Financial Section

Five-Year Summary

AEON Financial Service Co., Ltd. (formerly, AEON Credit Service Co., Ltd.) and Subsidiaries
Year Ended March 31, 2016, Years Ended March 31, 2015 through 2013 and Year Ended February 20, 2012

	Millions of Yen			Thousands of U.S. Dollars(*1)
	2016(*2)	2015(*2)	2014(*2)	**2016**
For the Year:				
Total income	**¥ 360,932**	¥ 329,047	¥ 286,181	**$ 3,202,878**
Total expenses	**301,681**	276,294	246,384	**2,677,093**
Income before income taxes	**59,251**	52,753	39,797	**525,785**
Net income attributable to owners of the parent	**35,785**	30,492	20,743	**317,556**
	Yen			U.S. Dollars(*1)
Per Share Data:				
Net assets	**¥ 1,465.31**	¥ 1,377.56	¥ 1,316.00	**$ 13.00**
Basic net income	**180.09**	152.55	104.62	**1.60**
Diluted net income	**180.00**	152.04	99.49	**1.60**
	Millions of Yen			Thousands of U.S. Dollars(*1)
At Year-End:				
Loans and bills discounted—net of allowance for possible credit losses	**¥ 1,646,425**	¥ 1,448,023	¥ 1,248,815	**$ 14,610,217**
Installment sales receivables—net of allowance for possible credit losses	**1,000,574**	1,015,155	937,759	**8,879,000**
Property and equipment	**36,530**	35,774	31,186	**324,169**
Total assets	**3,745,546**	3,589,496	3,163,117	**33,237,612**
Total liabilities	**3,404,660**	3,264,548	2,855,825	**30,212,621**
Equity	**340,886**	324,948	307,292	**3,024,991**
	Percentage			
Ratios:				
Equity ratio	**7.8%**	7.6%	8.6%	
Return on assets	**1.0**	0.9	0.7	
Return on equity	**12.7**	11.2	8.2	

	Millions of Yen	
	2013(*3)	2012
For the Year:		
Total operating revenues	¥ 205,972	¥ 169,853
Total operating expenses	172,892	145,572
Income before income taxes	30,492	17,907
Net income	13,616	8,988
	Yen	
Per Share Data:		
Net assets	¥ 1,235.28	¥ 1,012.52
Basic net income	88.12	57.30
Diluted net income	78.25	57.30
	Millions of Yen	
At Year-End:		
Finance receivables—net of allowance for possible credit losses	¥ 891,556	¥ 640,992
Net property and equipment	20,061	13,854
Total assets	2,534,209	907,659
Total liabilities	2,275,337	725,806
Equity	258,872	181,853
	Percentage	
Ratios:		
Equity ratio	9.1%	17.5%
Return on assets	0.8	1.0
Return on equity	7.0	5.7

(*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 ¥112.69 to U.S.$1, the approximate rate of exchange on March 31, 2016. 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, 2016, 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 classifications of assets and liabilities and revenues and expenses for banking institutions.

(*3) 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, because the Company has changed its year-end from February 20 to March 31.

Financial Review

AEON Financial Service Co., Ltd. and Subsidiaries
Years Ended March 31, 2016 and 2015

RESULTS OF OPERATIONS

	Millions of Yen			Percentage Change
	2016	2015	Amount Change	
Consolidated gross profits(*):				
Net interest income	¥ **117,504**	¥ 104,816	¥ 12,688	12.1 %
Net fees and commissions	**160,405**	146,445	13,960	9.5
Net other operating income	**18,322**	17,944	378	2.1
Total Consolidated gross profits	**296,231**	269,205	27,026	10.0
General and administrative expenses	**(203,553)**	(186,474)	(17,079)	9.2
Provision for possible credit losses and write-off of bad debts	**(45,626)**	(39,788)	(5,838)	14.7
Net other income	**12,199**	9,810	2,389	24.4
Income before income taxes	**59,251**	52,753	6,498	12.3
Income taxes:				
Current	**(15,193)**	(15,001)	(192)	1.3
Deferred	**406**	936	(530)	(56.6)
Total income taxes	**(14,787)**	(14,065)	(722)	5.1
Net income	**44,464**	38,688	5,776	14.9
Net income attributable to non-controlling interests	**(8,679)**	(8,196)	(483)	5.9
Net income attributable to owners of the parent	¥ **35,785**	¥ 30,492	¥ 5,293	17.4 %

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

Consolidated Financial Summary

For the first half of the current fiscal year, an improvement in capital investments backed by steady corporate earnings, increase in wages and reduction in oil price positively affected consumption, and as a result, domestic economic conditions showed signs of recovery. For the second half of the year, however, the risk of deterioration of the Chinese economy resulting from declines in the global stock market led to lower commodity prices, volatility in foreign currency exchange rates and introduction of the negative interest-rate policy in early 2016. As a result, consumer spending appeared to be sluggish and the economic conditions remained flat for the second half of the current fiscal year.

In Asia, the consumption environment remained stagnant, due to the deceleration of market conditions in China and Thailand and the decline in economic growth in Malaysia affected by the introduction of the Goods and Services Tax.

Under such circumstances, the Company and its subsidiaries (collectively, the "Group") have designated the current fiscal year as the year to build the foundation for future growth and thus focused on digital technologies to improve productivity and development of human resources to make full use of the technology. In addition, the Company improved corporate governance and its financial structure to strengthen its management bases.

Loans and Bills Discounted and Installment Sales Receivables

	Millions of Yen						
		2016		2015		Amount Change	Percentage Change
Loans and bills discounted	¥	**1,673,997**	¥	1,474,236	¥	199,761	13.6 %
Allowance for possible credit losses		**(27,572)**		(26,213)		(1,359)	5.2
Total loans and bills discounted	¥	**1,646,425**	¥	1,448,023	¥	198,402	13.7 %

	Millions of Yen						
		2016		2015		Amount Change	Percentage Change
Installment sales receivables:							
Credit card purchase contracts	¥	**687,501**	¥	763,890	¥	(76,389)	(10.0) %
Hire purchase contracts		**334,886**		274,331		60,555	22.1
Subtotal		**1,022,387**		1,038,221		(15,834)	(1.5)
Allowance for possible credit losses		**(21,813)**		(23,066)		1,253	(5.4)
Total installment sales receivables	¥	**1,000,574**	¥	1,015,155	¥	(14,581)	(1.4) %

Cash flows

For the year ended March 31, 2016, net cash used in operating activities amounted to ¥9,650 million, net cash used in investing activities amounted to ¥5,782 million and net cash used in financing activities amounted to ¥15,806 million. As a result, the balance of cash and cash equivalents as at March 31, 2016 decreased by ¥33,925 million to ¥421,976 million compared to the end of the previous fiscal year.

BUSINESS PERFORMANCE BY REPORTABLE SEGMENT

Total assets and ordinary income by reportable segment

	Millions of Yen						
		2016		2015		Amount Change	Percentage Change
Total Assets:							
Credit	¥	**1,425,959**	¥	1,432,212	¥	(6,253)	(0.4) %
Banking		**1,778,958**		1,651,661		127,297	7.7
Overseas		**529,443**		549,466		(20,023)	(3.6)
Fee Business and Other		**170,882**		149,679		21,203	14.2
Reconciliations		**(159,696)**		(193,522)		33,826	(17.5)
Total assets	¥	**3,745,546**	¥	3,589,496	¥	156,050	4.3 %
Ordinary income(*):							
Credit	¥	**161,348**	¥	146,414	¥	14,934	10.2 %
Banking		**46,820**		41,664		5,156	12.4
Overseas		**123,087**		112,553		10,534	9.4
Fee Business and Other		**49,636**		45,408		4,228	9.3
Reconciliations		**(21,240)**		(16,993)		(4,247)	25.0
Total ordinary income	¥	**359,651**	¥	329,046	¥	30,605	9.3 %

(*) 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, 2016 and 2015

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	2016
ASSETS			
Cash and cash equivalents (Note 18)	¥ 421,976	¥ 455,901	$ 3,744,571
Deposits with banks (Notes 7 and 18)	22,893	11,826	203,147
Call loans (Note 18)		10,000	
Monetary claims bought (Notes 3 and 18)	5,052	6,649	44,829
Securities (Notes 3, 7, and 18)	211,132	235,074	1,873,564
Loans and bills discounted—net of allowance for possible credit losses (Notes 4, 7, 18, 20, and 24)	1,646,425	1,448,023	14,610,217
Installment sales receivables—net of allowance for possible credit losses (Notes 4, 7, and 18)	1,000,574	1,015,155	8,879,000
Lease receivables and investment assets (Note 17)	5,406		47,968
Other assets (Notes 7 and 24)	124,520	95,532	1,104,985
Property and equipment (Note 5)	36,530	35,774	324,169
Intangible assets (Note 6)	77,163	71,139	684,738
Deferred tax assets (Note 15)	20,433	20,790	181,321
Customers' liabilities for acceptances and guarantees	173,442	183,633	1,539,103
Total assets	¥ 3,745,546	¥ 3,589,496	$ 33,237,612
LIABILITIES AND EQUITY			
Liabilities:			
Deposits (Note 18)	¥ 2,152,928	¥ 1,963,025	$ 19,104,872
Accounts payable (Note 18)	204,845	190,221	1,817,778
Call money (Note 18)		76,300	
Commercial paper (Notes 8 and 18)	68,000		603,425
Borrowed money (Notes 7, 8, and 18)	535,989	591,586	4,756,316
Bonds (Notes 8 and 18)	122,075	114,311	1,083,280
Convertible bonds (Notes 8 and 18)	50	90	444
Other liabilities (Notes 8 and 9)	128,324	126,687	1,138,733
Allowance for point program	12,457	11,590	110,539
Allowance for loss on refund of interest received	4,206	4,848	37,327
Deferred tax liabilities (Note 15)	2,344	2,257	20,804
Acceptances and guarantees	173,442	183,633	1,539,103
Total liabilities	3,404,660	3,264,548	30,212,621
Commitments and contingent liabilities (Notes 17, 19, and 20)			
Equity (Notes 10, 11, and 26):			
Common stock—authorized, 540,000,000 shares; issued, 208,527,801 shares in 2016 and 208,499,435 shares in 2015	30,442	30,422	270,135
Capital surplus	106,230	106,230	942,675
Stock acquisition rights—561 rights in 2016 and 450 rights in 2015	111	73	981
Retained earnings	177,766	154,519	1,577,481
Treasury stock—at cost, 9,807,144 shares in 2016 and 9,808,408 shares in 2015	(25,142)	(25,145)	(223,105)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities (Note 3)	5,890	4,244	52,266
Deferred loss on derivatives under hedge accounting	(3,515)	(3,468)	(31,188)
Foreign currency translation adjustments	122	7,446	1,087
Accumulated adjustments for retirement benefit (Note 9)	(607)	(539)	(5,391)
Total	291,297	273,782	2,584,941
Non-controlling interests	49,589	51,166	440,050
Total equity	340,886	324,948	3,024,991
Total liabilities and equity	¥ 3,745,546	¥ 3,589,496	$ 33,237,612

See notes to consolidated financial statements.

