

# **AEON Financial Service**

# Annual Report 2015

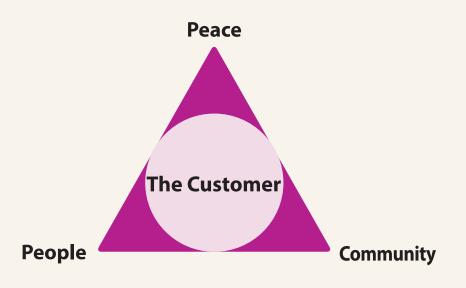


ACON Financial Service Co., Ltd.

### **AEON Basic Principles**



Pursuing peace, respecting humanity, and contributing to local communities, always with the customer's point of view as its core.



The word aeon ( **ÆON** ) has its origins in a Latin root meaning "eternity." The customers' beliefs and desires comprise the central core of our philosophy. At Aeon, our eternal mission as a corporate group is to benefit our customers, and our operations are thus customer-focused to the highest degree.

Aeon Basic Principles are the following:

"Peace"	Aeon is a corporate group whose operations are dedicated
	to the pursuit of peace through prosperity.
"People"	Aeon is a corporate group that respects human dignity and
	values personal relationships.
"Community"	Aeon is a corporate group rooted in local community life
	and dedicated to making a continuing contribution to the
	community.

On the basis of the Aeon Basic Principles, Aeon practices its "Customer-First" philosophy with its ever-lasting innovative spirit.

### CONTENTS

AEON Basic Principles	1
Management Message	2
Corporate History	3
AEON Financial Service Group Companies	4
Financial Highlights	5

Business Segments	7
Credit Businesses	7
Fee Businesses	8
Banking Businesses	9
Overseas Businesses	10
Management Structure	11
CSR	15

Board of Directors and Auditors	21
Financial Section	22
Corporate Data	65
Shareholder Information	65



# Akinori Yamashita President and CEO

AEON Financial Service Co., Ltd. (the "Company") and its subsidiaries (together hereinafter referred to as the "Group") are a comprehensive financial group that grew out of AEON Group's retail operations. The Group provides financial services in Japan and 11 countries in Asia in accordance with the AEON Basic Principles of "pursuing peace, respecting humanity, and contributing to local communities, always with the customer's point of view as its core." At present, the Group is utilizing a wide-ranging sales network that includes AEON Group stores and affiliated merchants, as well as the Group's approximately 700 sales bases in Japan and overseas to engage in a credit card business, a banking business, an installment payment business, and more. The Company is working to enrich the lives of customers as a bank holding company with 34 companies carrying out these businesses under it.

In the consolidated financial results for the fiscal year ended March 31, 2015, as a result of efforts to steadily expand the business lines of all businesses, ordinary income were ¥329.0 billion (up 15% from the previous fiscal year), ordinary profit was ¥53.0 billion (up 29% from the previous fiscal year) and net income was ¥30.4 billion (up 47% from the previous fiscal year), with each of these figures hitting record highs.

Looking at the business environment surrounding the Group, the development and increasing ubiquity of global information and communications technology in recent years are driving changes in people's lifestyles, and needs for financial services are diversifying. In Japan, there is increasing momentum toward responding to foreign tourists, who are growing in number every year, and the move to cashless operations, which is part of the government's growth strategy. Furthermore, in Asian regions, amid high economic growth even from a global standpoint, competitive environments in markets are becoming increasingly difficult reflecting not only business expansion by local financial institutions but also successive market entries by Japanese banks and other financial institutions from abroad.

In this environment, there are increasing demands for the Group to strengthen governance for the purpose of building strong management structures as it accelerates its business expansion and achieves further growth.

To meet this demand, the Group will continue carrying out highly convenient product development and service provision using the latest information and communications technology in accordance with customer-oriented management principles. In addition, we will aim to propose services tailored to customer needs and provide speedy and seamless operations from the synergies realized among Group companies through sharing sales networks, various customer information and knowhow. We will also work to strengthen our governance structure by such means as promoting compliance training for employees in Japan and overseas, and working to cultivate personnel equipped to carry out operations with a global perspective.

Going forward, we will contribute through our business activities to the development of society and to enriching the everyday lives of people.

We look forward to your ongoing support.

1981	lun	Nikan Cradit Carrier Carl tal antablish ad
1701		Nihon Credit Service Co., Ltd., established
		Commenced operations relating to Jusco Card
1982		Commenced hire purchase operations
		Commenced credit card cash advance operations
1984 1987		Registered as a money lender (Director-General of the Kanto Local Finance Bureau (1) No. 00215)
1907	Oct.	Opened a branch in Hong Kong, which commenced hire purchase operations. This marked the beginning of overseas operations in Asia
1989	Jul	Registered as a provider of installment payment services (Registration number Kan-17)
1990		AEON Credit Service (Asia) Co., Ltd., established in Hong Kong2
1992	Dec.	AEON Thana Sinsap (Thailand) Plc., established in Thailand
1994	Aug.	Changed the Company's name to AEON CREDIT SERVICE Co., Ltd.
		Registered the Company's shares on the JASDAQ (over-the-counter) market
1995		Listed shares of AEON Credit Service (Asia) Co., Ltd., on the Hong Kong Stock Exchange
1996		Listed shares of ALON Credit Service (Asia) Co., Ed., of the Hong Kong Stock Exchange
		AEON Credit Service (M) Sdn. Bhd. (currently, AEON Credit Service (M) Berhad.), established
	5000	in Malaysia
1998	Aug.	
1999	Feb.	ACS Credit Management Co., Ltd., established as a wholly owned subsidiary engaged in
		servicer operations
2000	Oct.	Commenced issuance of AEON Card as an integrated card replacing a range of cards issued
		by AEON Group companies, including Jusco Card
2001		Listed shares of AEON Thana Sinsap (Thailand) Plc. on the Stock Exchange of Thailand
2003	Dec.	Commenced issuance of AEON Gold Card, which is the industry's first credit card with no annual fee
2006	Mar.	AEON Co., Ltd. announced its entering into the banking business
	May	AEON Financial Project Co., Ltd., established as bank preparation company
2007	Apr.	Commenced issuance of "AEON Card (with WAON)" which includes the function of e-money "WAON"
	Oct.	Aeon Financial Project Co., Ltd. changed name to AEON Bank, Ltd., and obtained banking
		business license from the Financial Services Agency. AEON Bank, Ltd. commenced banking
		operations (in-store branches opened, ATMs began operations)
		AEON CREDIT SERVICE Co., Ltd. obtained license for banking agency business with AEON Bank, Ltd. as the assigned bank
	Dec	Listed shares of AEON Credit Service (M) Berhad on the stock exchange of Malaysia, Bursa Malaysia
2009		Commenced issuance of AEON CARD SELECT, which combines the functions of a credit card,
		cash card and e-money "WAON"
2010	Mar.	Began receiving applications for the AEON Select Club for people with housing loans from AEON Bank, Ltd.
	Jul.	Acquired shares of MC Short Term Small Amount Insurance Co., Ltd. (currently, AEON S.S.
		Insurance CO., LTD.), making it into a subsidiary
	Oct.	Established a portal website for one-stop financial service: Aeon financial service "Kurashi-no- Money Site"
2011	Dec.	AEON Community Bank, Ltd. became a subsidiary of AEON Bank, Ltd.
2012	Jan.	Acquired shares of TOSHIBA HOUSING LOAN SERVICE CO., LTD. (currently AEON HOUSING
		LOAN SERVICE CO., LTD.), making it into a subsidiary
	Mar.	AEON Bank, Ltd. carried out absorption-type merger with AEON Community Bank, Ltd.
2013	Apr.	Through a management integration with AEON Bank, Ltd., the Company changed its
		corporate structure to a holding company (a bank holding company) and changed its name to AEON Financial Service Co., Ltd.
	May.	Acquired shares of TOSHIBA FINANCE CO., LTD. (currently AEON Product Finance CO., LTD.), making it into a subsidiary
	Jul.	Established Myanmar subsidiary AEON MICROFINANCE (MYANMAR) CO.,LTD.

# Domestic





# Overseas



### Greater China

AEON FINANCIAL SERVICE (HONG KONG) CO., LTD.

AEON CREDIT SERVICE (ASIA) CO., LTD. (Listed)

- AEON INSURANCE BROKERS (HK) LIMITED

AEON MICRO FINANCE (SHENYANG) CO., LTD.

- AEON MICRO FINANCE (TIANJIN) CO., LTD.
- AEON MICRO FINANCE (SHENZHEN) CO., LTD.
- AEON CREDIT CARD (TAIWAN) CO., LTD.

AEON CREDIT GUARANTEE (CHINA) CO., LTD.

AEON INFORMATION SERVICE (SHENZHEN) CO., LTD.

AEON CREDIT SERVICE (TAIWAN) CO., LTD.

# Greater Mekong Subregion AEON THANA SINSAP (THAILAND) PLC. (Listed) AEON INSURANCE SERVICE (THAILAND) CO., LTD. ACS SERVICING (THAILAND) CO., LTD. AEON MICRO FINANCE (CAMBODIA) PRIVATE COMPANY LIMITED AEON LEASING SERVICE (LAO) COMPANY LIMITED AEON MICROFINANCE (MYANMAR) CO., LTD. ACS CAPITAL CORPORATION LTD. ACS TRADING VIETNAM CO., LTD. ACON CREDIT SERVICE (M) BERHAD (Listed) PLAEON CREDIT SERVICE INDONESIA

AEON CREDIT SERVICE SYSTEMS (PHILIPPINES) INC.

AEON CREDIT SERVICE (PHILIPPINES) INC.

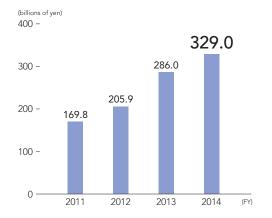
AEON CREDIT SERVICE INDIA PRIVATE LIMITED

\*Malaysia, Indonesia, India and Philippines

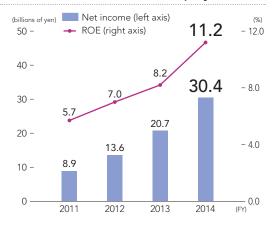
# **Key Financial Data**

AEON Financial Service Co., Ltd. and Subsidiaries

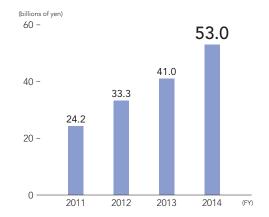
### Ordinary income



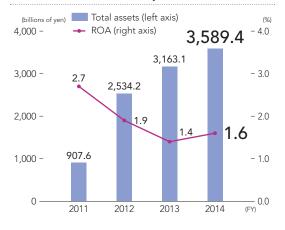
### Net income and return on equity (ROE)



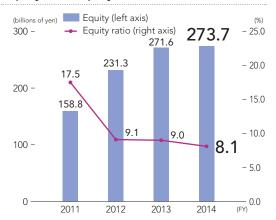




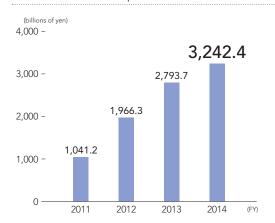
### Total assets and return (ordinary income) on assets (ROA)



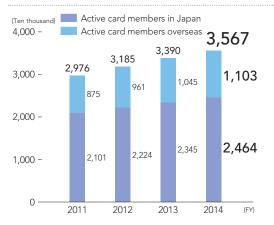
### Equity and equity ratio (\*1)(\*2)



### Finance receivables balance (prior to securitization of receivables)

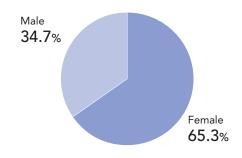


\*1 The equity ratios from FY2011 and FY2012 do not represent the equity ratio stipulated in the Public Notice on Capital Adequacy Ratio.
\*2 The FY2013 and FY2014 equity ratio has been obtained by calculating the consolidated equity ratio based on the formula stipulated in the Criteria for Banks to Judge Whether Their Capital Adequacy Status Is Appropriate in Light of Their Assets, etc. under Article 14-2 of the Banking Act (Financial Services Agency Public Notice No. 19 of 2006).

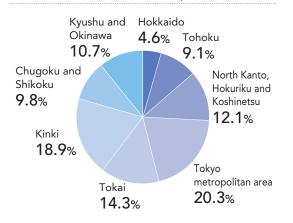


### Number of active card members

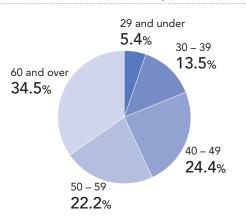
### Active card members in Japan by gender



### Active card members in Japan by area



### Active card members in Japan by age



# (Ten thousand) 500 - 432 400 - 368 300 - 259 200 -100 -

2012

2013

2014

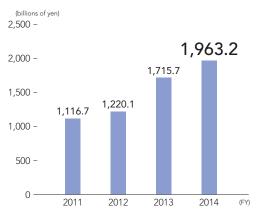
(FY)

Numbers of AEON Bank accounts

0 ·

2011

### Deposit balances of AEON Bank, Ltd.



# **Credit Businesses**

### Credit Card Business

### [Card Lineup]

We seek to provide convenience and benefits in our customers' day-to-day shopping through our financial products and services such as credit cards, bank accounts and e-money. In the credit card business, we are working to increase the number of card members by strengthening membership at AEON shopping centers, at alliance partners' stores and through the Internet.

### AEON CARD SELECT

AEON CARD SELECT is a multi-function card combining the functions and benefits of a credit card, a cash card and e-money "WAON" in one card. It is also possible to add a card loan function.



### [Credit Card Benefits]

By using the credit card, the card members receive benefits such as discounts when shopping at AEON and point services.

### Customer Kansha Day (Customer Appreciation Day)

On the 20th and 30th of every month, a 5% discount is provided for shopping purchases at AEON stores nationwide using the credit card (AEON Card) or WAON card.

### Point service program

Points are earned in proportion to the purchase amounts (*"Tokimeki"* points for the AEON credit card, and *"WAON"* points for the e-money WAON card). On *"Customer Wakuwaku* Day" (Customer Happy Day), which is held on the 5th, 15th, and 25th of each month, customers earn double points for purchases at AEON stores. *Tokimeki* points can either be exchanged for products or converted to *"WAON"* points for use when making shopping purchases.

### Installment Sales Finance Business

The installment sales finance business is carried out by AEON Product Finance Co., Ltd. The company is working to expand this business, centered on loans for automobiles, home renovations, solar power generation systems, and other products. Moreover, we are working to develop affiliated merchants across Japan, while at AEON stores, our efforts to make customers' lives more



convenient and comfortable include establishing consultation desks.

\* An installment sale is a payment method involving a credit check for each purchase of the product or service.

# **Fee Businesses**

### E-money Business

The Group is working to increase the scope of locations where customers can use "WAON" and other types of e-money, both within and outside the Group.

"WAON" can be used for payment at AEON Group stores nationwide, as well as at convenience stores, fast food outlets, major leisure facilities, and other locations.

\* E-money "WAON" is a form of e-money operated by AEON Co., Ltd.

### Call Center Operations

AEON CREDIT SERVICE Co., Ltd. operates the call center for credit cards and AEON Bank. The call center is open from 9:00 AM to 9:00 PM every day of the year to respond to inquiries regarding applications, requests for materials, and other matters. Taking advantage of the phone answering system it has constructed as well as the know-how it has amassed, the call center also contracts call center operations from companies outside of the Group.





### Insurance Agency Business

The insurance agency business is carried out by AEON INSURANCE SERVICE CO., LTD., which operates walk-in "AEON Insurance Shops" centered on AEON shopping centers. As people's lifestyles and the living environment become increasingly diverse, we are proposing appropriate products to meet customers' various needs as well as providing courteous and high-quality service.

### Initiatives to Provide Services through the Internet

The Group operates the "Kurashi-no-Money Site," a portal website for comprehensive financial services offering one-stop online checking of credit card, bank, insurance, a variety of loans and other services.

We offer, on the same website, guidance on services for individual customers and affiliated merchants, as we are working to respond to a wide range of financial needs.

# **Banking Businesses**

### In-store Branch

Our "In-store Branch" are available for customers to visit while they are shopping at AEON

shopping centers for a variety of financial consultations and procedures. These branches operate from 9:00 am to 9:00 pm in principle, and are open daily including weekends, public holidays and the year-end/New Year holidays. Customers can freely drop in for consultations on their way home from work or on holidays. The "In-store Branch" are staffed by consultants and provide consultations that cater for a variety of financial needs of customers including bank account opening, housing loans, investment trusts and insurance products.



### Housing Loans

AEON Bank's housing loans feature no guarantee charges, and no fees for partial prepayments. In addition, by joining AEON Select Club, customers receive a 5% discount every day on purchases at AEON Group stores, are able to use AEON LOUNGE at AEON stores, and receive preferential interest rates on AEON Bank time deposits and enjoy many other benefits unique to AEON Bank.

### Various Loan Types

AEON Bank offers a variety of loans to meet the diverse needs of customers, including the Card Loan BIG (credit-card loan), Net Free Loans (any purpose loan), and education loans. The Card Loan BIG provides customers who apply online with same-day credit check and same-day approval, in principle. Borrowers can borrow up to a maximum of ¥8 million, and can use the funds however they please, including consolidating multiple loans into one loan.

### Asset Management

In order to meet a wide range of customer asset management needs, we handle a total of 49<sup>(\*)</sup> insurance products including individual pension insurance, whole life insurance and educational endowment insurance.

Furthermore, we handle 211<sup>(\*)</sup> investment trust products, placing us in the top rank of banks in Japan in terms of the number of products handled. These include products based on Japanese Individual Savings Accounts (Japanese ISAs; commonly known as NISAs), a tax-free system for small investments started in January 2014.

(\*) As of June 30, 2015

## **Overseas Businesses**

Since starting our first overseas business in Hong Kong in 1987, we have placed a strategic emphasis on business expansion in Asia, which is showing dramatic economic growth. We have established business operations in 11 countries in Asia including Taiwan, China, Indonesia, the Philippines, Vietnam, Cambodia and India as well as our operations in Hong Kong, Thailand and Malaysia. Using the expertise we have built up in Japan, we will work to enhance convenience for customers in countries around Asia in providing them with financial services.



### Development Centered on Hong Kong (Hong Kong, Taiwan, China)

In Hong Kong, we are working to increase the number of credit card members and the balance handled by strengthening memberships at AEON Stores (Hong Kong) Co., Ltd. and alliance partners, and carrying out sales promotion planning. We also strove to promote use of our credit cards by foreign visitors to Japan by such means as implementing a gift campaign in which members using cards at AEON stores in Japan were awarded with five times the usual points. We also carry out operations



Hong Kong

centered on installment payment business in Shenyang, Tianjin and Shenzhen in China.

### Development Centered on Thailand (Thailand, Vietnam, Cambodia, Myanmar, Laos)

In Thailand, we are working to increase the number of credit card members by such means as strengthening memberships at locations such as retail stores we operate in local areas, and issuing finance cards with travel ticket and e-money functions through alliance with BTS Group Holdings Public Company Limited, an elevated railway operating company in Bangkok. Furthermore, we are using the expertise we have built up in our credit businesses to proactively develop insurance agency, leasing, and servicer

businesses. Also, in Vietnam, Cambodia and Myanmar, we carry out operations centered on installment payment business. In particular, in Cambodia, we established a branch within a newly opened AEON store, and we are strengthening business operations as a base for the development of affiliated merchants in the surrounding area.

### Development Centered on Malaysia (Malaysia, Indonesia, India, Philippines)

In Malaysia, we are working to increase the number of credit card members and the balance handled by strengthening memberships at the AEON Group and others, and implementing joint planning with alliance partners. We are also expanding our business lines by handling outsourced operations for the point card business of AEON Big Malaysia. Furthermore, in Indonesia, in addition to the installment payment business, we started full-scale credit card issuance operations. In India and the



Indonesia

Philippines, we are working to expand our network of affiliated merchants in our installment payment business.



Cambodia

# **AEON Financial Service's Corporate Governance**

### Corporate Governance Structure

As a bank holding company, AEON Financial Service Co., Ltd. (the "Company") aims to further strengthen the management control function and corporate governance structure. In order to realize this, we have established the Internal Control Committee. With the aim of realizing sustainable growth and medium- and long-term corporate value enhancement for the Group, the Committee comprehensively and expertly discusses and makes decisions on matters regarding developing the internal control system within the scope entrusted by the Board of Directors and then provides reports and opinions to the Board of Directors. The Internal Control Committee is chaired by the President, and its members are designated by the Board of Directors. The Committee develops a system to flexibly operate and improve the internal control system. The Internal Control Committee establishes the Compliance Committee and the Risk Management Committees regarding detailed studies and deliberations on individual themes and receives reports on the progress and results thereof.

