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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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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.