares February 28, 2022: 216,010,128 shares
 - 2) Number of shares held in treasury at end of period:
 November 30, 2022: 158,960 shares February 28, 2022: 172,749 shares
 - 3) Average number of shares outstanding during the period:
 Nine Months ended November 30, 2022: 215,843,681 shares
 Nine Months ended November 30, 2021: 215,832,587 shares

※ This Brief Report of Financial Results (Unaudited) is not required for submission for quarterly audit review.

※ Projections above are based on management's assumptions using information available at the time of publication. Owing to various factors, actual results may differ from these projections.

※ Information about the business profile and financial results of AEON Financial Service Co., Ltd are available on the company home page.

Accompanying Materials

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1. Review of Operating Results and Financial Statements

(1) Analysis of Operating Results

During the third quarter of the current consolidated fiscal year under review, economic activity in the countries and regions that the Group operates in started recovering, and the Group implemented sales promotion measures in response to changes in customers' consumption trends to increase sales of various products and services. In addition to growth in the amount and balance of card purchase transactions both in Japan and overseas, the outstanding amount of personal loans and installment finance also increased overseas. Consolidated operating revenue totaled ¥331,149 million. Excluding the impact of the decrease in revenue following the application of the "Accounting Standard for Revenue Recognition" (by ¥26,828 million) in Japan, it exceeded the results for the same period a year earlier. Consolidated operating profit totaled ¥41,577 million (down 6.0% from a year earlier) due to factors such as the delayed recovery of the balance of operating receivables in Japan. Consolidated ordinary profit was ¥44,558 million (down 1.6% from a year earlier), and profit attributable to owners of the parent was ¥22,388 million (up 0.2% from a year earlier).

Operating results for the third quarter of the fiscal year ended November 30, 2022 are as follows:

(Unit : Millions of yen)

	Previous 3Q	3Q	Change	Ratio
Operating revenue	348,739	331,149 (357,978)	△17,589 (9,239)	— (2.6%)
Operating profit	44,229	41,577	△2,651	△6.0%
Ordinary profit	45,283	44,558	△724	△1.6%
Profit (loss) attributable to owners of parent (△)	22,348	22,388	40	0.2%

*The Company started applying the "Accounting Standard for Revenue Recognition" at the beginning of the first quarter of the current consolidated fiscal year under review, and the figures shown for the second quarter of FY2022 are figures after the application of this standard. The figures in parentheses are calculated using figures before the application of the "Accounting Standard for Revenue Recognition," and are provided for reference.

Segment results for the third quarter of the fiscal year ended November 30, 2022 were as follows:

(Unit : Millions of yen)

		Operating revenue			Operating profit (loss) (△)		
		Previous 3Q	3Q	Ratio	Previous 3Q	3Q	Ratio
Domestic	Retail	159,983	122,373 (147,577)	— (△7.7%)	4,122	14	△99.7%
	Solution	130,435	128,965 (130,715)	— (0.2%)	14,161	10,328	△27.1%
Global	China	11,469	16,382	42.8%	4,120	5,017	21.7%
	Mekong	54,321	64,191	18.2%	11,033	15,033	36.2%
	Malay	37,747	44,622	18.2%	11,879	11,861	△0.2%
Total		393,958	376,535	—	45,318	42,254	△6.7%
Adjustments		△45,218	△45,385 (△45,515)	—	△1,089	△677	—
Consolidated statements appropriation		348,739	331,149 (357,978)	— (2.6%)	44,229	41,577	△6.0%

*The Company started applying the “Accounting Standard for Revenue Recognition” at the beginning of the first quarter of the current consolidated fiscal year under review, and the figures shown for the third quarter of FY2022 are figures after the application of this standard. The figures in parentheses are calculated using figures before the application of the “Accounting Standard for Revenue Recognition,” and are provided for reference.

[Business Segment Information]

<Domestic Retail Business>

In the domestic retail business, AEON Bank, Ltd. (the “Bank”) continued to respond to needs for consultations at physical stores by taking advantage of the fact that customers can easily drop by the Bank office when visiting AEON Group stores. The Bank also strengthened efforts to enable applications through its website and online consultations. From September 21, the Bank added a function to its Online Consultation Service that enables not only consultation and reception of investment trusts, foreign currency deposits, and various loans, but also completion of the application process online. The service enables customers to consult with the same person in charge at the store from a convenient location such as their home and to share the screen they operate with a new screen-sharing function. Accessibility has been improved, making it easier for the Bank to guide customers with consultations and responses to inquiries.