With a focus on maneuverability and prompt decision-making, the Board of Directors is made up of a small number of directors. The Board of Directors makes decisions on important matters related to the management of the Company and its group (the "Group") after deliberation in each committee and the Management Policy Committee from the perspectives of business efficiency and effectiveness.

The Company is a company with a Board of Corporate Auditors. The Board of Corporate Auditors comprises three outside corporate auditors (including two independent auditors) and one corporate auditor. Pursuant to the Board of Corporate Auditors Audit Criteria formulated by the Board of Corporate Auditors, the corporate auditors, in accordance with the audit policies and division of duties, attend Board of Directors meetings and other important meetings, and receive reports and explanations from directors and employees about the execution status of duties. Corporate auditors also read important decision-making documents and other materials, and audit the directors' execution of duties by investigating business operations and assets at the head office as well as at key business sites.

In addition, the Company has elected two outside directors with a wealth of knowledge and experience so that they may provide appropriate opinions with respect to the Company's management and others from an objective standpoint.



### Corporate Governance Structure (As of June 30, 2015)

### Internal Control System

In order to develop a system to ensure that the corporate group composed of the Company and its subsidiaries and the like properly conducts business operations, the Company has formulated a Basic Policy for Developing an Internal Control System by resolution of the Board of Directors. Specifically, the Company has established the Internal Control Committee and allocated a director to be in charge of supervising the internal audit departments. In addition, the Company is pushing ahead with development of its internal control system, including its compliance system, risk management system, and internal audits, and implementing initiatives to increase the effectiveness of its internal control.

Also, with respect to the internal control report system in accordance with the Financial Instruments and Exchange Act, the Company works with its corporate auditors and accounting auditor to develop and evaluate the internal control system related to the Group's financial reporting, in order to ensure the credibility of its financial reporting.

### Compliance System

As the guidelines for all officers and employees to make appropriate decisions and take appropriate actions in accordance with both social norms and corporate ethics, it was prescribed that all officers and employees must comply with the AEON Code of Conduct. The Company has formulated the AEON Financial Service Group Policies on Compliance, which clarify the basic stance on compliance of the Group with the Company as a bank holding company. In addition, the Compliance Regulations and Compliance Manual have been formulated to thoroughly inform all officers and employees about the laws and regulations that they must comply with, as well as specific points to watch out for, and how to respond should they discover any compliance violations. Also, the Company carries out regular and as-needed compliance training for officers and employees in order to address up-to-date laws and regulations as well as any amendments to the Company's articles of incorporation.

The Company has set up a Compliance Committee to develop and establish the Group's compliance system. The Compliance Committee comprehensively and expertly studies and deliberates on compliance-related matters, and provides reports, opinions and the like to the Internal Control Committee. The Internal Control Committee receives reports from the Compliance Committee and others, deliberates over matters regarding development and establishment of the compliance system, and provides instructions to the Compliance Committee as well as reports and opinions to the Board of Directors, as necessary. The Board of Directors makes decisions on important basic matters and the like related to development and establishment of the compliance system of the Group.

Each Group company has a contact point for consultation to ensure the promotion of compliance and the integrity of the compliance system. In addition, all officers and employees are informed about the AEON Code of Conduct "110" hotline contact point and the outside hotline contact point for consultation. In addition to issues involving legal violations, these contact points deal with all matters that are difficult to resolve at the workplace level, including even issues related to daily business operations. By investigating the facts and devising measures for improving or resolving issues, the contact points for consultation protect the consulting individuals and help the Group companies to take corrective action.

The Company has formulated the Basic Policy for Handling Anti-Social Forces. This policy clearly informs officers and employees that relationships with anti-social forces are to be blocked, and they are to be resolutely excluded. In addition, the Company has also created a department charged with handling anti-social forces on an organizational basis. This department collects, analyzes and manages data about anti-social forces collected from both inside and outside the Company in an integrated fashion, and provides instructions and guidance to all Group companies regarding development of the management structure for excluding anti-social forces.

# AEON Financial Service Corporate Governance Structure

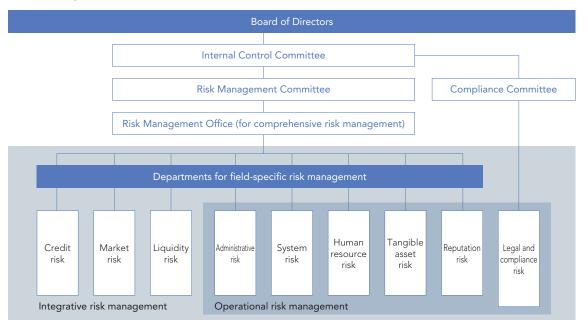
### Risk Management Structure

AEON Financial Service Co., Ltd. promotes an integrative risk management. The Company evaluates the various risks it faces by risk category, and appropriately manages the risks in light of the Company's corporate strength, thereby maintaining management soundness and contributing to achieving more certain and consistent operating results.

As a structure to promote this risk management, the Company has established an Internal Control Committee, a Risk Management Committee, and a Risk Management Office as a department to oversee risk management of each Group company.

The Risk Management Committee comprehensively studies and deliberates on matters related to the Group's overall management of risk, and provides reports, opinions and the like to the Internal Control Committee. The Internal Control Committee receives reports from the Risk Management Committee and others, deliberates over matters regarding risk management, and provides instructions to the Risk Management Committee as well as reports and opinions to the Board of Directors, as necessary. The Board of Directors makes decisions on important basic matters and the like related to the risk management of the Group.

The Group categorizes risks that occur in the course of operations into a number of categories: credit risk, market risk, liquidity risk, and operational risk. Risks are managed according to their specific characteristics.



### **Risk Management Structure**

### Credit risk management

Credit risk management is primarily related to credit provided to individuals, such as housing loans and credit cards, and therefore these risks are diversified into small lots. Credit risk associated with housing loans is reduced through stringent pre-screening and follow-up monitoring, as well as by securing loans with the associated properties.

### Market risk management

Market risk management is carried out by ensuring a mutual check and balance system for business operations through the development of risk management organs and systems that are independent from profit-making departments. Quantitative analysis of risks from financial instruments held is also carried out. Specifically, risk is managed to ensure that the measured risk does not exceed the maximum risk amount resolved at the Board of Directors.

### Liquidity risk management

Liquidity risk management involves systems that are developed to respond to the actual cash flow situation at each Group company. Risk is managed with an emphasis on securing liquidity, while also taking the efficiency of funds operations into consideration.

### **Operational risk management**

With respect to operational risk management, the Group classifies operational risks into six categories: administrative risk, system risk, human resource risk, tangible asset risk, reputation risk, and legal and compliance risk. Departments responsible for each risk management manage risks from its position of expertise, while the Risk Management Office identifies and manages operational risk on a comprehensive level. Given its importance, a separate system, including the Compliance Committee, is in place to manage legal and compliance risk.

### Internal Audits

Based on the recognition that building an internal audit system is critical for developing an appropriate risk management structure, the Company has formulated an Internal Audit Basic Policy for the Group, which aims to ensure the effectiveness of internal audits. The Company has established the following audit departments: the Internal Audit Department, which audits all departments of the Company and its domestic subsidiaries; the Overseas Audit Department, which audits overseas subsidiaries; and the Inspection Department, which inspects the sales bases of domestic subsidiaries. The Company verifies the appropriateness and effectiveness of the Group's stance toward internal management. In addition, the Company's audit departments verify the effectiveness of the internal auditing stances of subsidiaries through monitoring of the audit implementation of audit departments of subsidiaries and periodically held meetings of those in charge of internal auditing. The audit departments coordinate and cooperate with the corporate auditors and the accounting auditor of the Company, conduct audits from an independent and objective standpoint, and periodically provide reports to the Board of Directors and the Board of Corporate Auditors.

# **CSR Action Policies**

### **AEON Financial Service Policies on Compliance**

### 1. Earning Trust

We are well aware that we have an important social responsibility and public mission as a comprehensive financial group, and we strive to earn unwavering trust from society by acting in good faith and ensuring sound business operations.

### 2. Respecting Human Rights

Our officers and employees all treat each other as partners in the workplace, showing mutual respect for individuals' characters and individuality.

### 3. Complying Fully with Laws and Regulations, etc.

We aim to comply fully with all laws, regulations, and rules, and conduct fair and honest corporate activities in keeping with social norms. In addition, we aim to maintain a strong sense of ethics, and to sustain and enhance a corporate culture of obeying laws, regulations and rules.

### 4. Managing Information

We handle customer information and other critical information with the utmost care, and manage it rigorously to avoid improper use.

### 5. Ensuring a Customer-Oriented Approach

We always put customers first and offer reliable, high-quality financial services suited to each customer's needs. Furthermore, we ensure that our actions never harm our customers' interests in order to benefit the AEON Financial Service Group, and we refrain from using our dominant position to persuade customers to enter into transactions.

### 6. Confronting Anti-Social Forces

We are committed to maintaining a resolute stance against anti-social forces that pose a threat to civil society, and if we encounter any transaction that we suspect is connected to money laundering or any other crime, we do not disregard it, but deal with it appropriately.

### **Privacy Policy**

### **Privacy Policy**

- 1. AEON Financial Service Co., Ltd. (the "Company") has established and discloses the privacy policy (the "Privacy Policy") as its approach to protect personal information and properly handle such information.
- 2. The Company recognizes the importance of protecting personal information, and complies with the Act on the Protection of Personal Information and other relevant laws and regulations including guidelines, as well as the Company's internal regulations including this Privacy Policy, and it strives to properly protect and handle personal information.
- 3. The Company acquires personal information through appropriate and lawful means, and only to the extent necessary to achieve the purpose of utilization.
- 4. The Company specifies the purpose of utilization of personal information, and handles such information within the limitations of the purpose of utilization. In cases where the purpose of utilization of specific personal information is limited by laws and regulations, the Company does not use such information beyond such limitations of the purpose of utilization.

The Company's purpose of utilization of personal information is shown in "Handling Personal Information," etc.

### Handling Personal Information (Purpose of Utilization of Personal Information)

- 5. The Company does not provide personal information to any third party, with the exception of cases where the person concerned has granted prior consent in that regard, or where provision of personal information is based on laws and regulations.
- 6. The Company takes appropriate measures to ensure the security control of customers' personal information in order to prevent loss, alteration or leakage of such information.
  - When outsourcing the handling of customers' personal information, the Company appropriately oversees the trustee.
- 7. The Company reviews the content of this Privacy Policy as necessary, and strives to bring about continuous improvement such as to its systems and approaches for protecting personal information.
- 8. The Company trains and educates its officers and employees regarding the importance of protecting personal information to ensure that they handle customers' personal information in an appropriate manner.
- The Company responds in an appropriate and swift manner to requests by customers to disclose personal information it retains.
   For details of procedures relating to disclosure, etc., please see the information shown in the section "Handling Personal Information," or please contact the office shown below.

# Handling Personal Information (Procedures Relating to Disclosure, etc. of Personal Data Retained by the Company)

10. The Company responds to any opinions or requests concerning its handling of personal information in an appropriate and swift manner.

Please contact the General and Legal Affairs Division given below regarding opinions and requests.

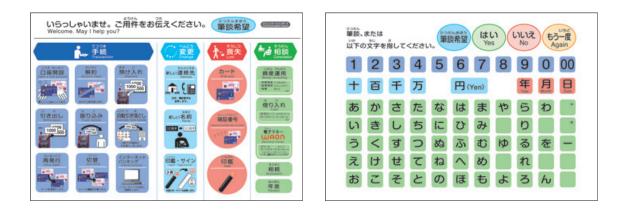
# **Enhancing Convenience for Customers**

### Making Use of Customer Feedback

We value opinions, requests, and other feedback received from our customers, and we take such feedback seriously as a means to improve our business and further upgrade our services. We provide customer feedback cards at bank branches and ATMs, replying individually to those customers we can contact. We also collect and categorize feedback received via branches, call centers, and the corporate website, and such feedback is discussed and studied, and used in efforts to further upgrade our services.

### Initiatives to Enhance Convenience

We are taking steps to enhance our services to make them more convenient and more focused on serving the public good so that a diverse range of customers can feel comfortable using them. In bank branches, for instance, we installed communication boards to enable customers with impaired hearing or concerns about communicating verbally to use a visual means of telling bank staff their desired transactions or procedures.



### For customers with physical disabilities

→ We reduce fees for over-the-counter money transfers

### For customers with impaired eyesight

→ We issue account statements in braille

### For customers who find it difficult to write

We handle housing loan applications and other paperwork read or written by a proxy on behalf of the customer

# **Environmental Activities**

AEON Financial Service Co., Ltd. (the "Company") works to continuously increase its corporate value by proactively conducting environmental preservation and social contribution activities. The Company is also making efforts to contribute to the development of local communities as a good corporate citizen.

### Tree Planting

Since 1991, the Company has participated in "AEON Furusato no Morizukuri" (AEON Hometown Forests Program), in which new AEON stores, together with customers, plant trees on their premises when they open. We also actively participate in tree planting in Japan and overseas conducted by the AEON Environmental Foundation, in cooperation with national and local governments, for the purpose of restoring forests destroyed by natural disasters or other causes.

In fiscal 2014, many employees and their families worked together with local customers to plant trees at stores in Japan and overseas, including AEON Mall Okayama, AEON Mall Kisarazu, and AEON Mall Binh Duong Canary in Vietnam. In addition, employees helped in planting trees in Mukawacho, Hokkaido Prefecture; Kesennuma City, Miyagi Prefecture; Yangon, Myanmar; and Suzhou, China. In Yangon, business partners who supported the intent of the project also participated.

In Hong Kong, employees and their families joined with local affiliated merchants in "Hong Kong Tree Planting Day," in which a total of 2,000 people planted 100,000 seedlings. In Thailand, we continued to carry out tree planting activities together with customers and local residents.



Tree planting in Mukawacho, Hokkaido Prefecture



Tree planting in Si Lanna National Park, Thailand

### Prevention of Global Warming and Promotion of Resource Conservation

We have switched to using tablet computers instead of paper forms in credit card sign-up procedures at all stores throughout Japan. In addition, we are working to reduce waste and conserve resources by using digital signage in posters and advertising displays in stores. In another environmental activity, we are promoting the "WEB Statement (Environmental Declaration)" to encourage customers to access credit

card statements online rather than receiving them by mail. Doing so enables the reduction of CO<sub>2</sub> emissions by 500g per envelope, the amount generated each time a paper statement is sent in the mail.

AEON Credit Service Co., Ltd. has acquired ISO 14001 certification of its environmental management system in order to manage and implement its environmental initiatives more systematically, and is continuing efforts to reduce its environmental footprint.



# **Social Contribution Activities**

### Support for Recovery from the Great East Japan Earthquake

AEON Bank has set up a special account to accept donations to support recovery from the Great East Japan Earthquake of March 2011. The donated funds are used to provide assistance to people in the communities affected by the disaster through the authorized nonprofit organization Japan Platform.

Through the concerted efforts of labor and management, the AEON Group has launched "Project Aeon Joining Hands," which brings together citizens in the areas affected by the Great East Japan Earthquake who are trying to recover and rebuild as quickly as possible, and AEON Group employees who want to help them. This initiative is intended to promote tree planting to restore green space that was lost in the tsunami, reconstruction activities in cooperation with local governments and NPOs, and volunteer activities in each workplace. AEON Financial Service companies also participated in this project and conducted reconstruction support activities.

### Contributing to the Community

The AEON Group strongly supports volunteer activities including welfare programs in local communities. At its operating bases throughout Japan, the Group participates in "Aeon Clean Road," an initiative promoted under a tie-up with the Ministry of Land, Infrastructure, Transport and Tourism, to pick up trash on sidewalks, pedestrian bridges and other walkways and to clean up planting strips.

The AEON Group also interacts with local communities through visits to neighboring social welfare facilities for events such as cherry blossom viewing and Christmas parties.

Overseas, we provided support for the Used Book Recycling Campaign and the UNICEF Young Envoys

Programme in Hong Kong sponsored by AEON Stores (Hong Kong) Co., Limited. In Malaysia, we participated in fund-raising activities and as volunteers in delivery of relief goods to support victims of floods along that country's east coast. In Hong Kong, the AEON Group was awarded the Caring Company Logo by the Hong Kong Council of Social Service for the eighth consecutive year in recognition of its proactive social contribution activities. This certification is given to businesses that care for and consistently contribute in sustainable ways to the community, employees and the environment.

In addition, through the support of the AEON 1% Club, a public-interest incorporated foundation, we provided assistance for building schools and for construction of wells and other water storage facilities throughout Asia.

### Donations and Fundraising

We supported relief efforts for areas damaged by landslides in the city of Hiroshima, Hiroshima Prefecture and set up donation boxes to raise funds for the charity program "24 Hour Television: Love Saves the Earth." In addition, we raised funds with customers through a donation account, donations at the time of credit card payment, and donations using *Tokimeki* points earned on credit card purchases. In the *Tokimeki* point program, customers are given the option of using their points to make donations to environmental or social welfare action groups, and we present goodwill contributions from many cardholders to various organizations.

Moreover, we provided scholarship funds to students from Asia studying in Japan and to students studying in Asian countries.



UNICEF Young Envoys Programme 2014



Tokimeki point presentation ceremony (National Land Afforestation Promotion Organization)



Scholarship awards ceremony in Thailand

# **Supporting Our Employees**

### Respect for Diversity in Hiring

We respect the diversity of our personnel and endeavor to conduct hiring free of discrimination based on nationality, ethnic origin, gender, educational background, religion, or physical disability.

### Diverse Career Development Support

By giving employees knowledge and experience encompassing all aspects of the Group's operations including credit, banking and insurance, we nurture a workforce of professionals capable of proposing financial services tailored to the needs of customers. We provide training by employee level and practical training by duty type. We also support employee self-development. In addition to this, we have started offering training that is open to all employees,

so that any employee wishing to raise their skill level can ambitiously participate.

In addition, with the aim of cultivating personnel equipped to carry out operations with a global perspective to support our business development in Asia, we provide opportunities for employees to engage in global communication, such as training through overseas visits for young employees in Japan and joint training for management personnel in Japan and overseas.



### Creating Accommodating Workplaces

We are introducing a system to enable motivated employees to play an active role over the long term and combine work with childbirth, childrearing, and caring for elderly relatives, and are working to encourage employees to make use of the system.

### **Promoting Diversity**

We are creating a framework within which each employee's individuality can be respected and a diverse range of personnel can flourish in order to reinforce our financial products and services developed from the customer's perspective. As a result of our efforts to create an environment that is accommodating toward our employees regardless of their gender, age or nationality, the ratio of management positions occupied by female employees in Japan and overseas is now over 30%. Going forward, we will increase this to 50%.

### Promoting Work-Life Balance

To create better workplaces that are more accommodating toward our employees we conduct an annual morale survey targeting all employees in Japan and overseas, and conduct system revisions that incorporate the opinions of our employees.

In addition, we not only have a system for employees to take consecutive holidays and encourage employees to use their paid leave, but also work to create an environment that enables employees, irrespective of their gender, to easily take leave for childcare and caring for elderly relatives.

# **Communication with Shareholders and Investors**

### System for Disclosing Information

To enable our shareholders, investors, and other stakeholders to deepen their understanding of the Company, we disclose key information related to the Company in a timely and appropriate manner in accordance with laws and regulations relating to financial instruments and the rules of the stock exchanges on which the Company's stocks are listed. The information disclosure system we have put in place affords all our investors equal access to material information affecting investment decisions.



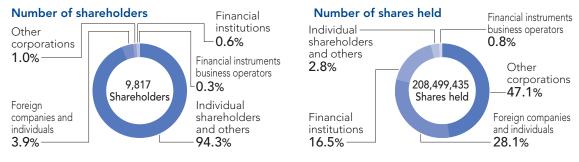
The shareholder and investor information home page

### IR Activities

We regard IR activities as important, believing that a positive attitude toward releasing information helps to earn trust from society. Through our IR activities we communicate the facts about the Company to our shareholders and other investors impartially, accurately, promptly, and continuously. During fiscal 2014 we held results briefings and telephone briefings for institutional investors, while the director and other personnel with responsibility for IR responded to individual inquiries.