Consolidated Statement of Income

AEON Financial Service Co., Ltd. and Subsidiaries
Years Ended March 31, 2016 and 2015

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	**2016**
Income:			
Interest income:			
Interest on loans and bills discounted (Note 24)	**¥ 136,343**	¥ 123,270	**$ 1,209,894**
Interest and dividends on securities	**1,864**	1,613	**16,539**
Interest on call loans	**1**	1	**4**
Interest on due from banks and deposits	**447**	394	**3,970**
Other interest income	**155**	215	**1,380**
Total interest income	**138,810**	125,493	**1,231,787**
Fees and commissions (Note 4)	**185,072**	168,284	**1,642,312**
Other operating income	**19,759**	19,054	**175,341**
Other income (Note 12)	**17,291**	16,216	**153,438**
Total income	**360,932**	329,047	**3,202,878**
Expenses:			
Interest expenses:			
Interest on deposits	**(3,759)**	(4,015)	**(33,360)**
Interest on call money	**(3)**	(25)	**(27)**
Interest on borrowed money	**(15,128)**	(14,474)	**(134,239)**
Other interest expenses	**(2,416)**	(2,163)	**(21,439)**
Total interest expenses	**(21,306)**	(20,677)	**(189,065)**
Fees and commissions	**(24,667)**	(21,839)	**(218,894)**
Other operating expenses	**(1,437)**	(1,110)	**(12,757)**
General and administrative expenses (Notes 9, 13 and 17)	**(203,553)**	(186,474)	**(1,806,313)**
Provision for possible credit losses and write-off of bad debts	**(45,626)**	(39,788)	**(404,878)**
Other expenses (Note 14)	**(5,092)**	(6,406)	**(45,186)**
Total expenses	**(301,681)**	(276,294)	**(2,677,093)**
Income before income taxes	**59,251**	52,753	**525,785**
Income taxes (Note 15):			
Current	**(15,193)**	(15,001)	**(134,818)**
Deferred	**406**	936	**3,599**
Total income taxes	**(14,787)**	(14,065)	**(131,219)**
Net income	**44,464**	38,688	**394,566**
Net income attributable to non-controlling interests	**(8,679)**	(8,196)	**(77,010)**
Net income attributable to owners of the parent	**¥ 35,785**	¥ 30,492	**$ 317,556**

PER SHARE OF COMMON STOCK (Note 23):	Yen		U.S. Dollars
Basic net income	**¥ 180.09**	¥ 152.55	**$ 1.60**
Diluted net income	**180.00**	152.04	**1.60**
Cash dividends applicable to the year	**66.00**	60.00	**0.59**

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

AEON Financial Service Co., Ltd. and Subsidiaries
Years Ended March 31, 2016 and 2015

	Millions of Yen				Thousands of U.S. Dollars (Note 1)	
	2016		2015		**2016**	
Net income	¥	**44,464**	¥	38,688	$	**394,566**
Other comprehensive income (Note 21):						
Unrealized gain on available-for-sale securities		**1,625**		219		**14,425**
Deferred gain (loss) on derivatives under hedge accounting		**76**		(2,116)		**676**
Foreign currency translation adjustments		**(12,684)**		12,462		**(112,560)**
Adjustments for retirement benefit (Note 9)		**(68)**		(168)		**(606)**
Total other comprehensive income		**(11,051)**		10,397		**(98,065)**
Comprehensive income:	¥	**33,413**	¥	49,085	$	**296,501**
Total comprehensive income attributable to:						
Owners of the parent	¥	**29,993**	¥	36,550	$	**266,157**
Non-controlling interests		**3,420**		12,535		**30,344**

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

AEON Financial Service Co., Ltd. and Subsidiaries

Years Ended March 31, 2016 and 2015

	Thousands	Millions of Yen											
							Accumulated Other Comprehensive Income						
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock	Unrealized Gain on Available-for-sale Securities	Deferred Loss on Derivatives under Hedge Accounting	Foreign Currency Translation Adjust-ments	Accumulated adjustments for retirement benefit	Total	Non-controlling Interests	Total Equity
Balance, April 1, 2014	206,429	¥ 29,052	¥ 104,860	¥ 55	¥ 136,271	¥ (146)	¥ 4,027	¥ (2,327)	¥ 295	¥ (371)	¥ 271,716	¥ 35,576	¥ 307,292
Cumulative effects of changes in accounting policies					(54)						(54)		(54)
Restated balance	206,429	29,052	104,860	55	136,217	(146)	4,027	(2,327)	295	(371)	271,662	35,576	307,238
Net income attributable to owners of the parent					30,492						30,492		30,492
Cash dividends, ¥60 per share					(12,188)						(12,188)		(12,188)
Conversion of convertible bonds	1,958	1,370	1,370								2,740		2,740
Purchase of treasury stock	(9,697)					(25,001)					(25,001)		(25,001)
Disposal of treasury stock	1				(2)	2							
Net change in the year				18			217	(1,141)	7,151	(168)	6,077	15,590	21,667
Balance, March 31, 2015	198,691	¥ 30,422	¥ 106,230	¥ 73	¥ 154,519	¥ (25,145)	¥ 4,244	¥ (3,468)	¥ 7,446	¥ (539)	¥ 273,782	¥ 51,166	¥ 324,948
Net income attributable to owners of the parent					35,785						35,785		35,785
Cash dividends, ¥63 per share					(12,518)						(12,518)		(12,518)
Conversion of convertible bonds	28	20	20								40		40
Purchase of treasury stock						(1)					(1)		(1)
Disposal of treasury stock	2				(2)	4					2		2
Change in the parent's ownership interest arising from transactions with non-controlling interests			(20)								(20)	20	
Change in scope of equity method					(18)						(18)		(18)
Net change in the year				38			1,646	(47)	(7,324)	(68)	(5,755)	(1,597)	(7,352)
Balance, March 31, 2016	198,721	¥ 30,442	¥ 106,230	¥ 111	¥ 177,766	¥ (25,142)	¥ 5,890	¥ (3,515)	¥ 122	¥ (607)	¥ 291,297	¥ 49,589	¥ 340,886

	Thousands	Thousands of U.S. Dollars (Note 1)											
							Accumulated Other Comprehensive Income						
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock	Unrealized Gain on Available-for-sale Securities	Deferred Loss on Derivatives under Hedge Accounting	Foreign Currency Translation Adjust-ments	Accumulated adjustments for retirement benefit	Total	Non-controlling Interests	Total Equity
Balance, March 31, 2015	198,691	$ 269,958	$ 942,677	$ 652	$ 1,371,186	$ (223,131)	$ 37,659	$ (30,778)	$ 66,078	$ (4,787)	$ 2,429,514	$ 454,044	$ 2,883,558
Net income attributable to owners of the parent					317,556						317,556		317,556
Cash dividends, $0.56 per share					(111,083)						(111,083)		(111,083)
Conversion of convertible bonds	28	177	177								354		354
Purchase of treasury stock						(6)					(6)		(6)
Disposal of treasury stock	2				(18)	32					14		14
Change in the parent's ownership interest arising from transactions with non-controlling interests			(179)								(179)	179	
Change in scope of equity method					(160)						(160)		(160)
Net change in the year				329			14,607	(410)	(64,991)	(604)	(51,069)	(14,173)	(65,242)
Balance, March 31, 2016	198,721	$ 270,135	$ 942,675	$ 981	$ 1,577,481	$ (223,105)	$ 52,266	$ (31,188)	$ 1,087	$ (5,391)	$ 2,584,941	$ 440,050	$ 3,024,991

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

AEON Financial Service Co., Ltd. and Subsidiaries
Years Ended March 31, 2016 and 2015

