

Three-Month Period Ended June 30, 2016 Consolidated Financial Results (Japanese GAAP)

August 5, 2016

Name of listed company: AEON Financial Service Co., Ltd.

Stock exchange listing: Tokyo Stock Exchange

Code number: 8570 URL: <http://www.aeonfinancial.co.jp/>

Representative: Kenji Kawahara, President and CEO

Official contact: Hideki Wakabayashi, Director, Senior Managing Executive Officer

Contact number: +81-3-5281-2057

Scheduled date for release of interim report: August 12, 2016

Scheduled date of dividend payment commencement: -

Trading accounts: None

Preparation of supplementary explanations of financial results: Yes

Financial results presentation to be held: Yes (for institutional investors and analysts)

(Amounts of less than one million yen are rounded down)

1. Consolidated results for the three-month period ended June 30, 2016 (from April 1, 2016 to June 30, 2016)

(1) Consolidated operating results

(Percentages represent changes from the corresponding period of the previous year)

	Ordinary revenue		Ordinary profits		Net income attributable to owners of the parent	
Three-month period ended	(Millions of Yen)	%	(Millions of Yen)	%	(Millions of Yen)	%
June 30, 2016	90,469	5.6	13,740	9.1	8,948	24.5
June 30, 2015	85,651	17.4	12,596	52.0	7,185	86.7

(Note) Comprehensive income June 30, 2016 ¥8,248 million (81.4%) June 30, 2015 ¥10,135 million (130.5%)

	Net income per share	Net income per share (Diluted)
Three-month period ended	Yen	Yen
June 30, 2016	45.03	45.01
June 30, 2015	36.16	36.14

(2) Consolidated financial conditions

	Total assets	Total equity	Equity ratio	Net assets per share
As at	(Millions of Yen)	(Millions of Yen)	%	Yen
June 30, 2016	3,837,361	340,938	7.6	1,462.99
March 31, 2016	3,745,546	340,886	7.8	1,465.31

(Reference) Equity as at June 30, 2016 ¥290,725 million March 31, 2016 ¥291,186 million

(Note) "Equity ratio" = {(Total equity – stock acquisition rights – non-controlling interests) / total assets} X 100
This Equity ratio is different from the capital adequacy ratio prescribed by the Financial Service Agency.

2. Dividends

	Dividends per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
FYE 3/2016	-	28.00	-	38.00	66.00
FYE 3/2017	-				
FYE 3/2017 (forecast)		29.00	-	39.00	68.00

(Notes) Revisions to the dividend forecasts most recently announced: No

3. Forecasts of consolidated results for the year ending March 31, 2017 (from April 1, 2016 to March 31, 2017)

(Percentages represent changes from the corresponding period of the previous year)

	Ordinary revenue		Ordinary profits		Net income attributable to owners of the parent		Net income per share
	(Millions of Yen)	%	(Millions of Yen)	%	(Millions of Yen)	%	Yen
First half	182,000	4.7	28,000	8.1	15,000	6.3	75.48
Full year	380,000	5.7	63,000	6.1	37,000	3.4	186.19

(Note) Revisions to the latest forecasts of consolidated results: No

*Notes

(1) Changes in significant subsidiaries during the period (status changes of specified subsidiaries due to changes in the scope of consolidation): No

Newly consolidated: - Excluded: -

(2) Application of special accounting treatments for interim consolidated financial statements: No

(3) Changes in accounting policies and accounting estimates, and restatement of revisions

- | | |
|--|--------|
| ① Changes in accounting policies as a result of revision of accounting standards | : None |
| ② Changes in accounting policies other than ① | : None |
| ③ Changes in accounting estimates | : None |
| ④ Restatement of revisions | : None |

(4) Number of shares issued (Common stock)

- ① Shares issued at period-end (including treasury stock)
- ② Treasury stocks at period-end
- ③ Average number of shares during three-month period

(Shares)			
June 30, 2016	208,527,801	March 31, 2016	208,527,801
June 30, 2016	9,807,154	March 31, 2016	9,807,144
June 30, 2016	198,720,649	June 30, 2015	198,691,010

* Status of interim review procedures

These interim financial results are not subject to interim review requirements as provided in the Financial Instruments and Exchange Act. The review procedures of interim consolidated financial statements as provided in the Financial Instruments and Exchange Act have not been completed as of the date of this report.