Furthermore, starting with the 34th Ordinary General Meeting of Shareholders held in June 2015, we post English translations of convocation notices and their resolution notices on our website to inform overseas shareholders of the contents of our agenda items and their resolutions.

### Shareholding Ratio by Category (as of March 31, 2015)



### Redistribution of Profits to Shareholders

We regard the redistribution of profits to shareholders as an important policy for managing the business. We therefore allocate profits among shareholders appropriately, while taking measures to enhance the Company's competitiveness by securing the internal reserves necessary to invest in growth fields and increase equity capital.

For fiscal 2014 we set an interim dividend of ¥25 per share and a year-end dividend of ¥35 per share for an annual dividend of ¥60 per share.

Annual dividends per share

	FY2010	FY2011	FY2012	FY2013	FY2014
Annual dividend	¥40	¥45	¥50	¥60	¥60
Payout ratio	65.8%	78.5%	56.9%	57.4%	39.3%

### Directors

President & CEO	Akinori Yamashita
Executive Vice President	Masao Mizuno
Executive Vice President	Takamitsu Moriyama
Senior Managing Director	Hideki Wakabayashi
Director	Takashi Kiyonaga
Director	Yasuhiro Kasai
Director	Masaaki Mangetsu
Director	Tsunekazu Haraguchi
Director	Hiroyuki Watanabe
Director (Outside)	Motonari Otsuru
Director (Outside)	Junya Hakoda

### Auditors

Standing Auditor (Outside)	Yotoku Hiramatsu
Auditor (Outside)	Koshi Yamaura
Auditor (Outside)	Hiroshi Kato
Auditor	Hideaki Shiraishi

# **Financial Section**

Five-Year Summary	23
Financial Review	25
Consolidated Balance Sheet	27
Consolidated Statement of Income	28
Consolidated Statement of Comprehensive Income	29
Consolidated Statement of Changes in Equity	30
Consolidated Statement of Cash Flows	31
Notes to Consolidated Financial Statements	32
Independent Auditor's Report	64

**Five-Year Summary** AEON Financial Service Co., Ltd. (formerly, AEON Credit Service Co., Ltd.) and Subsidiaries Year Ended March 31, 2015 and Years Ended March 31, 2014 through 2011

		Million	Thousands of U.S. Dollars <sup>(*1)</sup>				
		<b>2015</b> <sup>(*2)</sup>		2014(*2)	<sup>2)</sup> 2015		
For the Year: Total income Total expenses Income before income	¥	329,047 276,294	¥	286,181 246,384	\$	2,735,904 2,297,284	
taxes and minority interests Net income		52,753 30,492		39,797 20,743		438,620 253,529	
		Y	en		U.	S. Dollars <sup>(*1)</sup>	
Per Share Data: Net assets Basic net income Diluted net income	¥	1,377.56 152.55 152.04	¥	1,316.00 104.62 99.49	\$	11.45 1.27 <u>1.26</u> housands of	
		Million	s of Ye	n		S. Dollars <sup>(*1)</sup>	
At Year-End: Loans and bills discounted—net of allowance for possible credit losses Installment sales receivables—net of	¥	1,448,023	¥	1,248,815	\$	12,039,771	
allowance for possible credit losses Net property and		1,015,155		937,759		8,440,631	
equipment Total assets Total liabilities Equity		35,774 3,589,496 3,264,548 324,948		31,186 3,163,117 2,855,825 307,292		297,448 29,845,315 27,143,493 2,701,822	
* •		Perce					
Ratios: Equity ratio Return on assets Return on equity		7.6% 0.9 11.2		8.6% 0.7 8.2			
		2013(*4)	Mil	lions of Yen 2012		2011	
For the Year: Total operating revenues Total operating expenses Income before income	¥	205,972 172,892	¥	169,853 145,572	¥	169,191 148,473	
taxes and minority interests Net income		30,492 13,616		17,907 8,988 Yen		20,936 9,541	
Per Share Data: Net assets Basic net income Diluted net income <sup>(*3)</sup>	¥	1,235.28 88.12 78.25	¥	1,012.52 57.30 57.30	¥	1,015.17 60.83	
At Year-End: Finance receivables—net of allowance for possible			Mil	lions of Yen			
credit losses Net property and equipment Total assets Total liabilities Equity	¥	891,556 20,061 2,534,209 2,275,337 258,872	¥	640,992 13,854 907,659 725,806 181,853	¥	625,362 12,849 901,579 721,379 180,200	
Defen			Р	ercentage			
Ratios: Equity ratio Return on assets Return on equity		9.1% 0.8 7.0		17.5% 1.0 5.7		17.7% 1.1 6.1	

- (\*1) The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at the rate of ¥120.27 to U.S.\$1, the approximate rate of exchange on March 31, 2015. Such translation should not be construed as a representation that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.
- (\*2) On April 1, 2013, AEON Financial Service Co., Ltd. (the "Company") became a bank holding company. Accordingly, the Company has prepared the consolidated financial statements for the fiscal years ended March 31, 2015 and 2014 in accordance with the Ordinance for the Enforcement of the Banking Act (Ordinance of the Ministry of Finance No. 10 of 1982) which prescribes thereif ensures a fiscal years ended distribution. classifications of assets and liabilities and revenues and expenses for barking institutions.
  (\*3) Diluted net income per share for the year ended February 20, 2011 is not disclosed as no potential dilution exists.
  (\*4) The consolidated amounts for the fiscal year ended March 31, 2013 include the results of AEON Bank, Ltd. and its subsidiary as AEON
- Bank, Ltd. became a wholly-owned subsidiary of the Company through a share exchange as of January 1, 2013. In addition, the consolidated amounts for the fiscal year ended March 31, 2013 cover a period of 13 months and 11 days from February 21, 2012 through March 31, 2013, due to the change in the Company's fiscal year.

### **Financial Review**

AEON Financial Service Co., Ltd. and Subsidiaries Years Ended March 31, 2015 and 2014

### **RESULTS OF OPERATIONS**

RESULTS OF OF ERATIONS			Mil	ions of Yen			
			IVIII			Amount	Doroontogo
		2015		2014		Amount	Percentage
- (*)		2015		2014		Change	Change
Consolidated gross profits <sup>(*)</sup> :							
Net interest income	¥	104,816	¥	87,927	¥	16,889	19.2 %
Net fees and commissions		146,445		125,522		20,923	16.7
Net other operating income		17,944		15,769		2,175	13.8
Total Consolidated gross profits		269,205		229,218		39,987	17.4
General and administrative expenses		(186,474)		(169,569)		(16,905)	10.0
Provision for possible credit losses and							
write-off of bad debts		(39,788)		(31,484)		(8,304)	26.4
Net other income		9,810		11,632		(1,822)	(15.7)
Income before income taxes and minority							
interest		52,753		39,797		12,956	32.6
Income taxes:							
Current		(15,001)		(13, 102)		(1,899)	14.5
Deferred		936		1,190		(254)	(21.3)
Total income taxes		(14,065)		(11,912)		(2,153)	18.1
Net income before minority interests		38,688		27,885		10,803	38.7
Minority interests in net income		(8,196)		(7,142)		(1,054)	14.8
Net income	¥	30,492	¥	20,743	¥	9,749	47.0 %

(\*) Consolidated gross profits = (Interest income – Interest expenses) + (Fees and commissions (income) – Fees and commissions (expenses)) + (Other operating income – Other operating expenses)

### **Consolidated Financial Summary**

The Company has designated the current fiscal year as the year of returning to its roots in preparation for future growth and strived to increase its corporate value in order to be a corporate group which provides more secure, convenient and valuable financial products and services from the customers' standpoint.

To further grow as a comprehensive financial group originating from the retail business, the Company has enhanced its marketing capacity by utilizing the platform of AEON Group in and outside Japan and promoted centralization of management resources such as the customer information and marketing network of each business segment. In addition, the Company has strengthened its management infrastructure, including development of human resources, which can leverage the strength of the Company and its subsidiaries (collectively, the "Group"), and enhancement of its organizational structure.

As a result of synergies realized through the strength of each business segment, the consolidated financial results of the Group for the year ended March 31, 2015 were as stated above. The Group achieved record-high net income for the current fiscal year.

Loans and Dins Discounted and it	istaiiii	icite Sales it	cccr	abics			
			Mil	lions of Yen			
					A	Amount	Percentage
		2015		2014	(	Change	Change
Loans and bills discounted	¥	1,474,236	¥	1,276,741	¥	197,495	15.5 %
Allowance for possible credit losses		(26,213)		(27,926)		1,713	(6.1)
Total loans and bills discounted	¥	1,448,023	¥	1,248,815	¥	199,208	16.0 %
			IVIII	lions of Yen		Amount	Percentage
		2015		2014		Change	Change
Installment sales receivables:							
Credit card purchase contracts	¥	763,890	¥	748,828	¥	15,062	2.0 %
Hire purchase contracts		274,331		208,576		65,755	31.5
Subtotal		1,038,221		957,404		80,817	8.4
Allowance for possible credit losses		(23.066)		(19.645)		(3.421)	17.4

### Loans and Bills Discounted and Installment Sales Receivables

### **Cash flows**

Total installment sales receivables

For the year ended March 31, 2015, net cash provided by operating activities amounted to \$161,501 million, net cash used in investing activities amounted to \$81,428 million and net cash used in financing activities amounted to \$34,580 million. As a result of the above, the balance of cash and cash equivalents as at March 31, 2015 increased by \$47,730 million to \$455,901 million as compared to the end of the previous fiscal year.

¥

937,759

¥

77,396

8.3 %

### **BUSINESS PERFORMANCE BY REPORTABLE SEGMENT** Total assets and ordinary income by reportable segment

¥

1,015,155

			Mill	ions of Yen					
	Amount           2015         2014						Percentage Change		
Total Assets:									
Credit	¥	1,432,212	¥	1,347,951	¥	84,261	6.3	%	
Fee Business		149,679		129,771		19,908	15.3		
Banking		1,651,661		1,417,748		233,913	16.5		
Overseas		549,466		441,444		108,022	24.5		
Reconciliations		(193,522)		(173,797)		(19,725)	11.3		
Total assets	¥	3,589,496	¥	3,163,117	¥	426,379	13.5	%	
<b>Ordinary income</b> <sup>(*)</sup> :									
Credit	¥	146,414	¥	131,100	¥	15,314	11.7	%	
Fee Business		45,408		36,653		8,755	23.9		
Banking		41,664		41,233		431	1.0		
Overseas		112,553		91,554		20,999	22.9		
Reconciliations		(16,993)		(14,470)		(2,523)	17.4		
Total ordinary income	¥	329,046	¥	286,070	¥	42,976	15.0	%	
(*) F 1 0			1 * 1	11		· 1			

(\*) For segment revenue, the Group uses ordinary income instead of sales, which are used by normal commercial companies. Ordinary income represents total income less certain extraordinary income included in "Other income" in the consolidated statements of income.

**Consolidated Balance Sheet** AEON Financial Service Co., Ltd. and Subsidiaries March 31, 2015 and 2014

		Millior	e of V	/en		housands of J.S. Dollars (Note 1)
		2015	15 01 1	2014		2015
ASSETS		2013		2014		2013
Cash and cash equivalents (Note 17)	¥	455,901	¥	408,171	\$	3,790,649
Deposits with banks (Note 17)	-	11,826	•	8,492	Ψ	98,326
Call loans (Note 17)		10,000		0,172		83,146
Monetary claims bought (Notes 3 and 17)		6,649		12,119		55,286
Securities (Notes 3, 7, and 17)		235,074		173,379		1,954,554
Loans and bills discounted—net of allowance for possible credit losses		, i i i i i i i i i i i i i i i i i i i		ŕ		
(Notes 4, 7, 17, 19, and 22)		1,448,023		1,248,815		12,039,771
Installment sales receivables—net of allowance for possible credit losses						
(Notes 4, 7, and 17)		1,015,155		937,759		8,440,631
Other assets (Notes 7 and 22)		95,532		80,292		794,317
Property and equipment (Note 5)		35,774		31,186		297,448
Intangible assets (Note 6)		71,139		67,723		591,493
Deferred tax assets (Note 14)		20,790		18,759		172,856
Customers' liabilities for acceptances and guarantees		183,633		176,422		1,526,838
Total assets	¥	3,589,496	¥	3,163,117	\$	29,845,315
	Ŧ	5,567,470	Ŧ	5,105,117	J.	27,043,313
LIABILITIES AND EQUITY						
Liabilities:						
Deposits (Note 17)	¥	1,963,025	¥	1,717,769	\$	16,321,817
Accounts payable (Note 17)		190,221		227,264		1,581,617
Call money (Notes 7 and 17)		76,300		4,900		634,406
Borrowed money (Notes 7, 8, and 17)		591,586		515,228		4,918,820
Bonds (Notes 8 and 17)		114,311		101,608		950,450
Convertible bonds (Notes 8, 10, and 17)		90		2,830		748
Other liabilities (Notes 8 and 9)		126,687		93,884		1,053,351
Allowance for point program		11,590		11,013		96,370
Allowance for loss on refund of interest received		4,848		3,086		40,313
Deferred tax liabilities (Note 14)		2,257		1,821		18,763
Acceptances and guarantees		183,633		176,422		1,526,838
Total liabilities		3,264,548		2,855,825		27,143,493
Commitments and contingent liabilities (Notes 16, 18, and 19)				, ,		
Equity (Notes 10, 11, and 24):						
Common stock—authorized, 540,000,000 shares;						
issued, 208,499,435 shares in 2015		30,422		29,052		252,943
and 206,541,751 shares in 2014						
Capital surplus		106,230		104,860		883,265
Stock acquisition rights-450 rights in 2015 and 365 rights in 2014		73		55		611
Retained earnings		154,519		136,271		1,284,767
Treasury stock—at cost, 9,808,408 shares in 2015 and 112,505 shares in 2014		(25,145)		(146)		(209,068
Accumulated other comprehensive income:						
Unrealized gain on available-for-sale securities (Note 3)		4,244		4,027		35,285
Deferred loss on derivatives under hedge accounting		(3,468)		(2,327)		(28,838
Foreign currency translation adjustments		7,446		295		61,914
Accumulated adjustments for retirement benefit		(539)		(371)		(4,485
Total		273,782		271,716		2,276,394
Minority interests		51,166		35,576		425,428
Total equity		324,948		307,292		2,701,822
Total liabilities and equity	¥	3,589,496	¥	3,163,117	\$	29,845,315

See notes to consolidated financial statements.

**Consolidated Statement of Income** AEON Financial Service Co., Ltd. and Subsidiaries Years Ended March 31, 2015 and 2014

	Millions of Yen					ousands of S. Dollars
		2015	of yen	2014	(	Note 1) 2015
Income:		2015		2014		2015
Interest income:						
Interest income.	¥	123,270	¥	104,863	¢	1,024,947
Interest on bars and bins discounted	+	1.613	÷	1,953	φ	13,411
Interest and dividends on securities		1,015		1,933		13,411
Interest on due from banks and deposits		394		400		3,275
Other interest income		215		400 229		1,791
Total interest income						
		125,493		107,452		1,043,431
Fees and commissions (Notes 4 and 22)		168,284		145,782		1,399,218
Other operating income		19,054		16,797		158,425
Other income (Note 12)		16,216		16,150		134,830
Total income		329,047		286,181		2,735,904
Expenses:						
Interest expenses:						
Interest on deposits		(4,015)		(5,184)		(33,384
Interest on call money		(25)		(3)		(206
Interest on borrowed money		(14,474)		(12,647)		(120,348
Other interest expenses		(2,163)		(1,691)		(17,988
Total interest expenses		(20,677)		(19,525)		(171,926
Fees and commissions		(21,839)		(20,260)		(181,579
Other operating expenses		(1,110)		(1,028)		(9,228
General and administrative expenses (Notes 9 and 16)		(186,474)		(169,569)	(	1,550,463
Provision for possible credit losses and write-off of bad debts		(39,788)		(31,484)		(330,825
Management integration expenses				(1,195)		
Other expenses (Note 13)		(6,406)		(3,323)		(53,263
Total expenses		(276,294)		(246,384)	(	2,297,284
Income before income taxes and minority interests		52,753		39,797		438,620
Income taxes (Note 14):				·		
Current		(15,001)		(13,102)		(124,726
Deferred		936		1,190		7,778
Total income taxes		(14,065)		(11,912)		(116,948
Net income before minority interests		38,688		27,885		321,672
Minority interests in net income		(8,196)		(7,142)		(68,143
Net income	¥	30,492	¥	20,743	\$	253,529
	_	,	_			
PER SHARE OF COMMON STOCK (Note 21):		Ye	en		U.	S. Dollars
Basic net income	¥	152.55	¥	104.62	\$	1.2
Diluted net income		152.04		99.49		1.2
Cash dividends applicable to the year		60.00		60.00		0.5

See notes to consolidated financial statements.

**Consolidated Statement of Comprehensive Income** AEON Financial Service Co., Ltd. and Subsidiaries Years Ended March 31, 2015 and 2014

		Millions	ofYer	1	U.	ousands of S. Dollars (Note 1)	
		2015		2014		2015	
Net income before minority interests	¥	38,688	¥	27,885	\$	321,672	
Other comprehensive income (Note 20):							
Unrealized gain on available-for-sale securities		219		1,213		1,821	
Deferred loss on derivatives under hedge accounting		(2,116)		(1,138)		(17,593)	
Foreign currency translation adjustments		12,462		3,536		103,622	
Adjustments for retirement benefit		(168)				(1,399)	
Total other comprehensive income		10,397		3,611		86,451	
Comprehensive income:	¥	49,085	¥	31,496	\$	408,123	
Total comprehensive income attributable to:							
Owners of the parent	¥	36,550	¥	23,357	\$	303,903	
Minority interests		12,535		8,139		104,220	
See notes to consolidated financial statements.							

# **Consolidated Statement of Changes in Equity** AEON Financial Service Co., Ltd. and Subsidiaries Years Ended March 31, 2015 and 2014

	Thousands		Millions of Yen Accumulated Other Comprehensive Income																				
	Outstanding Number of Shares of Common Stock	Common Stock		Capital Surplus	Acq	tock uisition ights	Retaine Earning		Treasury Stock	A	Inrealized Gain on Available- for-sale Securities	D L Der	eferred oss on rivatives under Hedge counting	F Ci Tn	rnensive inc <sup>2</sup> oreign urrency anslation Adjust- ments	Acci adji ret	umulated astments for irement senefit	Tot	tal		inority terests		Total Equity
Balance, April 1, 2013	187,246	¥ 15,467	¥	91,275	¥	23	¥ 125,3	20	¥ (143)	¥	2,717	¥	(1,705)	¥	(1,631)			¥ 23	1,323	¥	27,549	¥	258,872
Net income							20,7	43										2	0,743				20,743
Cash dividends, ¥50 per share Conversion of	19,184	13,585		13,585			(9,5	92)											(9,792)				(9,792 27,170
convertible bonds Purchase of treasury		.,																					
stock	(1)								(3)										(3)				(3
Net change in the year Balance,	207, 120	N 20.055		101.0/0	¥	32	N 126		¥ (140)		1,310	v	(622)		1,926	¥	(371)		2,275		8,027		10,302
March 31, 2014 Cumulative effects of changes in	206,429	¥ 29,052	¥	104,860	*	55	¥ 136,2	(54)	¥ (146)	¥	4,027	÷	(2,327)	¥	295	¥	(371)	¥ 27	(54)	¥	35,576	¥	307,292
accounting policies Restated balance	206,429	29,052		104,860		55	136,2	17	(146)	_	4,027		(2,327)		295		(371)		1,662		35,576		307.238
Net income	206,429	29,052		104,800		22	30,4		(140)		4,027		(2,327)		295		(3/1)		0,492		35,576		30,492
							30,2	92										د	0,492				30,492
Cash dividends, ¥60 per share Conversion of	1,958	1,370	)	1,370			(12,1	88)											2,188) 2,740				(12,188
convertible bonds Purchase of treasury	(0. COM)																						
stock	(9,697)								(25,001)									(2	5,001)				(25,001
Disposal of treasury stock	1							(2)	2														
Net change in the year Balance,						18				_	217		(1,141)		7,151		(168)		6,077		15,590		21,667
March 31, 2015	198,691	¥ 30,422	¥	106,230	¥	73	¥ 154,5	19	¥ (25,145)	¥	4,244	¥	(3,468)	¥	7,446	¥	(539)	¥ 27	3,782	¥	51,166	¥	324,948
	Thousands									There	mands of U.S	Dell	um (Nata 1)										
	Inousands									I nou	housands of U.S. Dollars (Note 1) Accumulated Other Comprehensive Income												
	Outstanding Number of Shares of Common Stock	Common Stock		Capital Surplus	Acq	tock uisition ights	Retaine Earning		Treasury Stock	A	Inrealized Gain on Available- for-sale Securities	D L Der	eferred oss on rivatives under Hedge counting	F Ci Tn	<sup>2</sup> oreign urrency anslation Adjust- ments	Acci adji ret	umulated astments for irement enefit	Tot	tal		inority terests		Total Equity
Balance, March 31, 2014	206,429	\$ 241,552	s	871,874	s	459	\$ 1,133,0	39	\$ (1,212)	\$	33,483	\$	(19,345)	\$	2,450	s	(3,087)	\$ 2,25	9,213	\$	295,802	\$	2,555,015
Cumulative effects of changes in							(4	48)											(448)				(448
accounting policies Restated balance	206,429	241,552		871,874		459	1,132,5	91	(1,212)		33,483		(19,345)		2,450		(3,087)	2,25	8,765		295,802	_	2,554,567
Net income							253,5						/		<u> </u>				3,529				253,529
Cash dividends, \$0.50 per share							(101,3	39)										(10	1,339)				(101,339
Conversion of convertible bonds	1,958	11,391		11,391														2	2,782				22,782
Purchase of treasury stock	(9,697)								(207,877)									(20	17,877)				(207,877
Disposal of treasury	1							(14)	21										7				7
stock Net change in the year						152		<i>,</i>			1,802		(9,493)		59,464		(1,398)	5	0,527		129,626		180,153
Balance,	198,691	\$ 252,943	s 5	883,265	s	611	\$ 1,284,7		\$ (209,068)	-		-	(28,838)	s	61,914		(4,485)	\$ 2,27		\$	425,428		2,701,822
March 31, 2015										\$	35,285	\$				s							

See notes to consolidated financial statements.