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	**2016**
OPERATING ACTIVITIES:			
Income before income taxes	**¥ 59,251**	¥ 52,753	**$ 525,785**
Adjustments for:			
Depreciation and amortization	**15,885**	14,533	**140,960**
Allowance for possible credit losses	**2,448**	(95)	**21,726**
Allowance for point program	**866**	577	**7,687**
Allowance for loss on refund of interest received	**(642)**	1,763	**(5,699)**
Interest income	**(138,810)**	(125,493)	**(1,231,787)**
Interest expenses	**21,306**	20,677	**189,065**
Net increase in loans and bills discounted	**(232,770)**	(163,711)	**(2,065,578)**
Net increase in installment sales receivables	**(16,159)**	(62,513)	**(143,391)**
Decrease in lease receivables and investment assets	**205**		**1,823**
Net increase in deposits	**189,903**	245,255	**1,685,182**
Net increase (decrease) in accounts payable	**13,463**	(37,296)	**119,470**
Net (decrease) increase in borrowed money	**(24,199)**	39,196	**(214,740)**
Net increase in deposits with banks	**(11,156)**	(3,150)	**(98,996)**
Net decrease (increase) in call loans and others	**11,597**	(4,530)	**102,915**
Net (decrease) increase in call money	**(76,300)**	71,400	**(677,079)**
Net increase in commercial paper	**68,000**		**603,425**
Proceeds from sale and leaseback	**11,109**	11,404	**98,578**
Interest income received	**138,421**	124,621	**1,228,332**
Interest expenses paid	**(28,662)**	(20,796)	**(254,348)**
Other	**(383)**	14,801	**(3,400)**
Subtotal	**3,373**	179,396	**29,930**
Income taxes—paid	**(14,922)**	(17,895)	**(132,421)**
Income taxes—refund	**1,899**		**16,853**
Net cash (used in) provided by operating activities	**(9,650)**	161,501	**(85,638)**
INVESTING ACTIVITIES:			
Purchases of securities	**(119,962)**	(230,386)	**(1,064,529)**
Proceeds from sales of securities	**74,450**	143,136	**660,658**
Proceeds from redemption of securities	**71,006**	27,510	**630,102**
Purchases of property and equipment	**(10,194)**	(7,911)	**(90,466)**
Proceeds from sale of property and equipment	**2,820**	759	**25,026**
Purchases of intangible assets	**(17,397)**	(14,536)	**(154,384)**
Proceeds from sale of intangible assets	**198**		**1,759**
Payments for acquisition of business (Note 16)	**(6,703)**		**(59,479)**
Net cash used in by investing activities	**(5,782)**	(81,428)	**(51,313)**
FINANCING ACTIVITIES:			
Financial costs paid for financing activities	**(1)**	(19)	**(11)**
Dividends paid to the Company's shareholders	**(12,518)**	(12,188)	**(111,083)**
Proceeds from stock issuance to non-controlling shareholders	**247**	5,829	**2,192**
Dividends paid to non-controlling shareholders	**(3,533)**	(3,163)	**(31,351)**
Purchase of treasury stock	**(1)**	(25,039)	**(6)**
Net cash used in by financing activities	**(15,806)**	(34,580)	**(140,259)**
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	**(2,687)**	2,237	**(23,843)**
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(33,925)**	47,730	**(301,053)**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**455,901**	408,171	**4,045,624**
CASH AND CASH EQUIVALENTS, END OF YEAR	**¥ 421,976**	¥ 455,901	**$ 3,744,571**

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years Ended March 31, 2016 and 2015

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 2015 consolidated financial statements to conform to the classifications used in 2016.

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 ¥112.69 to $1, the exchange rate at March 31, 2016. 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, 2016 include the accounts of the Company and its 35 subsidiaries and one company 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."

Effective from April 1, 2015, the Group has applied "Accounting Standard for Business Combinations" (Accounting Standards Board of Japan (ASBJ) Statement No. 21 issued on September 13, 2013), "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22 issued on September 13, 2013) and "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7 issues on September 13, 2013). As a result, the difference arising from changes in the equity in subsidiaries under ongoing control of the Company should be accounted for as capital surplus. In addition, under the new standard, acquisition-related costs are recognized as expenses for the fiscal year in which they are incurred. Furthermore, with respect to any business combination entered into on or after April 1, 2015, it is required to reflect adjustments to the allocation of acquisition cost under the provisional accounting treatment retrospectively on the consolidated financial statements of the fiscal year in which the relevant business combination became effective. The term “minority interest” used in the consolidated statement of income and balance sheet was replaced with “non-controlling interests.” In order to reflect the changes in the presentation, certain reclassifications have been made to the consolidated financial statements with respect to the previous fiscal year.

The Group applied the transitional treatments prescribed in Paragraph 58-2(4) of the Accounting Standard for Business Combinations, Paragraph 44-5(4) of the Accounting Standard for Consolidated Financial Statements and Paragraph 57-4(4) of the Accounting Standard for Business Divestitures, and accordingly, new accounting standards are applied prospectively on or after April 1, 2015.

The effects on ordinary profits and income before income taxes for the fiscal year ended March 31, 2016 and capital surplus as at March 31, 2016 are immaterial.

(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 equivalents 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 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 amount of write-down is accounted for as a 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, 2016 and 2015, which have been deferred and included in other assets, were ¥12 million ($108 thousand) and ¥48 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, 2016 and 2015, which have been deferred and included in other assets, were ¥374 million ($3,322 thousand) and ¥316 million, respectively. These costs are amortized by the interest method through the maturity of the bonds.

(l) 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.

(m) 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.

(n) 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 benefit formula 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 projected retirement benefits from the straight-line basis to the benefit formula basis. In addition, the method of determining the discount rate applied in the calculation of projected 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.

(o) 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.

(p) 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.

(q) 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.

Finance lease assets that deem to transfer ownership of the leased property to the lessee are depreciated using the same method for property and equipment. Finance lease assets that do not deem to transfer ownership of the leased property to the lessee are depreciated using the straight-line method over the lease period, with zero residual value.

Certain consolidated domestic subsidiaries recognize revenue and related cost of sales for lease transactions upon receipt of lease payments.

(r) 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.

(s) 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.

(t) 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.

(u) 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 as of 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.

(v) 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.

(w) 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 hedging instruments and the hedged items, gains or losses on the derivatives are deferred until the maturity of 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 under accumulated other comprehensive income in a separate component of equity. Interest rate swaps which qualify for 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.

(x) 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 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.

(y) 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.

(z) New Accounting Pronouncements

(i) The Company and its consolidated domestic subsidiaries

Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26, March 28, 2016)

(1) Overview
The new guidance basically maintains the framework of the treatment of recoverability of deferred tax assets defined in the JICPA Audit Committee Report No. 66, "Audit Treatment of Judgments with Regard to Recoverability of Deferred Assets," with some changes to the current framework.

(2) Effective date
The Group plans to apply this guidance at the beginning of the fiscal year ending March 31, 2017.

(3) Effects of adoption of this guidance
The Group is currently evaluating the effects of adoption of this guidance.

(ii) Consolidated overseas subsidiaries

The Group has not applied the following new and revised accounting standards that have been issued but not yet effective as at March 31, 2016. The Group is currently evaluating the effects of adoption of these accounting standards.

Accounting Standard	Description	Effective date
"Financial instruments" (IFRS 9)	IFRS 9 introduces new requirements for classification and measurement of financial instruments, impairment and hedge accounting.	Year ending March 31, 2019
"Revenue from contracts with customers" (IFRS 15)	IFRS 15 introduces a single comprehensive model that entities use to account for revenues from contracts with customers.	Year ending March 31, 2019
"Leases" (IFRS 16)	IFRS 16 introduces a single accounting model that lessees recognize assets and liabilities for all types of leases.	Year ending March 31, 2020

3. MONETARY CLAIMS BOUGHT AND SECURITIES

Monetary claims bought and securities as at March 31, 2016 and 2015, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Marketable equity securities	**¥ 6,484**	¥ 6,485	**$ 57,536**
Marketable debt securities:			
Government bonds	**49,372**	62,891	**438,119**
Corporate bonds	**72,901**	25,074	**646,921**
Total marketable debt securities	**122,273**	87,965	**1,085,040**
Other securities			
Foreign securities	**68,395**	128,138	**606,929**
Other(*)	**19,032**	19,135	**168,888**
Total other securities	**87,427**	147,273	**775,817**
Total	**¥ 216,184**	¥ 241,723	**$ 1,918,393**

(*) Includes investments in associated companies of ¥201 million ($1,780 thousand) and ¥342 million as at March 31, 2016 and 2015, respectively.

The carrying amounts and aggregate fair values of monetary claims bought and securities as at March 31, 2016 and 2015, were as follows:

	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2016				
Securities classified as:				
Available-for-sale:				
Equity securities	**¥ 2,540**	**¥ 3,946**	**¥ (2)**	**¥ 6,484**
Debt securities	**119,034**	**3,239**		**122,273**
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

	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2016				
Securities classified as:				
Available-for-sale:				
Equity securities	**$ 22,537**	**$ 35,013**	**$ (14)**	**$ 57,536**
Debt securities	**1,056,298**	**28,742**		**1,085,040**

Available-for-sale securities whose fair values are deemed to be difficult to determine as at March 31, 2016 and 2015 are disclosed in Note 18.

Unrealized gain on available-for-sale securities on the consolidated balance sheets as at March 31, 2016 and 2015 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Unrealized gain before deferred tax on:			
Available-for-sale securities	**¥ 8,304**	¥ 5,929	**$ 73,690**
Deferred tax liabilities	**(2,346)**	(1,596)	**(20,817)**
Unrealized gain on available-for-sale securities (before adjustment)	**5,958**	4,333	**52,873**
Non-controlling interests	**(68)**	(89)	**(607)**
Unrealized gain on available-for-sale securities	**¥ 5,890**	¥ 4,244	**$ 52,266**

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

Loans and bills discounted as at March 31, 2016 and 2015, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Loans and bills discounted	**¥ 1,673,997**	¥ 1,474,236	**$ 14,854,891**
Allowance for possible credit losses	**(27,572)**	(26,213)	**(244,674)**
Total	**¥ 1,646,425**	¥ 1,448,023	**$ 14,610,217**

Loans and bills discounted as at March 31, 2016 and 2015, included the following:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Loans to bankrupt borrowers(*1)	**¥ 1,566**	¥ 1,413	**$ 13,898**
Non-accrual delinquent loans(*2)	**27,422**	24,852	**243,339**
Restructured loans(*3)	**23,250**	17,007	**206,317**
Total	**¥ 52,238**	¥ 43,272	**$ 463,554**

(*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, 2016 and 2015. "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, 2016 and 2015 was ¥309 million ($2,738 million) and ¥386 million, respectively.