In housing loans, the Bank implemented campaigns to add zero additional interest rates on group credit housing loans for all illnesses and to reduce the additional interest rates on cancer insurance offered to borrowers of housing loans. As a result, outstanding residential housing loans rose to ¥2,641,409 million (up ¥109,098 million from the beginning of the fiscal year). Additionally, under a plan limited to the Bank’s housing loan policyholders, the Bank has made a revision to expand the eligibility and benefits of “AEON Select Club,” which offers a 5% discount on shopping at the AEON Group every day, from March 2023. By changing the validity period from five years to the full repayment of the eligible loan, more customers will be able to use the Club for a long time. The Bank will also work on cross-sales to provide new value to customers who use the Group’s services by offering products that are in line with their stage of life, such as asset management and insurance products.

At the end of the third quarter of the fiscal year under review, the number of deposit accounts of the Bank was 8,170,000 (up 300,000 from the beginning of the fiscal year) and the balance of deposit accounts rose to ¥4,335,579 million (up ¥154,794 million from the beginning of the fiscal year), due to factors such as an increase in the number of members using AEON Card Select (an AEON card with an integrated cash card) and the AEON Bank 15th anniversary campaign.

In the cash advance business, the Company continued to promote the use of services through online cash advances and outbound telephone calls. The outstanding amount of receivables was ¥400,551 million (up ¥3,157 million from the beginning of the fiscal year), recovering from the beginning of the fiscal year.

AEON Allianz Life Insurance Co., Ltd. continued to promote group credit life insurance services that are offered to borrowers of housing loans, studio apartment loans, and housing renovation loans handled by Group companies, and achieved steady growth in those services.

As a result, operating revenue of the domestic retail business totaled ¥122,373 million. Operating profit amounted to ¥14 million (down 99.7% from a year earlier), due to an expansion in business operations and investment in human resources.

<Domestic Solution Business>

In the domestic solution business, the Company implemented a campaign to celebrate the new design for the AEON Card from November 1. As a result, the number of new memberships in the third quarter of the fiscal year under review increased to 1,360,000 and the total number of valid card members in Japan rose to 30.52 million (up 430,000 from the beginning of the fiscal year).

In credit card shopping, while use for recreational activities, travel agencies, and public transportation recovered, use at shops selling daily necessities continued to be affected by people's reluctance to spend in the face of soaring prices. The Company implemented promotion measures such as awarding additional WAON points at AEON Group stores that sell daily necessities and rewarding use of "AEON pay," a barcode payment system. In addition, the Company implemented sales promotion programs such as a plan to reward points with travel agencies and a campaign to register for utility bill payments. Business areas are also working on their own sales promotion measures to encourage continued use.

Furthermore, in order to promote the use of "iAEON," an app serving as the touchpoint of customers with the AEON Group, and "AEON Pay," a barcode payment system, the Company continued to expand non-Group participating stores such as recreational complex facilities, apparel retailers, restaurants, mass home appliance retailers, and hotels, while also carrying out campaigns such as adding WAON points with AEON Pay payments. In addition, the "AEON Pay" function was added to the AEON Card official app "AEON Wallet" from October 5. As a result, "AEON Wallet" can now be used to check details on AEON Card usage and points, for coupons with good value, and for information on campaigns, in addition to being used for payments at "AEON Pay" affiliated stores.

As a result, credit card shopping transaction volume for the third quarter of the consolidated fiscal year under review amounted to ¥4,807,289 million (up 9.2% from a year earlier). The outstanding amount of revolving and installment finance was ¥257,070 million (up ¥12,340 million from the beginning of the fiscal year), recovering due to measures such as a campaign for revolving finance usage and measures to extend the period for changing revolving payments.

In the installment finance business, delays in the delivery of new cars due to insufficiencies in semiconductor supply and a shortage of used cars on the market continued to have an effect. The transaction volume for installment finance was ¥147,638 million (up 4.4% from a year earlier), an increase from the previous year, but outstanding receivables remained sluggish.