**Consolidated Statement of Cash Flows** AEON Financial Service Co., Ltd. and Subsidiaries Years Ended March 31, 2015 and 2014

			Thousands of U.S. Dollars
	Million	s of Yen	(Note 1)
	2015	2014	2015
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 52,753	¥ 39,797	\$ 438,620
Adjustments for:		10 50 1	
Depreciation and amortization	14,533	12,734	120,833
Allowance for possible credit losses	(95)	(14)	(788
Allowance for point program	577	2,317	4,801
Increase (decrease) in allowance for loss on refund of interest received	1,763	(636)	14,655
Interest income	(125,493)	(107,452)	(1,043,431
Interest expenses	20,677	19,525	171,920
Net increase in loans and bills discounted	(163,711)	(138,201)	(1,361,197
Net increase in installment sales receivables	(62,513)	(342,366)	(519,773
Net increase in deposits	245,255	505,718	2,039,206
Net (decrease) increase in accounts payable	(37,296)	14,414	(310,101
Net increase (decrease) in borrowed money	39,196	(213,088)	325,902
Net (increase) decrease in deposits with banks	(3,150)	9,688	(26,19)
Net increase in call loans and others	(4,530)	(18,730)	(37,663
Net increase in call money	71,400	4,900	593,664
Net decrease in commercial paper		(5,634)	
Proceeds from sale and leaseback	11,404		94,816
Interest income received	124,621	104,438	1,036,172
Interest expenses paid	(20,796)	(18,072)	(172,912
Other	14,801	890	123,068
Subtotal	179,396	(129,772)	1,491,607
Income taxes—paid	(17,895)	(7,790)	(148,788
Income taxes—refund		65	
Net cash provided by (used in) operating activities	161,501	(137,497)	1,342,819
INVESTING ACTIVITIES:			
Purchases of securities	(230,386)	(80,923)	(1,915,570
Proceeds from sales of securities	143,136	74,725	1,190,120
Proceeds from redemption of securities	27,510	45,210	228,738
Purchases of property and equipment	(7,911)	(9,017)	(65,779
Proceeds from sale of property and equipment	759	784	6,310
Purchases of intangible assets	(14,536)	(11,861)	(120,864
Cash paid in conjunction with the purchase of consolidated subsidiary (Note 1:	<i>.</i>	(2,934)	
Net cash (used in) provided by investing activities	(81,428)	15,984	(677,039
FINANCING ACTIVITIES:			
Issuance of subordinated bonds		39,769	
Financial costs paid for financing activities	(19)	(109)	(150
Dividends paid to the Company's shareholders	(12,188)	(9,792)	(101,339
Proceeds from stock issuance to minority shareholders	5,829	3,018	48,462
Dividends paid to minority shareholders	(3,163)	(2,879)	(26,297
Purchase of treasury stock	(25,039)	(3)	(208,186
Net cash (used in) provided by financing activities	(34,580)	30,004	(287,516
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH	2,237	205	18,600
AND CASH EQUIVALENTS			
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	47,730	(91,304)	396,864
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	408,171	499,475	3,393,785
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 455,901	¥ 408,171	\$ 3,790,649
MAJOR NONCASH TRANSACTIONS			
Conversion of convertible bonds		¥ (27,170)	
See notes to consolidated financial statements			

 $\frac{\text{Conversion of convertible bonds}}{\text{See notes to consolidated financial statements.}}$ 

### Notes to Consolidated Financial Statements

Years Ended March 31, 2015 and 2014

### 1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations, and in accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards ("IFRS") and accounting principles generally accepted in the United States of America ("U.S. GAAP").

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2014 consolidated financial statements to conform to the classifications used in 2015.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at the rate of ¥120.27 to \$1, the exchange rate at March 31, 2015. Such translation should not be construed as a representation that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Consolidation—The consolidated financial statements as at March 31, 2015 include the accounts of the Company and its 34 subsidiaries and four companies accounted for under the equity method.

Under the control and influence concepts, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

The difference between the cost of an acquisition and the fair value of the net assets of the acquired subsidiary at the date of acquisition is recorded as goodwill. Goodwill recognized by the Company or its consolidated domestic subsidiaries is amortized over a period not exceeding 20 years (estimated effective period). Insignificant goodwill and negative goodwill are recognized in profit or loss in the period in which the business combination occurs.

All significant intercompany balances and transactions and all material unrealized profits included in assets resulting from transactions within the Group have been eliminated.

# (b) Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements—In May 2006, the Accounting Standards Board of Japan (the "ASBJ") issued ASBJ Practical Issues Task Force (PITF) No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign

Subsidiaries for the Consolidated Financial Statements." PITF No. 18 prescribes that (i) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar

circumstances should, in principle, be unified for the preparation of the consolidated financial statements; (ii) financial statements prepared by foreign subsidiaries in accordance with either IFRS or U.S. GAAP tentatively may

be used for the consolidation process; (iii) however, the following items should be adjusted in the consolidation

process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: 1) amortization of goodwill; 2) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; 3) expensing capitalized research and development costs; 4) cancellation of the fair value model of accounting for property, plant, and equipment and investment properties, and incorporation of cost model of accounting; and 5) exclusion of minority interests from net income, if contained in net income. PITF No. 18 was effective for fiscal years beginning on or after April 1, 2008.

(c) Business Combination—In December 2008, the ASBJ issued a revised accounting standard for business combinations, ASBJ Statement No. 21, "Accounting Standard for Business Combinations."

Under the revised standard, the acquirer recognizes a gain on bargain purchase (negative goodwill) in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase price allocation, whereas the previous accounting standard provided for a bargain purchase gain to be systematically amortized over a period not exceeding 20 years. This standard has been applicable to business combinations undertaken on or after April 1, 2010.

(d) Cash Equivalents—Cash equivalents are short-term investments that are readily convertible into cash and that

are not exposed to significant risk of changes in value. Cash equivalents of the Company and its consolidated subsidiaries, excluding the domestic subsidiary that operates banking business (hereafter the "domestic banking subsidiary"), include time deposits, certificates of deposit, and commercial paper, all of which mature or become due within three months of the date of acquisition. Cash equivalent of the domestic banking subsidiary include due from the Bank of Japan.

(e) Installment Sales Receivables—Installment sales receivables that the Group has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balances reduced by any write-off or valuation allowance.

(f) Allowance for Possible Credit Losses—The allowance for possible credit losses is stated in accordance with the internally developed standards for write-offs and provisions. The Group classifies its obligors into five categories for self-assessment purposes, namely, "normal," "in need of caution," "possible bankruptcy," "substantial bankruptcy," and "legal bankruptcy." For credits to obligors classified as normal or in need of caution, the allowance for possible credit losses is provided based on the bad debt ratio derived from credit loss experience over a certain past period. For credits classified as possible bankruptcy, the allowance for possible credit losses is provided only for the required amount of the following: credit amount, less the expected amount recoverable through the disposal of collateral or execution of guarantee. For credits classified as substantial bankruptcy or legal bankruptcy, the allowance for possible credit losses is provided for the full amounts of such credits, deducting the expected amount recoverable through the disposal of collateral or collateral or execution of guarantee.

All claims are assessed initially by the operational departments based on the internal standards for self-assessment of asset quality. The Internal Audit Department, which is independent from the operational departments, reviews the results of the self-assessments.

The allowance for possible credit losses of certain consolidated subsidiaries is provided in amounts considered to be appropriate in accordance with their internal standards developed based on the past credit loss experience and evaluation of potential losses in normal receivables and doubtful receivables.

(g) Property and Equipment—Property and equipment are stated at cost, less accumulated depreciation and impairment. Depreciation of property and equipment is computed under the straight-line method based on the estimated useful lives of the assets. The range of useful lives is principally from two to 20 years.

(h) Securities—Securities are classified and accounted for, depending on management's intent, as follows: available-for-sale securities are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity. Available-for-sale securities whose fair values are deemed to be difficult to determine are stated at cost determined by the moving-average method. Securities other than those classified as for trading purposes (excluding securities whose fair values are deemed to be difficult to determine) are considered to be impaired if the fair values of the securities decrease materially below the acquisition cost and such decline is not considered to be recoverable. The securities are recognized at fair value on the consolidated balance sheet and the amount of write-down is accounted for as loss on revaluation of the securities for the fiscal year.

(i) Software (excluding lease assets)—Software is carried at cost, less accumulated amortization and impairment. Amortization of software of the Group is calculated by the straight-line method over an estimated useful life of within five years.

(j) Stock Issuance Costs—Stock issuance costs as at March 31, 2015 and 2014, which have been deferred and included in other assets, were ¥48 million (\$403 thousand) and ¥85 million, respectively. These costs are amortized by the straight-line method over a period of three years.

(k) Bond Issuance Costs—Bond issuance costs as at March 31, 2015 and 2014, which have been deferred and included in other assets, were \$316 million (\$2,623 thousand) and \$398 million, respectively. These costs are amortized by the interest method through the maturity of the bonds.

(I) Card Issuance Costs— Certain domestic subsidiaries of the Group had expensed credit card issuance costs immediately as incurred in the past. However, the issuance costs of IC-imbedded credit cards issued on or after July 1, 2014 are capitalized as assets and amortized over the valid periods of the cards. This change is a result of an increase in the asset value of the IC-imbedded cards due to a policy decision to switch newly issued credit cards to the IC-imbedded cards that can store a larger amount of customer-related information and to encourage customers to renew their current credit cards to the IC-imbedded cards in order to promote new products and services by using database marketing. As a result, the income before income taxes and minority interests for the fiscal year ended March 31, 2015 increased by  $\frac{2}{2,075}$  ( $\frac{17,255}{17,255}$  thousand) million compared to the amount under the previous method.

(m) Allowance for Point Program—Certain domestic subsidiaries of the Group offer point programs to their customers. The allowance for point program is provided for the cost to be incurred in the future by redemption of the points that have been given to customers as of the end of the fiscal year based on past experience.

(n) Allowance for Loss on Refund of Interest Received—The allowance for loss on refund of interest received (the amount of interest that exceeds the ceiling rate imposed by the Interest Rate Restriction Law) is provided by certain domestic subsidiaries of the Group and is stated at the amount considered to be appropriate based on the Group's past refund experience. In October 2006, "Application of auditing for provision of allowance for loss for reclaimed refund of interest in the accounting of consumer finance companies" of Industry Audit Practice Committee Report No. 37 was issued by the Japanese Institute of Certified Public Accountants and was adopted by the Company at the beginning of the fiscal year ended February 20, 2007.

(o) Retirement Benefit and Pension Plans—The Company and its consolidated domestic subsidiaries have a funded defined benefit pension plan, advance payment plan, and defined contribution pension plan covering substantially all employees. Overseas subsidiaries have unfunded severance payment plans for their employees. Certain consolidated subsidiaries adopt the simplified method, which is allowed for small entities that meet certain criteria under generally accepted accounting standards in Japan, for calculating the projected benefit obligation and net periodic benefit costs.

In calculation of retirement benefit obligation, estimated amounts of retirement benefits are allocated to each period by the straight-line method.

Unrecognized past service costs of domestic subsidiaries are amortized using the straight-line method within the employees' average remaining service period from the fiscal year of its incurrence, over a period of 10 years.

Unrecognized actuarial gains and losses of domestic subsidiaries are amortized using the straight-line method within the employees' average remaining service period, commencing from the following fiscal year of incurrence, over a period of 10 years.

Effective from March 31, 2015, the Group adopted the provision of Paragraph 35 of the Accounting Standard for Retirement Benefits (ASBJ Statement No. 26 issued on May 17, 2012, hereafter the "Accounting Standard") and Paragraph 67 of the Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25 on March 26, 2015, hereafter the "Guidance"). Certain domestic subsidiaries of the Group reviewed the method of determining retirement benefit obligations and current service costs, and changed the allocation of estimated retirement benefits from the straight-line basis to the benefit obligation was changed to the method to use the single weighted-average discount rate that reflects the estimated payment period of retirement benefits and the amount per each estimated payment period. The discount rate had previously been determined based on the yield of certain bonds, the maturity of which is close to the employees' average remaining service period.

The Group applied the transitional treatment prescribed in Paragraph 37 of the Accounting Standard. As at April 1, 2014, the Group recognized the effect of changing the method of determining retirement benefit obligations and current service costs as an adjustment to the opening balance of retained earnings.

As a result, as at April 1, 2014, retirement benefit liability increased by ¥83 million (\$692 thousand) and retained earnings decreased by ¥54 million (\$448 thousand).

The effect of this change on net income and per share information for the current fiscal year is immaterial.

(**p**) **Stock Options**—ASBJ Statement No. 8, "Accounting Standard for Stock Options," and related guidance are applicable to stock options granted on and after May 1, 2006.

This standard requires companies to recognize compensation expense for employee stock options based on the fair value at the date of the grant and over the vesting period as consideration for receiving goods or services.

The standard also requires companies to account for stock options granted to nonemployees based on the fair value of either the stock option or the goods or services received. In the consolidated balance sheet, stock options are presented as stock acquisition rights as a separate component of equity until exercised.

The Company has applied the accounting standard for stock options to those granted on and after May 1, 2006.

(q) Recognition of Income—The operations of the Group mainly comprise the following, and the recognition of income varies by business.

### (i) Credit card purchase contracts and hire purchase contracts

Installment sales receivables are recognized after the Group has accepted the relevant contracts referred by participating member stores.

The Group receives fees for collection of the installment sales and the related administrative services from the member stores under credit card purchase contracts and hire purchase contracts for shopping. The fees from the member stores are generally recognized at the time when the Group makes payments for the installment sales receivables to the member stores in advance.

The Group receives fees from customers under credit card purchase contracts and hire purchase contracts. The

fees from customers are recognized principally by the effective interest method.

### (ii) Loans and bills discounted

The Group provides cash advance and loan services. Loans and bills discounted are recognized when cash is drawn down by customers. The interest income and the customer charge at the start of the contract are recognized principally by the effective interest method.

(r) Lease Transactions—All finance lease transactions are capitalized to recognize lease assets and lease obligations on the balance sheet. All other leases are accounted for as operating leases.

(s) Income Taxes—The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences. A valuation allowance is provided for any portion of the deferred tax assets that is not considered to be realizable.

(t) Consumption Taxes—National and local consumption taxes of the Company and its domestic subsidiaries are accounted for using the tax-exclusion method. However, consumption taxes relating to assets that are not tax deductible are recognized as other assets and amortized over the period stipulated in the Corporation Tax Act.

(u) Appropriations of Retained Earnings—Appropriations of retained earnings are reflected in the consolidated financial statements in the following year upon the Board of Directors' resolution or shareholders' approval.

(v) Foreign Currency Transactions—All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at each balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statements of income to the extent that they are not hedged by forward exchange contracts.

(w) Foreign Currency Financial Statements—The balance sheet accounts of the foreign subsidiaries are translated into Japanese yen at the current exchange rate as of each balance sheet date, except for equity, which is translated at the historical rate. Differences arising from such translation are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity. Revenue and expense accounts of foreign subsidiaries are translated into yen at the average exchange rate.

(x) Derivative Financial Instruments—The Group uses derivative financial instruments to manage its exposures to market fluctuations in foreign currency exchange and interest rates. The Group enters into forward exchange contracts, currency swap contracts, and interest rate swap contracts to reduce its exposures to foreign currency and interest rate risk. The Group does not enter into any derivative contracts for trading or speculative purposes. Derivative financial instruments and foreign currency transactions are classified and accounted for as follows:

(i) all derivatives are recognized as either assets or liabilities and measured at fair value with gains or losses on

derivative transactions recognized in the consolidated statements of income and (ii) for derivatives used for hedging purposes, if the derivatives qualify for hedge accounting because of a high correlation and effectiveness between the hedged items. Foreign currency-denominated long-term debt for which forward exchange contracts are used as hedging instruments are translated at the forward exchange rate if the derivatives qualify for hedge accounting. Interest rate swaps are utilized to hedge interest rate exposures of long-term debt. In principle, these swaps which qualify for hedge accounting are measured at market value at the consolidated balance sheet date and the unrealized gains or losses, net of applicable taxes, are deferred until maturity as deferred gain/loss on derivatives under hedge accounting and meet specific matching criteria are not remeasured at market value, but the differential paid or received under the swap agreements is recognized and included in interest expense or income.

(y) Per Share Information—Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted net income per share reflects the potential dilution that could occur if outstanding stock acquisition rights were exercised. Diluted net income per share of common stock is calculated assuming all outstanding stock acquisition rights are exercised.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years, including dividends to be paid after the end of the year.

#### (z) Accounting Changes and Error Corrections

In December 2009, the ASBJ issued ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections," and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections." Accounting treatments under this standard and guidance are as follows:

#### (i) Changes in accounting policies

When a new accounting policy is applied due to a revision of accounting standards, the new policy is applied retrospectively, unless the revised accounting standards include specific transitional provisions. When the revised accounting standards include specific transitional provisions, an entity shall comply with the specific transitional provisions.

#### (ii) Changes in presentation

When the presentation of financial statements is changed, prior-period financial statements are reclassified in accordance with the new presentation.

#### (iii) Changes in accounting estimates

A change in an accounting estimate is accounted for in the period of the change if the change affects that period only and is accounted for prospectively if the change affects both the period of the change and future periods.

#### (iv) Correction of prior-period errors

When an error in prior-period financial statements is discovered, those statements are restated.

#### (aa) New Accounting Pronouncements

#### Accounting Standards for Business Combination and Consolidated Financial Statements

On September 13, 2013, the ASBJ issued ASBJ Statement No. 21, "Revised Accounting Standard for Business Combinations," ASBJ Statement No. 22, "Revised Accounting Standard for Consolidated Financial Statements," ASBJ Statement No. 7, "Revised Accounting Standard for Business Divestitures," and ASBJ Guidance No. 10, "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures."

#### Major changes are as follows:

- (i) Overview
- (1) Transactions with non-controlling interest

A parent's ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of minority interest is adjusted to reflect the change in the parent's ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Under the current accounting standard, any difference between the fair value of the consideration received or paid and the amount by which the minority interest is adjusted is accounted for as an adjustment of goodwill or as profit or loss in the consolidated statement of income. Under the revised accounting standard, such difference shall be accounted for as capital surplus as long as the parent retains control over its subsidiary.

- (2) Presentation of the consolidated balance sheet In the consolidated balance sheet, "minority interest" under the current accounting standard will be changed to "non-controlling interest" under the revised accounting standard.
- (3) Presentation of the consolidated statement of income In the consolidated statement of income, "income before minority interest" under the current accounting standard will be changed to "net income" under the revised accounting standard, and "net income" under the current accounting standard will be changed to "net income attributable to owners of the parent" under the revised accounting standard.
- (4) Provisional accounting treatments for a business combination
- If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. Under the current accounting standard guidance, the impact of adjustments to provisional amounts recorded in a business combination on profit or loss is recognized as profit or loss in the year in which the measurement is completed. Under the revised accounting standard guidance, during the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date.