* Explanation of appropriate use of the forecasts of consolidated results and other important matters

The forecasts of consolidated results include the Company's future prospects, assumptions used for planning and projections as of the date of this report. Actual results may differ from such forecasts for various reasons. Regarding information on the forecasts of consolidated results, please refer to "(4) Description of information on forecasts of consolidated results" on page 7.

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1. Qualitative information for the three-month period ended June 30, 2016

(1) Description of operating results

For the three-month period ended June 30, 2016, despite steady corporate earnings and employment, prospects for the domestic business environment remain uncertain, due to flat consumer spending, appreciation of Yen resulting from the negative interest-rate policy introduced by the Bank of Japan, reduction in consumer prices and concerns about sluggish Chinese economy.

Under such circumstances, the Company and its subsidiaries (collectively, “the Group”) has addressed the key action points such as implementation of digital technologies in domestic and overseas operations, enhancement of convenience of the Group’s products and services and improvement of profitability of the Group’s assets.

As a result of the above, the Group achieved record-high ordinary revenue, ordinary profits and net income attributable to owners of the parent for the three-month period ended June 30, 2016.

[Overview of business segment]

① Credit card business

The Group continued to solicit cardholders through “campaign to apply for and promote use of AEON cards” conducted exclusively on the Internet, accept membership applications through tablets at stores and promote sales through digital signage. Through such devices, the Group has simplified paperless application processes, improved efficiency of credit reviews and shortened the processing time for card issuance to enhance customer convenience, which has increased the card usage rate after the card issuance.

As for credit card shopping, while the transaction amount at gas stations has decreased due to an effect of reduction in oil prices, the Group has intended to increase the transaction value of monthly settlement of public utility bills such as mobile-phone, electricity and gas charges and sales activities through the Internet.

The Group has also conducted sales projects at supermarkets such as MaxValu and AEON Malls exclusively targeting cardholders to promote credit card usage.

As a result, the number of active domestic cardholders was 26.20 million as at June 30, 2016 which increased by 0.32 million compared to the beginning balance of the current fiscal year, and transaction value of credit card purchases was ¥1,060,162 million for the three-month period ended June 30, 2016 which increased by 8.1% compared to the corresponding period of the previous fiscal year.

As for cash advances, the Group has carried out effective marketing strategies based on the analysis of customers’ historical usage of various financial products and services. As a result, the number of cardholders that use cash advances was 1.23 million as at June 30, 2016 which increased by 0.05 million compared to the beginning balance of the current fiscal year, and the balance of cash advances was ¥416,044 million as at June 30, 2016 which increased by ¥10,481 million compared to the beginning balance of the current fiscal year.

In the installment sales business, the Group has developed affiliated merchants of automobile dealerships and simplified application processes of online credit approval for auto loans. As a result, the transaction value was ¥32,628 million for the three-month period ended June 30, 2016 which increased by 31.7% compared to the corresponding period of the previous fiscal year.

As for loans for home renovations, the Group introduced the online consultation system for home renovations and simplified processes of applications and credit reviews, resulting in an increase in new affiliated merchants. As a result, the transaction value was ¥18,445 million for the three-month period ended June 30, 2016 which increased by 38.3% compared to the corresponding period of the previous fiscal year.

As a result of the above, the financial results of the credit business for the current period were as follows: (a) ordinary revenue increased by 6.2% to ¥39,603 million, and (b) ordinary profits decreased by 6.7% to ¥7,744 million, compared to the corresponding period of the previous fiscal year.

