



Planting Seeds of Growth  
We are AEON

Bringing more to customers' daily lives.



Annual Report 2017

For the year ended March 31, 2017



**AEON Financial Service**

## • Management Philosophy •

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Support customers' lifestyles  
and enable each individual  
to maximize future opportunities  
through effective use of credit.

Our goal is to form close  
connections with our customers  
and enrich their daily lives as a  
comprehensive financial group  
with roots in the retail sector.





**Customers first**

**Demonstrate  
Group synergies**

**Financial  
services attuned  
to individual  
customers**

**Build a financial  
platform**

**Be the  
number one  
retail financial  
services company  
in Asia**

With the credit business as our base point, we have achieved growth by maximizing our unique strengths.

## Establishment

1981  
Nihon Credit Service Co., Ltd.  
established as a wholly-owned  
subsidiary of Jusco Co., Ltd.

1994  
Company's name changed to  
AEON Credit Service Co., Ltd.  
Shares registered on the  
JASDAQ (over-the-counter)  
market

## Diversity

Global ordinary income  
as a percentage of  
consolidated ordinary income

# 30%

[Overseas subsidiaries]

Listed on the Hong Kong  
Stock Exchange

Listed on the Stock Exchange  
of Thailand

Listed on Bursa Malaysia

## Innovation

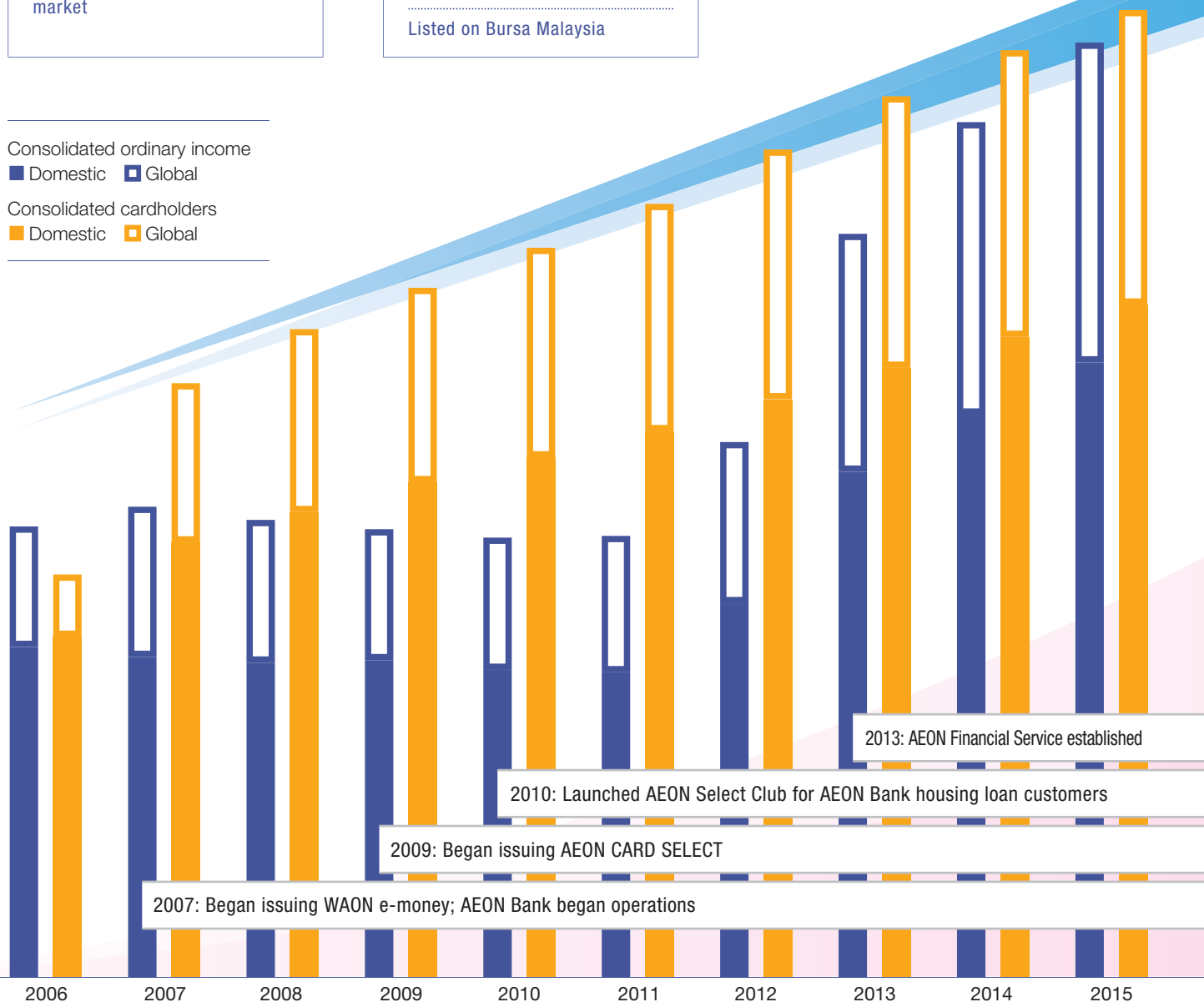
Establishment of  
**AFS\***

2013  
Management integration with  
AEON Bank, Ltd.

\*AEON Financial Service Co., Ltd.

Consolidated ordinary income  
■ Domestic ■ Global

Consolidated cardholders  
■ Domestic ■ Global



Fiscal 2016 performance

Consolidated ordinary income

**¥375.1** billion

Consolidated cardholders

**38.94** million

## Our Strengths

We are a comprehensive financial group that caters to the lifestyles of each and every customer, through collaboration with the AEON Group

By utilizing the AEON Group's store network, we bring valuable benefits to customers in their daily lives. Our goal is to become the comprehensive financial group that customers feel closest to by leveraging synergies between retail and finance.

We are a global corporate group with operations stretching beyond Japan across Asia

Tapping into expertise acquired in Japan, we provide financial services in collaboration with retailers across Asia. Our Global Business accounts for approximately 40% of consolidated ordinary profit. We currently operate in 12 countries/regions including Japan and are listed on stock exchanges in Hong Kong, Thailand and Malaysia.

We are making active investments in IT systems and digitalization to spur innovation and transform our business model

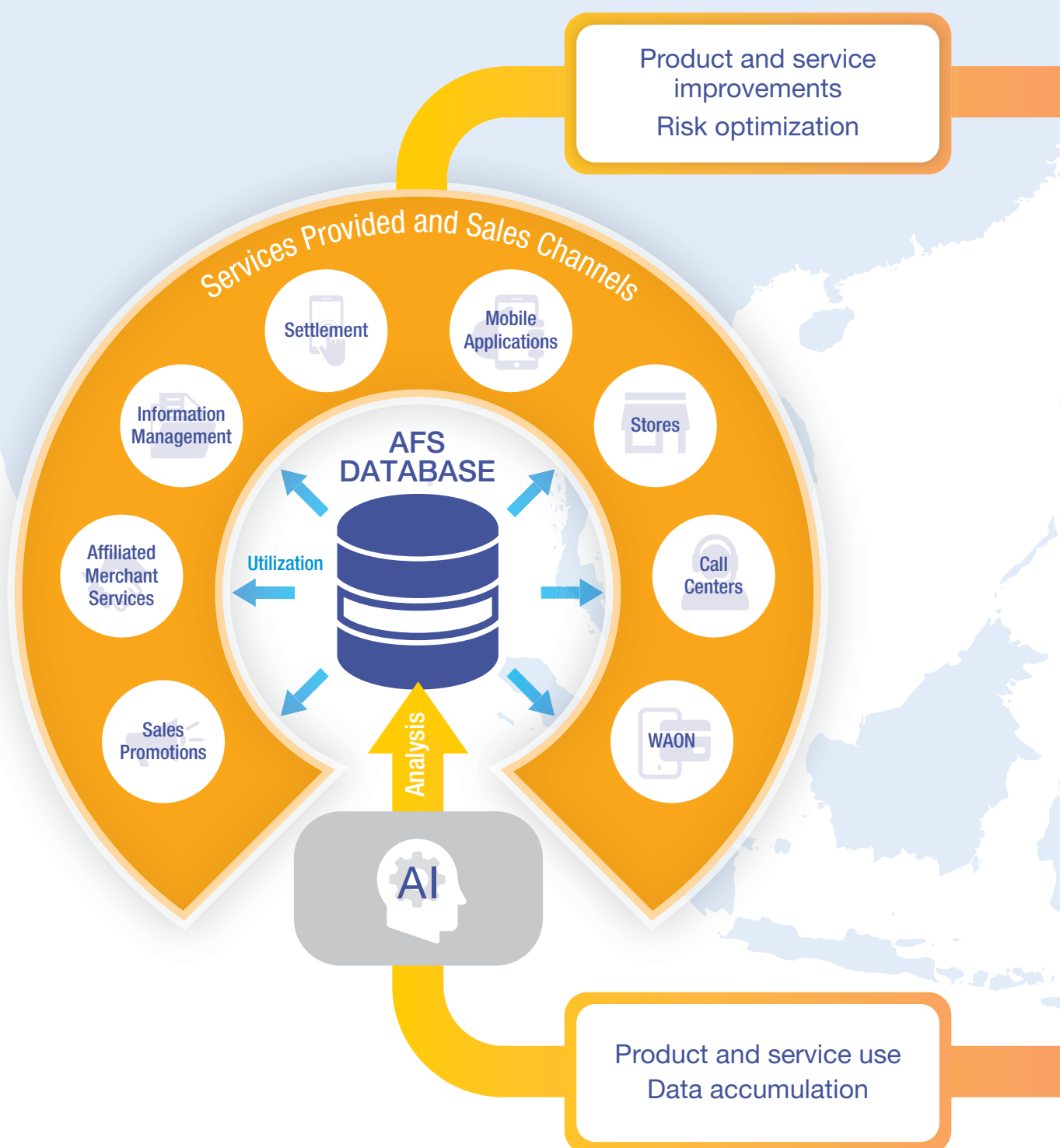
We will invest approximately ¥100 billion in IT systems and digitalization over the period from fiscal 2017 to fiscal 2019 to transform our business model in response to changes in the external environment. Our Group's AFS Database is key in our ability to meet the individual needs of our customers.

2017:  
Launched  
e-money business  
in Malaysia

2016:  
Initiated Tokimeki  
double-point campaign

2016

We seek to become the number one retail financial services company in Asia that customers feel closest to.

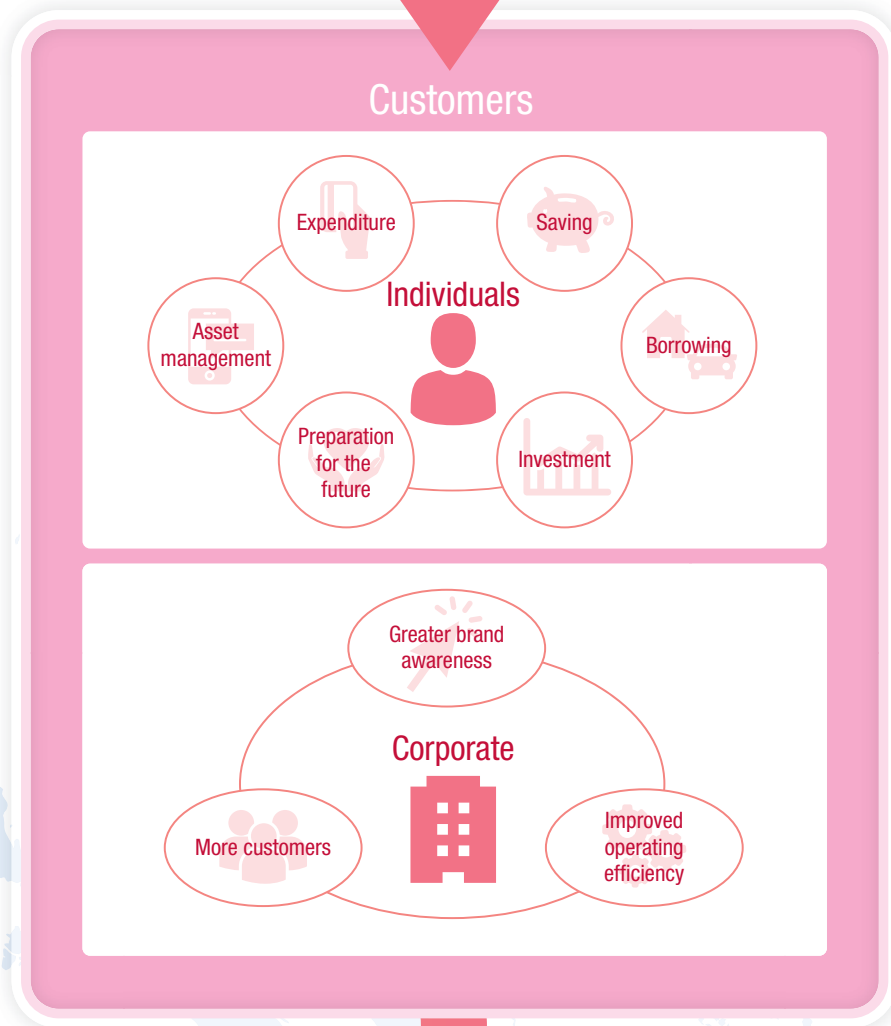


We have been working with retailers to provide financial services that enrich the daily lives of our customers. Moving forward, we will further increase customer satisfaction by providing credit cards and other financial products and services in a timely manner, and building our business by organically linking the channels of our partners and bank branches.

We will also further promote digitalization, carry out unification of databases that integrate retail and financial information, and conduct high-level analysis using artificial intelligence (AI), for the countries/regions in Asia that we operate in, as we build a shared financial platform in Asia. Thus we will respond to the financial needs at each life stage of customers and strive to further enrich their daily lives.

In doing so, we will pursue our goal of becoming the number one retail financial services company in Asia that customers feel closest to.

Provision of products and services



Better access to financial services

As a financial services company with roots in the retail sector, our goal is to become Asia's leading lifestyle support company by providing unique, innovative services that embrace customer perspectives.

## The AEON Financial Service Group

With roots in the retail operations of the AEON Group, we are a comprehensive financial group that offers financial products and services closely attuned to customers' lives in 12 Asian countries/regions including Japan. Since our establishment in 1981, we have continued to evolve our business model in response to changes in the business environment.

In Japan, we have drawn on resources such as the AEON Group's brand strength and store network to develop synergies with retail operations and grow our business, centering on credit cards. In addition, we have expanded businesses such as e-money settlement, insurance sales and banking to establish an organization that can respond to the requirements of increasingly diverse customers amid changes in lifestyles and progression through life stages.

In our Global Business, we have grown significantly since the 1987 establishment of a branch office in Hong Kong. By channeling the expertise and relish for challenge accumulated in Japan, we have successively opened up new markets and expanded the number of countries/regions we serve. Our financial businesses have been supporting better living for a wide range of demographics, including low-income segments unable to access the services of local financial institutions.

Furthermore, the Group has consistently taken on challenges with innovative initiatives that address customer needs, such as issuing the first gold card with no annual fee in the Japanese credit card industry, and opening a bank as a company with a background in the retail sector. We were also among the earliest Japanese financial institutions to aggressively rollout global operations. Through the unique business model we have built and our effective utilization of resources such as people and expertise, we have adapted to changes in the business environment and earned the trust of our customers. We believe that this has paved the way for our sustainable growth.

## Our Operating Environment and Digitalization Initiatives

Today, our operating environment is entering a period of significant upheaval. The growing use of smartphones and other influences including blockchains, AI, and the internet of things (IoT) are bringing about innovation that is dramatically transforming the financial industry. The means to provide services have diversified while currency and language barriers have fallen, enabling more precise responses to customer needs. Conversely, our Group will lose the ability to satisfy



customers if we fail to evolve our business model with new approaches.

Workforce contraction in Japan due to demographic changes and rising wages in growing Asian economies are factors that make personnel-dependent service systems difficult to maintain. Moreover, we must be able to manage more information securely, and relay it accurately and promptly, so that customers can make seamless use of the Group's financial products and services. While the Group excels at face-to-face customer service, we realize that we must mobilize new information technologies to maintain our service structure and further enhance its quality.

We will further promote digitalization to build a new financial platform that integrates retail and financial databases in our Asia service area. In an era where the ability to adapt to change is more necessary than ever, we will look to our history of leveraging change to evolve for inspiration, as we transform our business model into a new phase. In addition, we will provide one-stop solutions to multiple customer needs, and create new business opportunities by matching products and services to individual needs.

### In Closing

The AEON Financial Service Group has a customer-first mindset and a mission to enrich people's daily lives. Under this banner we are united in our efforts to continue actively contributing to society across our business initiatives and CSR activities. Furthermore, we see our environmental, social and governance (ESG) profile as an intangible asset that is just as important as our customer base and our brand, and will therefore focus on developing the value of this asset to maximize our corporate value.

Moving forward, with the perspective of customers always in mind, our goal is to concentrate our efforts on offering original services that no other financial institution provides, while building a company and organization that can resolve social issues. We look forward to the continued understanding and support of our stakeholders.

**Kenji Kawahara**

President and CEO



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## Editorial Policy

AEON Financial Service has published Annual Report 2017 to provide shareholders, investors and other stakeholders with information on its initiatives to generate sustainable growth in corporate value. The report includes financial information, as well as non-financial information on environment, society, governance (ESG) and other issues. The objectives of Annual Report 2017 are to help readers understand our ideals and maintain an ongoing dialogue.

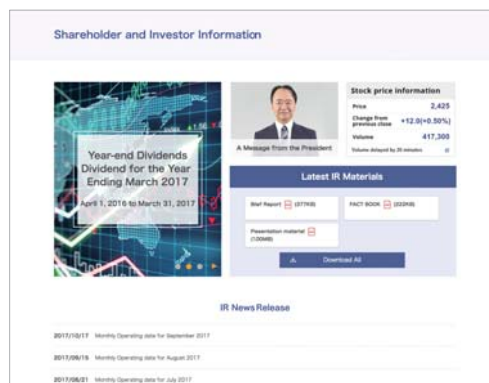
In addition, our website, corporate video and other media disclose information so that readers can deepen their understanding of AEON Financial Service.

## Scope of Report

- Organization: AEON Financial Service Co., Ltd. and its consolidated subsidiaries
- Period: Fiscal 2016 (April 1, 2016 – March 31, 2017)  
 (Some information is more recent)

## Guidelines Referenced

- International Integrated Reporting Framework, International Integrated Reporting Council (IIRC) (December 2013)
- G4 Sustainability Reporting Guidelines, Global Reporting Initiative (May 2013)



Shareholder and Investor Information section of our corporate website



Corporate website



Corporate video



# Positioning within the AEON Group

## AEON Group Snapshot

Here we present key facts and figures for AEON Co., Ltd., one of Japan's leading retail enterprises and the parent company of AEON Financial Service.