Installment sales receivables as at March 31, 2016 and 2015, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Installment sales receivables:			
Credit card purchase contracts	¥ **687,501**	¥ 763,890	$ **6,100,822**
Hire purchase contracts	**334,886**	274,331	**2,971,745**
Subtotal	**1,022,387**	1,038,221	**9,072,567**
Allowance for possible credit losses	**(21,813)**	(23,066)	**(193,567)**
Total	¥ **1,000,574**	¥ 1,015,155	$ **8,879,000**

Fees and commissions for the years ended March 31, 2016 and 2015, included the following:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Credit card purchase contracts	¥ **102,701**	¥ 97,045	$ **911,355**

5. PROPERTY AND EQUIPMENT

Property and equipment as at March 31, 2016 and 2015, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Land	¥ **4**	¥ 742	$ **36**
Structures	**10,687**	10,187	**94,840**
Equipment	**56,037**	50,723	**497,263**
Construction in progress	**58**	91	**515**
Other property and equipment	**7,943**	9,875	**70,490**
Subtotal	**74,729**	71,618	**663,144**
Accumulated depreciation	**(38,199)**	(35,844)	**(338,975)**
Total	¥ **36,530**	¥ 35,774	$ **324,169**

6. INTANGIBLE ASSETS

Intangible assets as at March 31, 2016 and 2015, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Software	¥ **44,860**	¥ 36,883	$ **398,079**
Goodwill	**25,597**	27,064	**227,148**
Other intangible assets	**6,706**	7,192	**59,511**
Total	¥ **77,163**	¥ 71,139	$ **684,738**

7. PLEDGED ASSETS

Assets pledged as collateral as at March 31, 2016 and 2015, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Assets pledged as collateral:			
Deposits with banks	¥ **556**		$ **4,930**
Securities	**5,160**	¥ 5,095	**45,793**
Loans and bills discounted	**14,662**	13,992	**130,112**
Installment sales receivables	**11,687**	13,949	**103,706**
Total	¥ **32,065**	¥ 33,036	$ **284,541**
Liabilities corresponding to assets pledged as collateral:			
Borrowed money	**24,947**	16,588	**221,373**

In addition to the assets presented above, the following assets were pledged as collateral for exchange settlements and other transactions as at March 31, 2016 and 2015:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Securities	**¥ 37,443**	¥ 37,060	**$ 332,267**

Moreover, other assets included guarantee money deposits, and these amounts as at March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Guarantee money deposits	**¥ 4,774**	¥ 4,605	**$ 42,361**

8. COMMERCIAL PAPER, BORROWED MONEY, BONDS, AND LEASE OBLIGATIONS

Commercial paper, borrowed money, bonds and lease obligations included in other liabilities as at March 31, 2016 and 2015, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars	Average interest rate(*1)	
	2016	2015	**2016**	**2016**	Due
Commercial paper	**¥ 68,000**		**$ 603,425**	**0.04 %**	
Borrowed money	**535,989**	¥ 591,586	**4,756,316**	**2.71 %**	From April 2016 to October 2025
Lease obligations	**34,556**	24,630	**306,646**	**1.91 %**	From April 2016 to September 2027

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

Bonds and convertible bonds as at March 31, 2016 and 2015, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Issued by the Company:			
Unsecured 1.02% Japanese yen notes due April 2015		¥ 20,000	
¥15,000,000,000 Zero Coupon Convertible Bonds due 2016		40	
¥15,000,000,000 Zero Coupon Convertible Bonds due 2017	**¥ 50**	50	**$ 444**
Unsecured 0.349% pari passu Japanese yen notes due March 2019	**10,000**	10,000	**88,739**
Unsecured 0.572% pari passu Japanese yen notes due March 2021	**10,000**	10,000	**88,739**
Unsecured 0.83% callable subordinated Japanese yen notes due April 2024	**30,000**	30,000	**266,217**
Unsecured 0.83% callable subordinated Japanese yen notes due April 2024	**10,000**	10,000	**88,739**
Unsecured 0.402% pari passu Japanese yen notes due March 2020	**20,000**		**177,478**
Unsecured 0.552% pari passu Japanese yen notes due March 2022	**10,000**		**88,739**
Issued by AEON Thana Sinsap (Thailand) Plc.:			
Unsecured 3.28% Thai baht notes due July 2015		2,389	
Unsecured 4.06% Thai baht notes due July 2016	**1,706**	1,784	**15,140**
Unsecured 3.85% Thai baht notes due December 2016	**2,269**	2,369	**20,134**
Unsecured 4.44% Thai baht notes due August 2017	**3,385**	3,528	**30,042**
Unsecured 4.77% Thai baht notes due September 2017	**2,272**	2,382	**20,165**
Unsecured 4.14% Thai baht notes due July 2018	**1,912**	1,994	**16,964**
Unsecured 5.45% Thai baht notes due November 2018	**3,414**	3,585	**30,298**
Unsecured 4.06% Thai baht notes due March 2019	**3,359**	3,500	**29,803**
Unsecured 4.43% Thai baht notes due July 2017	**3,811**	4,383	**33,822**
Unsecured 2.99% Thai baht notes due September 2017	**1,694**	1,767	**15,031**
Unsecured 3.54% Thai baht notes due September 2019	**2,229**		**19,783**
Unsecured 2.87% Thai baht notes due September 2019	**635**		**5,635**
Issued by AEON Credit Service (M) Berhad:			
Medium Term Note 3.95% Malaysia Ringgit due April 2017	**1,347**	1,658	**11,953**
Medium Term Note 3.95% Malaysia Ringgit due April 2017	**1,078**	1,326	**9,563**
Medium Term Note 3.95% Malaysia Ringgit due May 2017	**1,482**	1,823	**13,148**
Medium Term Note 3.95% Malaysia Ringgit due July 2017	**1,482**	1,823	**13,148**
Total	**¥ 122,125**	¥ 114,401	**$ 1,083,724**

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

	Conversion Price (Yen)(*1)	Number of shares of Common Stock (thousands)(*2)	Exercise Period
¥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, 2016.

The annual maturities of borrowed money as at March 31, 2016, were as follows:

Years ended March 31	Millions of Yen	Thousands of U.S. Dollars
2017	¥ 289,390	$ 2,568,017
2018	62,649	555,938
2019	101,108	897,227
2020	32,708	290,245
2021	44,685	396,534
2022 and thereafter	5,449	48,355
Total	¥ 535,989	$ 4,756,316

The annual maturities of bonds as at March 31, 2016, were as follows:

Years ended March 31	Millions of Yen	Thousands of U.S. Dollars
2017	¥ 4,025	$ 35,718
2018	16,551	146,872
2019	21,549	191,222
2020		
2021	30,000	266,217
2022 and thereafter	50,000	443,695
Total	¥ 122,125	$ 1,083,724

The annual maturities of lease obligations as at March 31, 2016, were as follows:

Years ended March 31	Millions of Yen	Thousands of U.S. Dollars
2017	¥ 3,015	$ 26,756
2018	3,629	32,207
2019	4,514	40,054
2020	4,313	38,270
2021	4,098	36,366
2022 and thereafter	14,987	132,993
Total	¥ 34,556	$ 306,646

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, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Balance at beginning of year	**¥ 4,631**	¥ 3,969	**$ 41,099**
Cumulative effects of changes in accounting policies		83	
Restated balance	**4,631**	4,052	**41,099**
Current service cost	**356**	301	**3,162**
Interest cost	**91**	56	**808**
Actuarial gains and losses	**257**	126	**2,279**
Benefits paid	**(324)**	(202)	**(2,879)**
Other	**15**	298	**137**
Balance at end of year	**¥ 5,026**	¥ 4,631	**$ 44,606**

(b) The changes in plan assets for the years ended March 31, 2016 and 2015 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Balance at beginning of year	**¥ 1,319**	¥ 1,179	**$ 11,701**
Expected return on plan assets	**31**	18	**277**
Actuarial gains and losses	**27**	9	**242**
Contributions from the employer	**202**	179	**1,791**
Benefits paid	**(83)**	(67)	**(733)**
Balance at end of year	**¥ 1,496**	¥ 1,318	**$ 13,278**

(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, 2016 and 2015

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Funded defined benefit obligation	**¥ 2,106**	¥ 1,753	**$ 18,694**
Plan assets	**(1,496)**	(1,318)	**(13,278)**
	610	435	**5,416**
Unfunded defined benefit obligation	**2,920**	2,878	**25,912**
Net liability arising from defined benefit obligation	**¥ 3,530**	¥ 3,313	**$ 31,328**

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Liability for retirement benefits	**¥ 3,530**	¥ 3,313	**$ 31,328**
Net liability arising from defined benefit obligation	**¥ 3,530**	¥ 3,313	**$ 31,328**

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

(d) The components of net periodic benefit costs for the years ended March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Service cost(*)	**¥ 356**	¥ 301	**$ 3,162**
Interest cost	**91**	56	**808**
Expected return on plan assets	**(31)**	(18)	**(277)**
Recognized actuarial losses	**77**	103	**684**
Amortization of past service costs	**44**	44	**388**
Other	**(37)**	3	**(327)**
Net periodic benefit costs	**¥ 500**	¥ 489	**$ 4,438**

(*) 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, 2016 and 2015

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Past service costs	**¥ (44)**	¥ (44)	**$ (388)**
Actuarial gains and losses	**132**	266	**1,175**
Total	**¥ 88**	¥ 222	**$ 787**

(f) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as at March 31, 2016 and 2015

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Unrecognized past service costs	**¥ 87**	¥ 131	**$ 777**
Unrecognized actuarial gains and losses	**799**	667	**7,089**
Total	**¥ 886**	¥ 798	**$ 7,866**

(g) Plan assets

(i) Components of plan assets

Plan assets consisted of the following:

	2016	2015
Debt securities	**55.5%**	58.5%
Equity securities	**14.0%**	14.6%
Assets in the life insurer's general account	**14.7%**	11.5%
Other(*)	**15.8%**	15.4%
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, 2016 and 2015, were set forth as follows:

	2016(*)	2015(*)
Discount rate	**0.7%**	1.3%
Expected rate of return on plan assets	**2.37%**	1.58%

(*) In addition to the above, salary increase rate by age calculated as at the base date of March 31, 2011 was used as an assumption.

The required contribution amounts to the defined contribution pension plan for the years ended March 31, 2016 and 2015 are ¥445 million ($3,950 thousand) and ¥311 million, respectively.

The amounts of benefits paid under the advance payment plan for the years ended March 31, 2016 and 2015 are ¥56 million ($496 thousand) and ¥65 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 the normal two-year 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, other 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.