#### (5) Acquisition-related costs Acquisition-related costs are costs, such as advisory fees or professional fees, which an acquirer incurs to effect a business combination. Under the current accounting standard, the acquirer accounts for acquisition-related costs by including them in the acquisition costs of the investment. Under the revised accounting standard, acquisition-related costs shall be accounted for as expenses in the periods in which the

costs are incurred.

(ii) Effective dates

The Company expects to apply these revised accounting standards from the beginning of the fiscal year ending March 31, 2016.

(iii) Effects of adoption of these accounting standards

The Company is currently evaluating the effects of adoption of these accounting standards.

### 3. MONETARY CLAIMS BOUGHT AND SECURITIES

Monetary claims bought and securities as at March 31, 2015 and 2014, consisted of the following:

	Millions of Yen					ousands of .S. Dollars
		2015	2014		2015	
Marketable equity securities	¥	6,485	¥	5,755	\$	53,924
Marketable debt securities:						
Government bonds		62,891		27,030		522,917
Corporate bonds		25,074		36,228		208,482
Total marketable debt securities		87,965		63,258		731,399
Other securities						
Foreign securities		128,138		94,041		1,065,421
Other <sup>(*)</sup>		19,135		22,444		159,096
Total other securities		147,273		116,485		1,224,517
Total	¥	241,723	¥	185,498	\$	2,009,840

(\*) Includes investments in associated companies of ¥342 million (\$2,842 thousand) and ¥227 million as at March 31, 2015 and 2014, respectively.

The carrying amounts and aggregate fair values of monetary claims bought and securities as at March 31, 2015 and 2014, were as follows:

,				Millior	s of Yen			
			-	realized	Uni	realized		
		Cost		Gains	L	osses	Fa	air Value
March 31, 2015								
Securities classified as:								
Available-for-sale:								
Equity securities	¥	2,627	¥	3,924	¥	(66)	¥	6,485
Debt securities		87,496		480		(11)		87,965
March 31, 2014								
Securities classified as:								
Available-for-sale:								
Equity securities	¥	2,619	¥	3,170	¥	(34)	¥	5,755
Debt securities		62,672		589		(3)		63,258
		Thousands of U.S. Dollars						
			Un	realized	Uni	realized		
		Cost		Gains	L	osses	Fa	air Value
March 31, 2015								
Securities classified as:								
Available-for-sale:								
Equity securities	\$	21,843	\$	32,630	\$	(549)	\$	53,924
Debt securities		727,496		3,992		(89)		731,399

Available-for-sale securities whose fair values are deemed to be difficult to determine as at March 31, 2015 and 2014 are disclosed in Note 17.

Loss on revaluation of securities for the year ended March 31, 2014 was \$3 million, including loss on equity securities of \$3 million.

Unrealized gain on available-for-sale securities on the consolidated balance sheets as at March 31, 2015 and 2014 consisted of the following:

		Millions	of Yer	1	 ousands of S. Dollars
		2015		2014	2015
Unrealized gain before deferred tax on:					
Available-for-sale securities	¥	5,929	¥	5,649	\$ 49,297
Deferred tax liabilities		(1,596)		(1,535)	(13,272)
Unrealized gain on available-for-sale securities		4 2 2 2		4 114	26.025
(before adjustment)		4,333		4,114	36,025
Minority interests		(89)		(87)	(740)
Unrealized gain on available-for-sale securities	¥	4,244	¥	4,027	\$ 35,285

# 4. LOANS AND BILLS DISCOUNTED, INSTALLMENT SALES RECEIVABLES, AND FEES AND COMMISSIONS

Loans and bills discounted as at March 31, 2015 and 2014, consisted of the following:

	· · · · · · · · · · · · · · · · · ·	Millions of Yen				
		2015		2014		2015
Loans and bills discounted	¥	1,474,236	¥	1,276,741	\$	12,257,720
Allowance for possible credit losses		(26,213)		(27,926)		(217,949)
Total	¥	1,448,023	¥	1,248,815	\$	12,039,771

Loans and bills discounted as at March 31, 2015 and 2014, included the following:

	Millions of Yen				Thousands of U.S. Dollars		
	2015		2014		2015		
Loans to bankrupt borrowers <sup>(*1)</sup>	¥	1,413	¥	938	\$	11,747	
Non-accrual delinquent loans <sup>(*2)</sup>		24,852		22,284		206,638	
Restructured loans <sup>(*3)</sup>		17,007		14,490		141,405	
Total	¥	43,272	¥	37,712	\$	359,790	

(\*1) "Loans to bankrupt borrowers" are loans, after write-off, to legally bankrupt borrowers as defined in Articles 96-1-3 and 96-1-4 of the Enforcement Ordinance No. 97 of the Japanese Corporate Tax Law (issued in 1965), and on which accrued interest income is not recognized as there is substantial doubt about the ultimate collectability of either principal or interest because they are past due for a considerable period of time or for other reasons.

(\*2) "Non-accrual delinquent loans" are loans on which accrued interest income is not recognized, excluding "Loans to bankrupt borrowers" and loans on which interest payments are deferred in order to support the borrowers' recovery from financial difficulties.

(\*3) "Restructured loans" are loans on which terms and conditions have been amended in favor of the borrowers (e.g., reduction of the original interest rate, deferral of interest payments, extension of principal repayments, or debt forgiveness) in order to support the borrowers' recovery from financial difficulties, excluding "Loans to bankrupt borrowers," "Non-accrual delinquent loans," and "Past due loans (three months or more)."

There were no loans categorized as past due loans (three months or more) as at March 31, 2015 and 2014. "Past due loans (three months or more)" are loans on which the principal and/or interest is past due for three months or more, excluding "Loans to bankrupt borrowers" and "Non-accrual delinquent loans."

Bills discounted are accounted for as financial transactions in accordance with JICPA Industry Audit Committee Report No. 24. The Group has rights to sell or pledge commercial bills discounted without restrictions. The total face value as at March 31, 2015 and 2014 was ¥386 million (\$3,213 million) and ¥1,118 million, respectively.

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Installment sales receivables as at March 31,	, 2015 and 2014,	consisted of the following:

	Millions of Yen					nousands of J.S. Dollars
	2015		2014		2015	
Installment sales receivables:						
Credit card purchase contracts	¥	763,890	¥	748,828	\$	6,351,463
Hire purchase contracts		274,331		208,576		2,280,958
Subtotal		1,038,221		957,404		8,632,421
Allowance for possible credit losses		(23,066)		(19,645)		(191,790)
Total	¥	1,015,155	¥	937,759	\$	8,440,631

Fees and commissions for the years ended March 31, 2015 and 2014, included the following:

			Thousands of U.S. Dollars			
	2015		2014		2015	
Credit card purchase contracts	¥	97,045	¥	92,280	\$	806,892

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#### 5. PROPERTY AND EQUIPMENT

Property and equipment as at March 31, 2015 and 2014, consisted of the following:

	Millions of Yen				Thousands of U.S. Dollars	
		2015		2014		2015
Land	¥	742	¥	742	\$	6,172
Structures		10,187		8,469		84,704
Equipment		50,723		43,808		421,743
Construction in progress		91		10		754
Other property and equipment		9,875		8,655		82,108
Subtotal		71,618		61,684		595,481
Accumulated depreciation		(35,844)		(30,498)		(298,033)
Total	¥	35,774	¥	31,186	\$	297,448

### 6. INTANGIBLE ASSETS

Intangible assets as at March 31, 2015 and 2014, consisted of the following:

	· · · , · · · · · · · · · · ·	Millions of Yen					
		2015		2014		2015	
Software	¥	36,883	¥	31,243	\$	306,667	
Goodwill (Notes 15)		27,064		28,888		225,028	
Other intangible assets		7,192		7,592		59,798	
Total	¥	71,139	¥	67,723	\$	591,493	

#### 7. PLEDGED ASSETS

Assets pledged as collateral as at March 31, 2015 and 2014, consisted of the following:

	Millions of Yen					Thousands of U.S. Dollars	
	2015		2014		2015		
Assets pledged as collateral:							
Securities	¥	5,095	¥	4,990	\$	42,362	
Loans and bills discounted		13,992		12,696		116,342	
Installment sales receivables		13,949		15,381		115,978	
Total	¥	33,036	¥	33,067	\$	274,682	
Liabilities corresponding to assets pledged as collateral:							
Call money				4,900			
Borrowed money		16,588		17,579		137,927	

In addition to the assets presented above, the following assets were pledged as collateral for exchange settlements and other transactions as at March 31, 2015 and 2014:

	,	Millions of Yen					Thousands of U.S. Dollars		
	2015		2015		2014		2015		
Securities		¥	37,060	¥	22,041	\$	308,141		

Moreover, other assets included guarantee money deposits, and these amounts as at March 31, 2015 and 2014, were as follows:

		Millions	of Yen		usands of S. Dollars
		2015		2014	2015
Guarantee money deposits	¥	4,605	¥	4,074	\$ 38,286

### 8. BORROWED MONEY, BONDS, AND LEASE OBLIGATIONS

Borrowed money and lease obligations included in other liabilities as at March 31, 2015 and 2014, consisted of the following:

	Millio	ons of Yen	Thousands of U.S. Dollars	Average interest rate <sup>(*1)</sup>	
	2015	2014	2015	2015	Due
Borrowed money	¥ 591,586	¥ 515,228	\$ 4,918,820	2.39 %	From April 2015 to August 2021
Lease obligations	24,630	12,607	204,792	1.81 %	From May 2015 to October 2025

(\*1) Average interest rate represents the weighted-average interest rate based on the balances and rates at the end of fiscal year.

Donds and conventions offices as at ivitation 51, 2015 and 2011, consisted		Millior	ns of V	en		ousands of S. Dollars
	<b>2015</b> 2014			2015		
Issued by the Company:		-010		2011		2010
Unsecured 1.02% Japanese yen notes due April 2015	¥	20,000	¥	20,000	\$	166,293
¥15,000,000,000 Zero Coupon Convertible Bonds due 2016		40		1,060	-	332
¥15,000,000,000 Zero Coupon Convertible Bonds due 2017		50		1,770		416
Unsecured 0.349% pari passu Japanese yen notes due March 2019		10,000		10,000		83,146
Unsecured 0.572% pari passu Japanese yen notes due March 2021		10,000		10,000		83,146
Unsecured 0.83% callable subordinated Japanese yen notes due April 2024		30,000		30,000		249,439
Unsecured 0.83% callable subordinated Japanese yen notes due April <b>10,000</b>				10,000		83,146
Issued by AEON Thana Sinsap (Thailand) Plc.:						
Unsecured 3.28% Thai baht notes due July 2015		2,389		2,041		19,861
Unsecured 4.06% Thai baht notes due July 2016		1,784		1,524		14,831
Unsecured 3.85% Thai baht notes due December 2016		2,369		2,022		19,696
Unsecured 4.44% Thai baht notes due August 2017		3,528		3,008		29,337
Unsecured 4.77% Thai baht notes due September 2017		2,382		2,042		19,807
Unsecured 4.14% Thai baht notes due July 2018		1,994		1,702		16,577
Unsecured 5.45% Thai baht notes due November 2018		3,585		3,077		29,812
Unsecured 4.06% Thai baht notes due March 2019		3,500				29,101
Unsecured 4.43% Thai baht notes due July 2017		4,383				36,440
Unsecured 2.99% Thai baht notes due September 2017		1,767				14,691
Issued by AEON Credit Service (M) Berhad:						
Medium Term Note 3.95% Malaysia Ringgit due April 2017		1,658		1,548		13,782
Medium Term Note 3.95% Malaysia Ringgit due April 2017		1,326		1,238		11,025
Medium Term Note 3.95% Malaysia Ringgit due May 2017		1,823		1,703		15,160
Medium Term Note 3.95% Malaysia Ringgit due July 2017		1,823		1,703		15,160
Total	¥	114,401	¥	104,438	\$	951,198

Bonds and convertible bonds as at March 31, 2015 and 2014, consisted of the following:

The following is a summary of the terms for conversion and redemption of the convertible bonds with stock acquisition rights:

		Price <sup>(*1)</sup>	Number of shares of Common Stock (thousands) <sup>(*2)</sup>	Exercise Period
¥15,000,000,000 Zero Coupon Convertible Bonds due 2016	¥	1,422.1	28	From April 6, 2012 to March 8, 2016
¥15,000,000,000 Zero Coupon Convertible Bonds due 2017		1,386.6	36	From April 6, 2012 to March 9, 2017

(\*1) The conversion price is subject to adjustment for certain subsequent events, such as the issue of common stock at less than market value and stock splits.
(\*2) The number of shares of common stock is calculated on the assumption that all convertible bonds with stock acquisition rights are converted as at March 31, 2015.

The annual maturities of borrowed money as at March 31, 2015, were as follows:

Years ended March 31	Milli	ons of Yen	ousands of .S. Dollars
2016	¥	279,236	\$ 2,321,748
2017		120,204	999,457
2018		73,726	613,003
2019		89,767	746,377
2020		21,381	177,773
2021 and thereafter		7,272	60,462
Total	¥	591,586	\$ 4,918,820

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The annual maturities of bonds as at March 31, 2015, were as follows:

Years ended March 31	Milli	ons of Yen	ousands of S. Dollars
2016	¥	22,429	\$ 186,486
2017		4,203	34,943
2018		18,690	155,402
2019		15,579	129,535
2020		3,500	29,101
2021 and thereafter		50,000	415,731
Total	¥	114,401	\$ 951,198

The annual maturities of lease obligations as at March 31, 2015, were as follows:

Years ended March 31	Millions	s of Yen		ousands of S. Dollars
2016	¥			
2017		3,340		27,770
2018		3,088		25,678
2019		3,090		25,691
2020		2,863		23,809
2021 and thereafter		8,867		73,723
Total	¥	24,630	\$	204,792

#### 9. RETIREMENT BENEFIT AND PENSION PLANS

The Company and its consolidated domestic subsidiaries have a funded defined benefit pension plan, advance payment plan, and defined contribution pension plan for their employees. Overseas subsidiaries have unfunded severance payment plans for their employees.

Certain consolidated subsidiaries adopt the simplified method, which is allowed for small entities that meet certain criteria under generally accepted accounting standards in Japan, for calculating their liability for the projected benefit obligation and net periodic benefit costs.

(a) The changes in defined benefit obligation (including the obligation calculated by the simple method) for the years ended March 31, 2015 and 2014, were as follows:

	Millions of Yen				Thousands of U.S. Dollars	
		2015		2014		2015
Balance at beginning of year	¥	3,969	¥	1,740	\$	33,002
Cumulative effects of changes in accounting policies		83				692
Restated balance		4,052		1,740		33,694
Current service cost		301		148		2,500
Interest cost		56		62		470
Actuarial gains and losses		126		66		1,050
Benefits paid		(202)		(136)		(1,682)
Other <sup>(*)</sup>		298		2,089		2,476
Balance at end of year	¥	4,631	¥	3,969	\$	38,508

(\*) Includes increase due to the acquisition of AEON Product Finance Co., Ltd.

(b) The changes in plan assets for the years ended March 31, 2015 and 2014 were as follows:

	Millions of Yen					Thousands of U.S. Dollars		
		2015		2014		2015		
Balance at beginning of year	¥	1,179	¥	987	\$	9,805		
Expected return on plan assets		18		11		150		
Actuarial gains and losses		10		84		78		
Contributions from the employer		179		158		1,488		
Benefits paid		(67)		(61)		(558)		
Balance at end of year	¥	1,319	¥	1,179	\$	10,963		

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(c) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets for the years ended March 31, 2015 and 2014

	Millions of Yen				Thousands of U.S. Dollars	
		2015		2014		2015
Funded defined benefit obligation	¥	1,753	¥	1,471	\$	14,576
Plan assets		(1,318)		(1,179)		(10,963)
		435		292		3,613
Unfunded defined benefit obligation		2,878		2,498		23,932
Net liability arising from defined benefit obligation	¥	3,313	¥	2,790	\$	27,545

	Millions of Yen				ousands of 5. Dollars	
		2015		2014		2015
Liability for retirement benefits	¥	3,313	¥	2,790	\$	27,545
Net liability arising from defined benefit obligation	¥	3,313	¥	2,790	\$	27,545
(*) In the data the shire of an entropy of the data the simulation of the state of					,	

(\*) Includes the obligation calculated by the simplified method.

(d) The components	s of net periodic benefit co	osts for the years end	ed March 31, 2015 a	and 2014, were as follows:
				Thousands of

	Millions of Yen					U.S. Dollars	
	2	015	2	.014		2015	
Service cost <sup>(*)</sup>	¥	301	¥	148	\$	2,500	
Interest cost		56		62		470	
Expected return on plan assets		(18)		(11)		(151)	
Recognized actuarial losses		103		83		854	
Amortization of past service costs		44		33		364	
Other		3				25	
Net periodic benefit costs	¥	489	¥	315	\$	4,062	

(\*) Includes the cost calculated by the simplified method.

(e) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2015 and 2014

	Millions of Yen			Thousands of U.S. Dollars	
	2	:015	2014		2015
Past service costs	¥	(44)		\$	(364)
Actuarial gains and losses		266			2,207
Total	¥	222		\$	1,843

(f) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as at March 31, 2015 and 2014

	Millions of Yen				Thousands of U.S. Dollars	
	2015		2014		2015	
Unrecognized past service costs	¥	131	¥	175	\$	1,092
Unrecognized actuarial gains and losses		667		401		5,541
Total	¥	798	¥	576	\$	6,633

#### (g) Plan assets

(i) Components of plan assets

Plan assets consisted of the following:

_	2015	2014
Debt securities	58.5%	59.3%
Equity securities	14.6%	12.6%
Assets in the life insurer's general account	11.5%	12.4%
Other <sup>(*)</sup>	15.4%	15.7%
Total	100.0%	100.0%

(\*) Includes mainly cash and alternative investments.

(ii) Method of determining the expected rate of return on plan assets

The expected rate of return on plan assets is determined considering the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

(h) Assumptions used for the years ended March 31, 2015 and 2014, were set forth as follows:

	2015	2014
Discount rate	1.3%	mainly 1.9%
Expected rate of return on plan assets	1.58%	1.13%
(*) In addition to the above, salary increase rate by age calculated as at	the base date of March 3	1, 2011 was used as an assumption.

The required contribution amounts to the defined contribution pension plan for the years ended March 31, 2015 and 2014 are  $\pm$ 311 million (\$2,589 thousand) and  $\pm$ 237 million, respectively.

The amounts of benefits paid under the advance payment plan for the years ended March 31, 2015 and 2014 are ¥65 million (\$544 thousand) and ¥56 million, respectively.

#### **10. EQUITY**

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

#### (a) Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. For companies that meet certain criteria, such as

(i) having a Board of Directors, (ii) having independent auditors, (iii) having an Audit & Supervisory Board, and (iv) the term of service of the directors being prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation.

The Board of Directors of the Company can declare dividends without resolution at the shareholders' meeting, since the Company is organized as a company with board committees and meet the above criteria. The Companies Act permits companies to distribute dividends in kind (noncash assets) to shareholders subject to certain limitations and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the Company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

#### (b) Increases/decreases and transfer of common stock, reserve, and surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of the aggregate amount of the legal reserve and additional paid-in capital equals 25% of the amount of common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital surplus, and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

#### (c) Treasury stock and treasury stock acquisition rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined by a specific formula. Under the Companies Act, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

#### (d) Significant change in equity

The Company's common stock and capital surplus for the year ended March 31, 2014 both increased by ¥13,585 million, and convertible bonds issued by the Company decreased by ¥27,170 million. These changes were due to the conversion of convertible bonds into shares.