<p><b>Japan Retail Industry</b></p> <p><b>No. 1*</b></p> <p>AEON had the highest operating revenue among retailers in Japan in fiscal 2016, surpassing the ¥8 trillion mark.</p>	<p><b>Founded</b></p> <p><b>259 years ago</b></p> <p>Okadayama, one of AEON's predecessors, began business in Yokkaichi, Mie Prefecture in 1758.</p>	<p><b>Business Locations</b></p> <p><b>21,113 stores/locations*</b></p> <p>AEON Group stores in Japan and around the world support safe and secure customer lifestyles.</p>
<p><b>Cumulative Visitors to AEON Malls in Japan</b></p> <p><b>1.2 billion/year*</b></p> <p>AEON began developing shopping centers in 1969, the first company in Japan to do so, and today operates 303 such facilities.</p>	<p><b>Group Employees</b></p> <p><b>520,000*</b></p> <p>AEON has diverse employees at about 300 group companies in Japan and internationally, and provides workplaces where each employee can excel.</p>	<p><b>Countries/Regions Served in Asia</b></p> <p><b>13</b></p> <p>AEON branched out first to Malaysia in 1984, before expanding to Thailand, Hong Kong, and other countries/regions.</p>

\*As of February 28, 2017

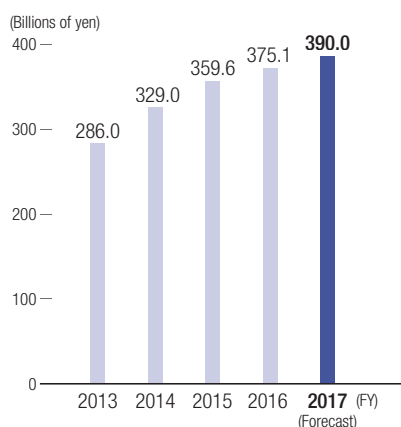


# Financial and Non-Financial Highlights

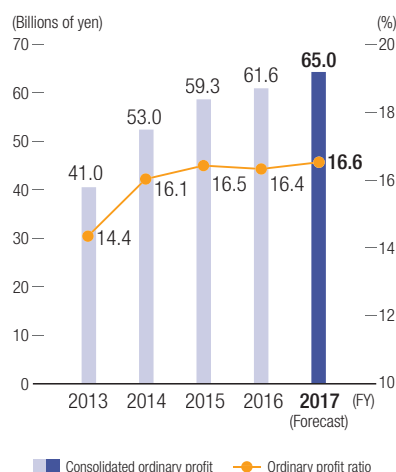
## Overview of Fiscal 2016

- Consolidated ordinary income increased 4% year on year to ¥375.1 billion. Ordinary income increased steadily in Japan as a result of enhanced credit card shopping point programs, but fell overseas due to foreign exchange impact. Appreciation of the yen had a negative effect of ¥16.1 billion.
- Consolidated ordinary profit increased 4% year on year to ¥61.6 billion. Programs to reduce operating expenses in Japan more than offset lower-than-expected reductions from controls on personnel expenses and in bad debt allowance overseas. Appreciation of the yen had a negative effect of ¥3.3 billion.
- Profit attributable to owners of parent increased 10% year on year to ¥39.4 billion. Tax expenses were reduced through measures including tax effect accounting at consolidated subsidiaries. Consolidated return on equity was 12.4%.
- We raised approximately ¥60.0 billion in September 2016 by way of public offering and the issuance of convertible bonds to fund investment in IT systems to increase productivity and customer convenience, and to improve asset profitability by increasing the effectiveness of credit screening and receivables management. Our consolidated equity ratio (domestic standard) increased 1.1 percentage points from a year earlier to 8.5% through compression of risk assets via securitization of receivables and the acquisition of credit ratings.

### Consolidated Ordinary Income



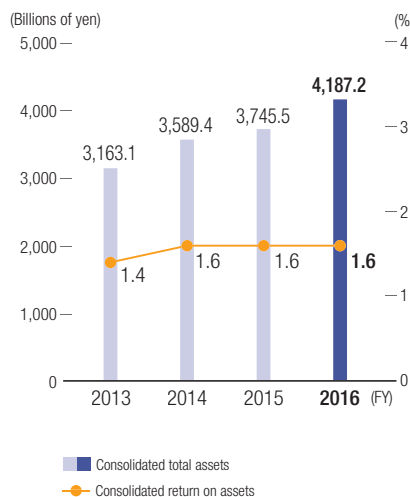
### Consolidated Ordinary Profit and Ordinary Profit Ratio



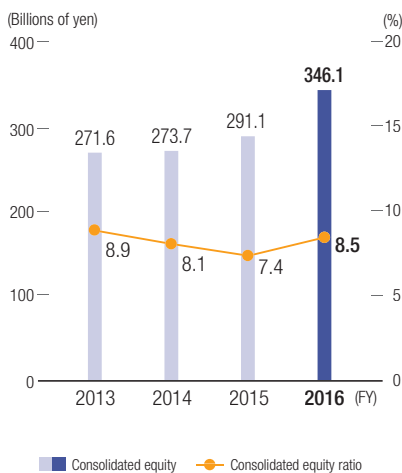
### Profit Attributable to Owners of Parent and Consolidated Return on Equity



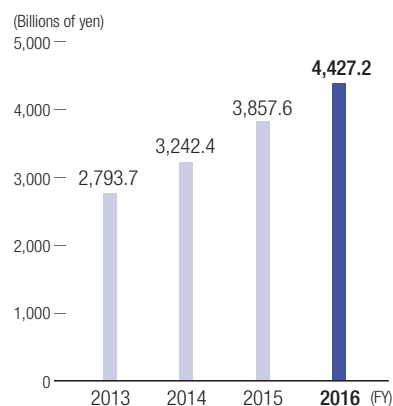
### Consolidated Total Assets and Consolidated Return on Assets



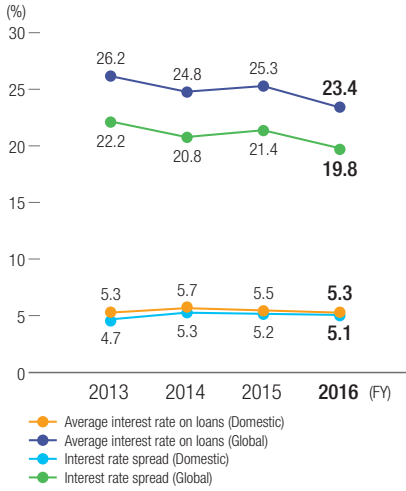
### Consolidated Equity and Consolidated Equity Ratio (Domestic Standard)



### Consolidated Operating Receivables (Before Securitization)



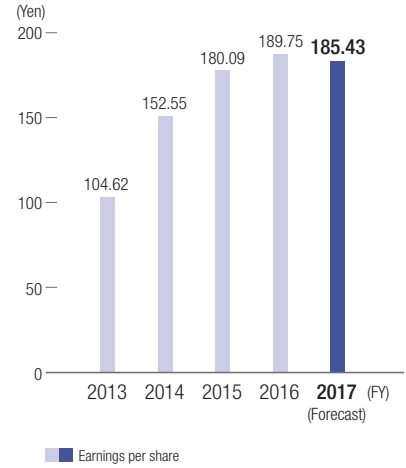
### Average Interest Rate on Loans and Interest Rate Spread (Domestic, Global)



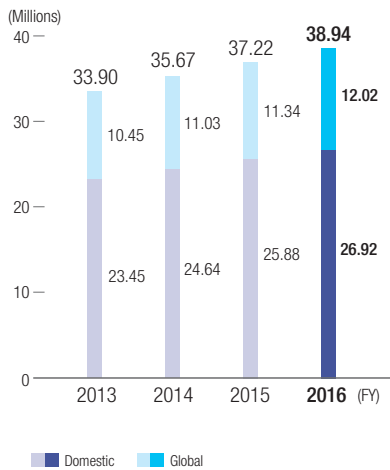
### Dividends per Share and Payout Ratio



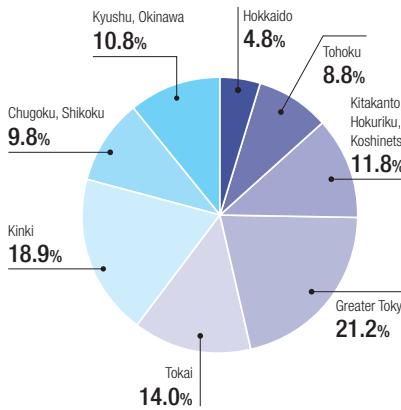
### Earnings per Share



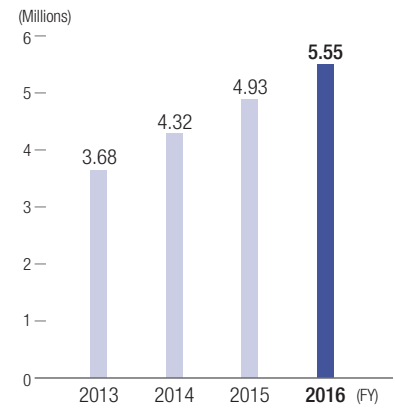
### Cardholders (Consolidated)



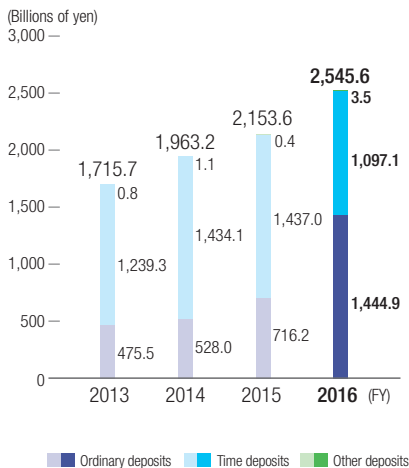
### Breakdown of Cardholders in Japan by Region



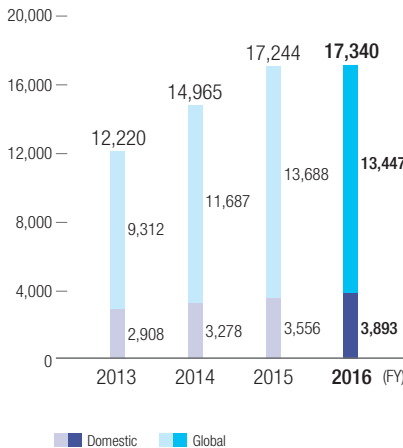
### AEON Bank: Accounts



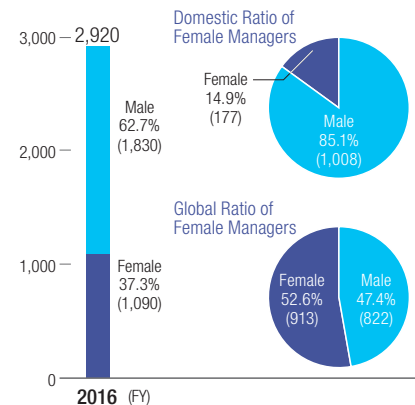
### AEON Bank: Deposits



### Group Employees (Consolidated)



### Female Managers (Consolidated)





Our goal is to build a financial platform focused on the economies of Asia and become a corporate group that enriches the daily lives of customers.

Kenji Kawahara  
President and CEO

### Overview

Fiscal 2016 in Retrospect and Fiscal 2017 Initiatives

In fiscal 2016, with regard to our priority initiative of promoting digitalization, we worked to offer customers even more convenient and user-friendly services through initiatives including the development of services delivered via smartphone applications, and actively drew on external expertise and technology through the AEON Financial Service Innovation 2016 hackathon.\* We also placed particular emphasis on speed and simplicity. For example, we were the first bank in Japan to field test a fingerprint authentication system that uses only biometric data to authenticate the identity of customers at ATMs, and switched to paperless credit card applications through the use of tablet devices. Our measures to enhance productivity through digitalization, and to ensure profitability in a low interest rate environment, have steadily enhanced customer convenience. Nevertheless, we still need to further accelerate productivity improvements.

We have announced that we will invest a total of ¥100 billion in IT systems and digitalization during the three years from fiscal 2017 through fiscal 2019 to address the rapidly changing external environment. We have partially funded this investment with ¥60 billion, consisting of ¥30 billion raised by way of public offering and ¥30 billion from the issuance of convertible bonds.

During fiscal 2017, the first year of this investment plan, we will build a framework that can better address individual customer needs through means such as upgrading Group databases and utilizing AI technologies. In these ways, we will further raise convenience and productivity and improve return on assets through organizational changes and other measures.

\* A portmanteau of "hack" and "marathon" that refers to competitive events during which teams of software developers work intensely within a designated timeframe, vying to develop the best programs or service designs.

### Medium-Term Management Plan

(Initiatives for Fiscal 2017 and Beyond)  
Toward the Creation of New Value

Our mission is to be the financial services company in Asia that customers feel closest to, through provision of comprehensive services that enrich the daily lives of our customers.

As a comprehensive financial group with roots in the retail sector, we will harness the AEON Group's sales network, which is our greatest strength, and make maximum use of databases using cutting-edge technology, to provide timely, appropriate financial products and services suited to each customer.

Although the rate of credit card usage is anticipated to continue to increase, plastic cards may cease to exist in the future. Smartphones equipped with credit card settlement functions and services that enable trouble-free, easy payment are expected to gain popularity.

## Fiscal 2016 Results

	Fiscal 2016	
	Results	YoY Change
Ordinary income	¥375.1 billion	+4%
Ordinary profit	¥61.6 billion	+4%
Profit attributable to owners of parent	¥39.4 billion	+10%
Earnings per share	¥189.75	+5%
Payout ratio	35.8%	-3%
Dividend per share <sup>1</sup>	¥68	+¥2

1. Includes commemorative dividend celebrating 20 years since stock listing

We have approximately 40 million cardholders in Japan and other Asian countries/regions. Furthermore, we have a deep relationship with the AEON Group and its huge retail store network, through which we can acquire cardholders and promote the use of cards. Harnessing blockchain technology, and based on big data covering cardholder purchasing behavior and financial assets, we will build a financial platform spanning the Asian economic sphere that seamlessly conveys the benefits of an AEON Card to customers. As we go about enriching the daily lives of our customers we will thus continue to deliver unique, innovative services.

Our operating environment is potentially subject to the impact of the following risks associated with political conditions, technological evolution and other factors.

- An unfavorable economic environment or financial market turmoil
- Legal or regulatory restrictions
- Intensified competition
- Natural disasters
- Sudden fluctuations in financial market conditions or economic trends
- System operations
- Other risks

Please visit our website for further information regarding risk:  
<http://www.aeonfinancial.co.jp/eng/ir/strategy/risk.html>

## Management Indicators

The consolidated equity ratio (domestic standard) as of March 31, 2017 increased to 8.5% from 7.4% at the end of the previous fiscal year, taking into account approximately ¥30 billion raised by way of public offering. We intend to raise our share price through the following measures: improving capital productivity by revising our receivables portfolio; compressing risk assets by obtaining credit ratings

## Fiscal 2017 Forecast

	Fiscal 2017	
	Forecast	YoY Change
Ordinary income	¥390 billion	+4%
Ordinary profit	¥65 billion	+6%
Profit attributable to owners of parent	¥40 billion	+1%
Earnings per share	¥185.43	-2%
Payout ratio	36.7%	+1%
Dividend per share <sup>2</sup>	¥68	±¥0

2. Previous year's commemorative dividend has been rolled into the ordinary dividend

for the beneficiary rights we hold at the time of securitization; and increasing earnings per share and return on equity by generating returns from investments. By raising our share price, we expect to maintain our equity ratio at the 8% level through the infusion of approximately ¥30 billion from the conversion of convertible bonds.

In addition, we will securitize receivables to raise capital efficiency, thereby reducing our capital requirements, improving asset turnover, and allowing a shift to high-yield products.

## Dividend Policy

Returning profits to shareholders is one of our management priorities. Our basic policy is to distribute an appropriate amount of profits to shareholders while maintaining internal reserves to expand our businesses, improve productivity and enhance corporate competitiveness. Our target payout ratio is 30% to 40%.

Dividends for fiscal 2016 totaled ¥68 per share and consisted of an interim dividend of ¥29 and a year-end dividend of ¥39. The interim and year-end dividends each included a ¥1 commemorative dividend, which represented a ¥1 increase each. We plan to increase the ordinary dividend by ¥2 in fiscal 2017 to replace the fiscal 2016 commemorative dividend and maintain dividends for the fiscal year at ¥68 per share.

## Key Strategies and Investment Policy

Given the rapid progress of digitalization worldwide, there is a growing need for both AEON Financial Service and the financial industry as a whole to adapt to IT developments in the form of fintech. Moreover, the birthrate is low and society is aging in Japan while minimum wages are rising overseas, trends which are expected to make hiring more difficult and increase personnel expenses. We have therefore formulated an investment policy that emphasizes IT systems and digitalization

to increase operating efficiency and improve our ability to generate earnings. We will focus on three issues: 1) **Product and service innovations to implement a strategic shift**; 2) **Streamlining credit screening and collection**; and 3) **Initiatives to improve labor productivity**.

**1) Product and service innovations to implement a strategic shift**

We will implement the common AEON Group strategy of shifting to the four growth areas of Asia markets, urban markets, senior-oriented markets and digital markets by promoting smartphone-based cardless services in Japan and diversifying settlement functions both domestically and overseas. Specifically, we will increase convenience through cardless settlement and deploy our Japan-grown expertise to Asian countries, where smartphones are making inroads. We will also focus on cardholders, who make up the core of our customer base, by implementing strategies to increase market share in the densely populated Greater Tokyo area, where our overall household share is low, especially in Tokyo Prefecture.

**2) Streamlining credit screening and collection**

We will review our receivables portfolio, analyze data on operating receivables with greater sophistication using AI, and subsequently deploy business models we have developed in

Japan to our overseas operations. Specifically, we will revise our receivables portfolio to maintain an appropriate risk profile by shifting from loan receivables to product sales receivables overseas. Looking beyond, in Japan, we will use AI to analyze operating receivables with greater sophistication and use the results to streamline credit screening and collection. We will then roll out such Japan-grown business models internationally, adapting them to local characteristics.