② Banking business

In the banking business, the Group newly opened one bank store and installed three ATMs of AEON Bank, Ltd. (hereinafter, AEON Bank) during the current period. As a result, the total number of bank stores and AEON Bank ATM increased to 133 and 5,733, respectively.

Due to the negative interest-rate policy introduced by the Bank of Japan, an interest rate of ordinary deposit accounts of 0.12% per annum became attractive, and the number of holders of “AEON Card Select,” which is a card equipped with the functions and benefits of a cash card, AEON card (credit card) and e-money WAON, increased.

As a result, the number of customer deposit accounts held by AEON Bank was 5.09 million as at June 30, 2016 which increased by 0.16 million compared to the beginning balance of current fiscal year. Since the balance of ordinary deposits increased by ¥114,561 million, the balance of total deposits of AEON Bank was ¥2,268,994 million as at June 30, 2016 which increased by ¥115,295 million compared to the beginning balance of the current fiscal year.

In April 2016, the Group launched demonstration experiments of the “fingerprint authentication system” for ATMs for the first time in Japan. The system enables to identify customers using ATM services with their fingerprint information only. The Group will collect and analyze various data and feedbacks from customers to establish more safe and convenient ATMs.

For the 2016 Kumamoto Earthquakes which happened in April 2016, the Group dispatched “moving ATM vehicles” to AEON Mall Kumamoto, the particularly hard-hit location and will continue to address various needs.

In March 2016, the Group launched the “Bankbook App” for smartphones, which enables quick confirmation of the balance of ordinary deposit accounts and the statement of account deposits and withdrawals.

As for housing loans, the Group has enhanced announcement of preferential interest rate loans through internet advertisement and digital signage installed at bank stores.

In addition to the floating interest rate loan, in January 2016, the Group launched loans with interest rates fixed for the initial three or 10 years. These loans gained popularity among customers, and sales of new and refinanced loans have done well.

As a result, the balance of housing loans provided by AEON Bank (including securitized finance receivables) was ¥1,247,220 million as at June 30, 2016 which increased by ¥91,108 million compared to the beginning balance of the current fiscal year.

To broadly and timely respond to more diversified customer needs, AEON Bank integrated the housing loan business of AEON Housing Loan Service Co., Ltd. and launched sales of Flat 35 housing loans at certain branches in May 2016.

As a result of the above, the financial results of the banking business for the current period were as follows: (a) the ordinary revenue increased by 26.5% to ¥14,690 million and (b) ordinary profits increased by 675.0% to ¥1,682 million, compared to the corresponding period of the previous fiscal year.

③ Overseas business

In Hong Kong, the Group has reinforced solicitation of holders of co-branded cards with Japan Airlines Co., Ltd., AEON Credit Service (Asia) Co., Ltd. and AEON Stores (Hong Kong) Co., Ltd., which offer free annual membership fee of AEON cards and award miles and points for use of these cards.

In addition, the Group has conducted campaigns to promote credit card use abroad by doubling award points for use of credit cards in Japan.

As a result of maintaining severe credit policies and optimization of staff assignment, consolidated operating revenues of AEON Credit Service (Asia) Co., Ltd. was HK\$309 million for the current period which decreased by 1.2% compared to the corresponding period of the previous fiscal year, and ordinary profits was HK\$89 million for the current period which increased by 15.1% compared to the corresponding period of the previous fiscal year.

In Thailand, the Group has implemented sales promotions to award miles for co-branded cards with major airline companies and collaborative sales promotions with major department stores and hypermarkets to expand the transaction volume of credit card shopping. The Group has also promoted solicitation of holders of

co-branded cards with movie theater operators to increase the number of cardholders.

In the division of credit review and debt collection functions, the Group has enhanced credit review process based on characteristics of products and established an intensive debt collection system.

In Cambodia, the Group started credit card issuance in January 2016 and continued to solicit cardholders at AEON MALL Phnom Penh, the largest retail outlet there.