As a result, operating revenue for the domestic solution business was ¥128,965 million. Operating profit fell to ¥10,328 million (down 27.1% from a year earlier) due to increased IT investment aimed at improving productivity.

<Global China Area>

In the China Area, the Hong Kong local subsidiary AEON CREDIT SERVICE (ASIA) quickly implemented measures such as promoting online usage in line with customers' changing lifestyles and carrying out aggressive campaigns. As a result, the amount of credit card purchase transactions amounted to ¥105,365 million (up 45.5% from a year earlier).

The AEON Card Wakuwaku, which was newly issued in April targeting the younger generation, helped to attract members with sales promotion programs such as a plan raising the return rate for usage in Japan, implemented in line with the recovery of visitors to Japan.

For cash advances and personal loans, the subsidiary continued to work on improving credit accuracy and shortening the time required for credit screening by upgrading credit policies and reviewing operational flows.

It also worked on optimizing sales channels to meet customer needs, such as consulting sales at branches, mobile apps, and telemarketing. As a result, the amount of cash advances was ¥24,481 million (up 81.3% from a year earlier) and that of loans was ¥17,163 million (up 75.7% from a year earlier), a significant increase that led to the accumulation of high-quality operating receivables.

As a result, operating revenue in the China Area was ¥16,382 million (up 42.8% from a year earlier), and operating profit rose to ¥5,017 million (up 21.7% from a year earlier).

<Global Mekong Area>

In the Mekong Area and specifically in Thailand, a major market, the local subsidiary AEON Thana Sinsap (Thailand) (“ATS”), carried out sales promotion activities with business partners such as large e-commerce sites and food delivery services. It also actively promoted the use of the AEON Royal Orchid Plus Card, a tie-up card with Thai Airways International. As a result, credit card purchase transactions in the Mekong Area increased to ¥123,040 million (up 52.2% from a year earlier).

In addition, ATS obtained approval for eKYC (process for online identity verification) on September 30 and began accepting applications on its mobile app on a full scale. This has allowed the subsidiary to reduce paperwork and the time required for screening. The accuracy for screening has also improved with the refinement of the scoring model. In personal loans, ATS stopped issuing plastic cards to customers altogether and shifted to offering virtual cards using the mobile app in an effort to reduce CO2 emissions and to promote digitalization. As a result of these efforts, the amount of personal loans totaled ¥70,503 million yen (up 30.1% from a year earlier).

Furthermore, Rabbit Cash Company Limited, a new company established by ATS as a joint venture with local companies in April 2021, obtained a license for nano-finance in May 2022 . As a result, ATS has been able to determine credit risks from sales and purchase history, etc., and has been able to start providing small-lot loans to customers for whom it was difficult to measure the credit risk using conventional screening methods.

In May, ATS obtained permission to sell insurance online and began selling automobile insurance, travel insurance (domestic and overseas), and cancer insurance through its mobile apps in June. The use of digital technology has helped to improve customer usability and to further increase productivity.

As a result, operating revenue in the Mekong Area was ¥64,191 million (up 18.2% from a year earlier). Despite an upward trend in the provision of allowance for doubtful accounts in case of an increase in bad debts in the future, growth in various transaction volumes helped to raise the operating profit to ¥15,033 million (up 36.2% from a year earlier).

<Global Malay Area>

In the Malay Area, and specifically in Malaysia, a major market, the local subsidiary AEON CREDIT SERVICE(M)BERHAD (“ACSM”) continued to carry out joint sales promotion measures with AEON CO (M) BHD., a retail business subsidiary of the AEON Group, and conduct credit card use campaigns to expand online payments. Owing to these efforts, the amount of credit card purchase transactions in the Malay Area totaled ¥34,156 million (up 20.5% from a year earlier).

In addition, ACSM began offering immediate provisional credit for installment finance applications using eKYC (process for online identity verification) and external credit information, working to shorten the time for screening and improve the quality of receivables. Given the refinements to the screening process, the amount of installment finance transactions in the Malay Area increased to ¥76,233 million (up 68.0% from a year earlier). In personal loans, the subsidiary implemented a cashback campaign according to customers’ usage in an aim to capture growth in demand from the recovery in consumption. The amount of transactions was ¥34,322 million (up 108.3% from a year earlier).

ACSM also renewed its mobile app, AEON Wallet , to improve customer usability. It incorporated functions for credit card and personal loan applications on the app to promote cross-sales, in an effort to digitalize services and to transform its business processes.