**3) Initiatives to improve labor productivity**

We will improve our business processes by promoting digitalization and automation, and aggregate functions to strengthen our financial service capabilities. Specifically, we are making progress with paperless operations such as handling credit card enrollment with tablet devices and using digital signage to advertise at bank branches. We are accelerating these initiatives as we go about simplifying business processes through automation and systematization. Currently, each Group company provides installment products, including credit cards, insurance and auto loans, on a separate basis. We will improve our financial service capabilities by building mechanisms that enable us to be a one-stop source. In addition, we will further raise efficiency by consolidating redundant functions with a focus on back office operations such as those carried out at the head office.

**Investment Approach**

<b>Investment criteria:</b>	<b>Profitability benchmark to enable us to achieve our goals = ROI of 30% or higher (average for fiscal 2016 through fiscal 2018)</b>
<b>Effect of investment:</b>	<b>Reduce bad debt allowance by increasing asset profitability, and reduce the ratio of labor costs to earnings</b>

Priority Initiatives	Effect of Investment (Forecast for Fiscal 2018)
Be a one-stop source of financial services, introduce new products, and share cardholder benefits across the regions we serve	Year-on-year growth in consolidated ordinary income of 10% or more
Reduce bad debt allowance (ratio of bad debt allowance to ordinary income)	Global: 20% (decrease of 5 pts. from fiscal 2015)
Lower the ratio of labor costs to earnings (ratio of personnel expenses to ordinary income)	Domestic: 16% (decrease of 2 pts. from fiscal 2015) Global: 11% (decrease of 4 pts. from fiscal 2015)

Reference

Factors Affecting Ordinary Expenses	Change in Depreciation Expenses (Forecast for Fiscal 2018)
Increase in depreciation expenses due to IT system and digitalization investment of ¥100 billion (fiscal 2017 through fiscal 2019)	+¥14 billion compared with fiscal 2016
Decrease in depreciation expenses due to turnover of existing investments	-¥7 billion compared with fiscal 2016

Note: Forecast for fiscal 2019: Increase of ¥20 billion and decrease of ¥10 billion compared with fiscal 2016



### Priority Initiative: AI in Action

**(1) Receivables management and collection**

We will maintain a high collection rate by rigorously analyzing three key points: screening (projected defaults), collection (phone call timing for routine collections), and customer attributes (including age, family structure, income and job). We will apply analysis results from Japan to overseas operations, leading to a reduction in bad debt allowance.

**(2) Call centers**

We are taking measures to address the shortage of call center personnel. Nevertheless, actual conversational ability is a must for AI to be able to make phone calls, so we will aggregate and use recorded conversations in text form as big data.

**(3) Increasing the number of affiliated merchants**

We will focus on increasing the number of affiliated merchants and stores that accept AEON Cards so that cardholders can use their cards anytime, anywhere. We will also use databases to enhance sales and marketing functions.

### Investment Areas

We are investing ¥100 billion from fiscal 2017 through fiscal 2019. By region, we will invest 70% of the total in Japan and 30% internationally. By area, we will invest 40% of the total in existing businesses and 60% in new businesses.

### Schedule

Our investments in IT systems and digitalization will take place during the three years from fiscal 2017 through fiscal 2019. We expect some investments to come online quickly in fall 2017 and begin producing results. The amount we will invest in each project is small, and therefore we intend to bring these investments online in rapid succession.

### To Our Stakeholders

By executing initiatives to improve productivity through digitalization and further strengthen our ability to generate earnings, we will further evolve as a financial services company with roots in the retail sector. We also intend to become the financial services company in Asia that customers feel closest to by building an organization that can offer a one-stop source of financial services, and creating an environment that offers an attractive lineup of common benefits across the AEON Financial Service Group.

#### Investment in IT Systems and Digitalization: Progress and Plans

Objectives	Outcomes	Key Plans	Investment Amount ¥100 billion over three years				
Improve convenience and productivity	Greater responsiveness (proposal capabilities and speed)	<ul style="list-style-type: none"> <li>Promote database sharing</li> <li>Stay abreast of next-generation credit systems</li> <li>Paperless operations through the use of tablet device enrollment</li> </ul>	Fiscal 2017	Fiscal 2018	Fiscal 2019		
	Address customers' financial needs anytime, anywhere	<ul style="list-style-type: none"> <li>Establish digital marketing</li> <li>Introduce mobile payment services</li> <li>Development toward unmanned branches</li> </ul>				¥40 billion	¥30 billion
Improve return on assets	More efficient collection Suppress bad debt risk More sophisticated credit screening	<ul style="list-style-type: none"> <li>Build a target-driven collection process</li> <li>Analyze voice data mining</li> <li>Enhance credit scoring system</li> </ul>					

# Value Creation Section

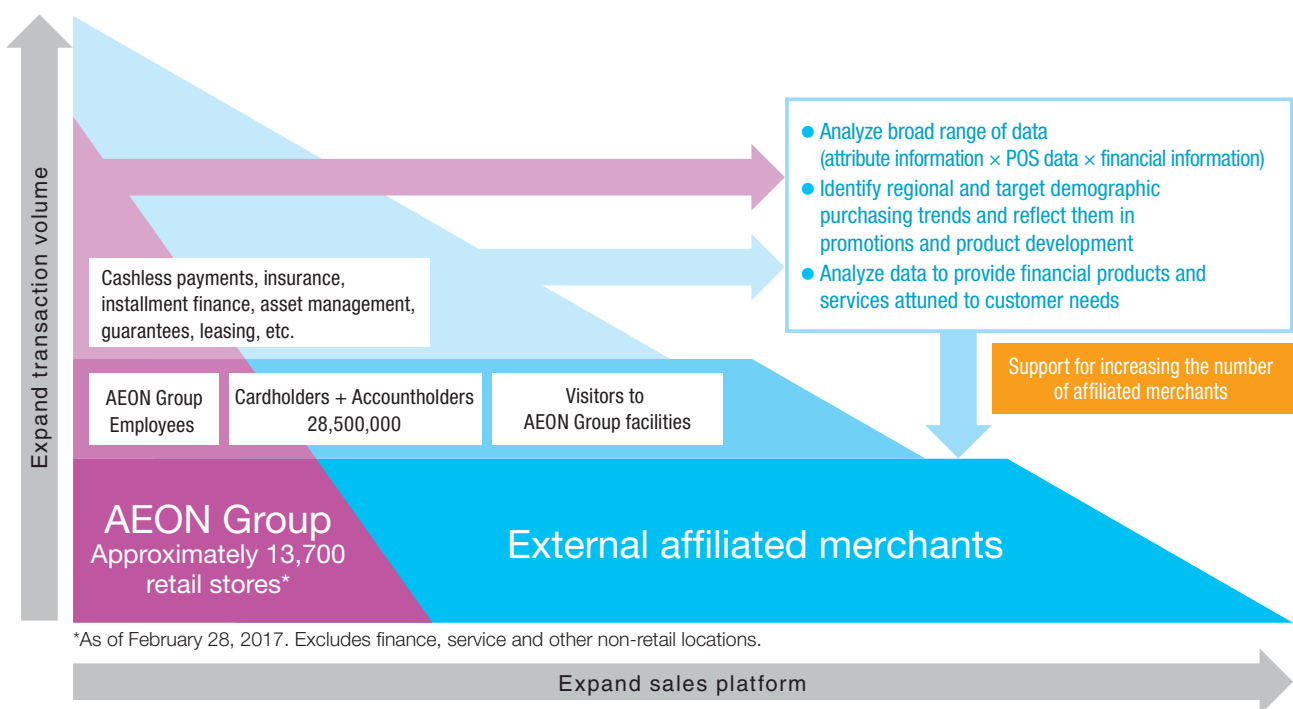
## Domestic Business

### Value Proposition

Enrich the daily lives of our customers by providing financial products and services attuned to life stages and lifestyles.

Financial Needs	Main Services
Expenditure	Credit cards, debit cards, e-money, installment finance, ATMs
Saving	Ordinary deposits, time deposits
Borrowing	Housing loans, personal loans
Investment, Preparation for the Future	Investment trusts, insurance
Asset Management	(We plan to partner with other companies to expand inheritance and other services.)

### Domestic Business Strategy Summary



\*As of February 28, 2017. Excludes finance, service and other non-retail locations.

## Sharpen Competitive Advantages

### Business Reach of the AEON Group

We are a member of the AEON Group, which is expanding with a focus on Japan and other countries in Asia. Our goal is to enrich the daily lives of our customers as a comprehensive financial services group with roots in the retail sector.

We have 38.94 million AEON Card and other cardholders. In addition, the AEON Group has about 520,000 employees, and draws customers to 626 general merchandise stores<sup>1</sup> and 303 shopping centers.<sup>2</sup> This ability to link businesses across the broad array of AEON Group companies in Japan and overseas is a powerful advantage over competitors.

The AEON Financial Service Group's bank branches and insurance agencies are located mainly at AEON shopping centers and are open every day of the year, allowing customers to make visits according to their life routine, whether on their way home from work or out shopping. We will use the AEON Group platform and continue to improve convenience so that more customers can avail themselves of our financial services.

1. Includes equity-method affiliates

2. Includes AEON Mall shopping centers, as well as facilities with a gross leasable area of 20,000 m<sup>2</sup> or more

### Sustainable Growth from Credit Cards

Domestic transaction volume for fiscal 2016 in the credit card market, our core business domain, was ¥50 trillion, 1.4 times greater<sup>3</sup> than five years ago. Heading toward the Tokyo 2020 Olympic and Paralympic Games, cashless transactions will gain momentum as a means to raise convenience for international visitors to Japan, and transaction volume is forecast to continue to expand.

Under this operating environment, our growth rates for cardholders and transaction volume are continuing to rise. One of the standout characteristics of our portfolio is that women account for 64.5% of our cardholders. Among them, 58.8% are in their 30s to 50s, many of whom are homemakers, and who tend to use their credit cards for day-to-day shopping.

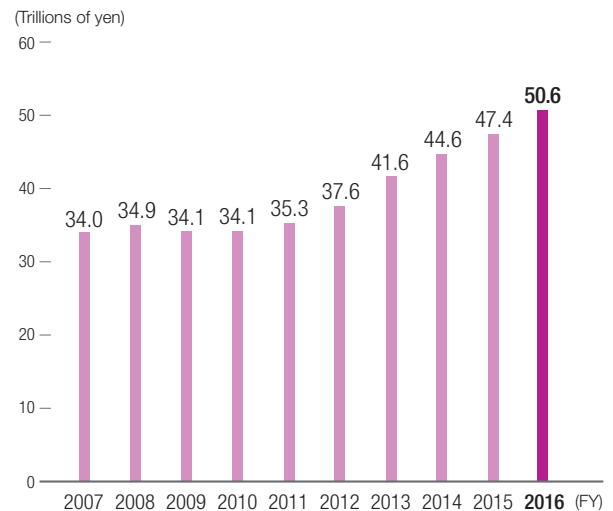
As a consequence, around 90% of shopping transaction volume is paid off the following month (i.e. paid in a single installment during the grace period). This makes our credit cards a core product that generates stable, reliable cash flow and which we expect to exhibit sustained growth.

3. Source: Survey of Selected Service Industries, Ministry of Economy, Trade and Industry



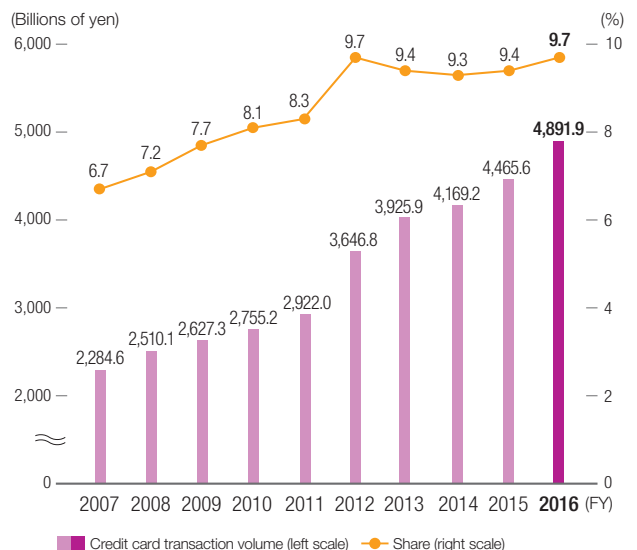
AEON Bank branches: 135  
ATMs: 5,855  
Insurance shops: 123

### Domestic Credit Card Transaction Volume



Source: Survey of Selected Service Industries, Ministry of Economy, Trade and Industry

### AEON Financial Service Credit Card Transaction Volume<sup>4</sup> and Share<sup>5,6</sup>



■ Credit card transaction volume (left scale) — Share (right scale)

4. Credit card transaction volume = Card shopping transaction volume + Cash advance transaction volume

5. AEON Financial Service calculation

6. Fiscal 2012 figures calculated on a 13-month basis

## Growth Strategies Enabled by Our Financial Platform

We are building a financial platform by organically linking usage data for various Group products and services including credit cards, which account for our core customer base, in addition to personal loans, deposits, and insurance. Also, the databases we have built will enable us to provide products and services attuned to each customer's needs. Furthermore, we will not limit ourselves to our own services, but will develop new revenue streams by matching the needs of individual customers and partner companies.

Our Domestic Business is categorized into the business-to-consumer Retail business segment and the business-to-business Solutions business segment.

### Focus Issues: Retail

#### Further Demonstrate Group Synergies

Cardholders and transaction volume are expanding steadily. However, many credit cardholders do not use any of the other products offered by the AEON Financial Service Group, so we have not been able to fully demonstrate Group synergies. We will therefore enhance collaboration with AEON Group companies, energetically reach out to their employees, use databases, and cross-sell to support the use of products and services other than credit cards.

#### Expand Customer Acquisition Channels

We have traditionally focused on acquiring customers through AEON Group stores and online. We are now complementing those channels by contracting business partners to recruit cardholders on our behalf. We are also using the AEON Wallet smartphone application to issue virtual credit cards, and we are accepting credit card enrollment via Pepper.<sup>7</sup> We will expand these and other channels that enable efficient customer acquisition.

<sup>7</sup> A humanoid robot developed by SoftBank Robotics Corp.

#### Expand New Customer Demographics

We will strategically open AEON Bank branches in Greater Tokyo neighborhoods where our market penetration is underdeveloped. In addition, we will aggressively market to young people, with strategies that include acquiring customers through the issue of theme park co-branded cards.

### Focus Issues: Solutions

#### Further Expand External Affiliated Merchants

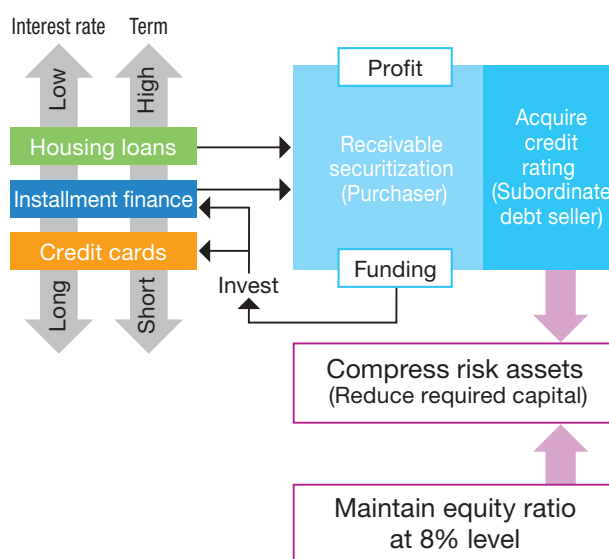
We will deploy more employees and increase new service offerings such as mobile payment terminals to expand the number of external affiliated merchants and help to realize a cashless society. We will also leverage our financial platform to analyze a broad range of data, including attribute information, POS data and financial information, as well as regional and target demographic purchasing trends. This will enable us to develop products and services attuned to customer needs and effectively direct customers to suitable offerings, working in cooperation with affiliated merchants to mutually improve sales.

### Improve Return on Assets

#### Raise Asset Efficiency by Securitizing Receivables

From the perspective of asset and liability management, we are securitizing receivables by transitioning long-term receivables such as housing loans to shorter, more advantageous cash-to-cash cycles in the form of short-term receivables such as credit cards. We also manage risk by obtaining credit ratings for subordinated beneficiary rights.

#### Improving Return on Assets

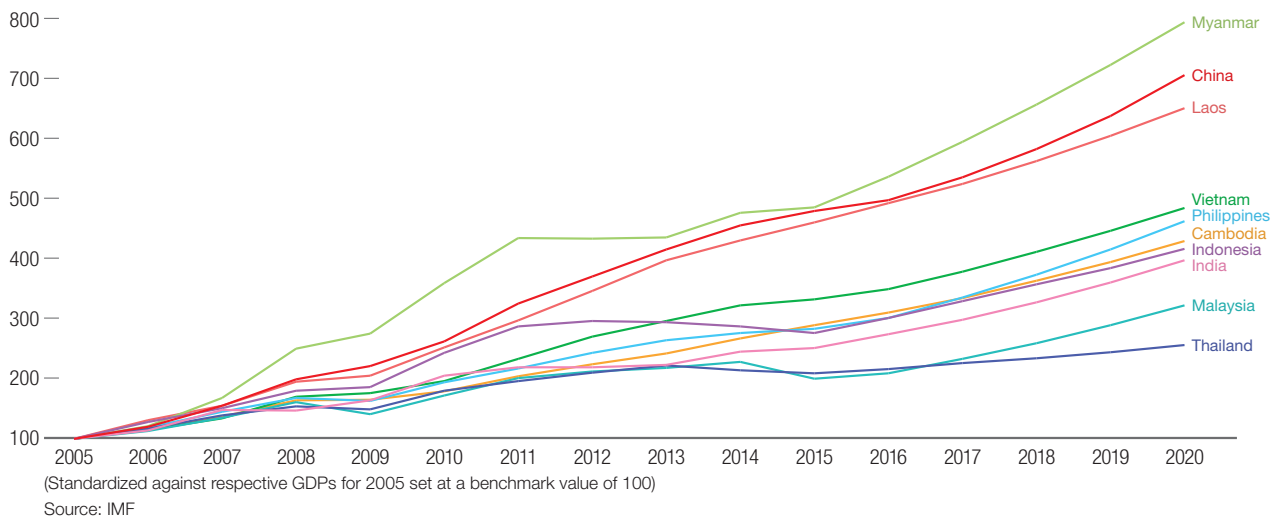


# Global Business

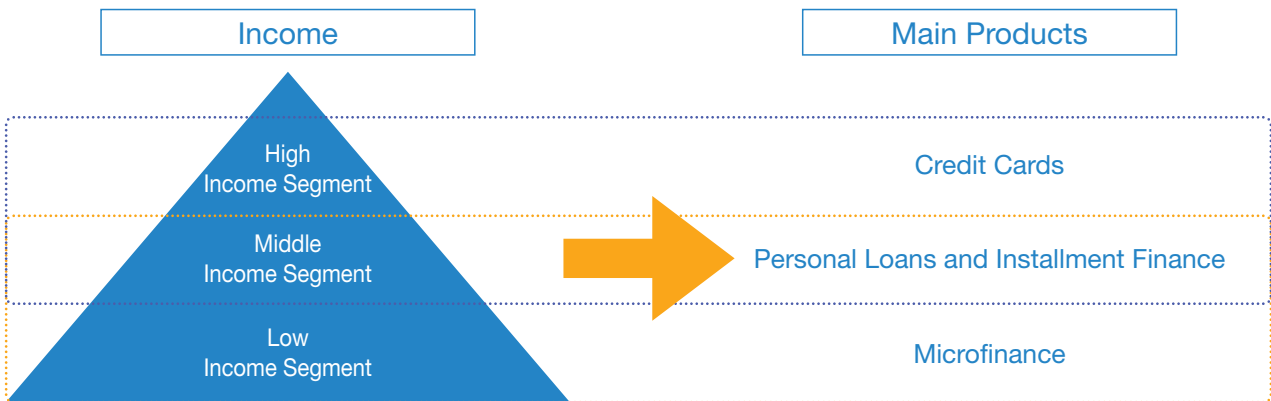
Value Proposition

Enrich the daily lives of our customers by using technology to create financial services suited to the needs of people in Asia.