As a result, consolidated operating revenues of AEON Thana Sinsap (Thailand) Plc. was THB4,329 million for the current period which increased by 5.5% compared to the corresponding period of the previous fiscal year, and ordinary profits was THB658 million for the current period which increased by 0.4% compared to the corresponding period of the previous fiscal year.

In Malaysia, the Group has promoted implementing digital technologies and paperless operations by utilizing tablets and digital signage at stores.

At AEON Mall Kota Bharu, the first store established in the eastern coast of Malaysia, the Group has reinforced cardholder solicitation.

In the hire purchase business of furniture, home appliance and motorcycles, the Group has implemented stricter and revised credit reviews to improve debt collection and reduce allowance for credit costs.

As a result, operating revenue of AEON Credit Service (Malaysia) Berhad was MYR289 million for the current period which increased by 12.9% compared to the corresponding period of the previous fiscal year, and ordinary profits was MYR84 million for the current period which increased by 10.3% compared to the corresponding period of the previous fiscal year.

As a result of the above and effect of depreciation of local currencies against Yen, the overseas segment for the current period showed the following financial results: (a) ordinary revenue decreased by 7.4% to ¥28,459 million, and (b) ordinary profits decreased by 5.4% to ¥5,404 million, compared to the corresponding period of the previous fiscal year.

④ Fee business and other

In the e-money business, the Group has developed affiliated merchants of WAON card services, targeting companies that provide goods and services closely related to daily life and have strong needs for settlement of small payments.

In June 2016, the Group launched the new “WAON POINT” service, which awards points for payments not only by e-money WAON, but also by AEON cards and cash, to pre-registered “WAON POINT” cardholders, in addition to the existing “WAON points,” which are awarded for use of e-money WAON and exchangeable to the e-money, to become a fundamental point service provider in each local community.

As a result, the total settlement amount of the e-money business including e-money WAON was ¥551,100 million for the three-month period ended June 30, 2016 which increased by 7.0% compared to the

corresponding period of the previous fiscal year.

In the insurance agency business, the Group has developed products to meet various insurance needs, promoted sales using internet advertisements, implemented collaborative campaigns with AEON Group companies and provided employees with sales training of new products to expand the transaction volume.

As a result of the above, the financial results of the fee business and other for the current period were as follows: (a) ordinary revenue increased by 11.6% to ¥13,080 million, and (b) ordinary profits increased by 1.1% to ¥860 million, compared to the corresponding period of the previous fiscal year.

(2) Description of financial conditions

(Assets)

As at June 30, 2016, the balance of loans and bills discounted increased by ¥48,841 million compared to March 31, 2016, due to an expansion of the transaction volume of cash advances and housing loans, and the balance of installment sales receivables increased by ¥33,780 million compared to March 31, 2016, due to an expansion of the transaction volume of credit card shopping, while the balance of securities decreased by ¥55,617 million compared to March 31, 2016 due to redemptions. As a result, the balance of total assets of the Group as at June 30, 2016 was ¥3,837,361 million which increased by ¥91,815 million compared to the end of the previous fiscal year.

(Liabilities)

The balance of total liabilities of the Group as at June 30, 2016 was ¥3,496,423 million which increased by ¥91,763 million compared to the end of the previous fiscal year, due to an increase in deposits of ¥113,737 million resulting from an increase in the balance of ordinary deposit accounts, which exceeded a decrease in borrowed money of ¥19,777 million.

(Equity)

The balance of total equity as at June 30, 2016 was ¥340,938 million which increased by ¥51 million compared to the end of the previous fiscal year, mainly due to an increase in retained earnings of ¥1,396 million resulting from an increase in net income attributable to owners of the parent, while foreign currency translation adjustments decreased by ¥1,683 million due to an effect of appreciation of Japanese Yen.

(3) Description of capital adequacy ratio

Consolidated capital adequacy ratio of AEON Financial Service Co., Ltd. (domestic standard prescribed by the Financial Service Agency)

	As at March 31, 2016	As at June 30, 2016 (Preliminary figures)
Consolidated capital adequacy ratio	7.4%	7.4%

(4) Description of information on forecasts of consolidated results

As of the date of this report, there has been no change in the forecast of consolidated results released on May 13, 2016.