11. STOCK-BASED COMPENSATION

The stock options outstanding as at March 31, 2016, were as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
2012 Stock Option	12 directors	15,500 shares	April 21, 2011	¥ 1 $ 0.01	From May 21, 2011 through May 20, 2026
2013 Stock Option	6 directors	12,100 shares	April 21, 2012	¥ 1 $ 0.01	From May 21, 2012 through May 20, 2027
2014 Stock Option	6 directors	12,000 shares	July 21, 2013	¥ 1 $ 0.01	From August 21, 2013 through August 20, 2028
2015 Stock Option	8 directors	9,500 shares	July 21, 2014	¥ 1 $ 0.01	From August 21, 2014 through August 20, 2029
2016 Stock Option	7 directors	12,600 shares	July 21, 2015	¥ 1 $0.01	From August 21, 2015 through August 20, 2030

The summary of stock option activity is as follows:

	2016 Stock Option	2015 Stock Option	2014 Stock Option	2013 Stock Option	2012 Stock Option
Nonvested (Shares)					
Outstanding at beginning of year					
Granted	12,600				
Expired					
Vested	12,600				
Outstanding at end of year					
Vested (Shares)					
Outstanding at beginning of year		9,500	12,000	10,500	13,000
Vested	12,600				
Exercised				1,500	
Expired					
Outstanding at end of year	12,600	9,500	12,000	9,000	13,000
Exercise price	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1
	$ 0.01	$ 0.01	$ 0.01	$ 0.01	$ 0.01
Average stock price upon exercise				¥ 2,460	¥
				$ 21.83	$
Fair value price at grant date	¥ 3,072	¥ 2,006	¥ 2,715	¥ 1,081	¥ 809
	$ 27.26	$ 17.80	$ 24.09	$ 9.59	$ 7.18

The assumptions used to measure fair value of stock options vested during fiscal year 2016 were as follows:

	2016 Stock Option
Measurement method	Black-Scholes option-pricing model
Risk-free interest rate	0.23%
Expected life of option grants	7.5 years
Expected volatility of underlying stock	41.66%
Estimated dividend	¥66 per share

12. OTHER INCOME

Other income for the years ended March 31, 2016 and 2015, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Gain on bad debts recovered	**¥ 6,432**	¥ 7,811	**$ 57,079**
Other	**10,859**	8,405	**96,359**
Total	**¥ 17,291**	¥ 16,216	**$ 153,438**

13. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the years ended March 31, 2016 and 2015, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Salaries and allowances	**¥ (59,417)**	¥ (53,870)	**$ (527,265)**
Advertising expenses	**(44,214)**	(39,321)	**(392,351)**
Other	**(99,922)**	(93,283)	**(886,697)**
Total	**¥ (203,553)**	¥ (186,474)	**$ (1,806,313)**

14. OTHER EXPENSES

Other expenses for the years ended March 31, 2016 and 2015, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Provision for loss on refund of interest received	**¥ (3,343)**	¥ (5,822)	**$ (29,666)**
Other	**(1,749)**	(584)	**(15,520)**
Total	**¥ (5,092)**	¥ (6,406)	**$ (45,186)**

15. 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 33.1% and 35.3% for the years ended March 31, 2016 and 2015, respectively. The tax effects of significant temporary differences and tax loss carryforwards, which resulted in deferred tax assets and liabilities as at March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Deferred tax assets:			
Allowance for possible credit losses	**¥ 11,234**	¥ 11,092	**$ 99,691**
Loans and bills discounted and installment sales receivables	**56**	37	**493**
Allowance for point program	**3,848**	4,077	**34,142**
Allowance for loss on refund of interest received	**1,297**	1,596	**11,510**
Accrued income	**595**	723	**5,283**
Property and equipment	**388**	364	**3,445**
Intangible assets	**286**	57	**2,539**
Liability for retirement benefits	**896**	1,038	**7,953**
Tax loss carryforwards	**5,067**	6,799	**44,961**
Unrealized loss on acquisition of subsidiaries	**814**	1,254	**7,224**
Other	**4,924**	4,648	**43,693**
Less valuation allowance	**(5,714)**	(7,904)	**(50,706)**
Total deferred tax assets	**¥ 23,691**	¥ 23,781	**$ 210,228**
Deferred tax liabilities:			
Depreciation in consolidated foreign subsidiaries	**¥ 388**	¥ 485	**$ 3,439**
Unrealized gain on available-for-sale securities	**2,444**	1,807	**21,686**
Unrealized gain on acquisition of subsidiaries	**2,532**	2,748	**22,471**
Other	**238**	208	**2,115**
Total deferred tax liabilities	**¥ 5,602**	¥ 5,248	**$ 49,711**
Net deferred tax assets	**¥ 18,089**	¥ 18,533	**$ 160,517**

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, 2016 and 2015, were as follows:

	2016	2015
Effective statutory tax rate	**33.1%**	35.3%
Earnings not taxable and expenses not deductible for income tax purposes—net	**(6.6)**	(7.1)
Per capita portion of inhabitants tax	**0.6**	0.7
Lower income tax rates applicable to income in certain foreign countries	**(5.4)**	(6.4)
Influence of elimination in consolidation	**7.1**	7.5
Influence of changes in the statutory tax rate	**3.1**	6.2
Tax loss carryforwards	**(1.2)**	(5.4)
Valuation allowance	**(5.6)**	(4.2)
Other	**(0.1)**	0.1
Actual effective tax rate	**25.0%**	26.7%

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. 15, 2016) and "Act on Partial Revision of the Local Taxation Act, etc." (Law No. 13, 2016) on March 29, 2016, the corporate tax rate will decrease from the fiscal years beginning on or after April 1, 2016. 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 years beginning on April 1, 2016 and 2017 will decrease from 32.3% to 30.9% and to 30.6% for temporary differences that are expected to reverse during the fiscal year beginning on April 1, 2018. The effect of this change was to decrease deferred tax assets, net of deferred tax liabilities, by ¥511 million ($4,536 thousand) and accumulated adjustments for retirement benefit by ¥18 million ($157 thousand), and increase unrealized gain on available-for-sale securities by ¥136 million ($1,209 thousand) in the consolidated balance sheet as at March 31, 2016, and to increase income taxes—deferred in the consolidated statement of income for the year then ended by ¥630 million ($5,587 thousand).

In addition, effective from fiscal years beginning on or after April 1, 2016, the use of tax loss carryforwards will be limited to the equivalent of 60% 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 55% of taxable income before deducting tax loss carryforwards. As a result, deferred tax assets decreased by ¥51 million ($449 thousand) and income taxes—deferred increased by ¥51 million ($449 thousand).

16. SUPPLEMENTAL CASH FLOW INFORMATION

Acquisition of business

For the year ended March 31, 2016, the Group took over the leasing business from Japan Distribution Leasing Corporation, a subsidiary of The Daiei, Inc., and established ACS Leasing Co., Ltd. to launch its leasing business. Assets and liabilities of ACS Leasing Co., Ltd. at the time of the acquisition were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Total assets	¥ **8,418**	$ **74,698**
Of which: installment sales receivables	**1,139**	**10,104**
Of which: lease receivables and investment assets	**5,611**	**49,791**
Total liabilities	**1,715**	**15,219**
Of which: accounts payable	**1,340**	**11,890**
Payments for acquisition of business	¥ **(6,703)**	$ **(59,479)**

17. LEASES

(Lessee side)

The Group leases equipment, software, and other assets.

Total rental expenses for the years ended March 31, 2016 and 2015 were ¥12,992 million ($115,288 thousand) and ¥11,485 million, respectively.

The minimum rental commitments under noncancelable operating leases as at March 31, 2016 and 2015 were as follows:

	Millions of Yen				Thousands of U.S. Dollars	
	2016		2015		2016	
Due within one year	¥	2,403	¥	2,349	$	21,325
Due after one year		2,579		3,251		22,882
Total	¥	4,982	¥	5,600	$	44,207

(Lessor side)
(a) Breakdown of lease receivables and investment assets

	Millions of Yen		Thousands of U.S. Dollars	
	2016		2016	
Lease payments receivables	¥	6,102	$	54,146
Estimated residual value				
Unearned interest income		(696)		(6,178)
Lease receivables and investment assets	¥	5,406	$	47,968

(b) The scheduled collections of lease payments receivables related to lease receivables and investment assets are as follows:

	Millions of Yen 2016											
	Up to 1 year		1-2 years		2-3 years		3-4 years		4-5 years		Over 5 years	
Lease receivables and investment assets	¥	1,922	¥	1,535	¥	1,191	¥	728	¥	415	¥	310

	Thousands of U.S. Dollars 2016											
	Up to 1 year		1-2 years		2-3 years		3-4 years		4-5 years		Over 5 years	
Lease receivables and investment assets	$	17,057	$	13,624	$	10,573	$	6,462	$	3,683	$	2,748

18. 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. In 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 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 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, 2016 was ¥4,337 million ($38,486 thousand) (2015: ¥1,037 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, 2016 was ¥37,210 million ($330,202 thousand) (2015: ¥41,783 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 19 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, 2016 and 2015 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		
	2016		
	Carrying Amount	Fair Value	Difference
(1) Cash and cash equivalents	¥ **421,976**	¥ **421,976**	
(2) Deposits with banks	**22,893**	**22,893**	
(4) Monetary claims bought	**5,052**	**5,052**	
(5) Securities	**200,872**	**200,872**	
(6) Loans and bills discounted—net of allowance for possible credit losses	**1,646,425**	**1,764,975**	¥ **118,550**
(7) Installment sales receivables—net of allowance for possible credit losses	**1,000,574**	**1,013,502**	**12,928**
Total	¥ **3,297,792**	¥ **3,429,270**	¥ **131,478**
(8) Deposits	¥ **2,152,928**	¥ **2,153,903**	¥ **975**
(9) Accounts payable	**204,845**	**204,845**	
(11) Commercial paper	**68,000**	**68,000**	
(12) Borrowed money	**535,989**	**538,542**	**2,553**
(13) Bonds	**122,075**	**122,949**	**874**
(14) Convertible bonds	**50**	**97**	**47**
Total	¥ **3,083,887**	¥ **3,088,336**	¥ **4,449**
(15) Derivative financial instruments (Note 19):			
Hedge accounting not applied	¥ **(16)**	¥ **(16)**	
Hedge accounting applied	**14,057**	**14,057**	
Total	¥ **14,041**	¥ **14,041**	