■ GDP by Country (Actual 2005–2016, Forecast 2017–2020)



■ Main Products by Income Segment



■ Expanding Our Customer Base in Growing Regions

Stage	Mature			Growth		Transitional		Early			
	Hong Kong	Thailand	Malaysia	Indonesia	Cambodia	Vietnam	China	Myanmar	Philippines	India	Laos
As of Fiscal 2016	Personal loans, credit cards, insurance	Personal loans, installment finance, credit cards, insurance, collections	Personal loans, installment finance, credit cards, insurance	Installment finance, credit cards	Personal loans, installment finance, credit cards	Installment finance	Personal loans, installment finance, insurance, processing	Personal loans, installment finance	Installment finance	Installment finance	Installment finance
Fiscal 2017		Auto loans (plan)	E-money		E-money (plan)				Personal loans, auto loans for three-wheeled taxis		

Since establishing our first overseas base in Hong Kong, we have leveraged the knowledge we have acquired in Japan to build businesses attuned to the growth stages of Asian countries/regions. These businesses include the installment finance business that enables people to buy household goods, the personal loan business, and the credit card business that encompasses aspects of both.

We are now taking on the challenge of reshaping our traditional growth narrative to address changes in the operating environment such as the rapid progress of digitalization.

Specifically, we will shift away from loans toward purchase financing and use IT to improve credit screening accuracy. We will also improve the efficiency of receivables collection, build a low-risk debt portfolio, and increase return on assets. Systemization will reduce credit screening and debt collection costs, and we will leverage smartphones and other digital devices to serve unbanked customer segments. These initiatives will reduce the ratio of bad debt allowance and personnel expenses to ordinary income and improve productivity. As a result, we plan to increase the share in ordinary profit accounted for by our Global Business to 50% of consolidated ordinary profit by fiscal 2020.

Our Global Business is categorized into three regions, centered respectively on our three listed subsidiaries in Hong Kong, Thailand and Malaysia.

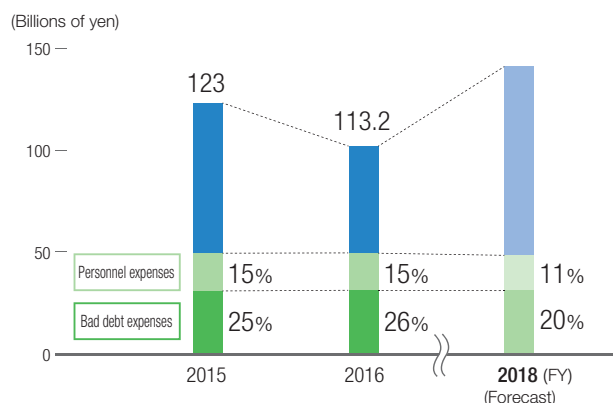
### Greater China Area (Hong Kong, Taiwan and China)

Our subsidiary in Hong Kong, incorporated in 1990 and listed on the Hong Kong Stock Exchange in 1995, was our first overseas base. With its experience as a pioneer for establishing AEON retail stores abroad, it continues to collaborate with Group stores on sales promotion plans. Our operations in the region are adding cardholders and building transaction volume by bolstering efforts to attract customers with co-branded cards presented in conjunction with partners such as Japan Airlines and AEON Stores Hong Kong. To increase card use among international tourists visiting Japan, we also held campaigns that include joint sales promotion plans with AEON stores in Japan. Moreover, we are expanding transaction volume by offering gold cardholders the benefit of double points on purchases at AEON stores.

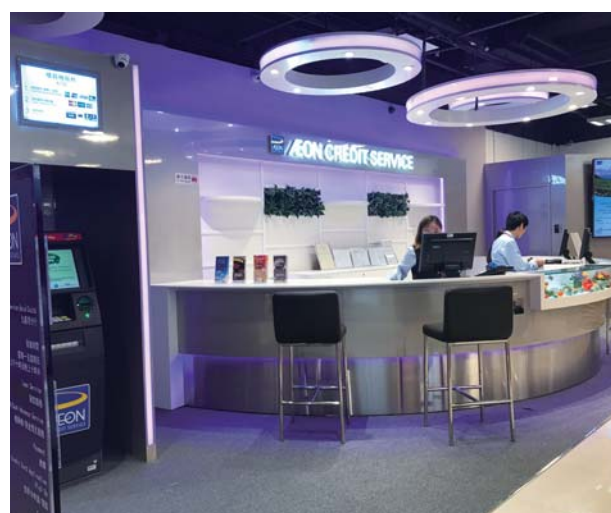
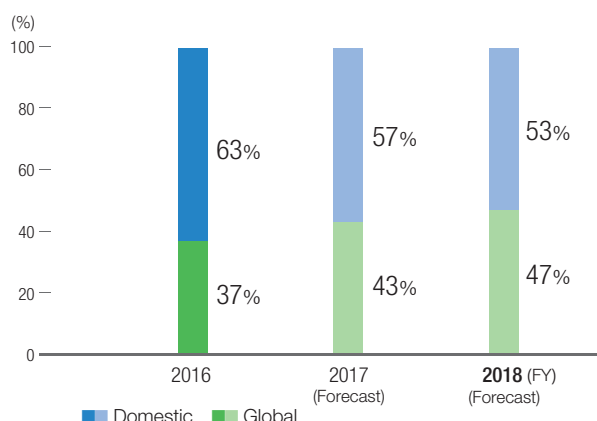
We will strengthen plans to add young cardholders with new co-branded cards, develop mobile applications that allow management of card statements, coupons and points from a single interface, and develop plans for outbound tourists.

In China, in Shenyang, Tianjin and Shenzhen, we are preparing to transition to a growth phase with a focus on the installment finance business.

#### Ratio of Bad Debt and Personnel Expenses to Global Business Ordinary Income



#### Breakdown of Consolidated Ordinary Profit by Business



Hong Kong

### Mekong Area (Thailand, Vietnam, Cambodia, Myanmar and Laos)

Our subsidiary in Thailand, incorporated in 1992, was our second overseas base after Hong Kong. Its shares were listed on the Stock Exchange of Thailand in 2001, and it has been steadily expanding its business. We are proactively building alliances with Thai companies, including the co-branded finance card with ticketing and e-money functions we issue for BTS Group Holdings, which operates the Bangkok Mass Transit System. We are also acquiring additional cardholders with co-branded cards presented in conjunction with partners including major retailer Big C Supercenter and a movie theater operator.

Income is a constraint on credit card issuance in Thailand, so obtaining a credit card is difficult for many. However, we expect economic growth and an accompanying increase in annual personal income. These circumstances show great potential for us, particularly when considering the 5.42 million member cardholders\* who may become credit cardholders in the future. We also plan to deploy the expertise we have acquired in the credit card business in the insurance and collections businesses.

We are primarily involved in the installment finance business in Vietnam, Cambodia, Myanmar and Laos. In addition, we have built a full-fledged credit card business in Cambodia after acquiring a specialized banking license, and we are working to expand transaction volume. We are also preparing to extend our e-money business.

\* Customers who do not meet the annual income requirements for a credit card are still eligible to obtain a member card, which offers installment payment and finance functions.



Thailand

### Malay Area (Malaysia, Indonesia, India and Philippines)

We established a subsidiary in Malaysia, our third overseas base, in 1996 and its stock was listed on Bursa Malaysia in 2007. We are acquiring cardholders via the AEON Group and implementing joint programs with partners to increase cardholder numbers and transaction volume. In addition, we are deepening collaboration with local AEON Group companies, such as issuing a co-branded credit card with point benefits for AEON Big Malaysia. We are also expanding our business by partnering with Visa Worldwide Pte. Ltd. and have decided to issue a point card with e-money functions through Visa's internationally branded payment network. At the same time, we will also take steps to integrate the point programs of AEON Group companies operating in Malaysia.

In Indonesia, we operate an installment finance business and are a full-fledged credit card issuer. In India and the Philippines, we are expanding our network of affiliated merchants in the installment finance business. We also launched a new initiative in July 2017 by signing an agreement with Global Mobility Service, Inc. to jointly create an auto loan business. The first stage involves using IoT devices and platform systems in the Philippines to enable us to offer loans for three-wheeled vehicles to people who have been unable to qualify for credit. This embodies the value offered by the AEON Financial Service Group, and is an initiative that provides products and services to unbanked segments and creates opportunities for employment. We are planning to expand this program to Indonesia, Malaysia, Vietnam and Cambodia.



Malaysia

Directors



Chairman

**Masaki Suzuki**

- 1978 Joined Ministry of Finance
- 2002 Director of Banks Division I of Supervisory Bureau of Financial Services Agency
- 2007 Deputy Vice Minister for Policy Planning and Co-ordination of Minister's Secretariat of Ministry of Finance
- 2014 Vice-Minister of the Environment of Ministry of the Environment
- 2015 Advisor of the Company  
Advisor of AEON Co., Ltd.  
Chairman and Representative Director of AEON Bank, Ltd.
- 2016 Chairman and Director of AEON Bank, Ltd. (current position)  
Director of AEON Credit Service Co., Ltd. (current position)  
Chairman of the Company (current position)
- 2017 Executive Officer in charge of General Finance Business of AEON Co., Ltd. (current position)



President and CEO

**Kenji Kawahara**

- 1980 Joined The Dai-ichi Kangyo Bank, Limited (currently, Mizuho Bank, Ltd.)
- 2009 Joined AEON Co., Ltd.
- 2010 Director of AEON Mall Co., Ltd.
- 2011 Managing Director of AEON Mall Co., Ltd.
- 2012 Senior Managing Director of AEON Mall Co., Ltd.  
Representative Director and President of AEON REIT Management Co., Ltd.  
Executive Director of AEON REIT Investment Corporation
- 2016 Advisor of the Company  
Director of AEON Bank, Ltd. (current position)  
Director of AEON Credit Service Co., Ltd. (current position)  
Director of AEON Product Finance Co., Ltd. (current position)  
President and CEO of the Company (current position)  
Director and Chairman of AEON Financial Service (Hong Kong) Co., Ltd. (current position)



Director and Executive Vice President

**Masao Mizuno**

- 1982 Joined Jusco Co., Ltd. (currently, AEON Co., Ltd.)
- 1984 Joined the Company
- 1992 President and Representative Director of AEON Thana Sinsap (Thailand) Plc.
- 2011 Director and Senior Managing Executive Officer of the Company  
Director and Chairman of AEON Credit Service (Asia) Co., Ltd.
- 2013 Director of the Company  
Representative Director and President Executive Officer of AEON Credit Service Co., Ltd.
- 2014 Director and Executive Vice President in charge of Processing, Card Business of the Company  
Director of AEON Bank, Ltd. (current position)
- 2015 Director and Executive Vice President in charge of Credit, Processing, Overseas Business of the Company  
Representative Director and President of AEON Credit Service Co., Ltd. (current position)
- 2016 Director and Executive Vice President in charge of Overseas Business of the Company
- 2017 Director and Executive Vice President of the Company (current position)



Director and Executive Vice President

**Hiroyuki Watanabe**

- 1982 Joined Isejin Jusco Co., Ltd. (currently, AEON Co., Ltd.)
- 2006 Representative Director of AEON Financial Project Co., Ltd. (currently, AEON Bank, Ltd.)  
Director in charge of Human Resources, General Affairs and Public Relation of AEON Financial Project Co., Ltd.
- 2008 Director and Managing Executive Officer in charge of Human Resources and General Affairs of AEON Bank, Ltd.
- 2012 Director and Senior Managing Executive Officer of AEON Bank, Ltd.  
Director of the Company
- 2014 Representative Director and Senior Managing Executive Officer of AEON Bank, Ltd.
- 2015 President and Representative Director of AEON Bank, Ltd. (current position)
- 2016 Director of AEON Credit Service Co., Ltd. (current position)
- 2017 Director and Executive Vice President of the Company (current position)



Senior Managing Director in charge of Corporate Management, Head of Corporate Management Division

**Hideki Wakabayashi**

- 1980 Joined Japan Housing Finance Co., Ltd.
- 1997 Joined Jusco Co., Ltd. (currently, AEON Co., Ltd.)
- 2007 Vice President of AEON Co., Ltd.  
Corporate Auditor (External) of the Company
- 2010 Managing Director of the Company
- 2011 Director and Managing Executive Officer of the Company
- 2013 Director and Senior Managing Executive Officer of AEON Credit Service Co., Ltd.
- 2014 Director of AEON Credit Service Co., Ltd. (current position)  
Chairman and Representative Director of AEON Thana Sinsap (Thailand) Plc. (current position)
- 2015 Senior Managing Director in charge of Corporate Management of the Company
- 2017 Senior Managing Director in charge of Corporate Management, and Head of Corporate Management Division of the Company (current position)



Managing Director in charge of Global Business, Head of Global Business Division

**Masaaki Mangetsu**

- 1981 Joined Jusco Co., Ltd. (currently, AEON Co., Ltd.)
- 2013 COO of GMS Business of AEON (China) Co., Ltd.
- 2014 Director of AEON Marketing Co., Ltd.  
Director and Executive Officer of AEON Credit Service Co., Ltd.
- 2015 Director of AEON Credit Service Co., Ltd. (current position)  
Director and Head of Marketing Division of the Company
- 2016 Managing Director in charge of Business Strategy of the Company
- 2017 Managing Director in charge of Global Business, and Head of Global Business Division of the Company (current position)  
Director and Chairman of AEON Credit Service (Asia) Co., Ltd. (current position)



Director in charge of Human Resources and General Affairs, Head of Human Resources and General Affairs Division

**Yoshitaka Yamada**

- 1987 Joined the Company
- 2005 Director of the Company
- 2011 Vice President of the Company
- 2013 Director and Executive Officer of AEON Credit Service Co., Ltd.
- 2015 Director, Managing Executive Officer, and Head of Corporate Management Division of AEON Credit Service Co., Ltd. (current position)
- 2017 Director of AEON Bank, Ltd. (current position)  
Director in charge of Human Resources and General Affairs, and Head of Human Resources and General Affairs Division of the Company (current position)



Director in charge of Corporate Planning, Head of Corporate Planning Division

**Kazuyoshi Suzuki**

- 1984 Joined The Sanwa Bank, Limited (currently, The Bank of Tokyo-Mitsubishi UFJ, Ltd.)
- 1990 Joined Ministry of Foreign Affairs, working at Embassy of Japan in Malaysia
- 2005 Deputy Manager of Accounting Department of LOTTE Co., Ltd.
- 2010 Joined Lotte Holdings Co., Ltd.
- 2011 Joined AEON Bank, Ltd.
- 2012 Executive Officer of AEON Bank, Ltd.
- 2014 Director and Managing Executive Officer of AEON Bank, Ltd.
- 2015 Senior Managing Director of AEON Product Finance Co., Ltd.
- 2017 Director of AEON Marketing Co., Ltd. (current position)  
Director in charge of Corporate Planning, and Head of Corporate Planning Division of the Company (current position)



Director in charge of Risk Management & Compliance, Head of Risk Management & Compliance Division

**Naohiro Arai**

- 1988 Joined The Mitsui Bank, Limited (currently, Sumitomo Mitsui Banking Corporation)
- 2006 Public Relation Group Leader of AEON Financial Project Co., Ltd. (currently, AEON Bank, Ltd.)
- 2012 Executive Officer of AEON Bank, Ltd.
- 2014 Director and Executive Officer of AEON Bank, Ltd.  
Director of AEON Housing Loan Service Co., Ltd.  
Director of AEON Insurance Service Co., Ltd.
- 2016 Director of AEON Bank, Ltd.
- 2017 Director and Executive Officer in charge of Corporate Management of AEON Bank, Ltd. (current position)  
Director of AEON Credit Service Co., Ltd. (current position)  
Director in charge of Risk Management & Compliance, and Head of Risk Management & Compliance Division of the Company (current position)



Director in Charge of IT and Digital, Head of System Division, Head of System Planning Department

**Kazuo Ishizuka**

- 1984 Joined the Company
- 2009 Director of the Company
- 2010 Director and Executive Officer in charge of System Department of AEON Bank, Ltd.
- 2015 Director and Executive Officer in charge of System of AEON Bank, Ltd. (current position)
- 2017 Director in Charge of IT and Digital, Head of System Division, and Head of System Planning Department of the Company (current position)





Director (Outside)

### Motonari Otsuru

- 1980 Public Prosecutor of Tokyo District Public Prosecutors Office
- 2005 Head of Special Investigation Task Force of Tokyo District Public Prosecutors Office
- 2010 Deputy Chief Prosecutor of the Tokyo District Public Prosecutors Office
- 2011 Trial Director of Supreme Public Prosecutor's Office  
Registered as Attorney-at-Law
- 2012 Corporate Auditor (External) of the Company  
Outside Director of Aurora Servicing Ltd. (current position)
- 2013 Outside Corporate Auditor of AEON Credit Service Co., Ltd.
- 2014 Outside Director of the Company (current position)
- 2015 Outside Director of Morningstar Japan K.K. (current position)  
Head of the Nippon Professional Baseball (NPB) Investigative Committee (current position)
- 2017 Outside Corporate Auditor of SBI Insurance Group Co., Ltd. (current position)



Director (Outside)