As a result, operating revenue in the Malay Area was ¥44,622 million (up 18.2% from a year earlier), and operating profit was ¥11,861 million (down 0.2% from a year earlier).

(2) Consolidated Financial Condition

(Assets)

Total assets at the end of the third quarter increased by ¥345,084 million from the end of the previous fiscal year to ¥6,623,670 million. This was mainly due to an increase in accounts receivable- installment of ¥260,597 million due to an increase in card shopping transactions, an increase in loans of ¥230,268 million due to an increase in card cash advances and housing loan transactions, and a decrease of ¥147,382 million in cash deposits.

(Liabilities)

Total liabilities increased by ¥318,476 million from the end of the previous fiscal year to ¥6,088,007 million. This was due to an increase in interest-bearing debt of ¥145,840 million due to the demand for funds due to the expansion of operating receivables, and an increase in deposits of ¥154,020 million due to the expansion of use as a fund settlement account.

(Net Assets)

Total net assets increased by ¥26,607 million from the end of the previous fiscal year to ¥535,663 million. This was due to an increase of ¥22,388 million due to the posting of net profit attributable to owners of parent, ¥15,643 million in foreign exchange translation adjustments, and ¥19,073 million in non-controlling interests, while other securities valuation differences decreased by ¥21,316 million and retained earnings decreased by ¥11,007 million due to year-end and interim dividends.

(3) Consolidated Earnings Forecast

At this time, there is no change in the earnings forecast announced on April 7, 2022.

2. Consolidated Financial Statements and Main Notes
(1) Consolidated Balance Sheet

(Millions of yen)

	As of February 28, 2022	As of November 30, 2022
Assets		
Current assets		
Cash and deposits	738,782	591,400
Call loans	8,864	4,241
Accounts receivable - installment	1,566,284	1,826,882
Lease receivables and investments in leases	12,585	11,714
Operating loans	772,604	864,838
Loans and bills discounted for banking business	2,110,010	2,248,045
Securities for banking business	536,221	556,636
Securities for insurance business	49,397	19,447
Monetary claims bought	27,028	23,752
Money held in trust	111,015	113,477
Other	170,924	177,056
Allowance for doubtful accounts	△124,549	△129,664
Total current assets	5,979,170	6,307,829
Non-current assets		
Property, plant and equipment	34,320	33,619
Intangible assets		
Goodwill	14,924	13,625
Software	107,732	109,444
Other	4,344	4,043
Total intangible assets	127,001	127,113
Investments and other assets	137,377	154,555
Total non-current assets	298,699	315,288
Deferred assets	716	552
Total assets	6,278,586	6,623,670
Liabilities		
Current liabilities		
Accounts payable - trade	225,236	279,290
Deposits for banking business	4,178,544	4,332,565
Short-term borrowings	204,074	305,590
Current portion of long-term borrowings	90,214	111,002
Current portion of bonds payable	63,410	78,899
Commercial papers	85,000	57,000
Provision for bonuses	4,086	5,903
Provision for point card certificates	7,129	945
Other provisions	200	128
Other	194,349	170,160
Total current liabilities	5,052,244	5,341,487
Non-current liabilities		
Reserve for insurance policy liabilities	64,367	56,901
Bonds payable	277,250	234,598
Long-term borrowings	335,933	415,867
Retirement benefit liability	2,271	2,480
Provision for loss on interest repayment	6,476	3,999
Other provisions	460	235
Deferred tax liabilities	1,273	1,334
Other	29,252	31,101
Total non-current liabilities	717,286	746,519
Total liabilities	5,769,530	6,088,007

(Millions of yen)

	As of February 28, 2022	As of November 30, 2022
Net assets		
Shareholders' equity		
Share capital	45,698	45,698
Capital surplus	119,990	120,270
Retained earnings	258,525	269,885
Treasury shares	△442	△406
Total shareholders' equity	423,771	435,447
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	△2,549	△23,866
Deferred gains or losses on hedges	△1,628	△130
Foreign currency translation adjustment	4,852	20,495
Remeasurements of defined benefit plans	△222	△187
Total accumulated other comprehensive income	450	△3,688
Share acquisition rights	33	31
Non-controlling interests	84,799	103,873
Total net assets	509,055	535,663
Total liabilities and net assets	6,278,586	6,623,670