	Millions of Yen		
	2015		
	Carrying Amount	Fair Value	Difference
(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	
(12) Borrowed money	591,586	593,873	2,287
(13) Bonds	114,311	114,356	45
(14) Convertible bonds	90	195	105
Total	¥ 2,935,533	¥ 2,938,508	¥ 2,975
(15) Derivative financial instruments (Note 19):			
Hedge accounting not applied	¥ (244)	¥ (244)	
Hedge accounting applied	(8,007)	(8,007)	
Total	¥ (8,251)	¥ (8,251)	

	Thousands of U.S. Dollars		
	2016		
	Carrying Amount	Fair Value	Difference
(1) Cash and cash equivalents	$ 3,744,571	$ 3,744,571	
(2) Deposits with banks	203,147	203,147	
(4) Monetary claims bought	44,829	44,829	
(5) Securities	1,782,516	1,782,516	
(6) Loans and bills discounted—net of allowance for possible credit losses	14,610,217	15,662,218	$ 1,052,001
(7) Installment sales receivables—net of allowance for possible credit losses	8,879,000	8,993,718	114,718
Total	$ 29,264,280	$ 30,430,999	$ 1,166,719
(8) Deposits	$ 19,104,872	$ 19,113,520	$ 8,648
(9) Accounts payable	1,817,778	1,817,778	
(11) Commercial paper	603,425	603,425	
(12) Borrowed money	4,756,316	4,778,973	22,657
(13) Bonds	1,083,280	1,091,039	7,759
(14) Convertible bonds	444	857	413
Total	$ 27,366,115	$ 27,405,592	$ 39,477
(15) Derivative financial instruments (Note 19):			
Hedge accounting not applied	$ (139)	$ (139)	
Hedge accounting applied	124,736	124,736	
Total	$ 124,597	$ 124,597	

(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) Commercial paper

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

(12) 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.

(13) Bonds and (14) Convertible bonds

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

(15) Derivative financial instruments

Information on the fair values of derivative financial instruments is included in Note 19.

(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		Thousands of U.S. Dollars
	2016	2015	**2016**
Stock with no active market quotations	¥ **1,270**	¥ 1,360	$ **11,275**
Trust beneficiary rights	**8,990**	9,054	**79,773**

(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:

	Millions of Yen					
	2016					
	Up to 1 year	1-3 years	3-5 years	5-7 years	7-10 years	Over 10 years
Due from banks	¥ 396,189					
Monetary claims bought		¥ 101	¥ 214	¥ 1,000		¥ 3,659
Securities:						
Available-for-sale securities:						
Government bonds			45,000	5,000		3,000
Corporate bonds	5,000	2,000	11,200	5,000	¥ 3,000	39,843
Other	60,000			8,000		
Total	65,000	2,000	56,200	18,000	3,000	42,843
Loans and bills discounted(*1, *2)	791,132	293,127	105,222	41,450	49,056	325,842
Installment sales receivables(*1)	703,763	107,281	81,977	69,625	15,483	16,519
Total	¥ 1,956,084	¥ 402,509	¥ 243,613	¥ 130,075	¥ 67,539	¥ 388,863

	Millions of Yen					
	2015					
	Up to 1 year	1-3 years	3-5 years	5-7 years	7-10 years	Over 10 years
Due from banks	¥ 412,888					
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(*1, *2)	793,382	262,610	93,909	32,475	60,877	162,585
Installment sales receivables(*1)	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

	Thousands of U.S. Dollars					
	2016					
	Up to 1 year	1-3 years	3-5 years	5-7 years	7-10 years	Over 10 years
Due from banks	$ 3,515,747					
Monetary claims bought		$ 895	$ 1,897	$ 8,874		$ 32,471
Securities:						
Available-for-sale securities:						
Government bonds			399,325	44,369		26,622
Corporate bonds	44,369	17,748	99,388	44,370	$ 26,622	353,562
Other	532,434			70,991		
Total	576,803	17,748	498,713	159,730	26,622	380,184
Loans and bills discounted(*1, *2)	7,020,430	2,601,177	933,736	367,828	435,316	2,891,490
Installment sales receivables(*1)	6,245,121	952,002	727,453	617,843	137,393	146,591
Total	$ 17,358,101	$ 3,571,822	$ 2,161,799	$ 1,154,275	$ 599,331	$ 3,450,736

(*1) Loans and bills discounted and installment sales receivables for the years ended March 31, 2016 and 2015 exclude ¥51,728 million ($459,025 thousand) and ¥54,715 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, 2016 and 2015 exclude loans of ¥4,256 million ($37,772 thousand) and ¥3,958 million with no specific recoverable amounts, such as loans to borrowers classified as legal bankruptcy, substantial bankruptcy, or possible bankruptcy, and ¥38,474 million ($341,417 thousand) and ¥24,445 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					
	2016					
	Up to 1 year	1-3 years	3-5 years	5-7 years	7-10 years	Over 10 years
Deposits(*)	¥ 1,449,386	¥ 551,057	¥ 150,606			
Commercial paper	68,000					
Borrowed money	289,390	163,757	77,393	¥ 3,772	¥ 1,677	
Bonds	3,975	38,100	30,000	10,000	40,000	
Convertible bonds	50					
Lease obligations	3,015	8,143	8,411	5,844	6,088	¥ 3,055
Total	¥ 1,813,816	¥ 761,057	¥ 266,410	¥ 19,616	¥ 47,765	¥ 3,055

	Millions of Yen					
	2015					
	Up to 1 year	1-3 years	3-5 years	5-7 years	7-10 years	Over 10 years
Deposits(*)	¥ 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

	Thousands of U.S. Dollars					
	2016					
	Up to 1 year	1-3 years	3-5 years	5-7 years	7-10 years	Over 10 years
Deposits(*)	$ 12,861,708	$ 4,890,028	$ 1,336,469			
Commercial paper	603,425					
Borrowed money	2,568,017	1,453,165	686,779	$ 33,476	$ 14,879	
Bonds	35,274	338,094	266,217	88,739	354,956	
Convertible bonds	444					
Lease obligations	26,756	72,261	74,636	51,863	54,023	27,107
Total	$ 16,095,624	$ 6,753,548	$ 2,364,101	$ 174,078	$ 423,858	$ 27,107

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

19. 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, 2016 and 2015 consisted of the following:

	Millions of Yen		
	2016		
	Contract Amount	Fair Value	Unrealized Gain/Loss
Currency swap contracts:			
Receive JPY/Pay THB	**¥ 53,452**	**¥ (3,096)**	**¥ (3,096)**
Receive USD/Pay HKD	**5,684**	**4**	**4**
Receive USD/Pay MYR	**62,667**	**12,896**	**12,896**
Receive USD/Pay THB	**67,787**	**6,189**	**6,189**
Receive USD/Pay IDR	**509**	**(61)**	**(61)**
Currency forward contracts:			
Receive USD/Pay MYR	**1,366**	**(13)**	**(13)**
Interest rate swap contracts:			
Receive floating/Pay fixed	**65,845**	**(1,862)**	**(1,862)**

	Millions of Yen		
	2015		
	Contract Amount	Fair Value	Unrealized Gain/Loss
Currency swap contracts:			
Receive JPY/Pay THB	¥ 55,855	¥ (13,721)	¥ (13,721)
Receive USD/Pay HKD	5,979	(12)	(12)
Receive USD/Pay MYR	54,761	7,035	7,035
Receive USD/Pay THB	77,985	859	859
Currency forward contracts:			
Receive USD/Pay MYR	1,048	23	23
Interest rate swap contracts:			
Receive floating/Pay fixed	77,465	(2,191)	(2,191)

	Thousands of U.S. Dollars		
	2016		
	Contract Amount	Fair Value	Unrealized Gain/Loss
Currency swap contracts:			
Receive JPY/Pay THB	**$ 474,329**	**$ (27,476)**	**$ (27,476)**
Receive USD/Pay HKD	**50,435**	**31**	**31**
Receive USD/Pay MYR	**556,102**	**114,441**	**114,441**
Receive USD/Pay THB	**601,539**	**54,919**	**54,919**
Receive USD/Pay IDR	**4,518**	**(544)**	**(544)**
Currency forward contracts:			
Receive USD/Pay MYR	**12,120**	**(115)**	**(115)**
Interest rate swap contracts:			
Receive floating/Pay fixed	**584,301**	**(16,520)**	**(16,520)**

Derivative financial instruments not qualifying for hedge accounting as at March 31, 2016 and 2015, consisted of the following:

	Millions of Yen		
	2016		
	Contract Amount	Fair Value	Unrealized Gain/Loss
Credit default swap contracts:			
Short position	**¥ 3,000**	**¥ (16)**	**¥ 1,252**

	Millions of Yen		
	2015		
	Contract Amount	Fair Value	Unrealized Gain/Loss
Credit default swap contracts:			
Short position	¥ 3,000	¥ (254)	¥ 1,014
Currency swap contracts:			
Receive USD/Pay THB	4,364	10	10

	Thousands of U.S. Dollars		
	2016		
	Contract Amount	Fair Value	Unrealized Gain/Loss
Credit default swap contracts:			
Short position	**$ 26,622**	**$ (139)**	**$ 11,111**

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.

20. 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 Yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Total loan limits	**¥ 7,983,549**	¥ 7,547,436	**$ 70,845,235**
Loan executed	**481,416**	447,824	**4,272,042**
Unexercised portion of loan commitments	**¥ 7,502,133**	¥ 7,099,612	**$ 66,573,193**

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, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Unutilized commitments	**¥ 18,437**	¥ 11,930	**$ 163,605**
Of which: those expiring within one year	**6,973**	6,682	**61,882**

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.