### Junya Hakoda

- 1974 Joined Mitsubishi Rayon Co., Ltd.
- 1980 Joined Price Waterhouse Certified Public Accountants Office
- 1983 Joined Aoyama Audit Corporation
- 2006 Partner of PricewaterhouseCoopers Arata
- 2008 Eminent Professor of Graduate School of Keio University (current position)
- 2012 Representative of Junya Hakoda Certified Accountant Office (current position)
- 2014 Corporate Auditor of Schroder Investment Management (Japan) Limited (current position)
- 2015 Outside Corporate Auditor of Yamaha Corporation  
Outside Director of the Company (current position)
- 2017 Outside Director of Yamaha Corporation (current position)



Director (Outside)

### Yoshimi Nakajima

- 1980 Joined The Yasuda Trust & Banking Co., Ltd. (currently, Mizuho Trust & Banking Co., Ltd.)
- 1982 Joined AVON Product Co., Ltd., Tokyo Japan
- 1990 Joined Disney Home Video Japan Co., Ltd.
- 1992 Joined Dentsu Wunderman Direct Co., Ltd.
- 1995 Joined Mary Kay Cosmetics Co., Ltd.
- 1997 Vice President of Personal Finance Division of Citibank, N.A.
- 2000 Senior General Manager in charge of Marketing and Sales of SG Online Branch of Soci t  G n rale Securities Ltd.
- 2002 Vice President in charge of Global Traveler's Check & Prepaid Card Service of American Express International, Inc. (Japan)
- 2003 Vice President and Marketing Supervisor of Personal Business Department of American Express International, Inc. (Japan)

- 2011 President of American Express International, Inc. (Singapore)
- 2014 Senior Vice President in charge of Acquisition & Marketing of Personal Business Department of American Express International, Inc. (Japan)  
President and Representative Director of American Express Japan Co., Ltd. (concurrent position)
- 2017 Outside Director of Yamaha Corporation (current position)  
Outside Director of the Company (current position)

## Corporate Auditors



Corporate Auditor (Full-Time) (External)

### Hisanori Uchibori

- 1975 Joined Jusco Co., Ltd. (currently, AEON Co., Ltd.)
- 2008 Head of Nishihari Business Department of AEON Retail Co., Ltd
- 2011 Head of Bay Area Business Department of AEON Retail Co., Ltd
- 2013 Full-time Corporate Auditor of G-Foot Co., Ltd.  
Corporate Auditor of Mega Sports Co., Ltd.
- 2016 Corporate Auditor of AEON Bank, Ltd. (current position)  
Corporate Auditor (Full-Time) (External) of the Company (current position)



Corporate Auditor (External)

### Go Otani

- 1980 Joined Yamanouchi Pharmaceutical Co., Ltd. (currently, Astellas Pharma Inc.)
- 1997 Acting Senior Vice President, Shaklee Business of Yamanouchi Pharmaceutical Co., Ltd.  
Outside Director of Shaklee Corporation (USA) of Yamanouchi Pharmaceutical Co., Ltd.
- 2001 Deputy Vice President in Charge of IR of Corporate Communications Department of Yamanouchi Pharmaceutical Co., Ltd.
- 2003 Vice President in charge of European Business of Europe and U.S. Department of Yamanouchi Pharmaceutical Co., Ltd.
- 2005 Seconded to European Headquarter (resided in the United Kingdom), General Manager of Internal Auditing Division of Astellas Pharma Inc.
- 2009 Vice President of Internal Auditing Department of Astellas Pharma Inc.
- 2013 Audit & Supervisory Board Member of Astellas Pharma Inc.
- 2016 Corporate Auditor (External) of the Company (current position)



Corporate Auditor (External)

### Kotaro Yamazawa

- 1980 Joined Bank of Japan
- 2006 Seconded to Osaka Securities Exchange Co., Ltd.
- 2010 Senior Executive Officer of Osaka Securities Exchange Co., Ltd.
- 2013 Senior Executive Officer of Japan Exchange Group, Inc.  
Director and Senior Executive Officer of Osaka Securities Exchange Co., Ltd.
- 2014 Senior Managing Executive Officer of Japan Exchange Group, Inc.  
Director and Senior Managing Executive Officer of Osaka Securities Exchange Co., Ltd.
- 2015 Director and Vice President of Osaka Exchange, Inc.
- 2017 Advisor of Osaka Exchange, Inc. (current position)  
Corporate Auditor (External) of the Company (current position)



Corporate Auditor

### Takayuki Sakaki

- 1998 Joined Jusco Co., Ltd. (currently, AEON Co., Ltd.)
- 2009 Director and Head of Finance & Accounting Department of Maxvalu Kanto Co., Ltd.
- 2012 Director of AEON Kyushu Co., Ltd.
- 2016 Director, Executive Officer, and Head of Corporate Strategy Division of AEON Kyushu Co., Ltd.  
President and Representative Director of AEON Store Kyushu Co., Ltd.
- 2017 Head of Finance Department of AEON Co., Ltd. (current position)  
Director of AEON Store Kyushu Co., Ltd. (current position)  
Corporate Auditor of AEON Bike Co., Ltd. (current position)  
Corporate Auditor of the Company (current position)

# Corporate Governance

## Our Basic Approach to Corporate Governance

The Company is a member of the AEON Group. We share the AEON Basic Principles, “Pursuing peace, respecting humanity, and contributing to local communities, always with the customer’s point of view as its core,” and the AEON Code of Conduct, “Everything we do, we do for our customers,” and set our management principles and basic management policies accordingly. The AEON Basic Principles underlie our initiatives to generate sustainable growth and increase corporate value over the medium-to-long term. The Company earns the confidence of stakeholders with effective and optimal corporate governance.

## Corporate Governance Structure

As a bank holding company, the Company aims to further strengthen management control and its corporate governance. To this end, we have established the Management Policy Committee and Internal Control Committee in addition to the Board of Directors. The Management Policy Committee is an advisory body that discusses management decisions executed on the President’s authority. With the aim of realizing sustainable growth and medium- and long-term corporate value for the Group, the Internal Control Committee comprehensively and expertly discusses and makes decisions on matters regarding the development of the internal control system within the scope entrusted by the Board of Directors and then provides reports and opinions to the Board of Directors. This committee is chaired by the President, and its members are designated by the Board of Directors to flexibly manage and improve the internal control system. It studies and discusses individual themes in detail so

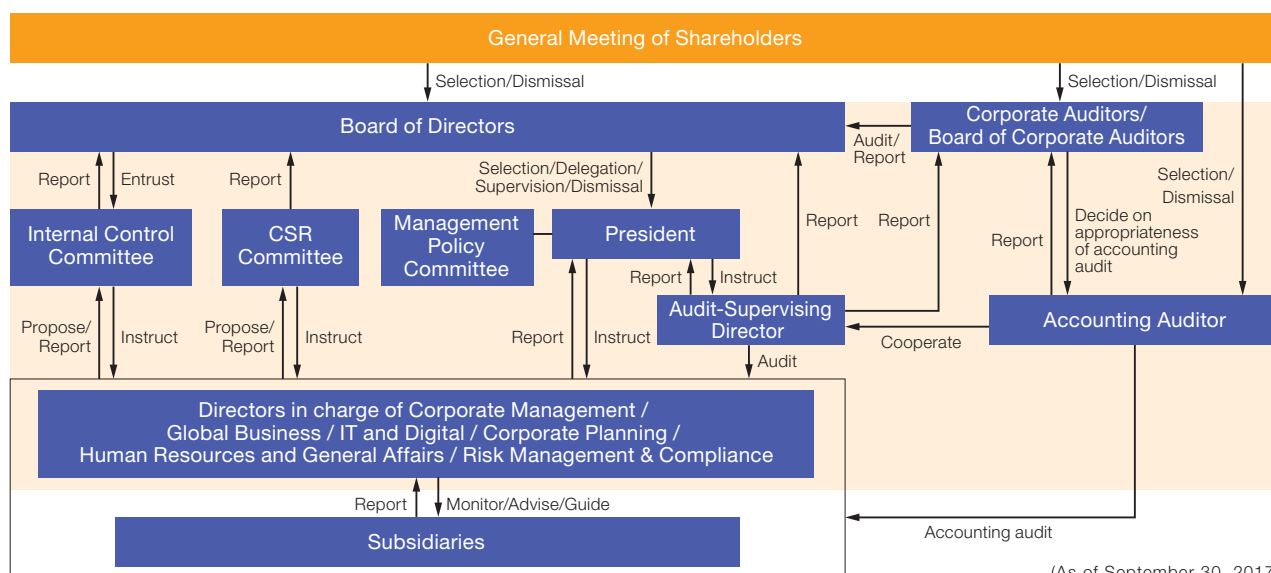
that it can provide instructions and advice to relevant parties. It also makes decisions on matters the Board of Directors entrusts to it and provides reports and opinions to the Board of Directors.

With a focus on maneuverability and prompt decision-making, the Board of Directors is made up of a small number of directors. The Board of Directors makes decisions on important matters related to the management of the Company and the Group after deliberation by the Management Policy Committee and Internal Control Committee from the perspectives of business efficiency and effectiveness.

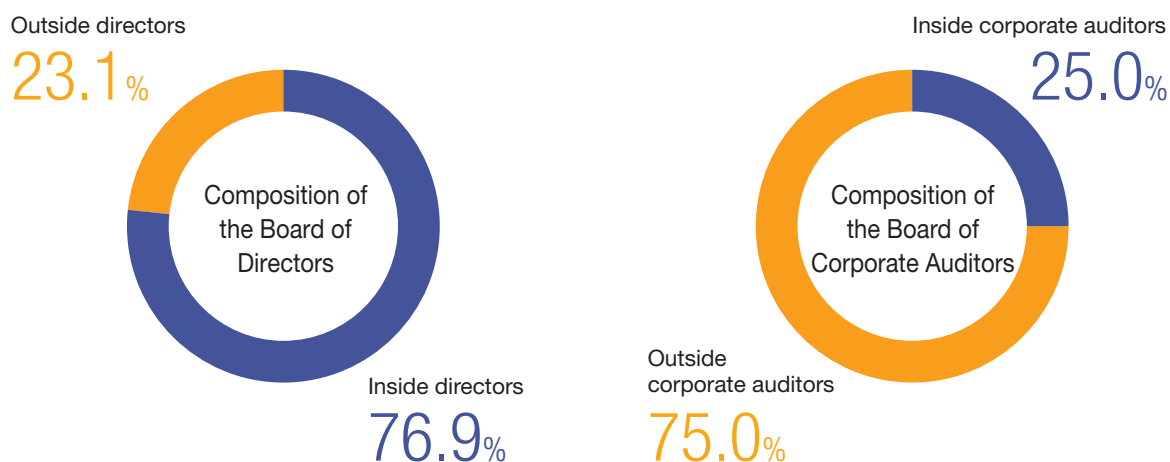
The Company is a company with a Board of Corporate Auditors. The Board of Corporate Auditors comprises four corporate auditors, three of whom are outside corporate auditors (two of whom qualify as independent officers). Pursuant to the Board of Corporate Auditors Audit Criteria formulated by the Board of Corporate Auditors, the corporate auditors, in accordance with audit policies, division of duties, and other protocols, seek to achieve mutual understanding with the directors, accounting auditor, internal audit departments, and other employees, collect information, and maintain a sound audit environment. Furthermore, the corporate auditors attend Board of Directors meetings and other important meetings, receive reports from directors and employees about the execution status of their respective duties, and request explanations when necessary. The corporate auditors also read important decision-making documents and other materials, and audit the directors’ execution of duties by investigating the status of business operations and assets.

In addition, the Company increased the number of outside directors from two to three in 2016. These outside directors draw on their extensive knowledge and experience to objectively provide appropriate opinions with respect to the Company’s management and other topics.

## AEON Financial Service’s Corporate Governance Structure



### Board Composition (As of September 30, 2017)



### Meetings (Fiscal 2016)

Number of meetings of  
the Management Policy Committee

33

Number of meetings of  
the Board of Directors

22

Number of meetings of  
the Board of Corporate Auditors

15

### Policies for Compensation Amount and Method of Calculation

#### Officer Compensation (Fiscal 2016)

Classification	Total Compensation (millions of yen)	Total Compensation by Classification (millions of yen)				Number of Recipients
		Base Compensation	Stock Options	Bonus	Retirement Benefits	
Directors (excluding outside directors)	260	173	29	54	2	11
Corporate Auditors (excluding outside corporate auditors)	—	—	—	—	—	—
Outside officers	47	47	—	—	—	6

Note: Number of recipients and total compensation includes compensation for two directors and one corporate auditor who retired at the conclusion of the 35th Ordinary General Meeting of Shareholders held on June 28, 2016.

- The Company determines director compensation fairly and transparently to provide strong motivation for directors to properly execute management strategy, and links it to business performance.
- Director compensation consists of base compensation, performance-linked compensation, and equity-linked compensation in the form of stock options. Directors receive base compensation monthly.

Directors receive performance-linked compensation after the close of the fiscal year based on annual performance. It is the sum of compensation linked to Company results and the performance of the individual director.

Compensation for Company results is calculated by applying a coefficient to a standard amount based on the ratio of actual results to targeted results.

Compensation for individual performance is determined by applying a coefficient to a standard amount based on the evaluation of individual performance.

Equity-linked compensation takes the form of stock options granted to directors as stock acquisition rights after the fiscal year based on annual performance.

## Status of Outside Directors and Auditors

### ■ Outside Directors

Name	Independent Director	Supplementary Information: Concurrent Positions	Reasons for Appointment
Motonari Otsuru	Yes	Outside Director of Aurora Servicing Ltd.; Outside Director of Morningstar Japan K.K.; Outside Corporate Auditor of SBI Insurance Group Co., Ltd.	Mr. Otsuru has extensive experience and insight as a lawyer, and has served in roles including Trial Director of the Supreme Public Prosecutors Office. He has been elected as Outside Director so that the Company can continue to receive his advice on strengthening internal control centering on compliance. Mr. Otsuru does not have any special interests in the Company, and we believe he is fully capable of independently fulfilling supervisory roles and functions.
Junya Hakoda	Yes	Corporate Auditor of Schroder Investment Management (Japan) Limited; Outside Director of Yamaha Corporation	Mr. Hakoda has practical experience as an expert certified public accountant and extensive insight into internal control. He has been elected as Outside Director so that the Company can receive his advice on strengthening internal control, which is a priority. Mr. Hakoda does not have any special interests in the Company, and we believe he is fully capable of independently fulfilling supervisory roles and functions.
Yoshimi Nakajima	Yes	Outside Director of Yamaha Corporation	Ms. Nakajima has been elected in light of her extensive overseas business experience and sophisticated insight, as well as her ability to use the contact network, expertise and knowledge she has acquired, in addition to an intimate familiarity with diversity issues from a global standpoint, to provide opinions on the Company's management from various perspectives. Ms. Nakajima does not have any special interests in the Company, and we believe she is fully capable of independently fulfilling supervisory roles and functions.

### ■ Outside Auditors

Name	Independent Corporate Auditor	Supplementary Information: Concurrent Positions	Reasons for Appointment
Hisanori Uchibori	—	Corporate Auditor of AEON Bank, Ltd.	Mr. Uchibori has extensive experience and insight. He provides effective supervision and advice relevant to general management, and is able to contribute to the proper and appropriate management of the Company. Mr. Uchibori does not have any special interests in the Company.
Go Otani	Yes	—	Mr. Otani has outstanding character, insight, and ethical standards, and is well-versed in internal control and corporate governance. Given his extensive experience, we believe he is able to contribute to the proper and appropriate management of the Company and has no conflict of interest with common shareholders. Mr. Otani does not have any special interests in the Company.
Kotaro Yamazawa	Yes	—	Mr. Yamazawa acquired knowledge of finance and accounting through his work at the Bank of Japan and a stock exchange, and is able to provide opinions on Company management from various perspectives using his knowledge of corporate governance and broad network of contacts in the financial industry. We believe he has no conflict of interest with common shareholders. Mr. Yamazawa does not have any special interests in the Company.

## Status of Investor Relations Activities

Investor Relations Activities	Supplementary Comments	Explanation by Representative Directors
Preparation and publication of a disclosure policy	We prepare a disclosure policy and publicize basic policies, standards of information disclosure, methods of information disclosure, and IR quiet period.	—
Company briefings for individual investors	We hold company briefing sessions for individual investors to showcase the company and explain its performance.	Yes
Periodic briefings for analysts and institutional investors	Representative directors or the director in charge of corporate management periodically conduct briefings.	Yes
Periodic briefings for foreign investors	We publish English annual reports and an English version of the IR site. We translate various reporting materials into English and regularly hold meetings with overseas investors.	No
Availability of investor relations materials on the corporate website	We publish various materials, including audio versions of results briefings. We also publish monthly information.	—
Establishment of a department/person in charge of investor relations	We have established the Investor Relations Office to specialize in disclosure.	—
Other	The President & CEO, director in charge of corporate management, and person in charge of investor relations conduct meetings with individual domestic and overseas investors and securities analysts.	—

## Comments from Outside Directors

I am fully committed to truly functional corporate governance, compliance and the customer's perspective.

The AEON Financial Service Group has upgraded its corporate governance system and is conscientious about compliance. It is also reforming its business model to address major changes in the operating environment brought on by IT innovation, and aggressively expanding its operations in Japan and other Asian countries/regions. Group companies vary in scale and corporate history, while regulatory systems, employee workplace attitudes and customer values vary across the countries/regions that the Group serves, so growing as a Group is not an easy task. Nevertheless, the Group promotes employees possessing drive and ability with equal treatment regardless of age, nationality or gender, and all officers and employees share the stance described above as they pursue their day-to-day work.

In this context, I deploy my experience spanning from frontline operations through to management supervision at a government agency, and in uncovering the facts relevant to various instances of corporate misconduct, as well as my instincts as a practicing attorney. These form the basis for fulfilling my role as an outside director, namely by seeing to it that the Group's corporate governance system is truly functional, not just a rubber stamp formality, ensuring that the Group inculcates compliance and a commitment to the customer perspective in every aspect of its business, and continuing to provide frank opinions on how the Group should be contributing to community and social development.



**Motonari Otsuru**  
Director (Outside)

My purpose is to pursue steady, consistent management so that the Group can compete worldwide.

AEON Financial Service has its roots in the retail sector and provides comprehensive financial services closely attuned to the daily lives of its customers. It continues to grow by expanding throughout Asia. Supported by approximately 40 million cardholders, the Group has bright prospects for continued growth through the launch of new products and services.