2. Other information regarding the financial results

(1) Changes in significant subsidiaries during the three-month period ended June 30, 2016

None

(2) Application of special accounting treatments for the interim consolidated financial statements

None

(3) Changes in accounting policies and accounting estimates, and restatement of revisions

None

(4) Additional information

Effective from April 1, 2016, the Group has applied “Guidance on Recoverability of Deferred Tax Assets (Accounting Standards Board of Japan Guidance No. 26, March 28, 2016).”

3. Significant events regarding the going concern assumption

None

4. Interim consolidated financial statements

(1) Interim consolidated balance sheets

	(Millions of Yen)	
	As at March 31, 2016	As at June 30, 2016
(Assets)		
Cash and due from banks	444,868	499,804
Call loans	-	10,000
Monetary claims bought	5,051	4,738
Securities	211,131	155,514
Loans and bills discounted	1,673,997	1,722,839
Installment sales receivables	1,022,387	1,056,168
Lease receivables and investment assets	5,405	5,282
Other assets	124,594	127,866
Property and equipment	36,530	36,417
Intangible assets	77,163	80,133
Goodwill	25,597	25,131
Other intangible assets	51,565	55,002
Deferred tax assets	20,433	21,777
Customers' liabilities for acceptances and guarantees	173,441	166,570
Allowance for possible credit losses	(49,458)	(49,752)
Total assets	3,745,546	3,837,361
(Liabilities)		
Deposits	2,152,928	2,266,665
Accounts payable	173,568	160,913
Commercial paper	68,000	75,000
Borrowed money	535,989	516,211
Bonds	122,074	130,912
Convertible bonds	50	50
Other liabilities	152,845	154,854
Allowance for bonuses	2,828	2,970
Retirement benefit liability	3,530	3,489
Allowance for point program	12,456	12,972
Allowance for loss on refund of interest received	4,206	3,187
Allowance – other	396	242
Deferred tax liabilities	2,344	2,382
Acceptances and guarantees	173,441	166,570
Total liabilities	3,404,660	3,496,423

	(Millions of Yen)	
	As at March 31, 2016	As at June 30, 2016
(Equity)		
Common stock	30,441	30,441
Capital surplus	106,230	106,230
Retained earnings	177,766	179,163
Treasury stock	(25,141)	(25,141)
Total shareholders' equity	289,296	290,693
Unrealized gain on available-for-sale securities	5,889	5,359
Deferred loss on derivatives under hedge accounting	(3,514)	(3,185)
Foreign currency translation adjustments	122	(1,561)
Accumulated adjustments for retirement benefit	(607)	(580)
Total accumulated other comprehensive income	1,890	32
Stock acquisition rights	110	110
Non-controlling interests	49,589	50,101
Total equity	340,886	340,938
Total liabilities and equity	3,745,546	3,837,361

(2) Interim consolidated statements of income and comprehensive income

(Interim consolidated statements of income)

	(Millions of Yen)	
	Three-month period ended June 30, 2015	Three-month period ended June 30, 2016
Ordinary revenue	85,651	90,469
Interest income	33,850	35,021
(of which: Interest on loans and bills discounted)	33,214	34,362
(of which: Interest and dividends on securities)	513	535
Fees and commissions	45,955	44,771
Other operating income	1,832	6,330
Other income	4,012	4,346
Ordinary expenses	73,055	76,728
Interest expenses	5,610	4,952
(of which: Interest on deposits)	1,169	873
Fees and commissions	5,547	6,155
Other operating expenses	214	847
General and administrative expenses	49,499	53,366
Other ordinary expenses	12,183	11,406
Ordinary profits	12,596	13,740
Extraordinary income	0	1
Gain on disposal of property and equipment and intangible assets	0	1
Extraordinary loss	30	76
Loss on disposal of property and equipment and intangible assets	30	48
Other extraordinary loss	-	28
Income before income taxes	12,565	13,665
Income taxes - current	4,036	4,006
Income taxes - deferred	(780)	(1,265)
Total income taxes	3,256	2,740
Net income	9,309	10,924
Net income attributable to non-controlling interests	2,124	1,976
Net income attributable to owners of the parent	7,185	8,948