(2) Consolidated Statement of Income and Consolidated Statement of Comprehensive Income Consolidated
Statement of Income

(Millions of yen)

	Nine months ended November 30, 2021	Nine months ended November 30, 2022
Operating revenue		
Revenue from credit card business	97,741	84,579
Revenue from installment sales finance business	32,562	35,696
Financing revenue	96,981	103,207
Recoveries of written off receivables	8,747	11,862
Financial revenue	25,426	24,993
Insurance revenue	25,494	9,938
Fees and commissions	44,894	45,485
Other	16,890	15,386
Total operating revenue	348,739	331,149
Operating expenses		
Financial expenses	15,985	17,023
Insurance expenses	25,004	9,677
Fees and commissions payments	8,602	8,708
Selling, general and administrative expenses	252,693	251,887
Other	2,224	2,275
Total operating expenses	304,509	289,572
Operating profit	44,229	41,577
Non-operating income		
Dividend income	187	93
Gain on investments in investment partnerships	324	275
Foreign exchange gains	—	1,636
Subsidy income	493	117
Compensation income	—	734
Other	121	142
Total non-operating income	1,127	3,000
Non-operating expenses		
Share of loss of entities accounted for using equity method	37	5
Loss on valuation of investment securities	—	10
Foreign exchange losses	18	—
Loss on sale of receivables	10	—
Miscellaneous losses	6	3
Total non-operating expenses	72	18
Ordinary profit	45,283	44,558
Extraordinary income		
Gain on sale of non-current assets	16	8
Gain on sale of investment securities	436	—
Gain on termination of retirement benefit plan	239	—
Subsidies for employment adjustment	7	—
Total extraordinary income	699	8

(Millions of yen)

	Nine months ended November 30, 2021	Nine months ended November 30, 2022
Extraordinary losses		
Loss on disposal of non-current assets	408	320
Impairment losses	183	29
Loss on liquidation of subsidiaries	53	—
Management integration expenses	—	26
System migration related expenses	—	222
Infectious Disease Related Cost	37	19
Other	24	1
Total extraordinary losses	707	620
Profit before income taxes	45,275	43,946
Income taxes - current	8,579	9,442
Income taxes - deferred	5,669	2,167
Total income taxes	14,248	11,610
Profit	31,027	32,336
Profit attributable to non-controlling interests	8,679	9,948
Profit attributable to owners of parent	22,348	22,388

Consolidated Statement of Comprehensive Income

(Millions of yen)

	Nine months ended November 30, 2021	Nine months ended November 30, 2022
Profit	31,027	32,336
Other comprehensive income		
Valuation difference on available-for-sale securities	2,110	△21,168
Deferred gains or losses on hedges	2,155	2,522
Foreign currency translation adjustment	3,100	26,735
Remeasurements of defined benefit plans, net of tax	127	35
Total other comprehensive income	7,493	8,125
Comprehensive income	38,520	40,462
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	28,127	18,249
Comprehensive income attributable to non-controlling interests	10,392	22,212

(3) Notes on the Consolidated Financial Statements

(Notes on the Going-concern Assumption) Not applicable

(Notes on Significant Changes in the Amount of Shareholders' Equity) Not applicable

(Change in significant subsidiary during the term) Not applicable

(Changes in Accounting Policy)

(Application of Accounting Standard for Revenue Recognition)

The Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) has been applied from the beginning of the first quarter of this fiscal year. Consequently, revenue is recognized when control of promised goods or services has been transferred to the customer at the amount expected to be received in exchange for those goods or services.

The main changes resulting from the application of the Accounting Standard for Revenue Recognition, etc. are as follows.

1. Revenue recognition for point system

With regard to points awarded to customers based on the point system operated by other companies, the amount equivalent to the points paid to other companies by AEON Bank, a consolidated subsidiary of the Company was previously recorded as advertising expenses for selling, general and administrative expenses but has been changed to a method of deducting them from revenue from credit card business as an amount to be collected for third parties.

2. Consideration paid to merchants

Consideration paid to merchants by AEON Credit Service, a consolidated subsidiary of the Company in accordance with the use of credit cards was previously treated as advertising expenses for selling, general and administrative expenses but has been changed to a method of deduction from revenue from credit card business.