At the same time, financial innovation continues apace worldwide. AEON Financial Service competes day in, day out to be a winner that rides this wave of innovation, not an also-ran that gets left in its wake. In this challenging business environment, AEON Financial Service absolutely needs high-level corporate governance to ensure stable, reliable management as it competes aggressively.

Within the Group's holding company structure, the Board of Directors is central to corporate governance. The strategies the board selects and their subsequent execution have a major impact on shareholders, customers and other stakeholders. As a board member, I approach my work with a sense of responsibility and healthy tension while taking advantage of the knowledge of accounting and internal controls one would expect of an outside director who is a certified public accountant.



**Junya Hakoda**  
Director (Outside)

I will leverage my experience and expertise in the credit card industry to help build corporate value.

The AEON Financial Service Group seeks to become Asia's leading lifestyle support company by continuing to pursue a future growth strategy focused on its Global Business, expanding business domains by incorporating technological innovation, and fostering a corporate culture of innovation through its personnel strategies. Outstanding and effective corporate governance is essential to this endeavor.

I believe my 20 years of management experience in global finance, knowledge of and expertise in banking, securities and credit cards, and external insight can help the Group to change with greater speed. My experience with management in Singapore is particularly relevant because I can provide practical, in-depth advice that supports the Group's goal of expanding operations in Asia.

Technological innovation is a global trend. As the Group targets entry into new businesses by harnessing technological innovation in finance, another of my key responsibilities as an outside director is providing flexible, accurate and internationally savvy input for medium- to long-term management planning.

Through engaging in vigorous discussion with the Board of Directors and stakeholders, I will help AEON Financial Service address diversifying customer needs, create a corporate culture that stays one step ahead of innovation across business fields, reinforce governance, and contribute to increasing corporate value.



**Yoshimi Nakajima**  
Director (Outside)

# CSR

## Basic Policy

As a member of the AEON Group, AEON Financial Service aims to be a corporate group that responds to the expectations of stakeholders and contributes to the sustainable development of society based on its management philosophy of “supporting customers’ lifestyles and enabling each individual to maximize future opportunities through effective use of credit.”

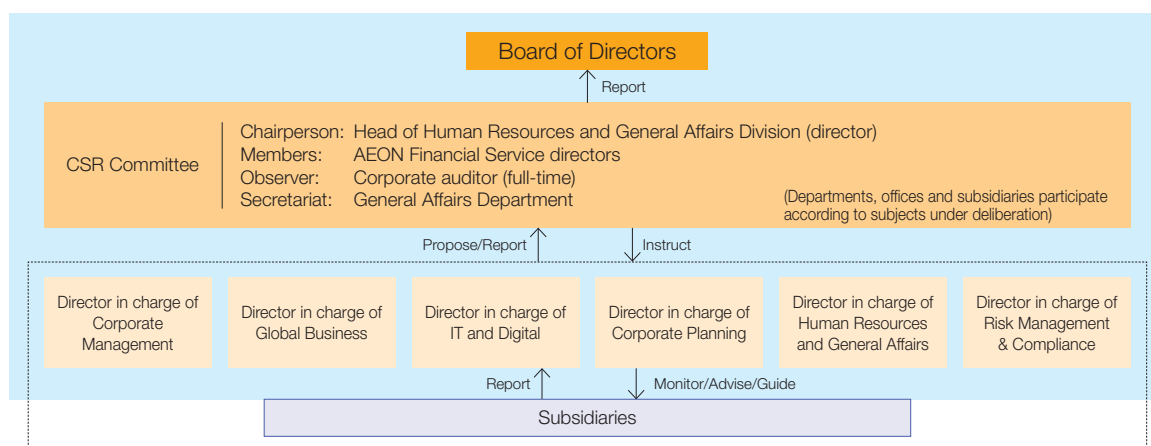
We do so through our business operations and our CSR activities. We comply with laws and regulations, inculcating an awareness of compliance that extends to the frontlines of all Group company business activities and includes overseas subsidiaries. We also fulfill our social responsibilities by considering the environment, contributing to communities and further enhancing our system of corporate governance.

## Organization for Promoting CSR

AEON Financial Service established the CSR Committee in April 2017 to deliberate and decide matters relating to CSR including environmental conservation and community contribution. The committee meets once each quarter to deliberate important issues related to CSR and the results of activities, and the committee chairperson reports on these deliberations to the Board of Directors.

In fiscal 2017, the committee discussed the promotion of CSR activities based on the ISO 26000 framework, the achievements of CSR activities by each AEON Financial Service Group company, and tree planting activities abroad.

Each AEON Financial Service Group company implements its own organization for managing environmental activities. AEON Credit Service Co., Ltd., a major domestic subsidiary, and three overseas listed subsidiaries have acquired ISO 14001 certification and are reducing their environmental impact. AEON Credit Service is improving business efficiency, formulating annual education and training plans, and implementing ISO education to raise environmental awareness among employees.



AEON Financial Service Group ISO 14001 Certification (as of July 2017)

● AEON Credit Service Co., Ltd. ● AEON Credit Service (Asia) Co., Ltd. ● AEON Thana Sinsap (Thailand) Plc. ● AEON Credit Service (M) Berhad

## For the Environment

The pillars of our environmental initiatives are the formation of a low-carbon society, the preservation of biodiversity and the creation of a society that recycles resources. We will implement these initiatives by providing financial products and services that are closely linked to lifestyles and that offer security, convenience and value in customers’ daily lives.

### Environmental Policy

1. We are reducing greenhouse gas emissions to form a low-carbon society.
2. We are fulfilling our social responsibilities as a financial institution that is central to economic activity by reducing the

impact of our business activities on ecosystems and preserving biodiversity to realize a prosperous society that coexists with nature.

3. We are reducing waste and conserving resources to create a recycling-oriented society.
  - 1) Promote the three Rs (reduce, reuse, recycle) of resources.
  - 2) Select raw and other materials that have less environmental impact.
4. We comply with laws and regulations related to the environment and disclose this policy to all employees and all people supporting our business activities.
5. We recognize that cooperation with customers and other stakeholders is important for the development of a sustainable society, and we will cooperate appropriately.

## Environmental Conservation Activities

### Mitigating Climate Change and Promoting Resource Conservation

We are working to reduce waste and conserve resources by using digital signage for signs and posters at stores. We are promoting digitalization overseas as well as in Japan, and are using tablet devices for enrollment procedures and installing digital signage. In addition, our Web Statements (Environmental Declaration) service is a joint effort with customers. We are promoting this environmentally friendly service that reduces paper consumption and CO<sub>2</sub> emissions by allowing customers to access statements online instead of receiving printed hard copy. Many customers have opted to use the Web Statements service, which reduced CO<sub>2</sub> emissions by 1,288 tons during fiscal 2016.

### Tree Planting

We actively participate in the AEON Hometown Forest Program, which has been planting trees around newly opened stores in collaboration with local customers since 1991. We also actively work with the AEON Environmental Foundation in tree planting activities in Japan and overseas, which involves cooperation between central and local governments, to replant forests devastated by natural disasters or other causes. In 2016, employees participated in tree planting activities in locations including Atsuma, Hokkaido Prefecture in July and Watari, Miyagi Prefecture in October.

Overseas, continuing on from last year, we participated in tree planting in Yangon, Myanmar in July 2017 in collaboration with employees of Group companies and their business partners. In Thailand, employees of subsidiary AEON Thana Sinsap (Thailand) Plc. participated in tree planting activities at Si Lanna National Park in Chiang Mai Province along with local residents.



Tree planting in Yangon, Myanmar

## For Communities

### Support for Recovery from the Great East Japan Earthquake Issued the Yori Sou Chikara Tohoku Electric Power Card

We issued a co-branded card for Tohoku Electric Power Co., Ltd. in January 2017. As one of its benefits, a portion of money spent is automatically donated to the six Tohoku prefectures

and to Niigata Prefecture as a way of contributing to regional reconstruction and revitalization.

(Donations are made at no expense to customers.)

## Local Community Activities

### Clean Road Activities

Our worksites throughout Japan participate in the AEON Clean Road program, a joint effort of AEON Co., Ltd. and the Ministry of Land, Infrastructure, Transport and Tourism. Program activities include collecting refuse on sidewalks and crosswalk bridges, and cleaning up roadside greenery.

### Community Contribution Overseas

We ensure our overseas subsidiaries are rooted in the communities they serve by contributing locally. Our subsidiary in Hong Kong has been awarded the Caring Company Logo for 10 consecutive years. This honor is given in recognition of companies that are actively engaged in social contribution activities. Our subsidiary in Thailand held a charity marathon to support the Ramathibodi Foundation, which is engaged in hepatocyte and genetic research. Our Malaysian subsidiary held an event at AEON stores that solicited donations of items such as clothes and shoes to support children without families.



Charity marathon in Thailand

### Donations and Fundraising

AEON Bank, Ltd. continues to receive donations to a special account it established to support Great East Japan Earthquake reconstruction. We have presented funds raised to Japan Platform, an authorized NPO, to support people in the affected areas. In addition, we engage in numerous fundraising programs with customers, including the charity program 24 Hour Television: Love Saves the Earth and donations using Tokimeki points earned on credit card payments. In the Tokimeki point program, customers are given the option of using their points to make donations to environmental or social welfare action groups, and we present goodwill contributions from many cardholders to various organizations.

Overseas, our Malaysian subsidiary celebrated its 20th anniversary by donating to charity organizations and engaging in local cleanups. We also provide scholarship funds to students from Asia studying in Japan and to students studying in Asian countries.

# Financial Section

AEON Financial Service Co., Ltd. and Consolidated Subsidiaries

## 11-Year Summary

AEON Credit Service Co., Ltd. <sup>1</sup>	2006	2007	2008	2009	2010	2011
<b>Consolidated cardholders<sup>4</sup> (millions)</b>						
Total	—	22.86	24.94	26.53	28.07	29.76
Domestic	—	16.73	17.90	19.05	20.00	21.01
<b>For the year (millions of yen)</b>						
Operating revenues	173,481	181,076	176,007	172,430	169,191	169,853
Operating expenses	132,526	148,212	149,396	151,869	148,473	145,572
Operating income	40,955	32,863	26,611	20,560	20,717	24,280
Ordinary income	41,018	33,014	26,805	20,424	20,823	24,268
Profit attributable to owners of parent	20,592	17,653	14,788	197	9,540	8,988
<b>Per share information (yen)</b>						
Book value per share	991.07	1,040.97	1,036.35	994.42	1,015.17	1,012.52
Earnings per share	131.23	112.52	94.29	1.26	60.83	57.30
Diluted earnings per share	—	—	94.28	1.26	—	57.30
<b>At year-end (millions of yen)</b>						
Operating loans	507,115	503,720	483,527	423,324	293,427	255,704
Operating loans including securitized receivables	526,399	532,097	501,605	476,651	434,735	488,549
Accounts receivable—installment	260,790	287,335	245,378	300,782	384,261	427,634
Accounts receivable—installment including securitized receivables	312,589	372,246	395,776	443,290	504,001	552,749
Total assets	834,254	862,061	854,193	866,364	901,578	907,658
Net assets	172,611	183,336	181,901	176,717	180,199	181,852
<b>Key indicators (%)</b>						
Operating income ratio	23.6	18.1	15.1	11.9	12.2	14.3
Equity ratio (domestic standard)	18.6	18.9	19.0	18.0	17.7	17.5
Return on assets	5.4	3.9	3.1	2.4	2.4	2.7
Return on equity	14.0	11.1	9.1	0.1	6.1	5.7
<b>Dividends</b>						
Dividend per share (yen)	40	40	40	40	40	45
Payout ratio (%)	35.1	35.5	42.4	3,174.6	65.8	78.5

Notes: 1. The consolidated amounts for the fiscal year ended March 31, 2013 include the results of AEON Bank, Ltd. and its one subsidiary, as AEON Bank, Ltd. became a wholly-owned subsidiary of the Company through a share exchange as of January 1, 2013.

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 from the fiscal year ended March 31, 2014 onward in accordance with the Ordinance for 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 cover a period of 13 months and 11 days from February 21, 2012 through March 31, 2013, because the Company changed its fiscal year-end from February 20 to March 31.

4. The method for calculating consolidated cardholders was changed effective the fiscal year ended February 20, 2008.



2012 <sup>3</sup>	AEON Financial Service Co., Ltd. <sup>1</sup>	2013 <sup>2</sup>	2014 <sup>2</sup>	2015 <sup>2</sup>	2016 <sup>2</sup> (FY)
	<b>Consolidated cardholders<sup>4</sup> (millions)</b>				
31.85	Total	33.90	35.67	37.22	38.94
22.24	Domestic	23.45	24.64	25.88	26.92
	<b>For the year (millions of yen)</b>				
205,972	Ordinary income	286,070	329,046	359,651	375,166
172,892	Ordinary expenses	244,978	275,965	300,270	313,559
33,080					
33,367	Ordinary profit	41,092	53,080	59,380	61,606
13,616	Profit attributable to owners of parent	20,743	30,491	35,785	39,454
	<b>Per share information (yen)</b>				
1,235.28	Book value per share	1,316.00	1,377.56	1,465.31	1,604.79
88.12	Earnings per share	104.62	152.55	180.09	189.75
78.25	Diluted earnings per share	99.49	152.04	180.00	183.96
	<b>At year-end (millions of yen)</b>				
421,196	Loans and bills discounted	1,276,741	1,474,236	1,673,997	1,864,904
518,908	Loans and bills discounted including securitized receivables	1,531,376	1,873,598	2,364,444	2,757,434
507,315	Accounts receivable–installment	957,403	1,038,221	1,022,387	1,182,193
740,027	Accounts receivable–installment including securitized receivables	1,085,969	1,185,191	1,314,385	1,523,981
2,534,208	Total assets	3,163,117	3,589,495	3,745,546	4,187,263
258,872	Net assets	307,291	324,948	340,886	401,170
	<b>Key indicators (%)</b>				
16.1	Ordinary profit ratio	14.4	16.1	16.5	16.4
9.1	Equity ratio (domestic standard)	8.9	8.1	7.4	8.5
1.9	Return on assets	1.4	1.6	1.6	1.6
7.0	Return on equity	8.2	11.2	12.7	12.4
	<b>Dividends</b>				
50	Dividend per share (yen)	60	60	66	68
56.9	Payout ratio (%)	57.4	39.3	36.6	35.8

# Management's Discussion and Analysis of Operating Results and Financial Position

## Summary of Fiscal 2016 Results

In fiscal 2016, consolidated ordinary income increased 4.3% year on year to ¥375.1 billion. Ordinary profit increased 3.7% to ¥61.6 billion, and profit attributable to owners of parent increased 10.3% to ¥39.4 billion.

### Consolidated Operating Results

(Millions of yen)

	Fiscal 2013	Fiscal 2014	Fiscal 2015	Fiscal 2016
Ordinary income	286,070	329,046	359,651	375,166
Ordinary profit	41,092	53,080	59,380	61,606
Profit attributable to owners of parent	20,743	30,491	35,785	39,454

### Segment Results (Fiscal 2016)

(Millions of yen)

	Credit	Banking	Overseas	Fee Business and Other	Adjustments	Amount stated on the consolidated statement of income
Ordinary income	175,897	53,105	113,299	54,079	(21,214)	375,166
Ordinary expenses	135,525	52,515	90,754	49,776	(15,012)	313,559
Ordinary profit	40,372	589	22,544	4,302	(6,202)	61,606

Note: As of the first quarter of fiscal 2017, segment classifications have been changed. For more details, please consult issues of the Fact Book published from the first quarter of fiscal 2017 onward at the link below.

<http://www.aeonfinancial.co.jp/eng/ir/library/hojyo.html>

### Consolidated Transaction Volume

(Millions of yen)

	Fiscal 2013	Fiscal 2014	Fiscal 2015	Fiscal 2016
Credit card purchase contracts	3,736,837	4,015,129	4,315,454	4,711,676
Hire purchase contracts	177,977	250,248	296,112	315,497
Cash advances	435,079	448,306	469,741	475,851

### Credit Card Purchase Contracts (Domestic/Global)

(Millions of yen)

	Fiscal 2013	Fiscal 2014	Fiscal 2015	Fiscal 2016
Domestic	3,581,836	3,821,041	4,104,792	4,515,763
Global	155,001	194,088	210,662	195,913

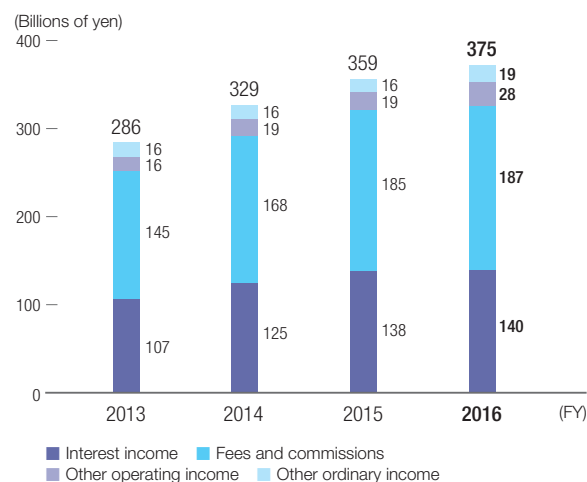
- Credit card purchase contracts expanded steadily as a result of enhanced credit card shopping point programs in Japan. Cash advance transaction volume increased year on year backed by cardholder growth in Japan.
- Hire purchase contracts increased year on year on the back of solid auto loans in Japan.

### Ordinary Income

(Millions of yen)

	Fiscal 2013	Fiscal 2014	Fiscal 2015	Fiscal 2016
Ordinary income	286,070	329,046	359,651	375,166
Interest income	107,452	125,493	138,810	140,240
Fees and commissions	145,782	168,283	185,072	187,511
Other operating income	16,796	19,053	19,759	28,226
Other ordinary income	16,038	16,215	16,010	19,188

- Ordinary income increased 4.3% year on year. It increased in Japan but decreased overseas due to a negative effect of ¥16.1 billion from appreciation of the yen.
- Interest income increased 1.0% year on year. Cash advances drove growth in Japan, while we tightened credit overseas.
- Fees and commissions increased 1.3% year on year. Credit card purchase contracts and hire purchase contracts expanded steadily in Japan. However, processing agency service fees decreased year on year because e-money transaction volume in Japan did not grow as expected.
- Other operating income increased 42.9% year on year due to the effect of ACS Leasing Co., Ltd. becoming a consolidated subsidiary in the fourth quarter of fiscal 2016 and an increase of 22.5% year on year in domestic securitized receivables to ¥16.8 billion.