21. OTHER COMPREHENSIVE INCOME

Reclassification adjustments to profit or loss and tax effects of other comprehensive income for the years ended March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Unrealized gain on available-for-sale securities:			
Gains arising during the year	**¥ 2,534**	¥ 2,425	**$ 22,488**
Reclassification adjustments to profit or loss	**(191)**	(2,101)	**(1,697)**
Amount before income tax effect	**2,343**	324	**20,791**
Income tax effect	**(718)**	(105)	**(6,366)**
Total	**¥ 1,625**	¥ 219	**$ 14,425**
Deferred gain (loss) on derivatives under hedge accounting:			
Losses arising during the year	**¥ (788)**	¥ (3,034)	**$ (6,996)**
Reclassification adjustments to profit or loss	**825**	417	**7,327**
Amount before income tax effect	**37**	(2,617)	**331**
Income tax effect	**39**	501	**345**
Total	**¥ 76**	¥ (2,116)	**$ 676**
Foreign currency translation adjustments:			
Gains (losses) arising during the year	**¥ (12,684)**	¥ 12,462	**$ (112,560)**
Amount before income tax effect	**(12,684)**	12,462	**(112,560)**
Total	**¥ (12,684)**	¥ 12,462	**$ (112,560)**
Adjustments for retirement benefit:			
Losses arising during the year	**¥ (229)**	¥ (356)	**$ (2,037)**
Reclassification adjustments to profit or loss	**141**	135	**1,250**
Amount before income tax effect	**(88)**	(221)	**(787)**
Income tax effect	**20**	53	**181**
Total	**¥ (68)**	¥ (168)	**$ (606)**
Total other comprehensive income	**¥ (11,051)**	¥ 10,397	**$ (98,065)**

22. BUSINESS COMBINATION

Transactions under common control
Acquisition of business

(a) Overview of transaction

(i) Name of transferor

Japan Distribution Leasing Corporation

(ii) Description of business transferred

Leasing and related businesses

(iii) Major reason for acquisition of business

To strengthen the Group's operating bases by developing new businesses and expanding its revenue.

(iv) Date of acquisition of business

December 1, 2015

(v) Other profile of transaction including legal form of acquisition

Acquisition of business with consideration being made only in cash and similar assets

(vi) Name of company after business combination

ACS Leasing Co., Ltd.

(b) Outline of accounting method applied

This transaction was accounted for as a transaction under common control in accordance with "Accounting Standard for Business Combinations" and "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures."

23. NET INCOME PER SHARE

Basic and diluted EPS for the years ended March 31, 2016 and 2015, were as follows:

	Net income attributable to owners of the parent	Weighted-Average Shares	EPS	
	Millions of Yen	Thousands of Shares	Yen	U.S. Dollar
For the year ended March 31, 2016:				
Basic EPS				
Net income	¥ **35,785**			
Net income available to common shareholders	¥ **35,785**	**198,705**	¥ **180.09**	$ **1.60**
Effect of dilutive securities				
—Warrants of the Company		**52**		
—Convertible bonds of the Company		**51**		
Diluted EPS				
—Net income for computation	¥ **35,785**	**198,808**	¥ **180.00**	$ **1.60**
For the year ended March 31, 2015:				
Basic EPS				
Net income	¥ 30,942			
Net income available to common shareholders	¥ 30,942	199,876	¥ 152.55	
Effect of dilutive securities				
—Warrants of the Company		41		
—Convertible bonds of the Company		640		
Diluted EPS				
—Net income for computation	¥ 30,942	200,557	¥ 152.04	

24. RELATED PARTY TRANSACTIONS

There were no transactions between the Company and related parties for the years ended March 31, 2016 and 2015.

Transactions between the Company's consolidated subsidiaries and related parties for the years ended March 31, 2016 and 2015, were as follows:

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

	Millions of Yen		Thousands of U.S. Dollars
AEON Retail Co., Ltd. (subsidiary of the parent company)	**2016**	2015	**2016**
Loans and bills discounted	¥ **41,000**	¥ 41,000	$ **363,830**
Other assets	**35**	36	**309**
Lending of loans	**13,779**	40,836	**122,271**
Interest income	**446**	408	**3,957**

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

	Transaction amount		Balance at end	
	Millions of Yen	Thousands of U.S. Dollars	Millions of Yen	Thousands of U.S. Dollars
Directors, executive officers and their close relatives of the Company and its subsidiaries	**2016**	**2016**	**2016**	**2016**
Housing loans (Loans and bills discounted)			¥ **167**	$ **1,478**

	Transaction amount	Balance at end
	Millions of Yen	Millions of Yen
Directors and executive officers of the Company, its subsidiaries and AEON Co., Ltd.(*)	2015	2015
Housing loans (Loans and bills discounted in banking business)		¥ 122

(*) 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.

25. 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, "Banking" business dealing in banking services in the domestic markets, "Overseas" business dealing in credit extensions and lending in foreign markets and "Fee Business and Other" providing services including e-money in the domestic market. The Group formulates comprehensive strategies for each business. Accordingly, the Group has four reportable segments, "Credit," "Banking," "Overseas," and "Fee Business and Other."

"Credit" consists of financial services such as credit card contracts and loan contracts with domestic customers.

"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.

"Fee Business and Other" consists of the e-money business, the bank agency business, and the ATM business in the domestic market.

For the fiscal year ended March 31, 2016, ACS Leasing Co., Ltd. has been established and included in the "Fee Business" segment. Accordingly, the term of "Fee Business" previously used in the reportable segment has been replaced with "Fee Business and Other." The segment information for the previous fiscal year is presented under the new term.

(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 less certain extraordinary items in the accompanying consolidated statements of income. The intersegment income or transfers are based on the current market prices.

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

	Millions of Yen						
	2016						
	Reportable Segment						
	Credit	Banking	Overseas	Fee Business and Other	Subtotal	Reconciliations (*2)	Total
Ordinary income(*1)							
Ordinary income from customers	¥ **159,129**	¥ **42,797**	¥ **123,087**	¥ **34,638**	¥ **359,651**		¥ **359,651**
Intersegment income or transfers	**2,219**	**4,023**		**14,998**	**21,240**	¥ **(21,240)**	
Total ordinary income	**161,348**	**46,820**	**123,087**	**49,636**	**380,891**	**(21,240)**	**359,651**
Segment profit (*3)	¥ **36,946**	¥ **1,163**	¥ **24,034**	¥ **4,068**	¥ **66,211**	¥ **(6,830)**	¥ **59,381**
Segment assets	¥ **1,425,959**	¥ **1,778,958**	¥ **529,443**	¥ **170,882**	¥ **3,905,242**	¥ **(159,696)**	¥ **3,745,546**
Other items							
Depreciation and amortization	¥ **3,557**	¥ **1,669**	¥ **4,744**	¥ **5,476**	¥ **15,446**	¥ **439**	¥ **15,885**
Amortization of goodwill	**178**	**904**	**28**	**731**	**1,841**		**1,841**
Interest income	**58,527**	**16,095**	**63,518**	**1,713**	**139,853**	**(1,043)**	**138,810**
Interest expenses	**4,400**	**1,176**	**15,025**	**371**	**20,972**	**334**	**21,306**
Provision for possible credit losses	**12,481**	**238**	**28,507**	**1,462**	**42,688**		**42,688**
Increases in tangible and intangible assets	**14,355**	**3,114**	**4,570**	**5,560**	**27,599**	**2,028**	**29,627**

	Millions of Yen						
	2015						
	Reportable Segment						
	Credit	Banking	Overseas	Fee Business and Other	Subtotal	Reconciliations (*2)	Total
Ordinary income(*1)							
Ordinary income from customers	¥ 146,030	¥ 38,923	¥ 112,553	¥ 31,540	¥ 329,046		¥ 329,046
Intersegment income or transfers	384	2,741		13,868	16,993	¥ (16,993)	
Total ordinary income	146,414	41,664	112,553	45,408	346,039	(16,993)	329,046
Segment profit/(loss) (*3)	¥ 32,177	¥ (38)	¥ 22,144	¥ 1,866	¥ 56,149	¥ (3,068)	¥ 53,081
Segment assets	¥ 1,432,212	¥ 1,651,661	¥ 549,466	¥ 149,679	¥ 3,783,018	¥ (193,522)	¥ 3,589,496
Other items							
Depreciation and amortization	¥ 3,509	¥ 1,386	¥ 4,360	¥ 5,141	¥ 14,396	¥ 137	¥ 14,533
Amortization of goodwill	178	904	44	713	1,839		1,839
Interest income	51,604	14,178	58,407	1,606	125,795	(302)	125,493
Interest expenses	3,573	2,532	13,754	337	20,196	481	20,677
Provision /(reversal) for possible credit losses	8,849	(6)	26,310	1,217	36,370		36,370
Increases in tangible and intangible assets	18,237	1,788	6,456	7,338	33,819	1,317	35,136

	Thousands of U.S. Dollars						
	2016						
	Reportable Segment						
	Credit	Banking	Overseas	Fee Business and Other	Subtotal	Reconciliations (*2)	Total
Ordinary income(*1)							
Ordinary income from customers	$ **1,412,096**	$ **379,778**	$ **1,092,261**	$ **307,376**	$ **3,191,511**		$ **3,191,511**
Intersegment income or transfers	**19,686**	**35,699**	**3**	**133,091**	**188,479**	$ **(188,479)**	
Total ordinary income	**1,431,782**	**415,477**	**1,092,264**	**440,467**	**3,379,990**	**(188,479)**	**3,191,511**
Segment profit(*3)	$ **327,851**	$ **10,317**	$ **213,277**	$ **36,102**	$ **587,547**	$ **(60,606)**	$ **526,941**
Segment assets	$ **12,653,824**	$ **15,786,300**	$ **4,698,229**	$ **1,516,388**	$ **34,654,741**	$ **(1,417,129)**	$ **33,237,612**
Other items							
Depreciation and amortization	$ **31,564**	$ **14,812**	$ **42,103**	$ **48,590**	$ **137,069**	$ **3,891**	$ **140,960**
Amortization of goodwill	**1,581**	**8,019**	**250**	**6,485**	**16,335**		**16,335**
Interest income	**519,367**	**142,822**	**563,653**	**15,200**	**1,241,042**	**(9,255)**	**1,231,787**
Interest expenses	**39,045**	**10,434**	**133,334**	**3,292**	**186,105**	**2,960**	**189,065**
Provision for possible credit losses	**110,753**	**2,114**	**252,967**	**12,977**	**378,811**		**378,811**
Increases in tangible and intangible assets	**127,389**	**27,635**	**40,553**	**49,335**	**244,912**	**17,999**	**262,911**

(*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.