The application of the Accounting Standard for Revenue Recognition is in accordance with the transitional treatment set forth in the proviso of Paragraph 84 of the Accounting Standard for Revenue Recognition. The cumulative effects of retrospectively applying the new accounting policy prior to the beginning of the first quarter of this fiscal year have been reflected in retained earnings at the beginning of the first quarter, and the new accounting policy has thereby been applied to the said beginning balance.

As a result, operating revenue and selling, general and administrative expenses decreased by 26,828 million yen for the consolidated cumulative third quarter. In addition, provision for points decreased by 610 million yen, and other current liabilities increased by the same amount. There is no impact on the balance of retained earnings at the beginning of the fiscal year. In addition, due to changes in the Group's point system, there will be no provision for points in the future.

In accordance with the transitional treatment stipulated in Paragraph 28-15 of the Accounting Standards for Quarterly Financial Statements (ASBJ Standards No. 12, March 31, 2020), the Company does not contain information that breaks down revenue arising from contracts with customers for the previous consolidated cumulative third quarter.

(Application of Accounting Standard for Fair Value Measurement)

The Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019) has been applied from the beginning of the first quarter of this fiscal year. In accordance with the transitional treatment set forth in Paragraph 19 of the Accounting Standard for Fair Value Measurement and Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019), the Company has opted to prospectively apply the new accounting policies set forth in the Accounting Standard for Fair Value Measurement, etc. Note that the impact of this change on the quarterly consolidated financial statements is immaterial.

(Additional information)

(Accounting estimates on the effects of new coronavirus infections)

There are no significant changes to the assumptions, including the timing of the containment of the novel coronavirus infection, described in the (Important Accounting Estimates) of the Annual Securities Report for the previous consolidated fiscal year.

(Segment Information)

I. Nine months ended November 30, 2021 (March 1 – November 30, 2021)

1. Operating revenue and income/loss by reportable segment

(Millions of yen)

	For the nine months ended November 30, 2021							
	Domestic		Global			Total	Adjustments	Consolidated financial statements appropriation
	Retail	Solutions	China Area	Mekong Area	Malay Area			
Operating revenue								
Operating revenue from external parties	157,450	88,122	11,469	54,282	37,747	349,072	-333	348,739
Internal operating revenue between segments	2,533	42,312	0	38	—	44,885	-44,885	—
Total	159,983	130,435	11,469	54,321	37,747	393,958	-45,218	348,739
Segment Profit	4,122	14,161	4,120	11,033	11,879	45,318	-1,089	44,229

Notes: 1. Operating income is stated in here in replacement of sales turnover of general corporations

2. The amounts shown in the ‘adjustments’ portion are as follows:

-333 million yen shown in the ‘Operating revenue from external parties’ section includes Operating income of holding companies which do not fall under the category of any business segments.

Adjustment amount of -1,089 million yen shown in ‘Segment profit’ represents the net amount after elimination of Operating profit belonging to holding companies which do not fall under the category of any business segments and internal operating income between segments.

3. Segmental profit has been adjusted with the operating profit in the quarterly consolidated income statement.

2. Notes on loss on disposal of non-current assets and goodwill on each segment: Not applicable

II. Nine months ended November 30, 2022 (March 1 – November 30, 2022)

1. Operating revenue and income/loss by reportable segment

(Millions of yen)

	For the nine months ended November 30, 2022							
	Domestic		Global			Total	Adjustments	Consolidated financial statements appropriation
	Retail	Solutions	China Area	Mekong Area	Malay Area			
Operating revenue								
Operating revenue from external parties	119,685	86,406	16,382	64,171	44,622	331,268	-118	331,149
Internal operating revenue between segments	2,688	42,559	0	19	—	45,266	-45,266	—
Total	122,373	128,965	16,382	64,191	44,622	376,535	-45,385	331,149
Segment Profit	14	10,328	5,017	15,033	11,861	42,254	-677	41,577

Notes: 1. Operating income is stated in here in replacement of sales turnover of general corporations

2. The amounts shown in the ‘adjustments’ portion are as follows:

-118 million yen shown in the ‘Operating revenue from external parties’ section includes Operating income of holding companies which do not fall under the category of any business segments.

Adjustment amount of -677 million yen shown in ‘Segment profit’ represents the net amount after elimination of Operating profit belonging to holding companies which do not fall under the category of any business segments and internal operating income between segments.