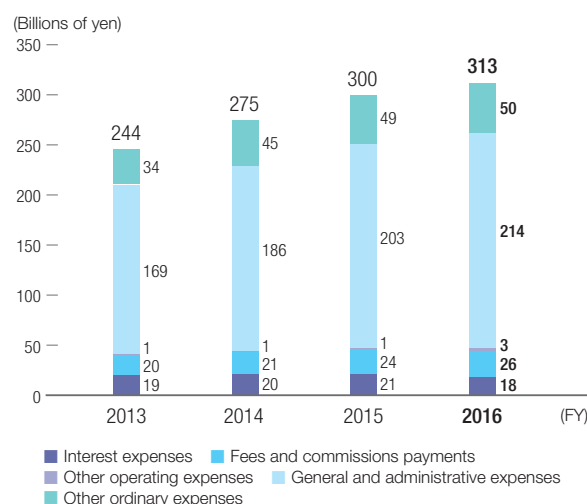


## Ordinary Expenses

(Millions of yen)

	Fiscal 2013	Fiscal 2014	Fiscal 2015	Fiscal 2016
Ordinary expenses	244,978	275,965	300,270	313,559
Interest expenses	19,524	20,677	21,305	18,996
Fees and commissions payments	20,259	21,838	24,667	26,372
Other operating expenses	1,028	1,109	1,437	3,226
General and administrative expenses	169,568	186,474	203,553	214,657
Other ordinary expenses	34,596	45,865	49,306	50,306

- Ordinary expenses increased 4.4% year on year because controls on personnel expenses and reductions in bad debt allowance overseas were below plan.
- Interest expenses increased overseas, but due to reduced funding interest in Japan with borrowings sourced from ordinary deposits at AEON Bank, interest expenses decreased 10.8% year on year.
- Fees and commissions payments increased 6.9% year on year, due to higher fee payments led by increased credit card transaction volume in Japan.
- Other operating expenses increased 124.4% year on year. This was due to the effects of ACS Leasing Co., Ltd. becoming a consolidated subsidiary in the fourth quarter of fiscal 2016.
- General and administrative expenses increased 5.5% year on year. This was due to increases in Japan in personnel expenses, advertising and promotion, and the tax expenses accompanying the application of pro forma standard taxation.
- Bad debt expenses decreased because of tighter credit overseas, but credit card receivables increased steadily in Japan. Thus, other ordinary expenses increased 2.0% year on year.

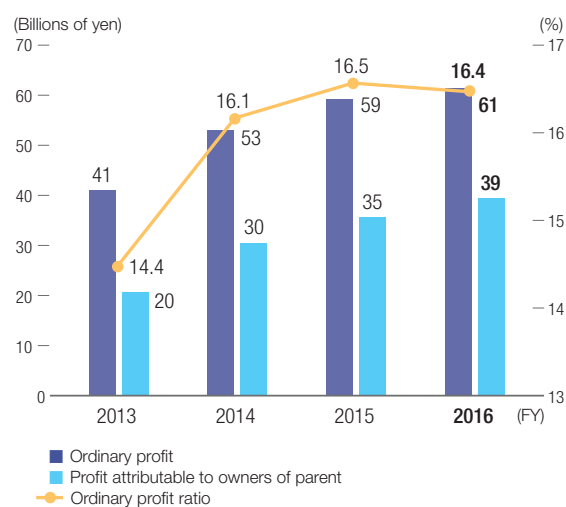


## Ordinary Profit and Profit Attributable to Owners of Parent

(Millions of yen)

	Fiscal 2013	Fiscal 2014	Fiscal 2015	Fiscal 2016
Ordinary profit	41,092	53,080	59,380	61,606
Ordinary profit ratio	14.4%	16.1%	16.5%	16.4%
Income before income taxes	39,797	52,752	59,250	59,665
Total income taxes	11,912	14,065	14,787	12,065
Profit	27,885	38,687	44,463	47,599
Profit attributable to non-controlling interests	7,142	8,195	8,678	8,145
Profit attributable to owners of parent	20,743	30,491	35,785	39,454

- Ordinary profit increased 3.7% year on year. Securitization of receivables in Japan added ¥16.5 billion to earnings, an increase of 23.0% year on year, and appreciation of the yen had a negative impact of ¥3.3 billion. The ordinary profit ratio decreased 0.1 percentage points year on year to 16.4%.
- Profit attributable to owners of parent increased 10.3% year on year. Tax expenses were reduced through measures including tax effect accounting at consolidated subsidiaries AEON Bank, Inc. and AEON Product Finance Co., Ltd.

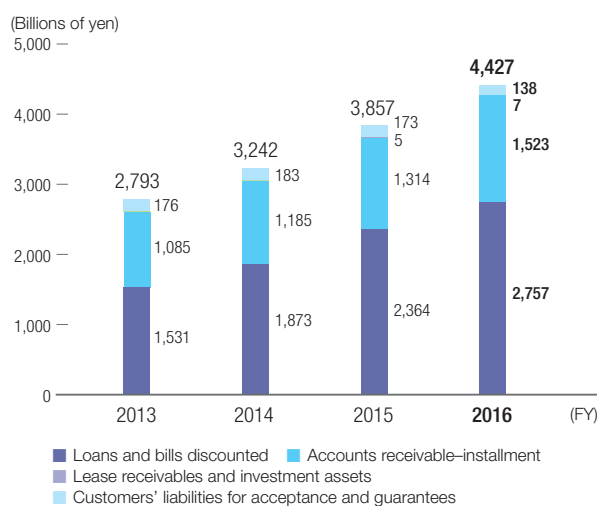


## Financial Position

(Millions of yen)

	Fiscal 2013	Fiscal 2014	Fiscal 2015	Fiscal 2016
Operating receivables	2,793,768	3,242,422	3,857,677	4,427,249
Loans and bills discounted	1,531,376	1,873,598	2,364,444	2,757,434
Accounts receivable–installment	1,085,969	1,185,191	1,314,385	1,523,981
Lease receivables and investment assets	—	—	5,405	7,103
Customers' liabilities for acceptance and guarantees	176,421	183,632	173,441	138,729

- Loans and bills discounted increased ¥392.9 billion from a year earlier. Cash advances and other unsecured loans increased in Japan, as did housing loans. Overseas, unsecured loans recovered during the second half of the fiscal year.
- Accounts receivable–installment increased ¥209.5 billion from a year earlier. Credit card purchase contracts and installment finance increased in Japan and overseas, primarily in Malaysia.

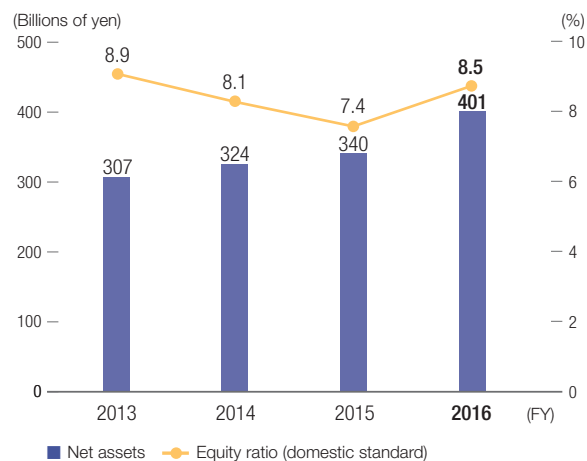


## Net Assets and Equity Ratio (Domestic Standard)

(Millions of yen)

	Fiscal 2013	Fiscal 2014	Fiscal 2015	Fiscal 2016
Net assets	307,291	324,948	340,886	401,170
Equity ratio (domestic standard)	8.9%	8.1%	7.4%	8.5%

- Net assets increased by ¥60.2 billion from a year earlier. Contributing factors include an increase in both capital stock and capital surplus as a result of capital raised by way of public offering and third-party allotments of shares. Furthermore, an increase in profit attributable to owners of parent boosted retained earnings.
- The equity ratio (domestic standard) increased 1.17 percentage points from a year earlier. This was a result of securitizing receivables, from the perspective of asset and liability management, by transitioning long-term receivables such as housing loans to shorter, more advantageous cash-to-cash cycles in the form of short-term receivables such as credit cards. We have also been managing risk by obtaining credit ratings for subordinated beneficiary rights.



## Five-Year Summary

AEON Financial Service Co., Ltd. (formerly, AEON Credit Service Co., Ltd.) and Subsidiaries  
Year Ended March 31, 2017 and Years Ended March 31, 2016 through 2013

	Millions of Yen				Thousands of U.S. Dollars <sup>(*)</sup>
	2017 <sup>(*)</sup>	2016 <sup>(*)</sup>	2015 <sup>(*)</sup>	2014 <sup>(*)</sup>	2017
<b>For the Year:</b>					
Total income	¥ 375,272	¥ 360,932	¥ 329,047	¥ 286,181	\$ 3,344,667
Total expenses	315,606	301,681	276,294	246,384	2,812,887
Income before income taxes	59,666	59,251	52,753	39,797	531,780
Net income attributable to owners of the parent	39,454	35,785	30,492	20,743	351,640
<b>Per Share Data:</b>					
	Yen				U.S. Dollars <sup>(*)</sup>
Net assets	¥ 1,604.79	¥ 1,465.31	¥ 1,377.56	¥ 1,316.00	\$ 14.30
Basic net income	189.75	180.09	152.55	104.62	1.69
Diluted net income	183.96	180.00	152.04	99.49	1.64
<b>At Year-End:</b>					
	Millions of Yen				Thousands of U.S. Dollars <sup>(*)</sup>
Loans and bills discounted—net of allowance for possible credit losses	¥1,836,903	¥1,646,425	¥1,448,023	¥1,248,815	\$16,371,683
Installment sales receivables—net of allowance for possible credit losses	1,159,839	1,000,574	1,015,155	937,759	10,337,243
Property and equipment	38,230	36,530	35,774	31,186	340,729
Total assets	4,187,264	3,745,546	3,589,496	3,163,117	37,319,643
Total liabilities	3,786,094	3,404,660	3,264,548	2,855,825	33,744,152
Equity	401,170	340,886	324,948	307,292	3,575,491
<b>Ratios:</b>					
	Percentage				
Equity ratio	8.3%	7.8%	7.6%	8.6%	
Return on assets	1.0	1.0	0.9	0.7	
Return on equity	12.4	12.7	11.2	8.2	

	Millions of Yen
	2013 <sup>(*)</sup>
<b>For the Year:</b>	
Total operating revenues	¥205,972
Total operating expenses	172,892
Income before income taxes	30,492
Net income	13,616

	Yen
<b>Per Share Data:</b>	
Net assets	¥1,235.28
Basic net income	88.12
Diluted net income	78.25

	Millions of Yen
<b>At Year-End:</b>	
Finance receivables—net of allowance for possible credit losses	¥ 891,556
Net property and equipment	20,061
Total assets	2,534,209
Total liabilities	2,275,337
Equity	258,872

	Percentage
<b>Ratios:</b>	
Equity ratio	9.1%
Return on assets	0.8
Return on equity	7.0

(\*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 ¥112.20 to U.S.\$1, the approximate rate of exchange on March 31, 2017. 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, 2017, 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, 2017 and 2016

## RESULTS OF OPERATIONS

	Millions of Yen			
	2017	2016	Amount Change	Percentage Change
Consolidated gross profits <sup>(*)</sup> :				
Net interest income	¥121,244	¥117,504	¥ 3,740	3.2%
Net fees and commissions	161,139	160,405	734	0.5
Net other operating income	25,001	18,322	6,679	36.5
Total Consolidated gross profits	307,384	296,231	11,153	3.8
General and administrative expenses	(214,658)	(203,553)	(11,105)	5.5
Provision for possible credit losses and write-off of bad debts	(46,246)	(45,626)	(620)	1.4
Net other income	13,186	12,199	987	8.1
Income before income taxes	59,666	59,251	415	0.7
Income taxes:				
Current	(15,920)	(15,193)	(727)	4.8
Deferred	3,854	406	3,448	849.3
Total income taxes	(12,066)	(14,787)	2,721	(18.4)
Net income	47,600	44,464	3,136	7.1
Net income attributable to non-controlling interests	(8,146)	(8,679)	533	(6.1)
Net income attributable to owners of the parent	¥ 39,454	¥ 35,785	¥ 3,669	10.3%

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

### Consolidated Financial Summary

As the real gross employees' income has been in a moderate increasing trend, domestic consumer spending showed a steady growth on the whole and consumer sentiment also seemed to be improving. As for corporate activities, capital investments, exports and production activities continuously showed signs of recovery. Corporate earnings were maintained at a high level, and the domestic business environment remained on track of gradual recovery. In the financial and economic conditions where the Bank of Japan continued the negative interest-rate policy, yields on 10-year Japanese government bonds hovered below zero during the first half of the current fiscal year. In December 2016, however, the U.S.'s decision to raise interest rates triggered interest rates to increase worldwide, and consequently, the yields moved above zero during the second half of the current fiscal year. In June 2016, Japanese Yen was temporarily in an appreciation trend due to effects of increased uncertainties of the European economy resulting from Britain's exit from the European Union. During the second half of the current fiscal year, the yen became depreciated with expectation of the new U.S. Trump administration. However, the yen was again in an appreciated trend later on due to a sense of vigilance against geopolitical risk such as the situation in Syria.

In China, economic conditions showed signs of recovery due to effects of various policy measures and an increase in

consumer spending. In Thailand, consumption environment remained stagnant, due to a decline in revenue from tourism and downward consumer expectations resulting from effects of the death of the King of Thailand. In Malaysia, significant disparities in business confidence among industries were observed. The economic growth rate fell down due to sluggish exports resulting from stagnant demands for natural resources and restriction of public investments, while consumer spending rose due to absorption of effects of inflation resulting from the Goods and Services Tax introduced in April 2015.

Under such circumstances, as to digitalization using Fintec, the Company held external contests (hackathons) to look for external insights and technologies and developed smartphone applications to provide convenient and comfortable services to customers. Especially, to achieve simple and speedy operations, the Company introduced for the first time in Japan the "fingerprint authentication system" for ATMs, which enables to identify customers using ATM services with their fingerprint information only, and implemented a paperless application process. At the same time, the Company improved its productivity using digital technologies and maintained profitability under the low-interest rate environment. In addition, the Company strengthened its management bases such as corporate governance and compliance management.



## Loans and Bills Discounted and Installment Sales Receivables

	Millions of Yen			
	2017	2016	Amount Change	Percentage Change
Loans and bills discounted	¥1,864,904	¥1,673,997	¥190,907	11.4%
Allowance for possible credit losses	(28,001)	(27,572)	(429)	1.6
Total loans and bills discounted	¥1,836,903	¥1,646,425	¥190,478	11.6%

	Millions of Yen			
	2017	2016	Amount Change	Percentage Change
Installment sales receivables:				
Credit card purchase contracts	¥ 809,662	¥ 687,501	¥122,161	17.8%
Hire purchase contracts	372,532	334,886	37,646	11.2
Subtotal	1,182,194	1,022,387	159,807	15.6
Allowance for possible credit losses	(22,355)	(21,813)	(542)	2.5
Total installment sales receivables	¥1,159,839	¥1,000,574	¥159,265	15.9%

## Cash flows

For the year ended March 31, 2017, the net cash provided by operating activities amounted to ¥35,909 million (\$320,045 thousand), the net cash provided by investing activities amounted to ¥5,358 million (\$47,750 thousand) and the net cash provided by financing activities amounted to ¥43,487

million (\$387,587 thousand). As a result of the above, the balance of cash and cash equivalents as at March 31, 2017 increased by ¥84,227 million (\$750,687 thousand) to ¥506,203 million (\$4,511,611 thousand) 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			
	2017	2016	Amount Change	Percentage Change
<b>Total Assets:</b>				
Credit	¥1,564,795	¥1,425,959	¥138,836	9.7%
Banking	2,094,004	1,778,958	315,046	17.7
Overseas	553,369	529,443	23,926	4.5
Fee Business and Other	178,222	170,882	7,340	4.3
Reconciliations	(203,126)	(159,696)	(43,430)	27.2
Total assets	¥4,187,264	¥3,745,546	¥441,718	11.8%
<b>Ordinary income<sup>(*)</sup>:</b>				
Credit	¥ 175,897	¥ 161,348	¥ 14,549	9.0%
Banking	53,105	46,820	6,285	13.4
Overseas	113,299	123,087	(9,788)	(8.0)
Fee Business and Other	54,080	49,636	4,444	9.0
Reconciliations	(21,215)	(21,240)	25	(0.1)
Total ordinary income	¥ 375,166	¥ 359,651	¥ 15,515	4.3%

(\*) 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 statement of income.

# Consolidated Balance Sheet

AEON Financial Service Co., Ltd. and Subsidiaries

March 31, 2017 and 2016

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
<b>ASSETS</b>			
Cash and cash equivalents (Note 18)	¥ 506,203	¥ 421,976	\$ 4,511,611
Deposits with banks (Notes 7 and 18)	28,454	22,893	253,598
Call loans (Note 18)	30,000		267,380
Monetary claims bought (Notes 3 and 18)	3,945	5,052	35,165
Securities (Notes 3, 7, and 18)	170,635	211,132	1,520,812
Loans and bills discounted—net of allowance for possible credit losses (Notes 4, 7, 18, 20, and 23)	1,836,903	1,646,425	16,371,683
Installment sales receivables—net of allowance for possible credit losses (Notes 4, 7, and 18)	1,159,839	1,000,574	10,337,243
Lease receivables and investment assets (Note 17)	7,104	5,406	63,314
Other assets (Notes 7 and 23)	155,160	124,520	1,382,894
Property and equipment (Note 5)	38,230	36,530	340,729
Intangible assets (Note 6)	87,054	77,163	775,882
Deferred tax assets (Note 15)	25,008	20,433	222,887
Customers' liabilities for acceptances and guarantees	138,729	173,442	1,236,445
<b>Total assets</b>	<b>¥4,187,264</b>	<b>¥3,745,546</b>	<b>\$37,319,643</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities:</b>			
Deposits (Note 18)	¥2,542,090	¥2,152,928	\$22,656,775
Accounts payable (Note 18)	221,189	204,845	1,971,387
Commercial paper (Notes 8 and 18)	38,000	68,000	338,681
Borrowed money (Notes 7, 8, and 18)	514,947	535,989	4,589,543
Bonds (Notes 8 and 18)	140,121	122,075	1,248,848
Convertible bonds (Notes 8 and 18)	30,000	50	267,380
Other liabilities (Notes 8 and 9)	139,085	128,324	1,239,616
Allowance for point program	14,519	12,457	129,400
Allowance for loss on refund of interest received	3,807	4,206	33,928
Allowance for contingent loss	566		5,042
Deferred tax liabilities (Note 15)	3,041	2,344	27,107
Acceptances and guarantees	138,729	173,442	1,236,445
<b>Total liabilities</b>	<b>3,786,094</b>	<b>3,404,660</b>	<b>33,744,152</b>
Commitments and contingent liabilities (Notes 17, 19, and 20)			
<b>Equity (Notes 10, 11, and 25):</b>			
Common stock—authorized, 540,000,000 shares; issued, 225,510,128 shares in 2017 and 208,527,801 shares in 2016	45,698	30,442	407,292
Capital surplus	121,211	106,230	1,080,316
Stock acquisition rights—553 rights in 2017 and 561 rights in 2016	112	111	999
Retained earnings	203,401	177,766	1,812,847
Treasury stock—at cost, 9,791,194 shares in 2017 and 9,807,144 shares in 2016	(25,100)	(25,142)	(223,715)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities (Note 3)	4,893	5,890	43,612
Deferred loss on derivatives under hedge accounting	(2,244)	(3,515)	(20,000)
Foreign currency translation adjustments	(1,235)	122	(11,014)
Accumulated adjustments for retirement benefits (Note 9)	(441)	(607)	(3,930)
<b>Total</b>	<b>346,295</b>	<b>291,297</b>	<b>3,086,407</b>
Non-controlling interests	54,875	49,589	489,084
<b>Total equity</b>	<b>401,170</b>	<b>340,886</b>	<b>3,575,491</b>
<b>Total liabilities and equity</b>	<b>¥4,187,264</b>	<b>¥2,745,546</b>	<b>\$37,319,643</b>

See notes to consolidated financial statements.