(*2) ¥(6,830) million ($(60,606) thousand) of reconciliations to segment profit/(loss) for the year ended March 31, 2016 and ¥(3,068) million of reconciliations to segment profit for the year ended March 31, 2015 represent the corporate expenses unallocated to any reportable segment. The corporate expenses are mainly comprised of general and administrative expenses unattributable to any reportable segment. In addition, ¥(159,696) million ($(1,417,129) thousand) of reconciliations to segment assets for the year ended March 31, 2016 and ¥(193,522) million of reconciliations to segment assets for the year ended March 31, 2015 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 less certain extraordinary items in the accompanying consolidated statements of income.

(d) Information about geographic areas

(i) Ordinary income(*1)(*2)

Millions of Yen			
2016			
Japan	Thailand	Other	Total
¥ 236,564	**¥ 64,090**	**¥ 58,997**	**¥ 359,651**

Millions of Yen			
2015			
Japan	Thailand	Other	Total
¥ 216,493	¥ 58,649	¥ 53,904	¥ 329,046

Thousands of U.S. Dollars			
2016			
Japan	Thailand	Other	Total
$ 2,099,250	**$ 568,729**	**$ 523,532**	**$ 3,191,511**

(*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 location of the customers.

(ii) Property and equipment

Millions of Yen			
2016			
Japan	Thailand	Other	Total
¥ 26,995	**¥ 7,783**	**¥ 1,752**	**¥ 36,530**

Millions of Yen			
2015			
Japan	Thailand	Other	Total
¥ 23,653	¥ 10,230	¥ 1,891	¥ 35,774

Thousands of U.S. Dollars			
2016			
Japan	Thailand	Other	Total
$ 239,548	**$ 69,069**	**$ 15,552**	**$ 324,169**

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

	Millions of Yen				
	2016				
	Credit	Banking	Overseas	Fee Business and Other	Total
Goodwill at March 31, 2016(*1)	**¥ 1,292**	**¥ 14,232**	**¥ 28**	**¥ 10,045**	**¥ 25,597**

	Millions of Yen				
	2015				
	Credit	Banking	Overseas	Fee Business and Other	Total
Goodwill at March 31, 2015(*1)	¥ 1,470	¥ 15,135	¥ 56	¥ 10,403	¥ 27,064

	Thousands of U.S. Dollars				
	2016				
	Credit	Banking	Overseas	Fee Business and Other	Total
Goodwill at March 31, 2016(*1)	**$ 11,464**	**$ 126,292**	**$ 249**	**$ 89,143**	**$ 227,148**

(*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."

26. SUBSEQUENT EVENTS

(a) Appropriations of retained earnings

The following appropriation of retained earnings as at March 31, 2016, was approved at the Company's Board of Directors' meeting held on May 13, 2016:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥38.00 ($0.34) per share	¥ 7,551	$ 67,010

(b) Issuance of new shares

The Board of Directors of the Company resolved at the meeting held on August 30, 2016 to issue and offer new shares. The Company issued new shares as follows and all payments were completed on September 29, 2016.

(i) Issuance of new shares through public offering

(1) Class and number of shares to be offered	7,840,000 shares of common stock
(2) Issue price	¥1,838 ($16.31) per share
(3) Total amount of issue price	¥14,410 million ($127,872 thousand)
(4) Amount paid in	¥1,762.20 ($15.64) per share
(5) Total amount paid in	¥13,816 million ($122,598 thousand)
(6) Common stock and capital surplus increased	Increase in common stock: ¥6,908 million ($61,299 thousand) Increase in capital surplus: ¥6,908 million ($61,299 thousand)
(7) Subscription period	From September 8, 2016 to September 9, 2016
(8) Payment date	September 14, 2016

(ii) Issuance of new shares through third-party allotment being allotted to AEON Co., Ltd.

(1) Class and number of shares to be offered	7,954,000 shares of common stock
(2) Amount paid in	¥1,838 ($16.31) per share
(3) Total amount paid in	¥14,620 million ($129,732 thousand)
(4) Common stock and capital surplus increased	Increase in common stock: ¥7,310 million ($64,866 thousand) Increase in capital surplus: ¥7,310 million ($64,866 thousand)
(5) Subscription period	From September 8, 2016 to September 9, 2016
(6) Payment date	September 14, 2016

(iii) Issuance of new shares through over-allotment being allotted to Nomura Securities Co., Ltd.

(1) Class and number of shares to be offered	1,151,000 shares of common stock
(2) Amount paid in	¥1,762.20 ($15.64) per share
(3) Total amount paid in	¥2,028 million ($17,998 thousand)
(4) Common stock and capital surplus increased	Increase in common stock: ¥1,014 million ($8,999 thousand) Increase in capital surplus: ¥1,014 million ($8,999 thousand)
(5) Subscription date	September 28, 2016
(6) Payment date	September 29, 2016

(iv) Use of proceeds

¥13,000 million ($115,361 thousand) of the total proceeds (¥30,464 million; $270,328 thousand) will be applied to part of the redemption of outstanding commercial paper and the remaining amount will be applied to loans to AEON Product Finance Co., Ltd., the Company's subsidiary, by the end of March 2017.

AEON Product Finance Co., Ltd will use the borrowing for repayment of its outstanding borrowing debts.

(c) Issuance of Callable Convertible Bonds

The Board of Directors of the Company resolved at the meeting held on August 30, 2016 to issue Series One Zero Coupon Callable Convertible Bonds due 2019 (the "Series One CC Bonds"). All payments were completed on September 14, 2016.

(i) Securities offered	¥30,000 million Zero Coupon Callable Convertible Bonds due 2019
(ii) Issue prices	100.0 percent of the principal amount of the Bonds
(iii) Offer prices	102.5 percent of the principal amount of the Bonds
(iv) Coupons	Zero
(v) Security or guarantee	None
(vi) Closing and issue date	September 14, 2016
(vii) Redemption at maturity	Unless the Bonds of the relevant Series have previously been redeemed, acquired or purchased and cancelled, and unless the stock acquisition rights incorporated therein have previously been exercised, the Company will redeem the Bonds at 100 percent of their principal amount on September 13, 2019.
(viii) Information about the stock acquisition rights	
(1) Total number of the stock acquisition rights	The total number of the stock acquisition rights is determined by dividing the aggregate principal amount of the Bonds by the denomination of the Bonds (¥1 million).
(2) Class and number of shares to be issued or transferred upon exercise of the stock acquisition rights	Upon exercise of the stock acquisition rights, shares of the Company's common stock (100 shares constitute one unit of shares) shall be issued or transferred. The number of shares of the Company to be issued or transferred upon exercise of the stock acquisition rights shall be determined by dividing the aggregate principal amount of the Bonds by the conversion price described at (6) below. Fractions of a share will not be issued upon exercise of any stock acquisition right and no adjustment or cash payment will be made in respect thereof.
(3) Exercise periods of the stock acquisition rights	From November 1, 2016 to September 11, 2019
(4) Amount to be paid upon exercise of the stock acquisition rights	Upon exercise of each stock acquisition right, the relevant bond shall be deemed to be acquired by the Company as a capital contribution in kind by such bondholder at the price equal to the principal amount of the bond. The bond acquired upon exercise of the stock acquisition right shall forthwith be retired.
(5) Initial conversion prices	¥2,558 ($22.70)
(6) Amount of common stock and capital surplus	One-half of the "maximum capital and other increase amount", as calculated pursuant to Article 17 of the Rules of Account Settlement of Corporations (Ordinance of Ministry of Justice No. 13 of 2006, as amended) in respect of the exercise of the stock acquisition rights (with any fraction of less than one yen being rounded up) shall be accounted for as common stock, and the rest of such amount shall be accounted for as capital surplus.
(7) Transfer of the stock acquisition rights following a corporate event	The terms and conditions of the Bonds provide certain provisions.
(8) Reason for no requirement of cash amounts to be paid in respect of the stock acquisition rights	The stock acquisition rights are incorporated in the Bonds and may not be transferred or dealt with separately from each other. The Bonds would forthwith be retired if the stock acquisition rights were exercised, and the stock acquisition rights would cease to be exercisable if the Bonds were redeemed. In light of such close relationship between the Bonds and the stock acquisition rights as well as the value of the stock acquisition rights and the economic benefits the Company can obtain based on the terms and conditions of the Bonds, such as the interest rates and amounts to be paid upon issuance of the Bonds, no cash amounts will be payable in respect of the stock acquisition rights.

(ix) Use of proceeds	All proceeds from the offering of the Bonds will be applied to part of the redemption of the Company's commercial paper.
(x) Listing	The Tokyo Stock Exchange
(xi) 120% Call option clause	The call option will be exercisable after March 14, 2018, when the closing price of the Company's share at Tokyo Stock Exchange equals or exceeds 120% of the conversion price for twenty consecutive business days. Entire Series One CC Bonds will be redeemed at 100% of the principal amount of the Bonds. After the conditions stated above are met, the Company will release an announcement within fifteen days and specify the exercise date which will be scheduled between thirty days to sixty days after the release of the announcement. The entire Series One CC Bonds will be called on the exercise date.

Deloitte.

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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, 2016, 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.

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

Emphasis of Matter

As discussed in Note 26(b) and (c) to the consolidated financial statements, the Board of Directors of the Company resolved at the meeting held on August 30, 2016 to issue and offer new shares and issue Series One Zero Coupon Callable Convertible Bonds due 2019. All payments were completed on September 29, 2016. Our opinion is not modified in respect of this matter.

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, 2016, 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.

Deloitte Touche Tohmatsu LLC

June 28, 2016
(September 30, 2016 as to Note 26(b) and (c))

Member of
Deloitte Touche Tohmatsu Limited