3. Segmental profit has been adjusted with the operating profit in the quarterly consolidated income statement.
4. Revenues arising from contracts with customers subject to the revenue recognition accounting standard included in operating revenues to external customers for the third quarter were 24,495 million yen in domestic retail, 48,721 million yen in domestic solutions, 3,009 million yen in Greater China, 5,766 million yen in the Mekong region, 4,695 million yen in the Malay area, and 162 million yen in adjustments.

2. Change of reportable segment

As described in the Accounting Policy Change, we applied the Revenue Recognition Accounting Standards from the beginning of the first quarter consolidated accounting period and changed the accounting method related to revenue recognition, so we have similarly changed the calculation method for operating revenue and segment profit in the reportable segments.

The impact of such changes on operating revenues in the reportable segments was -25,204 million yen in domestic retail, -1,750 million yen in domestic solutions, and 125 million yen in adjustments for each reportable segment. In addition, there is no impact on segment profit.

3. Notes on loss on disposal of non-current assets and goodwill on each segments : Not applicable

(Material Subsequent Events)

(Merger of Consolidated Subsidiaries)

AEON Financial Service Co., Ltd. (hereafter “Company”) hereby announces that the Board of Directors meeting held on October 4, 2022, resolved to execute absorption-type merger of AEON Credit Service Co., Ltd. (hereafter “AEON Credit Service”), a consolidated subsidiary of the Company.

1. Purposes of the Merger

Under the basic policy of "Second Founding: Innovation of Value Chains and Creation of Networks" in the medium-term management plan, the Company's Group aims to create a platform that goes beyond the boundaries of the Group's financial products, services, and customer base by connecting AEON Group companies and external partners with financial services such as settlement and points.

Through this reorganization, the Company will accelerate the above initiatives by strategically utilizing management resources across the Group and further speeding up decision-making.

Through the further expansion of our payment network and the provision of seamless financial services utilizing both online and offline, the Company aim to be the financial group closest to our customers.

2. Outline of the Merger

1) Schedule

Date of resolution of the Board of Directors: October 4, 2022

Date of signing the merger agreement: December 1, 2022

Effective date of the Merger: The first half of 2023

※ With respect to The Company, the merger falls under “simplified absorption-type merger” as stipulated in Article 796, Paragraph 2 of the Companies Act of Japan, and for AEON Credit Service, “short-form merger” as stipulated in Article 784, Paragraph 1 of the Companies Act of Japan. Accordingly, either the Company or AEON Credit Service will not hold a respective general meeting of shareholders concerning the approval of the merger agreement.

2) Form of the merger

Under this absorption-type merger, the Company will be the surviving company. AEON Credit Service will be dissolved.

3) Details of allocation related to the merger

Not applicable

4) Treatment of the absorbed company's stock acquisition rights and bonds with stock acquisition rights

Not applicable

5) Company name of the Merger

AEON Financial Service Co., Ltd.

3. Overview of the Companies Involved in the Merger

	Dissolved company
1) Corporate name	AEON Credit Service Co., Ltd.
2) Head office	1-1, Kandanishiki-cho, Chiyoda-ku, Tokyo, Japan
3) Job title and name of representative	President and CEO, Kenji Fujita
4) Line of business	Credit card, payment service and processing business
5) Capital stock	500 million yen
6) Established date	November, 2012
7) Number of shares issued	10,000,000 shares
8) Fiscal year-end date	February 28
9) Major shareholders and shareholding ratios	AEON Financial Service Co., Ltd. 100%
10) Financial position and operating results for the previous fiscal year (ended in February 2022)	
Fiscal year-end date	February 28
Total assets	75,738 million yen
Net assets	514,183 million yen
Net assets per share	7,573.88 yen
Operating revenue	149,582 million yen
Operating profit	7,250 million yen
Ordinary profit	7,261 million yen
Net income per share	467.98 yen

4. Overview of accounting procedures to be carried out

In accordance with the Accounting Standards for Business Combinations (ASBJ Statement No. 21, January 16, 2019) and the Guidelines for Accounting Standards for Business Combinations and Business Splits, etc. (Accounting Standards for Business Combinations, etc., Accounting Standards No. 10, January 16, 2019), the transaction will be treated as a transaction under common control.