### **11. STOCK-BASED COMPENSATION**

# The stock options outstanding as at March 31, 2015, were as follows:

		Number of							
	Persons	Options							
Stock Option	Granted	Granted	Date of Gra	nt	Exercise P	rice	Exe	ercise P	eriod
2012 Stock Option	12 directors	15,500 shares	April 21, 20	11	¥ 1			May 2	
					\$ 0.01				20, 2026
2013 Stock Option	6 directors	12,100 shares	April 21, 20	12	¥ 1			5	1, 2012
<b>2</b> 014 0 1 0 1		12 000 1	X 1 01 00		\$ 0.01				20, 2027
2014 Stock Option	6 directors	12,000 shares	July 21, 20	13	¥ 1			0	21, 2013
2015 Stock Option	8 directors	9,500 shares	July 21, 20	1.4	\$ 0.01 ¥ 1				20, 2028 21, 2014
2015 Stock Option	8 difectors	9,500 shares	July 21, 20	14	₹ 1 \$ 0.01				21, 2014
The summary of st	cal antion activi	ity is as follows:			\$ 0.01		unougn	Augusi	. 20, 2029
The summary of si		ity is as follows.	2015		2014		2013		2012
			Stock		2014 Stock		Stock		Stock
<u>)</u>			Option		Option		Option		Option
Nonvested (Shares)									
Outstanding at be	eginning of year								
Granted			9,500						
Expired									
Vested			9,500						
Outstanding at en	id of year								
Vested (Shares)									
Outstanding at be	ginning of year				12,000		10,500		14,000
Vested			9,500						
Exercised									1,000
Expired									
Outstanding at en	d of year		9,500		12,000		10,500		13,000
Exercise price	•	ŧ	<u> </u>	¥	1	¥	1	¥	1
•		\$	0.01	\$	0.01	\$	0.01	\$	0.01
Average stock price	upon exercise							¥	2,635
<b>C F</b> <sup>1</sup>								\$	21.91
Fair value price at g	ant date	Ŧ	2,006	¥	2,715	¥	1,081	¥	809
······································		\$	,	\$	22.57	\$	8.99	\$	6.73
		+		4	==:0 /	Ψ	5.77	Ψ	5.70

The assumptions used to measure fair value of stock options vested during fiscal year 2015 were as follows: 2015

	Stock Option
Measurement method	Black-Scholes option-pricing model
Risk-free interest rate	0.34%
Expected life of option grants	7.5 years
Expected volatility of underlying stock	43.65%
Estimated dividend	¥60 per share

#### **12. OTHER INCOME**

Other income for the years ended March 31, 2015 and 2014, consisted of the following:

	Millions of Yen			Thousands of U.S. Dollars		
		2015		2014		2015
Gain on bad debts recovered	¥	7,811	¥	9,238	\$	64,944
Other		8,405		6,912		69,886
Total	¥	16,216	¥	16,150	\$	134,830

#### **13. OTHER EXPENSES**

Other expenses for the years ended March 31, 2015 and 2014, consisted of the following:

Millions of Yen			Thousands of U.S. Dollars		
	2015	2014		2015	
¥	(5,822)	¥	(2,865)	\$	(48,411)
	(584)		(458)		(4,852)
¥	(6,406)	¥	(3,323)	\$	(53,263)
	¥¥	2015 ¥ (5,822) (584)	2015 ¥ (5,822) ¥ (584)	2015         2014           ¥         (5,822)         ¥         (2,865)           (584)         (458)	$\begin{tabular}{ c c c c c c c c c c c c c c c c c c c$

#### **14. INCOME TAXES**

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes, which, in the aggregate, resulted in normal effective statutory tax rates of approximately 35.3% and 37.7% for the years ended March 31, 2015 and 2014, respectively. The tax effects of significant temporary differences and tax loss carryforwards, which resulted in deferred tax assets and liabilities as at March 31, 2015 and 2014, were as follows:

					Th	ousands of
	Millions of Yen				U.S. Dollars	
		2015		2014		2015
Deferred tax assets:						
Allowance for possible credit losses	¥	11,092	¥	8,661	\$	92,229
Loans and bills discounted and installment sales receivables		37		331		310
Allowance for point program		4,077		4,136		33,900
Allowance for loss on refund of interest received		1,596		1,089		13,273
Accrued income		723		798		6,008
Property and equipment		364		378		3,030
Intangible assets		57		73		473
Liability for retirement benefits		1,038		956		8,627
Tax loss carryforwards		6,799		12,512		56,531
Unrealized loss on acquisition of subsidiaries		1,254		2,179		10,426
Other		4,648		4,359		38,642
Less valuation allowance		(7,904)		(12,783)		(65,718)
Total deferred tax assets	¥	23,781	¥	22,689	\$	197,731
Deferred tax liabilities:						
Depreciation in consolidated foreign subsidiaries	¥	485	¥	439	\$	4,034
Unrealized gain on available-for-sale securities		1,807		1,938		15,026
Unrealized gain on acquisition of subsidiaries		2,748		3,150		22,846
Other		208		224		1,732
Total deferred tax liabilities	¥	5,248	¥	5,751	\$	43,638
Net deferred tax assets	¥	18,533	¥	16,938	\$	154,093

Reconciliations between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2015 and 2014, were as follows:

	2015	2014
Effective statutory tax rate	35.3%	37.7%
Earnings not taxable and expenses not deductible for income tax purposes-net	(7.1)	(3.3)
Per capita portion of inhabitants tax	0.7	0.7
Lower income tax rates applicable to income in certain foreign countries	(6.4)	(7.2)
Influence of elimination in consolidation	7.5	6.1
Influence of changes in the statutory tax rate	6.2	5.0
Tax loss carryforwards	(5.4)	(5.5)
Valuation allowance	(4.2)	(4.7)
Other	0.1	1.1
Actual effective tax rate	26.7%	29.9%

#### **Changes in the Statutory Tax Rates**

In accordance with the promulgation of the "Act on Partial Revision of the Income Tax Act, etc." (Law No. 9, 2015) and "Act on Partial Revision of the Local Taxation Act, etc." (Law No. 2, 2015) on March 31, 2015, the corporate tax rate will decrease from the fiscal years beginning on or after April 1, 2015. As a result, the Company's effective statutory tax rates used to determine deferred tax assets and liabilities for temporary differences that are expected to

reverse during the fiscal year beginning on April 1, 2015 will decrease from 35.3% to 33.1% and to 32.3% for temporary differences that are expected to reverse during the fiscal year beginning on April 1, 2016. The effect of this change was to decrease deferred tax assets, net of deferred tax liabilities, by  $\pm1,112$  million (\$9,248 thousand) and accumulated adjustments for retirement benefit by  $\pm22$  million (\$182 thousand), and increase unrealized gain on available-for-sale securities by  $\pm173$  million (\$1,438 thousand) in the consolidated balance sheet as at March 31, 2015, and to increase income taxes—deferred in the consolidated statement of income for the year then ended by  $\pm1,263$  million (\$10,504 thousand).

In addition, effective from fiscal years beginning on or after April 1, 2015, the use of tax loss carryforwards will be limited to the equivalent of 65% of taxable income before deducting tax loss carryforwards, and from fiscal years beginning on or after April 1, 2017, the use of tax loss carryforwards will be limited to the equivalent of 50% of taxable income before deducting tax loss carryforwards. As a result, deferred tax assets decreased by ¥639 million (\$5,311 thousand) and income taxes—deferred increased by ¥639 million (\$5,311 thousand).

#### **15. SUPPLEMENTAL CASH FLOW INFORMATION**

#### Purchases of newly consolidated subsidiaries

For the year ended March 31, 2014, the Company acquired 100% shares of AEON Product Finance Co., Ltd. and turned it into a newly consolidated subsidiary. Assets and liabilities of AEON Product Finance Co., Ltd. at the time of the acquisition were as follows:

	Mill	ions of Yen
Total assets	¥	317,420
Of which: customers' liabilities		
for acceptances and guarantees		235,846
Of which: installment sales		
receivables		73,856
Total liabilities		313,360
Of which: acceptances and		
guarantees		235,846
Of which: borrowed money		56,087
Goodwill		1,782
Total acquisition cost of AEON		
Product Finance Co., Ltd.		5,842
Cash and cash equivalents of		
AEON Product Finance Co., Ltd.		(2,908)
Cash paid in conjunction with the		
purchase of AEON Product		
Finance Co., Ltd.	¥	2,934

#### **16. LEASES**

The Group leases equipment, software, and other assets.

Total rental expenses for the years ended March 31, 2015 and 2014 were ¥11,485 million (\$95,497 thousand) and ¥9,848 million, respectively.

The minimum rental commitments under noncancelable operating leases as at March 31, 2015 and 2014 were as follows:

		Millions	of Yen		ousands of S. Dollars
	2	2015		2014	 2015
Due within one year	¥	2,349	¥	1,930	\$ 19,536
Due after one year		3,251		2,468	27,028
Total	¥	5,600	¥	4,398	\$ 46,564

#### 17. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

#### (a) Conditions of financial instruments

#### (i) Group policy for financial instruments

The Group operates a variety of financial service businesses, such as credit card business, housing loan business, and hire purchase business. The domestic banking subsidiary engages in business of investing in securities,

#### including debt securities, as well.

The Group raises funds for these businesses mainly through customer deposits, borrowings from financial institutions, issuance of bonds and commercial paper, and securitization of receivables in the view of the market conditions and short-term/long-term balance. The Group also manages and raises funds through money market in response to temporary financial surplus or deficit.

Certain subsidiaries are located overseas, and they conduct their business in foreign currencies.

Accordingly, the Group holds financial assets and liabilities, which are exposed to interest rate risk and foreign exchange risk, and manages the interest rate risk through Asset Liability Management. The Group also utilizes derivative financial instruments to hedge interest rate risk and foreign exchange risk.

#### (ii) Nature and extent of risks arising from financial instruments

The Group's major financial assets are loans and installment sales receivables for customers such as housing loans and credit card services and corporate loans, which are exposed to credit risk of customer defaults and interest rate risk. In addition, securities, such as foreign securities, debt securities, and equity securities, and monetary claims bought are mainly exposed to market risk and credit risk of their issuers.

Financial liabilities, such as deposits, borrowed money, and bonds, are exposed to liquidity risk, interest rate risk and foreign exchange risk in that the Group cannot make necessary payments upon due dates under certain circumstances, such as when it cannot access the market due to changes in financial situation or other situations or when its financial results deteriorate.

The Group enters into derivative transactions to avoid part of its exposure to interest rate risk and foreign exchange risk. Derivative financial instruments include interest rate swap contracts and currency swap contracts. and are used to hedge interest rate risk and foreign exchange risk. These instruments are exposed to credit risk of counterparty defaults.

#### (iii) Risk management for financial instruments

The Company considers the Group's risk management to be one of the most important issues for the Group's management. The Board of Directors resolves the fundamental matters on risk management as the highest decision-making body. Information concerning risk management is regularly reported to the Board. In addition, the Company has established the Risk Management Committee to conduct group-wide risk management based on the basic risk management policy resolved by the Board of Directors. The Company also established the Risk Management Department as a supervisory function for management of risks related to financial instruments. order to develop group-wide risk management structures, the fundamental matters on risk management for the Group are set forth in "Group Risk Management Policies."

These risk management structures are audited internally by the Audit Department, which is independent from the audited departments, to verify their effectiveness and appropriateness.

#### Credit risk management

The Group manages credit risk through appropriate credit assessment and management in accordance with the Group's credit risk control policies and structures. This credit assessment and management is conducted by the following divisions: the credit assessment division monitors the credit status of customers at the time of and after credit extension and the credit management division conducts analysis and research on credit risk and collaborates with the credit assessment division. In addition, Value at Risk (an estimated amount of loss on financial instruments held by the Group for a certain future time period based on the historical data at a certain confidence level, hereafter "VaR") is measured to quantify credit risk and regularly reported to the Risk Management Committee and the Board of Directors.

Credit risk arising from default of the counterparties of derivative transactions is considered to be limited, as such transactions are conducted with various highly credible financial institutions. • Market risk management

The Company appropriately manages market risk by determining the position and scale of the risk in accordance with the Group's market risk control policies and structures. The status of risk management is regularly reported to the Risk Management Department and the Risk Management Committee. The Group maintains a reciprocal control mechanism as an organizational system to manage the market risk by establishing an internal organization independent from the revenue-generating divisions. In addition, quantitative market risk analysis is performed for all financial instruments held by the Group to manage the risk level by using VaR. Specifically, market risk is controlled so that VaR does not exceed risk limits (allocated capital amount) decided by the Board of Directors. (1) Interest rate risk management

The Company measures and manages VaR as the interest rate risk management structure throughout the Group in order to appropriately respond to customer needs for various financial services provided by the Group and improve its overall earning capacity. In addition, the Risk Management Department performs stress tests and regularly reports to the Risk Management Committee and the Board of Directors.

(2) Security price risk management

The risk of holding securities and monetary claims bought is managed under the basic policy of risk management: "to promote comprehensive risk management for the purpose of maintaining the soundness of management and achieving a steady and sustaining growth by self-controlling the market risk as a whole with comparison to the Group's financial strength determined by management." The Group measures the security price risk through VaR and regularly monitors the results of VaR and stress tests against the risk limits to ensure both soundness and profitability of securities. In addition, the domestic banking subsidiary monitors results of the investments, including securities issuers' performance, as changes in creditworthiness of the securities issuers affect the price of the securities.

(3) Foreign exchange risk management

Of the various market risks to which the Group is exposed, foreign exchange risk of foreign currency financial instruments is hedged by raising funds in foreign currencies and utilizing currency swap contracts and interest rate swap contracts, so that part of the effect resulting from fluctuations in each exchange rate is avoided. (4) Derivative financial instruments

The Group hedges the interest rate risk and foreign exchange risk related to financing by utilizing derivative financial instruments. The Group contemplates the terms and conditions, including price, period, and timing of settlement, in entering into the derivative contracts. The department that conducts the transactions and the department that monitors the transactions are separated.

(5) Quantitative information on market risk

As for interest rate risk of financial instruments held by the Company's major consolidated domestic subsidiaries, the delta model (holding period: 240 days, historical observation period: one year, and confidence interval: 99%) is applied to calculate VaR. The amount of VaR as at March 31, 2015 was \$1,037 million (\$8,622 thousand) (2014: \$3,453 million). Although certain domestic subsidiaries and foreign subsidiaries hold financial instruments that are not subject to the VaR measurement, the effect of a 10 basis point (0.1%) change in the benchmark interest rate is considered to be limited, assuming that every other risk parameter is constant. For security price risk other than interest rate risk, the Group applies the Monte-Carlo simulation (holding period: three months, historical observation period: five years, and confidence interval: 99%) to calculate VaR. The amount of VaR as at March 31, 2015 was \$41,783 million (\$347,408 thousand) (2014: \$38,065 million).

These figures represent the market volatility statically calculated based on a probability-based approach that takes into account historical credit spread and fluctuation in correlations. Accordingly, the market risk may not be captured properly in the event of an extreme market movement beyond normal expectations. • Liquidity risk management

The Group manages liquidity risk through continuous monitoring of cash flows to maintain the appropriate funding level and through other means, including diversifying financial instruments, acquiring commitment lines from multiple financial institutions, and adjusting short-term/long-term balances taking into account the market conditions.

The domestic banking subsidiary controls liquidity risk by establishing a payment reserve asset holding ratio and cash gap limits, which are monitored by the Risk Management Department on a daily basis. The monitoring results are reported regularly to the Risk Management Committee and the Board of Directors. Although the domestic banking subsidiary places value on efficient cash management, it places more weight on securing liquidity for risk management purposes.

(iv) Supplementary information on fair value of financial instruments

The fair values of financial instruments are measured based on quoted market prices, if available, or a reasonably assessed value if a quoted market price is not available. In the case of the latter, certain assumptions and variable preconditions are adopted. Accordingly, if different assumptions and preconditions are adopted, the calculated amount of the fair value may also be different.

See Note 18 for the details regarding fair value for derivatives.

(b) Fair value of financial instruments The carrying amount of financial instruments in the consolidated balance sheet, the fair value, and the difference between the two as at March 31, 2015 and 2014 are as follows. Financial instruments whose fair values are deemed to be difficult to determine are not included in the fair value disclosure. Millions of Yen

				2015								
		Carrying										
		Amount	]	Fair Value	Di	fference						
(1) Cash and cash equivalents	¥	455,901	¥	455,901								
(2) Deposits with banks		11,826		11,826								
(3) Call loans		10,000		10,000								
(4) Monetary claims bought		6,649		6,649								
(5) Securities		224,660		224,660								
(6) Loans and bills discounted—net of allowance for possible credit losses		1,448,023		1,516,747	¥	68,724						
(7) Installment sales receivables—net of allowance for possible credit losses		1,015,155		1,019,297		4,142						
Total	¥	3,172,214	¥	3,245,080	¥	72,866						
(8) Deposits	¥	1,963,025	¥	1,963,563	¥	538						
(9) Accounts payable		190,221		190,221								
(10) Call money		76,300		76,300								
(11) Borrowed money		591,586		593,873		2,287						
(12) Bonds		114,311		114,356		45						
(13) Convertible bonds		90		195		105						
Total	¥	2,935,533	¥	2,938,508	¥	2,975						
(14) Derivative financial instruments (Note 18):												
Hedge accounting not applied	¥	(244)	¥	(244)								
Hedge accounting applied		(8,007)		(8,007)								
Total	¥	(8,251)	¥	(8,251)								

	Millions of Yen										
				2014							
		Carrying									
		Amount	]	Fair Value	Di	fference					
(1) Cash and cash equivalents	¥	408,171	¥	408,171							
(2) Deposits with banks		8,492		8,492							
(3) Call loans											
(4) Monetary claims bought		12,119		12,119							
(5) Securities		163,054		163,054							
(6) Loans and bills discounted—net of allowance for possible credit losses		1,248,815		1,276,654	¥	27,839					
(7) Installment sales receivables—net of allowance for possible credit losses		937,759		941,666		3,907					
Total	¥	2,778,410	¥	2,810,156	¥	31,746					
(8) Deposits	¥	1,717,769	¥	1,717,985	¥	216					
(9) Accounts payable		227,264		227,264							
(10) Call money		4,900		4,900							
(11) Borrowed money		515,228		518,489		3,261					
(12) Bonds		101,608		101,888		280					
(13) Convertible bonds		2,830		4,674		1,844					
Total	¥	2,569,599	¥	2,575,200	¥	5,601					
(14) Derivative financial instruments (Note 18):											
Hedge accounting not applied	¥	(103)	¥	(103)							
Hedge accounting applied		(2,923)		(2,923)							
Total	¥	(3,026)	¥	(3,026)							

	Thousands of U.S. Dollars											
	2015											
		Carrying										
		Amount		Fair Value	D	oifference						
(1) Cash and cash equivalents	\$	3,790,649	\$	3,790,649								
(2) Deposits with banks		98,326		98,326								
(3) Call loans		83,146		83,146								
(4) Monetary claims bought		55,286		55,286								
(5) Securities		1,867,963		1,867,963								
(6) Loans and bills discounted—net of allowance for possible credit losses		12,039,771		12,611,187	\$	571,416						
(7) Installment sales receivables—net of allowance for possible credit losses		8,440,631		8,475,072		34,441						
Total	\$	26,375,772	\$	26,981,629	\$	605,857						
(8) Deposits	\$	16,321,817	\$	16,326,293	\$	4,476						
(9) Accounts payable		1,581,617		1,581,617								
(10) Call money		634,406		634,406								
(11) Borrowed money		4,918,820		4,937,835		19,015						
(12) Bonds		950,450		950,824		374						
(13) Convertible bonds		748		1,624		876						
Total	\$	24,407,858	\$	24,432,599	\$	24,741						
(14) Derivative financial instruments (Note 18):												
Hedge accounting not applied	\$	(2,029)	\$	(2,029)								
Hedge accounting applied		(66,579)		(66,579)								
Total	\$	(68,608)	\$	(68,608)								

(i) Fair value of financial instruments

(1) Cash and cash equivalents and (2) Deposits with banks

The carrying amounts of cash and cash equivalents and deposits with banks are considered to approximate fair value because of their short maturities.

(3) Call loans

The carrying amount of call loans is considered to approximate fair value because of their short maturity of less than one year.

(4) Monetary claims bought

The fair value of monetary claims bought is determined based on prices provided by financial institutions or the discounted present value of future cash flows.

(5) Securities

The fair value of equity securities is determined with reference to quoted prices on the stock exchange. The fair value of debt securities is determined based on prices published by the Japanese Securities Dealers Association, prices provided by financial institutions, or the discounted present value of future cash flows.

(6) Loans and bills discounted—net of allowance for possible credit losses

① Loans and bills discounted in banking business

The carrying amount of loans and bills discounted in the banking business with floating interest rates approximates the fair value as long as borrowers' credit risks have not changed significantly after the execution of loans as the market rates are promptly reflected in the floating interest rates. The fair value of loans and bills discounted in the banking business with fixed-interest rates is the present value that is estimated for each classification based on the type, internal rating, and term of the loans, and by discounting the total amounts of the principal and interest using the rates at which similar new loans would be made. For loans and bills discounted in the banking business with maturity of less than one year, the carrying amount is considered to approximate fair value because of their short maturities.