(Interim consolidated statements of comprehensive income)

	(Millions of Yen)	
	Three-month period ended June 30, 2015	Three-month period ended June 30, 2016
Net income	9,309	10,924
Other comprehensive income	826	(2,676)
Unrealized profit (loss) on available-for-sale securities	205	(539)
Deferred (loss) profit on derivatives under hedge accounting	(1,073)	555
Foreign currency translation adjustments	1,669	(2,719)
Adjustments for retirement benefit	23	27
Comprehensive income	10,135	8,248
Total comprehensive income attributable to:		
Owners of the parent	7,763	7,090
Non-controlling interests	2,372	1,157

(3) Notes regarding the interim consolidated financial statements

(Notes regarding the going concern assumption)

None

(Notes regarding significant changes in shareholders' equity)

None

(Segment information)

For the three-month period ended June 30, 2015 (from April 1, 2015 to June 30, 2015)

1. Information on amounts of ordinary revenue and profit (loss) for each reportable segment

(Millions of Yen)

	Credit	Banking	Overseas	Fee Business and Other	Total	Reconciliations (Note 2)	Consolidated (Note 3)
Ordinary revenue							
Ordinary revenue from customers	36,538	10,339	30,732	8,040	85,651	-	85,651
Intersegment revenue or transfers	739	1,272	3	3,678	5,693	(5,693)	-
Total ordinary revenue	37,277	11,612	30,735	11,719	91,345	(5,693)	85,651
Segment profit	8,298	217	5,712	851	15,079	(2,482)	12,596

(Notes)

1. For the segment revenue, the Group uses ordinary revenue instead of sales that are used by normal commercial companies.
2. A reconciliation to segment profit of ¥ (2,482) million represents the corporate expenses unallocated to any reportable segment. The corporate expenses are mainly general and administrative expenses unattributable to any reportable segment.
3. Segment profit is reconciled with ordinary profits on the consolidated statement of income for the three-month period ended June 30, 2015.

2. Information on impairment loss on property and equipment and goodwill for each reportable segment

None

For the three-month period ended June 30, 2016 (from April 1, 2016 to June 30, 2016)

1. Information on amounts of ordinary revenue and profit for each reportable segment

(Millions of Yen)

	Credit	Banking	Overseas	Fee Business and Other	Total	Reconciliations (Note 2)	Consolidated (Note 3)
Ordinary revenue							
Ordinary revenue from customers	39,560	13,270	28,458	9,178	90,469	-	90,469
Intersegment revenue or transfers	42	1,419	0	3,901	5,363	(5,363)	-
Total ordinary revenue	39,603	14,690	28,459	13,080	95,833	(5,363)	90,469
Segment profit	7,744	1,682	5,404	860	15,691	(1,950)	13,740

(Notes)

1. For the segment revenue, the Group uses ordinary revenue instead of sales that are used by normal commercial companies.
2. A reconciliation to segment profit of ¥ (1,950) million represents the corporate expenses unallocated to any reportable segment. The corporate expenses are mainly general and administrative expenses unattributable to any reportable segment.
3. Segment profit is reconciled with ordinary profits on the consolidated statement of income for the three-month period ended June 30, 2016.

2. Information on impairment loss on property and equipment and goodwill for each reportable segment

None

3. Information on changes in reportable segments

For the fiscal year ended March 31, 2016, ACS Leasing Co., Ltd. has been established and included in the “Fee business” segment. Accordingly, the term of “Fee business” previously used in the reportable segment has been replaced with “Fee business and other.”

The segment information for the previous fiscal year is presented under the new term.