For loans to borrowers which are bankrupt, substantially bankrupt, or potentially bankrupt, an allowance is provided based on amounts expected to be collected through the disposal of collateral or execution of guarantees. The carrying value of those loans, net of allowance for possible credit losses, as of the consolidated balance sheet date is a reasonable estimate of the fair values of those loans.

The carrying amount of loans and bills discounted in the banking business that do not have fixed maturities due to loan characteristics, such as limited loan amounts within the value of pledged assets, approximates the fair value due to their expected repayment periods and interest rate conditions.

② Loan receivables in credit card business

The fair value of loan receivables in the credit card business is determined by discounting expected cash flows (credit risk incorporated) of each segmented product with a discount rate consisting of a risk-free rate and collection costs of each product (expense ratio).

(7) Installment sales receivables—net of allowance for possible credit losses

The fair value of installment sales receivables is determined by discounting expected cash flows (credit risk incorporated) of each segmented product with a discount rate consisting of a risk-free rate and collection costs of each product (expense ratio).

#### (8) Deposits

For demand deposits, the amount payable on demand as of the consolidated balance sheet date is considered to be the fair value. The fair value of time deposits is calculated based on the discounted present value of future cash flows by a certain time period. The discount rate used in the calculation is the interest rate that would be applied to newly accepted deposits. For short-term deposits, the carrying amount is considered to approximate fair value because of their short maturities.

(9) Accounts payable

The carrying amount of accounts payable is considered to approximate fair value because these items are settled in a short period of time.

(10) Call money

The carrying amount of call money is considered to approximate fair value because of its short maturity of less than one year.

(11) Borrowed money

The fair value of borrowed money with fixed-interest rates is determined by discounting the total amounts of principal and interest by a risk-free rate adjusted for credit risk. The carrying amount of borrowed money with floating interest rates approximates the fair value or is determined based on the price specified by other financial institutions, because credit risks of the Company and its consolidated subsidiaries have not changed significantly after the execution of the borrowings and the market rates are shortly reflected in the floating interest rates. The carrying amount of short-term borrowed money (within one year) is considered to approximate fair value because these items are settled in a short period of time.

(12) Bonds and (13) Convertible bonds

The fair values of bonds and convertible bonds are determined with reference to quoted market prices.

(14) Derivative financial instruments

Information on the fair values of derivative financial instruments is included in Note 18.

(ii) Financial instruments whose fair values are deemed to be difficult to determine

The financial instruments below are not included in the fair value disclosure due to difficulties in the determination of fair values:

		Millions	of Yen		S. Dollars
		2015		2014	 2015
Stock with no active market quotations	¥	1,360	¥	1,243	\$ 11,312
Trust beneficiary rights		9,054		9,082	75,279

Thousands of

#### (iii) Maturity analysis for financial assets with contractual maturities

The table below presents the carrying amounts of the Group's assets by maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date:

							ns of Y	en				
	- U	p to 1 year	1	-3 years	3	-5 years	5	7 years	7-	10 years	Ove	er 10 years
Due from banks	¥	412.888	1	-5 years	5	-5 years	5	y years	/-	10 years	00	1 10 years
Call loans		10,000										
Monetary claims bought					¥	2,242	¥	387			¥	3,987
Securities:												
Available-for-sale securities:												
Government bonds						57,000						5,500
Corporate bonds			¥	2,000					¥	3,000		19,849
Other		68,000		50,000				8,000				1,000
Total		68,000		52,000		57,000		8,000		3,000		26,349
Loans and bills discounted <sup>(*1, *2)</sup>		793,382		262,610		93,909		32,475		60,877		162,585
Installment sales receivables <sup>(*1)</sup>		787,732		101,424		56,382		50,674		6,129		4,997
Total	¥	2,072,002	¥	416,034	¥	209,533	¥	91,536	¥	70,006	¥	197,918

						Millio	ns of Y	en				
						2	2014					
	U	p to 1 year	1	-3 years	3	-5 years	5-	7 years	7-	10 years	Ov	er 10 years
Due from banks	¥	373,869										
Call loans												
Monetary claims bought					¥	5,753	¥	2,040			¥	4,232
Securities:												
Available-for-sale securities:												
Government bonds			¥	11,000		16,000						
Corporate bonds		2,000				2,000			¥	3,000		28,731
Other		15,000		68,000						8,000		1,000
Total		17,000		79,000		18,000				11,000		29,731
Loans and bills discounted <sup>(*1, *2)</sup>		401,860		240,214		100,147		56,020		72,897		365,192
Installment sales receivables <sup>(*1)</sup>		731,834		127,072		35,141		39,574		3,089		2,756
Total	¥	1,524,563	¥	446,286	¥	159,041	¥	97,634	¥	86,986	¥	401,911

					Т	housands of U	I.S. Do	ollars				
						2015						
	ι	p to 1 year		1-3 years		3-5 years	5	-7 years	7	-10 years	O	ver 10 years
Due from banks	\$	3,433,014										
Call loans		83,146										
Monetary claims bought					\$	18,642	\$	3,216			\$	33,146
Securities:												
Available-for-sale												
securities:												
Government						473,934						45,730
bonds			<b>A</b>	1.6.600		,			0	• • • • • •		
Corporate bonds			\$	16,629					\$	24,944		165,038
Other		565,394		415,732				66,517				8,315
Total		565,394		432,361		473,934		66,517		24,944		219,083
Loans and bills discounted <sup>(*1, *2)</sup>		6,596,671		2,183,506		780,823		270,016		506,171		1,351,836
Installment sales receivables <sup>(*1)</sup>		6,549,696		843,301		468,792		421,338		50,958		41,550
Total	\$	17,227,921	\$	3,459,168	\$	1,742,191	\$	761,087	\$	582,073	\$	1,645,615

(\*1) Loans and bills discounted and installment sales receivables for the years ended March 31, 2015 and 2014 exclude ¥54,715 million (\$454,931 thousand) and ¥30,232 million, respectively, which have no specific contractual maturity date due to late payments or being under negotiations.

(\*2) Loans and bills discounted for the years ended March 31, 2015 and 2014 exclude loans of ¥3,958 million (\$32,906 thousand) and ¥4,570 million with no specific recoverable amounts, such as loans to borrowers classified as legal bankruptcy, substantial bankruptcy, or possible bankruptcy, and ¥24,445 million (\$203,249 thousand) and ¥11,555 million, respectively, which have no fixed maturity.

(iv) Maturity analysis of financial liabilities with contractual maturities

The table below presents the carrying amounts of financial liabilities by the relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date:

						Millions	of Yen					
						201	5					
	U	p to 1 year	1	-3 years	3	-5 years	5-	7 years	7-	10 years	Over	10 years
Deposits <sup>(*)</sup>	¥	1,324,441	¥	506,054	¥	129,362	¥	217				
Call money		76,300										
Borrowed money		279,236		193,931		111,148		7,271				
Bonds		22,389		22,843		19,079		10,000	¥	40,000		
Convertible bonds		40		50								
Lease obligations		3,382		6,428		5,953		4,637		3,649	¥	581
Total	¥	1,705,788	¥	729,306	¥	265,542	¥	22,125	¥	43,649	¥	581

						Millions	of Yen					
						201	4					
	U	p to 1 year	1	-3 years	3	-5 years	5.	-7 years	7-1	0 years	Ove	r 10 years
Deposits <sup>(*)</sup>	¥	1,202,454	¥	398,361	¥	110,950	¥	1,980				
Call money		4,900										
Borrowed money		216,798		196,348		90,741		11,341				
Bonds				25,587		26,021		10,000			¥	40,000
Convertible bonds				2,830								
Lease obligations		2,521		4,191		3,031		2,388	¥	476		
Total	¥	1,426,673	¥	627,317	¥	230,743	¥	25,709	¥	476	¥	40,000

				Thousands of U	J.S. D	ollars				
				201	5					
	τ	Jp to 1 year	1-3 years	3-5 years	5	-7 years	7	-10 years	Over	10 years
Deposits <sup>(*)</sup>	\$	11,012,228	\$ 4,207,649	\$ 1,075,597	\$	1,801				
Call money		634,406								
Borrowed money		2,321,748	1,612,460	924,150		60,462				
Bonds		186,154	189,929	158,636		83,146	\$	332,585		
Convertible bonds		332	416							
Lease obligations		28,121	53,448	49,500		38,555		30,341	\$	4,827
Total	\$	14,182,989	\$ 6,063,902	\$ 2,207,883	\$	183,964	\$	362,926	\$	4,827

(\*) The cash flow of demand deposits is included in the "Up to 1 year" group.

#### **18. DERIVATIVES**

The Group enters into forward exchange contracts and currency swap contracts to hedge foreign exchange risk on foreign currency-denominated debt. The Group also enters into interest rate swap contracts to limit the unfavorable impact from increases in interest rates on its floating-rate long-term debt. The interest rate swap contracts effectively swap a floating-rate interest payment to a fixed-rate interest payment. The Group does not enter into or trade derivative financial instruments for speculative purposes.

Derivative financial instruments are subject to market risk and credit risk. Since the Group enters into derivative financial instruments only for hedging purposes, market risk in those hedging instruments is basically offset by opposite movements in the value of hedged items. The credit risk on those derivative financial instruments is limited as the counterparties are major financial institutions with high-credit ratings.

The basic policies for the use of derivative financial instruments are approved by the Board of Directors and transactions are executed and controlled by the Finance Department. Each derivative transaction is periodically reported to management each time an evaluation and analysis are made.

Derivative financial instruments qualifying for hedge accounting as at March 31, 2015 and 2014, consisted of the following:

			Milli	ons of Yen		
				2015		
		Contract			U	nrealized
		Amount	Fa	air Value	G	ain/Loss
Currency swap contracts: Receive JPY/Pay THB Receive USD/Pay HKD Receive USD/Pay MYR Receive USD/Pay THB Currency forward contracts:	¥	55,855 5,979 54,761 77,985	¥	(13,721) (12) 7,035 859	¥	(13,721) (12) 7,035 859
Receive USD/Pay MYR		1,048		23		23
Interest rate swap contracts: Receive floating/Pay fixed		77,465		(2,191)		(2,191)
				ons of Yen		
				2014		
		Contract Amount	F	air Value	-	nrealized ain/Loss
Currency swap contracts: Receive JPY/Pay THB Receive USD/Pay HKD Receive USD/Pay MYR Receive USD/Pay THB Interest rate swap contracts:	¥	44,625 5,124 7,617 71,641	¥	(5,619) (17) 43 2,644	¥	(5,619) (17) 43 2,644
Receive floating/Pay fixed		71,146		26		26
		Tho		s of U.S. Dolla	ars	
		<u> </u>		2015		
		Contract Amount	Fa	air Value		nrealized ain/Loss
Currency swap contracts: Receive JPY/Pay THB Receive USD/Pay HKD Receive USD/Pay MYR Receive USD/Pay THB Currency forward contracts:	\$	464,414 49,713 455,321 648,419	\$	(114,087) (101) 58,493 7,136	\$	(114,087) (101) 58,493 7,136
Receive USD/Pay MYR Interest rate swap contracts:		8,711		195		195
Receive floating/Pay fixed		644,094		(18,215)		(18,215)

Derivative financial instruments not qualifying for hedge accounting as at March 31, 2015 and 2014, consisted of the following:

				ns of Yen					
	C A	Fai	r Value	Unrealized Gain/Loss					
Credit default swap contracts: Short position Currency swap contracts:	¥	3,000	¥	(254)	¥	1,014			
Receive USD/Pay THB		4,364		10		10			
	Millions of Yen								
	2014								
	Contract				Un	realized			
	Amount		Fai	r Value	Gain/Loss				
Credit default swap contracts:									
Short position	¥	3,000	¥	(103)	¥	1,164			
		The	ousands	of U.S. Dol	lars				
			2	2015					
	Contract			r Value	-	realized			
Credit default swap contracts:	A	mount	Га	value	Ua	un/ L088			
Credit default swap contracts: Short position	\$	24,944	\$	(2,113)	\$	8,427			
Currency swap contracts:									
Receive USD/Pay THB		36,283		84		84			

Fair values of derivative financial instruments are based on forward market quotations and mark-to-market reports provided by financial institutions.

The contract or notional amounts of derivative contracts shown above do not represent the amounts exchanged by the parties and do not measure the Group's exposure to credit risk or market risk.

#### **19. LOAN COMMITMENTS**

The Group provides cash advance and card loan services that supplement its credit card business. The unexercised portion of loan commitments in these businesses was as follows:

		Millions	of Ye	n	housands of J.S. Dollars
		2015		2014	 2015
Total loan limits	¥	7,547,436	¥	6,762,126	\$ 62,754,105
Loan executed		447,824		391,219	3,723,494
Unexercised portion of loan commitments	¥	7,099,612	¥	6,370,907	\$ 59,030,611

The above amounts include amounts related to securitized receivables. The execution of the loan commitments requires an assessment of the credit status of the borrower and the usage of the funds. Therefore, not all unexercised portions of loan commitments will necessarily be executed.

The Group operates banking business and has entered into overdraft facility and loan commitment contracts. These contracts commit the Group to lend to customers up to the prescribed limits upon receipt of a customer application as long as there is no violation of any conditions in the contracts. The amounts of unutilized commitments as at March 31, 2015 and 2014, were as follows:

		Millions	of Yen		usands of 5. Dollars
		2015		2014	 2015
Unutilized commitments	¥	11,930	¥	11,483	\$ 99,195
Of which: those expiring within one year		6,682		3,163	55,554

Since many of these commitments expire without being drawn down, the unutilized amount does not necessarily affect future cash flows. Many of these contracts have conditions whereby the Group can refuse customer applications for loans or decrease the contract limits for certain reasons, such as changes in financial situation,

protection of own credit, and other reasonable grounds. Furthermore, during the period that the contracts are effective, the Group performs periodic reviews of the customers' business results based on internal rules and takes necessary measures to reconsider contract terms to protect its own credit.

### **20. OTHER COMPREHENSIVE INCOME**

Reclassification adjustments to profit or loss and tax effects of other comprehensive income for the years ended March 31, 2015 and 2014, were as follows:

Watch 51, 2015 and 2014, were as follows.		Millions		 ousands of S. Dollars	
		2015		2014	2015
Unrealized gain on available-for-sale securities:					
Gains arising during the year	¥	2,425	¥	2,239	\$ 20,165
Reclassification adjustments to profit or loss		(2,101)		(355)	(17,474)
Amount before income tax effect		324		1,884	2,691
Income tax effect		(105)		(671)	(870)
Total	¥	219	¥	1,213	\$ 1,821
Deferred gain (loss) on derivatives under hedge					
accounting:					
(Losses) gains arising during the year	¥	(3,034)	¥	473	\$ (25,225)
Reclassification adjustments to profit or loss		417		(1,916)	3,465
Amount before income tax effect		(2,617)		(1,443)	(21,760)
Income tax effect		501		305	4,167
Total	¥	(2,116)	¥	(1,138)	\$ (17,593)
Foreign currency translation adjustments:					
Gains arising during the year	¥	12,462	¥	3,536	\$ 103,622
Amount before income tax effect		12,462		3,536	103,622
Total	¥	12,462	¥	3,536	\$ 103,622
Adjustments for retirement benefit:					
Losses arising during the year	¥	(356)			\$ (2,961)
Reclassification adjustments to profit or loss		135			1,118
Amount before income tax effect		(221)			(1,843)
Income tax effect		53			444
Total	¥	(168)			\$ (1,399)
Total other comprehensive income	¥	10,397	¥	3,611	\$ 86,451

#### **21. NET INCOME PER SHARE**

Basic and diluted EPS for the years ended March 31, 2015 and 2014, were as follows:

	Millions of Yen		Thousands of Shares		Yen	U.S. Dollar		
	Ne	et Income	Weighted- Average Shares	EPS				
For the year ended March 31, 2015:								
Basic EPS Net income	¥	30,492						
Net income available to common shareholders	¥	30,492	199,876	¥	152.55	\$	1.27	
Effect of dilutive securities —Warrants of the Company —Convertible bonds of the Company Diluted EPS			41 640					
—Net income for computation	¥	30,492	200,557	¥	152.04	\$	1.26	
For the year ended March 31, 2014: Basic EPS								
Net income	¥	20,743						
Net income available to common shareholders	¥	20,743	198,272	¥	104.62			
Effect of dilutive securities —Warrants of the Company —Convertible bonds of the Company Diluted EPS			33 10,188					
—Net income for computation	¥	20,743	208,493	¥	99.49			

#### 22. RELATED PARTY TRANSACTIONS

There were no transactions between the Company and related parties for the years ended March 31, 2015 and 2014.

Transactions between the Company's consolidated subsidiaries and related parties for the years ended March 31, 2015 and 2014, were as follows:

(1) Transactions with a subsidiary of the parent company and subsidiaries

(1) Transactions with a subsidiary of the parent comp	any and s	Millions	s of Yen		ousands of S. Dollars
AEON Retail Co., Ltd. (subsidiary of the parent company)		2015		2014	 2015
Loans and bills discounted	¥	41,000	¥	40,600	\$ 340,900
Other assets		36		34	299
Lending of loans		40,836		29,246	339,533
Interest income		408		268	3,395

The terms of the above transactions were set on an arm's-length basis and in the normal course of business. The transaction amounts of "lending of loans" represent the average outstanding balance for each fiscal year. The above amounts do not include consumption taxes.

(2) Transactions with directors, executive officers and their close relatives of the Company and its subsidiaries

	Transact	tion amou	nt	Balance at end					
	Millions of	Thou	sands of	Mill	ions of	Tho	usands of		
	Yen	U.S. Dollars		Y	Yen	U.S. Dollars 2015			
Directors, executive officers and their close relatives of the Company and its subsidiaries	2015	2015		2	015				
Housing loans (Loans and bills discounted)				¥	122	\$	1,011		
	Transaction amount	Balan	ce at end						
	Millions of	Mill	ions of						
	Yen	Y	ren						
Directors and executive officers of the Company, its subsidiaries and AEON Co., Ltd. <sup>(*)</sup>	2014	2	014						
Housing loans (Loans and bills discounted in banking business)		¥	213						

(\*) AEON Co., Ltd. is listed on the Tokyo Stock Exchange, First Section.

The "housing loans" presented above are standard products provided by AEON Bank, Ltd., a consolidated subsidiary of the Company. Interest rate and conditions of repayment are the same as those provided to third-party customers.

#### 23. SEGMENT INFORMATION

Reportable segments of the Group are components of the Group for which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating segment performance and deciding how to allocate resources to segments.

#### (a) Description of reportable segments

The Company's reportable segments are those for which separate financial information is available and regular evaluation by the Board of Directors is being performed in order to decide how resources are allocated among the Group.

The Group conducts business activities through its "Credit" business dealing in credit card purchase contracts, loan contracts, and hire purchase contracts in the domestic market, "Fee Business" providing services including e-money in the domestic market, "Banking" business dealing in banking services in the domestic markets, and "Overseas" business dealing in credit extensions and lending in foreign markets. The Group formulates

comprehensive strategies for each business. Accordingly, the Group has four reportable segments, "Credit," "Fee Business," "Banking," and "Overseas."

"Credit" consists of financial services such as credit card contracts and loan contracts with domestic customers. "Fee Business" consists of the e-money business, the bank agency business, and the ATM business in the domestic market.

"Banking" consists of banking businesses, including lending and management of deposits from customers.

"Overseas" consists of financial services, including credit card contracts and loan contracts with customers in areas of Asia such as in Hong Kong, Thailand, and Malaysia.

# (b) Methods of measurement for the amounts of ordinary income, profit (loss), assets, and other items for each reportable segment

The method of accounting by reportable segment is consistent with the method of accounting used for the preparation of the consolidated financial statements. Segment profit is adjusted to reconcile it to income before taxes and minority interests less certain extraordinary items in the accompanying consolidated statements of income. The intersegment income or transfers are based on the current market prices.

								Million		n				
						Danastahla	C		015					
						Reportable					Re	conciliations		
		Credit	Fe	e Business		Banking	(	Overseas		Subtotal		(*2)		Total
Ordinary income <sup>(*1)</sup> Ordinary income from customers	¥	146,030	¥	31,540	¥	38,923	¥	112,553	¥	329,046			¥	329,046
Intersegment income or transfers		384		13,868		2,741				16,993	¥	(16,993)		
Total ordinary income		146,414		45,408		41,664		112,553		346,039		(16,993)		329,046
Segment profit/(loss) <sup>(*3)</sup>	¥	32,177	¥	1,866	¥	(38)	¥	22,144	¥	56,149	¥	(3,068)	¥	53,081
Segment assets	¥	1,432,212	¥	149,679	¥	1,651,661	¥	549,466	¥	3,783,018	¥	(193,522)	¥	3,589,496
Other items Depreciation and amortization Amortization	¥	3,509	¥	5,141	¥	1,386 904	¥	4,360	¥	14,396	¥	137	¥	14,533
of goodwill		178		713				44		1,839				1,839
Interest income		51,604		1,606		14,178		58,407		125,795		(302)		125,493
Interest expenses Provision		3,573		337		2,532		13,754		20,196		481		20,677
/(reversal) for possible credit losses Increases in		8,849		1,217		(6)		26,310		36,370				36,370
tangible and intangible assets	¥	18,237	¥	7,338	¥	1,788	¥	6,456	¥	33,819	¥	1,317	¥	35,136

#### (c) Information about ordinary revenue, profit (loss), assets, and other items for each reportable segment Millions of Yen

assets														
								Million		n				
							~		014					
						Reportable	e Segm	ent			р	conciliations		
		Credit	Fe	e Business		Banking	(	Overseas		Subtotal	Re	(*2)		Total
Ordinary income <sup>(*1)</sup> Ordinary														
income from customers Intersegment	¥	130,303	¥	25,523	¥	38,693	¥	91,551	¥	286,070			¥	286,070
income or transfers		797		11,130		2,540		3		14,470	¥	(14,470)		
Total ordinary income		131,100		36,653		41,233		91,554		300,540		(14,470)		286,070
Segment profit <sup>(*3)</sup>	¥	28,046	¥	1,172	¥	1,882	¥	16,455	¥	47,555	¥	(6,463)	¥	41,092
Segment assets	¥	1,347,951	¥	129,771	¥	1,417,748	¥	441,444	¥	3,336,914	¥	(173,797)	¥	3,163,117
Other items Depreciation and amortization	¥	3,377	¥	3,925	¥	1,250	¥	4,076	¥	12,628	¥	106	¥	12,734
Amortization of goodwill		134		713		904		28		1,779				1,779
Interest income		39,418		1,605		16,169		51,315		108,507		(1,055)		107,452
Interest expenses Provision		4,081		270		3,736		10,826		18,913		612		19,525
for possible credit losses		9,360		306		298		17,713		27,677				27,677
Provision for point program Increases in		9,680		219		496				10,395				10,39
tangible and intangible assets	¥	10,124	¥	12,208	¥	2,886	¥	7,405	¥	32,623	¥	217	¥	32,84

						Thousands of		Dollars			
				D (11.0	1	20	15				
				Reportable S	segme	nt			D	econciliations	
	Credit	F	ee Business	Banking		Overseas		Subtotal	K	(*2)	Total
Ordinary income <sup>(*1)</sup> Ordinary income from customers	\$ 1,214,185	\$	262,243	\$ 323,631	\$	935,839	\$	2,735,898			\$ 2,735,898
Intersegment income or transfers	3,192		115,306	22,792		2		141,292	\$	(141,292)	
Total ordinary income	1,217,377		377,549	346,423		935,841		2,877,190		(141,292)	2,735,898
Segment profit/(loss) <sup>(*3)</sup>	\$ 267,537	\$	15,514	\$ (314)	\$	184,123	\$	466,860	\$	(25,513)	\$ 441,347
Segment assets	\$ 11,908,308	\$	1,244,528	\$ 13,732,942	\$	4,568,598	\$	31,454,376	\$	(1,609,061)	\$ 29,845,315
Other items <sup>(*4)</sup> Depreciation and amortization	\$ 29,175	\$	42,741	\$ 11,526	\$	36,249	\$	119,691	\$	1,142	\$ 120,833
Amortization	1,482		5,933	7,513		364		15,292			15,292
of goodwill Interest income	429,066		13,357	117,881		485,636		1,045,940		(2,509)	1,043,431
Interest expenses Provision	29,713		2,803	21,050		114,360		167,926		4,000	171,926
/(reversal) for possible credit losses Increases in	73,578		10,119	(55)		218,760		302,402			302,402
tangible and intangible assets	\$ 151,634	\$	61,016	\$ 14,867	\$	53,675	\$	281,192	\$	10,950	\$ 292,142

(\*1) For segment revenue, the Group uses ordinary income instead of sales, which are used by normal commercial companies. Ordinary

 (1) It organize control income less certain extraordinary income included in "Other income" in the consolidated statements of income.
 (\*2) ¥(3,068) million (\$(25,513) thousand) of reconciliations to segment profit/(loss) for the year ended March 31, 2015 and ¥(6,463) million of reconciliations to segment profit for the year ended March 31, 2014 represent the corporate expenses unallocated to any reportable segment. The corporate expenses are mainly comprised of general and administrative expenses unattributable to any reportable segment. In addition, ¥(193,522) million (\$(1,609,061) thousand) of reconciliations to segment assets for the year ended March 31, 2015 and ¥(173,797) million of reconciliations to segment assets for the year ended March 31, 2014 represent the corporate assets unallocated to any reportable segment and the eliminations of intersegment transactions.

(\*3) Segment profit/(loss) is adjusted to reconcile it to income before taxes and minority interests less certain extraordinary items in the (\*4) For the year ended March 31, 2015, the line item "Provision for point program" is omitted because the Company transferred the

operation of granting credit card points to AEON Bank, Ltd. and changed the related management process.

#### (d) Information about geographic areas

(i) Ordinary income<sup>(\*1)(\*2)</sup>

			Millions	of Yen					
			201	15					
	Japan	Tł	nailand	(	Other		Total		
¥	216,493	¥ 58,649		¥ 53,904		¥	329,046		
			Millions	of Yen					
			201	14					
	Japan	Tł	nailand	(	Other	Total			
¥	193,023	¥	51,060	¥	41,987	¥	286,070		
		Т	housands of	U.S. D	ollars				
			201	15					
	Japan	Tł	nailand	(	Other		Total		
\$	1,800,059	\$	487,646	\$	448,193	\$	2,735,898		
(1) E	or segment reven	ue the G	roun uses ordin	ary inco	me instead of s	ales wh	ich are used b		

(\*1) For segment revenue, the Group uses ordinary income instead of sales, which are used by normal commercial companies.(\*2) Ordinary income is classified by country or region based on the customers' location.

(ii) Property and equipment

			Millions	of Yen				
			20	15				
J	apan	Th	ailand	C	Other	Total		
¥	23,653			¥	1,891	¥	35,774	
			Millions	of Yen				
			20	14				
J	apan	Th	ailand	C	Other		Total	
¥	21,318	¥	8,386	¥	1,482	¥	31,186	
		Т	housands of	U.S. Do	ollars			
			20	15				
J	apan	Th	ailand	C	Other	Total		
\$	196,664	\$	85,060	\$	15,724	\$	297,448	

(e) Information about goodwill and negative goodwill by reportable segment

					Mill	ions of Yen				
						2015				
	C	Credit	Fee	Business	В	anking	Ove	erseas		Total
Goodwill at March 31, 2015 <sup>(*1)</sup>	¥	1,470	¥	10,403	¥	15,135	¥	56	¥	27,064
					Mill	ions of Yen				
						2014				
	C	Credit	Fee	Business	В	anking	Ove	erseas		Total
Goodwill at March 31, 2014 <sup>(*1)</sup>	¥	1,648	¥	11,116	¥	16,039	¥	85	¥	28,888
	Thousands of U.S. Dollars									
	2015									
	C	Credit	Fee	Business	В	anking	Ove	erseas		Total
Goodwill at March 31, 2015 <sup>(*1)</sup>	\$	12.223	\$	86.492	\$	125.845	\$	468	\$	225.028

(\*1) Disclosure of amortization of goodwill is omitted because similar information is disclosed in "(c) Information about ordinary revenue, profit (loss), assets, and other items for each reportable segment."

#### **24. SUBSEQUENT EVENTS**

#### (a) Appropriations of retained earnings

The following appropriation of retained earnings as at March 31, 2015, was approved at the Company's Board of Directors' meeting held on May 15, 2015:

			Thous	ands of
	Millions	s of Yen	U.S. I	Dollars
Year-end cash dividends, ¥35.00 (\$0.29) per share	¥	6,954	\$	57,821

#### (b) Issuance of debenture bonds

The Company issued debenture bonds pursuant to the resolution at the Company's Board of Directors' meeting held on March 24, 2015. The key information of the debenture bonds is summarized as follows:

1.	(1)	Name	3rd Debenture Bonds (with limited inter-bond pari passu clause)
	(2)	Total amount of issue	¥20 billion (\$166,293 thousand)
	(3)	Interest rate	0.402% per annum

- (4) Issue price 100% of the principal amount of the bonds
- (5) Maturity date April 30, 2020
- April 30, 2015 (6) Closing date
- Use of proceeds To be applied toward the partial repayment of loans (7)

#### 2. (1) Name

1

- 4th Debenture Bonds (with limited inter-bond pari passu clause)
- ¥10 billion (\$83,146 thousand) (2) Total amount of issue
- Interest rate 0.552% per annum (3)
- (4) Issue price 100% of the principal amount of the bonds
- (5) Maturity date April 28, 2022
- April 30, 2015 Closing date (6)
- (7) Use of proceeds To be applied toward the partial repayment of loans



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### INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of AEON Financial Service Co., Ltd.:

We have audited the accompanying consolidated balance sheet of AEON Financial Service Co., Ltd. and its subsidiaries as of March 31, 2015, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

#### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements of the consolidated financial statements of the consolidated finances.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of AEON Financial Service Co., Ltd. and its subsidiaries as of March 31, 2015, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

#### **Convenience** Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Delette Touche Telmotsu LLC

June 24, 2015

## Corporate Data (As of September 2015)

Company Name	AEON Financial Service Co., Ltd.	
Head Office	Kanda Mitoshiro-cho 1, Chiyoda-ku, Tokyo 101-8445, Japan	
Tel	+81-3-5281-2080	
URL	http://www.aeonfinancial.co.jp/eng/	
Established	June 20, 1981	
Capital Stock	¥30,421 million (As of March 2015)	
Number of Employees	115/14,965 (Consolidated) (As of March 2015)	

# Shareholder Information (As of September 2015)

Closing Date	March 31
Stock Exchange Listing	Tokyo Stock Exchange, First Section (Securities Code: 8570)
Transfer Agent	Mizuho Trust & Banking Co., Ltd.
Shares Issued	208,499,435 shares (As of March 2015)
Shareholders' Meeting	Held in June of each year
Independent Auditors	Deloitte Touche Tohmatsu LLC

### **Principal Members of AEON Group**

#### <Listed Companies>

U.S.M.H

United Super Markets Holdings Inc. Listed on (1). A joint holding company comprised of The Maruetsu, Inc., KASUMI CO.. LTD., MAXVALU KANTO CO. LTD., operating super the Metropolitan area rkets in



Inageya Co.,Ltd. Listed on (1). Operates supermarkets in the Kanto Region



Belc CO.,LTD. Listed on (1). Operates supermarkets mainly in Saitama and Gunma Prefecture



CFS Corporation Listed on (1). Operates drugstores in 11 prefectures in the Kanto and the Tokai Region



TSURUHA HOLDINGS Inc. Listed on (1). A holding company operating drugstores THURUHA Drug in Japan and

Pure holding company AEON CO., LTD.

General Merchandise Store Business

AEON Retail Co., Ltd. **AEON Hokkaido Corporation** SUNDAY CO., LTD. AEON KYUSHU CO., LTD. AEON SUPERCENTER Co., Ltd. AEONBIKE CO.,LTD. AEON Bakery Co., Ltd. AEON LIQUOR CO., LTD. AEON RYUKYU CO., LTD. JOY Co., Ltd. TOPVALU COLLECTION CO., LTD. Bon Belta Co., Ltd.

Supermarket & Discount Store Business

United Super Markets Holdings Inc. Maxvalu Nishinihon Co., I td. Maxvalu Tohoku Co., Ltd. Maxvalu Tokai Co., Ltd. Maxvalu Chubu Co., I td. Maxvalu Hokkaido Co., Ltd. Maxvalu Kyushu Co., Ltd. O Inageya Co.,Ltd. O Belc CO.,LTD. A •Colle Co., LTD. AEON BIG CO., LTD. AEON MARKET CO., LTD. KASUMI CO.,LTD. KOHYO CO ITD SANYO MARUNAKA CO., LTD. The Daiei, Inc. BIG-A CO I TD BIG-A KANSAI JAPAN CO., LTD. MAXVALU KANTO CO., LTD. MAXVALU NAGANO CO LTD MAXVALU HOKURIKU CO., LTD. MAXVALU MINAMI TOHOKU CO., LTD.

Shopping Center Development Business

AEON Mall Co., Ltd. AEON TOWN Co., Ltd.

Listed Companies are shown in bold print. Cequity-method Affiliates Affiliated Companies

**MaxValu** 

Maxvalu Nishinihon Co., Ltd. Listed on (2). Operates supermarkets in Western Japan

Maxvalu Tokai Co., Ltd. Listed on (2). Operates supermarkets in the Chubu and Western Kanto Region

welcia

WELCIA HOLDINGS

株式会社メディカルー光

710771

Medical Ikkou Co., Ltd. Listed on (3). Operates dispensing pharmacies in the Chubu and the Kinki Region

KUSURI NO AOKI CO., LTD.

Listed on (1). Operates drugstores in the Hokuriku and the Joetsu Region

superma Region

Listed on (4). Operates supermarkets in the Chubu Region Maxvalu Tohoku Co., Ltd. Maxvalu Hokkaido Co., Ltd. Listed on (2). Operates supermarkets in the Tohoku Listed on (3). Operates supermarkets in Hokkaido

Prefecture Maxvalu Kyushu Co., Ltd. Listed on (3). Operates supermarkets in the Kyushu Region

Maxvalu Chubu Co., Ltd.



AEON Hokkaido Corporation Listed on (1). Operates mainly andise stores in ral n

AEON KYUSHU CO., LTD. Listed on (3). Operates mainly general merchandise stores in the Kyushu Region



SUNDAY CO., LTD.

Listed on (3). Operates home centers in the Tohoku Region

サンテ

MINISTOP CO., LTD. convenience stores, MINISTOP in Japan and overseas Listed on (1). Opera

Aeo'n;

AEON Fantasy Co., Ltd. Listed on (1). Operates in amusement parks and playgrounds for children

ZWEI CO., LTD. Listed on (2). Provides couples matching services for a happy marriage

Fantasy

zwel

G-FOOT GFOOT CO., LTD. Operates specialty g footwear



# TAKA Q

Taka:Q Co., Ltd. Listed on (1). Operates specialty stores offering self-produced formal outfits



Listed on the Ku Stock Exchange ala Lumpu Operates mainly general merchandise stores in Malaysia

AEON Stores (Hong Kong) Co., Limited Listed on the Hong Kong Stock Exchange. Operates mainly genera merchandise stores in Hong Kong



YAMAYA CORPORATION Listed on (1). Operates specialty stores offering liquors and related products

(1) The 1st section of Tokyo Stock Exchange (2) The 2nd section of Tokyo Stock Exchange (3) The JASDAQ (4) The 2nd section of Nagova Stock Exchange

AEON (HUBEI) CO., LTD. AEON South China Co., Limited BEIJING AEON CO., LTD. GUANGDONG AFON TEEM CO. LTD. QINGDAO AEON DONGTAI CO., LTD. [ASEAN] AFON ASIA SDN BHD AEON Co. (M)Bhd. AEON BIG (M) SDN. BHD. AFON INDEX LIVING SDN\_BHD AEON (CAMBODIA) Co.,Ltd. AEON(Thailand) CO., LTD. PT.AEON INDONESIA [Vietnam] AEON VIETNAM Co., LTD DONG HUNG INVESTMENT DEVELOPMENT CONSULTANCY JOINT STOCK COMPANY LIMITED O FIRST VIETNAM INVESTMENT JOINT STOCK COMPANY

#### Shared function companies

O YAMAYA CORPORATION AEON Integrated Business Service Co., Ltd. AEON AGRI CREATE Co., Ltd. AEON GLOBAL SCM CO., LTD. AEON GLOBAL MERCHANDISING CO., LTD. AEON TOPVALU CO., LTD. AEON FOOD SUPPLY Co., Ltd AEON MARKETING CO., LTD. Cordon Vert CO., LTD. Research Institute For Quality Living Co., Ltd. Tasmania Feedlot Pty. Ltd. AEON Demonstration Service Inc.

AEON 1% Club Foundation AEON Environmental Foundation

The Cultural Foundation of Okada

[As of April 1st, 2015]

## Service & Specialty Store Business

AEON Fantasy Co., Ltd. ZWEI CO., LTD. AEON Eaheart Co., LTD. AEON ENTERTAINMENT CO., LTD. AEON CULTURE CO., LTD. AEON COMPASS CO., LTD. AEON LIFE CO., LTD. KAJITAKU Co., Ltd. Reform Studio Co., Ltd. [Specialty Store Business] GFOOT CO., LTD. COX CO., LTD. O Taka:Q Co., Ltd. Abilities JUSCO Co., Ltd. AEON FOREST CO., LTD. AEON PET CO.,LTD AFON BODY Co. 1 td. Claire's Nippon Co., Ltd Cosmeme CO., LTD. Talbots Japan Co., Ltd. Branshes Co. Ltd MIRAIYA SHOTEN CO., LTD. Mega Sports Co., Ltd. MEGA PETRO Co., Ltd. LAURA ASHLEY JAPAN CO., LTD. AT Japan Co., Ltd. R.O.U CO., LTD.

AEON Link Co., Ltd.

International Business

AEON (CHINA) CO., LTD. AEON Stores (Hong Kong) Co., Limited AEON EAST CHINA (SUZHOU) CO., LTD.

AEON Financial Service 2015 66



The Maruetsu.Inc.

⊖ichimaru Co. I td

marunaka CO.,LTD.

Red Cabbage Co., Ltd.

MINISTOP CO., LTD.

My Basket CO.,LTD

CFS Corporation

TAKIYA Co., Ltd.

ZAG ZAG Co., Ltd.

AEON BANK, LTD.

OWelpark Co., Ltd.

O Medical Ikkou Co., Ltd.

TSURUHA HOLDINGS Inc.

KUSURI NO AOKI CO., LTD.

WELCIA YAKKYOKU Co., Ltd.

**Financial Services Business** 

AEON Financial Service Co., Ltd.

AEON CREDIT SERVICE(ASIA)CO., LTD.

AEON THANA SINSAP (THAILAND) PLC.

AEON HOUSING LOAN SERVICE CO., LTD.

AEON INSUBANCE SERVICE CO., LTD.

AEON CREDIT SERVICE(M)BERHAD

AEON REIT Investment Corporation

AEON CREDIT SERVICE CO., LTD.

AEON Product Finance Co.,Ltd.

AEON Reit Management Co.,Ltd.

FeliCa Pocket Marketing Inc

SHIMIZU YAKUHIN CO., LTD.

ORIGIN TOSHU CO., LTD.

Small Size Store Business

WELCIA HOLDINGS CO., LTD.

Drugstore & Pharmacy Business

\*Above companies constitute Hapycom, an alliance operating drugstores and despendsing pharmacies

company offering financial services including credit businesses and others in Japan AEON CREDIT SERVICE

/EON

(ASIA)CO., LTD. Listed on the Hong Kong Stock Exchange. An overseas subsidiary of AEON Financial Service Co., Ltd. AEON THANA SINSAP

(THAILAND) PLC. Listed on the Thai Stock Exchange. An overseas subsidiary of AEON Financial Service Co., Ltd.

AEON CREDIT SERVICE (M)BERHAD Listed on the main board of Kuala Lumpur Stock Exchar An overseas subsidiary of AEON Financial Service Co., Ltd.

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∕€ON

MALL

AEON Mall Co., Ltd.

operates multifunctiona

shopping facilities

Listed on (1). A commercial developer that develops and

Listed on (1). Offers comprehensive facility management services, including security and cleaning services in Japan and overseas

AEON DELIGHT CO., LTD.

[Service Business] AEON DELIGHT CO., LTD.

**Digital Business** AEON Direct Co.,Ltd.

### [China]

AEON CO., LTD. Listed on (1). A holding company operating various businesses with retailing at its core