# Consolidated Statement of Income

AEON Financial Service Co., Ltd. and Subsidiaries

Years Ended March 31, 2017 and 2016

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
<b>Income:</b>			
Interest income:			
Interest on loans and bills discounted (Note 23)	¥138,169	¥136,343	\$1,231,456
Interest and dividends on securities	1,509	1,864	13,450
Interest on call loans	1	1	4
Interest on due from banks and deposits	419	447	3,736
Other interest income	142	155	1,265
Total interest income	140,240	138,810	1,249,911
Fees and commissions (Note 4)	187,512	185,072	1,671,227
Other operating income	28,227	19,759	251,574
Other income (Note 12)	19,293	17,291	171,955
<b>Total income</b>	<b>375,272</b>	<b>360,932</b>	<b>3,344,667</b>
<b>Expenses:</b>			
Interest expenses:			
Interest on deposits	(3,309)	(3,759)	(29,494)
Interest on call money		(3)	
Interest on borrowed money	(13,125)	(15,128)	(116,977)
Interest on bonds	(2,029)	(1,950)	(18,083)
Other interest expenses	(533)	(466)	(4,752)
Total interest expenses	(18,996)	(21,306)	(169,306)
Fees and commissions	(26,373)	(24,667)	(235,052)
Other operating expenses	(3,226)	(1,437)	(28,754)
General and administrative expenses (Notes 9, 13 and 17)	(214,658)	(203,553)	(1,913,169)
Provision for possible credit losses and write-off of bad debts	(46,246)	(45,626)	(412,172)
Other expenses (Note 14)	(6,107)	(5,092)	(54,434)
<b>Total expenses</b>	<b>(315,606)</b>	<b>(301,681)</b>	<b>(2,812,887)</b>
<b>Income before income taxes</b>	<b>59,666</b>	<b>59,251</b>	<b>531,780</b>
<b>Income taxes (Note 15):</b>			
Current	(15,920)	(15,193)	(141,891)
Deferred	3,854	406	34,352
Total income taxes	(12,066)	(14,787)	(107,539)
<b>Net income</b>	<b>47,600</b>	<b>44,464</b>	<b>424,241</b>
<b>Net income attributable to non-controlling interests</b>	<b>(8,146)</b>	<b>(8,679)</b>	<b>(72,601)</b>
<b>Net income attributable to owners of the parent</b>	<b>¥ 39,454</b>	<b>¥ 35,785</b>	<b>\$ 351,640</b>

	Yen	U.S. Dollars
<b>PER SHARE OF COMMON STOCK (Note 22):</b>		
Basic net income	¥189.75	¥180.09
Diluted net income	183.96	180.00
Cash dividends applicable to the year	68.00	66.00

See notes to consolidated financial statements.

# Consolidated Statement of Comprehensive Income

AEON Financial Service Co., Ltd. and Subsidiaries

Years Ended March 31, 2017 and 2016

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
Net income	¥47,600	¥44,464	\$424,241
Other comprehensive income (Note 21):			
Unrealized (loss) gain on available-for-sale securities	(1,003)	1,625	(8,943)
Deferred gain on derivatives under hedge accounting	2,268	76	20,219
Foreign currency translation adjustments	(2,023)	(12,684)	(18,026)
Adjustments for retirement benefits (Note 9)	167	(68)	1,486
Total other comprehensive income	(591)	(11,051)	(5,264)
Comprehensive income:	¥47,009	¥33,413	\$418,977
Total comprehensive income attributable to:			
Owners of the parent	¥38,536	¥29,993	\$343,461
Non-controlling interests	8,473	3,420	75,516

See notes to consolidated financial statements.

# Consolidated Statement of Changes in Equity

AEON Financial Service Co., Ltd. and Subsidiaries

Years Ended March 31, 2017 and 2016

	Thousands	Millions of Yen											
		Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income				Total	Non-controlling Interests	Total Equity
							Unrealized Gain on Available-for-sale Securities	Deferred Loss on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Accumulated adjustments for retirement benefit			
<b>Balance, April 1, 2015</b>	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	0					(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	1,646	(47)	(68)	(5,755)	(1,597)	(7,352)
<b>Balance, March 31, 2016</b>	198,721	¥30,442	¥106,230	¥111	¥177,766	¥(25,142)	¥5,890	¥(3,515)	¥ 122	¥(607)	¥291,297	¥49,589	¥340,886
Net income attributable to owners of the parent					39,454						39,454		39,454
Cash dividends, ¥67 per share					(13,806)						(13,806)		(13,806)
Issuance of new shares	16,945	15,231	15,231								30,462		30,462
Conversion of convertible bonds	37	25	25								50		50
Purchase of treasury stock	0					0					0		0
Disposal of treasury stock	16				(13)	42					29		29
Change in the parent's ownership interest arising from transactions with non-controlling interests			(275)								(275)	275	
Net change in the year				1			(997)	1,271	(1,357)	166	(916)	5,011	4,095
<b>Balance, March 31, 2017</b>	215,719	¥45,698	¥121,211	¥112	¥203,401	¥(25,100)	¥4,893	¥(2,244)	¥(1,235)	¥(441)	¥346,295	¥54,875	¥401,170

	Thousands	Thousands of U.S. Dollars (Note 1)											
		Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income				Total	Non-controlling Interests	Total Equity
							Unrealized Gain on Available-for-sale Securities	Deferred Loss on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Accumulated adjustments for retirement benefit			
<b>Balance, March 31, 2016</b>	198,691	\$271,314	\$ 946,792	\$986	\$1,584,371	\$ (224,080)	\$52,494	\$ (31,324)	\$ 1,091	\$ (5,415)	\$2,596,229	\$441,972	\$3,038,201
Net income attributable to owners of the parent					351,640						351,640		351,640
Cash dividends, ¥67 per share					(123,047)						(123,047)		(123,047)
Issuance of new shares	16,945	135,755	135,755								271,510		271,510
Conversion of convertible bonds	37	223	223								446		446
Purchase of treasury stock	0					(3)					(3)		(3)
Disposal of treasury stock	16				(117)	368					251		251
Change in the parent's ownership interest arising from transactions with non-controlling interests			(2,454)								(2,454)	2,454	
Net change in the year				13			(8,882)	11,324	(12,105)	1,485	(8,165)	44,658	36,493
<b>Balance, March 31, 2017</b>	215,719	\$407,292	\$1,080,316	\$999	\$1,812,847	\$ (223,715)	\$43,612	\$ (20,000)	\$ (11,014)	\$ (3,930)	\$3,086,407	\$489,084	\$3,575,491

See notes to consolidated financial statements.

# Consolidated Statement of Cash Flows

AEON Financial Service Co., Ltd. and Subsidiaries

Years Ended March 31, 2017 and 2016

Thousands of  
U.S. Dollars  
(Note 1)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
<b>OPERATING ACTIVITIES:</b>			
Income before income taxes	¥ 59,666	¥ 59,251	\$ 531,780
Adjustments for:			
Depreciation and amortization	17,583	15,885	156,715
Allowance for possible credit losses	1,110	2,448	9,890
Allowance for point program	2,062	866	18,378
Allowance for loss on refund of interest received	(400)	(642)	(3,561)
Allowance for contingent loss	566		5,042
Interest income	(140,240)	(138,810)	(1,249,911)
Interest expenses	18,996	21,306	169,306
Net increase in loans and bills discounted	(191,083)	(232,770)	(1,703,054)
Net increase in installment sales receivables	(167,691)	(16,159)	(1,494,573)
(Increase) decrease in lease receivables and investment assets	(1,698)	205	(15,136)
Net increase in deposits	389,162	189,903	3,468,468
Net increase in accounts payable	19,426	13,463	173,134
Net decrease in borrowed money	(13,765)	(24,199)	(122,687)
Net increase in deposits with banks	(5,586)	(11,156)	(49,784)
Net (increase) decrease in call loans and others	(28,894)	11,597	(257,521)
Net decrease in call money		(76,300)	
Net (decrease) increase in commercial paper	(30,000)	68,000	(267,380)
Proceeds from sale and leaseback	8,021	11,109	71,493
Interest income received	139,410	138,421	1,242,517
Interest expenses paid	(17,717)	(28,662)	(157,906)
Other	(8,555)	(383)	(76,248)
Subtotal	50,373	3,373	448,962
Income taxes—paid	(16,338)	(14,922)	(145,619)
Income taxes—refund	1,874	1,899	16,702
Net cash provided by (used in) operating activities	35,909	(9,650)	320,045
<b>INVESTING ACTIVITIES:</b>			
Purchases of securities	(314,365)	(119,962)	(2,801,828)
Proceeds from sales of securities	7,620	74,450	67,915
Proceeds from redemption of securities	345,876	71,006	3,082,671
Purchases of property and equipment	(8,605)	(10,194)	(76,697)
Proceeds from sale of property and equipment	957	2,820	8,530
Purchases of intangible assets	(26,125)	(17,397)	(232,841)
Proceeds from sale of intangible assets		198	
Payments for acquisition of business (Note 16)		(6,703)	
Net cash provided by (used in) investing activities	5,358	(5,782)	47,750
<b>FINANCING ACTIVITIES:</b>			
Financial costs paid for financing activities		(1)	
Proceeds from issuance of convertible bonds	29,968		267,097
Proceeds from issuance of common shares	30,328		270,302
Dividends paid to the Company's shareholders	(13,806)	(12,518)	(123,047)
Proceeds from stock issuance to non-controlling shareholders		247	
Dividends paid to non-controlling shareholders	(3,100)	(3,533)	(27,634)
Purchase of treasury stock	(1)	(1)	(3)
Proceeds from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	98		872
Net cash provided by (used in) financing activities	43,487	(15,806)	387,587
<b>FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS</b>	(527)	(2,687)	(4,695)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	84,227	(33,925)	750,687
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	421,976	455,901	3,760,924
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	¥506,203	¥421,976	\$4,511,611

See notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

Years Ended March 31, 2017 and 2016

## 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 2016 consolidated financial statements to conform to the classifications used in 2017.

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 ¥112.20 to \$1, the exchange rate at March 31, 2017. 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, 2017 include the accounts of the Company and its 34 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.

**(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."

In April 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 issued 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."

**(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 from 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 provided 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 for the amount the management determines required out 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, 2017 and 2016, which have been deferred and included in other assets, were ¥109 million (\$973 thousand) and ¥12 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, 2017 and 2016, which have been deferred and included in other assets, were ¥329 million (\$2,928 thousand) and ¥374 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) Allowance for Contingent Loss**—The allowance for contingent loss is provided for losses from contingency that are likely to be incurred in the future and is stated at the amount of loss reasonably estimated based on individual risks for each contingency.

**(o) Retirement Benefits 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.

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

This standard requires companies to recognize compensation expense for employee stock options based on the fair value at the date of the grant and over the vesting period as consideration for receiving 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 services received. In the consolidated balance sheet, stock options are presented as stock acquisition rights as a separate component of equity until exercised.

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

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

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

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

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

The Group receives fees from customers under credit card purchase contracts and hire purchase contracts. The fees from customers are recognized principally by the declining balance 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 declining balance method.

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

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.

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

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

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

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

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

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

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

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: (i) all derivatives are recognized as either assets or liabilities and measured at fair value with gains or losses on derivative transactions recognized in the consolidated statement 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 to be paid or received under the swap agreements is recognized and included in interest expense or income.

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

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

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

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

(i) Changes in accounting policies

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

(ii) Changes in presentation

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

(iii) Changes in accounting estimates

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

(iv) Correction of prior-period errors

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

**(aa) New Accounting Pronouncements**

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, 2017. 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, 2017 and 2016, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Marketable equity securities	¥ 6,677	¥ 6,484	\$ 59,510
Marketable debt securities:			
Government bonds	45,826	49,372	408,430
Corporate bonds	96,038	72,901	855,957
Total marketable debt securities	141,864	122,273	1,264,387
Other securities			
Foreign securities	8,323	68,395	74,184
Other <sup>(*)</sup>	17,716	19,032	157,896
Total other securities	26,039	87,427	232,080
Total	¥174,580	¥216,184	\$1,555,977

(\*) Includes investments in associated companies of ¥203 million (\$1,808 thousand) and ¥201 million as at March 31, 2017 and 2016, respectively.

The carrying amounts and aggregate fair values of monetary claims bought and securities as at March 31, 2017 and 2016, were as follows:

	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
<b>March 31, 2017</b>				
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 2,516	¥4,161		¥ 6,677
Debt securities	139,880	1,987	¥(3)	141,864
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

	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
<b>March 31, 2017</b>				
Securities classified as:				
Available-for-sale:				
Equity securities	\$ 22,429	\$37,083	\$ (2)	\$ 59,510
Debt securities	1,246,705	17,708	(26)	1,264,387

Available-for-sale securities whose fair values are deemed to be difficult to determine as at March 31, 2017 and 2016 are disclosed in Note 18.

Loss on revaluation of securities for the year ended March 31, 2016 was ¥179 million, including loss on equity securities of ¥179 million.

There was no loss on revaluation of securities for the year ended March 31, 2017.

Unrealized gain on available-for-sale securities on the consolidated balance sheets as at March 31, 2017 and 2016 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Unrealized gain before deferred tax on:			
Available-for-sale securities	¥ 6,850	¥ 8,304	\$ 61,048
Deferred tax liabilities	(1,895)	(2,346)	(16,887)
Unrealized gain on available-for-sale securities (before adjustment)	4,955	5,958	44,161
Non-controlling interests	(62)	(68)	(549)
Unrealized gain on available-for-sale securities	¥ 4,893	¥ 5,890	\$ 43,612

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

Loans and bills discounted as at March 31, 2017 and 2016, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Loans and bills discounted	¥1,864,904	¥1,673,997	\$16,621,248
Allowance for possible credit losses	(28,001)	(27,572)	(249,565)
Total	¥1,836,903	¥1,646,425	\$16,371,683

Loans and bills discounted as at March 31, 2017 and 2016, included the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Loans to bankrupt borrowers <sup>(1)</sup>	¥ 1,512	¥ 1,566	\$ 13,474
Non-accrual delinquent loans <sup>(2)</sup>	29,875	27,422	266,266
Restructured loans <sup>(3)</sup>	19,935	23,250	177,677
Total	¥51,322	¥52,238	\$457,417

(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, 2017 and 2016. "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, 2017 and 2016 was ¥330 million (\$2,945 thousand) and ¥309 million, respectively.

The principal amount of loan participation accounted for as loans to original obligors in accordance with "Accounting Treatment and Representation of Loan Participation" (JICPA Accounting Committee Report No. 3, November 28, 2014) as at March 31, 2017 was ¥6,015 million (\$53,614 thousand).

Installment sales receivables as at March 31, 2017 and 2016, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Installment sales receivables:			
Credit card purchase contracts	¥ 809,662	¥ 687,501	\$ 7,216,237
Hire purchase contracts	372,532	334,886	3,320,251
Subtotal	1,182,194	1,022,387	10,536,488
Allowance for possible credit losses	(22,355)	(21,813)	(199,245)
Total	¥1,159,839	¥1,000,574	\$10,337,243

Fees and commissions for the years ended March 31, 2017 and 2016, included the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Credit card purchase contracts	¥104,204	¥102,701	\$928,736

## 5. PROPERTY AND EQUIPMENT

Property and equipment as at March 31, 2017 and 2016, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Land		¥ 4	
Structures	¥ 11,580	10,687	\$ 103,214
Equipment	62,465	56,037	556,728
Construction in progress	116	58	1,033
Other property and equipment	6,425	7,943	57,261
Subtotal	80,586	74,729	718,236
Accumulated depreciation	(42,356)	(38,199)	(377,507)
Total	¥ 38,230	¥ 36,530	\$ 340,729

## 6. INTANGIBLE ASSETS

Intangible assets as at March 31, 2017 and 2016, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Software	¥57,017	¥44,860	\$508,168
Goodwill	23,732	25,597	211,517
Other intangible assets	6,305	6,706	56,197
Total	¥87,054	¥77,163	\$775,882

## 7. PLEDGED ASSETS

Assets pledged as collateral as at March 31, 2017 and 2016, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Assets pledged as collateral:			
Deposits with banks	¥ 2,655	¥ 556	\$ 23,661
Securities	28,238	5,160	251,675
Loans and bills discounted	13,923	14,662	124,097
Installment sales receivables	10,190	11,687	90,818
Total	¥55,006	¥32,065	\$490,251
Liabilities corresponding to assets pledged as collateral:			
Borrowed money	45,760	24,947	407,845

In addition to the assets presented above, the following assets were pledged as collateral for exchange settlements and other transactions as at March 31, 2017 and 2016:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Securities	¥33,246	¥37,443	\$296,308
Other assets	8,396		74,830

Moreover, other assets included guarantee money deposits, and these amounts as at March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Guarantee money deposits	¥13,998	¥4,774	\$124,758

## 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, 2017 and 2016, consisted of the following:

	Millions of Yen		Thousands of	Average	Due
	2017	2016	U.S. Dollars	interest rate <sup>(*)</sup>	
Commercial paper	¥ 38,000	¥ 68,000	\$ 338,681	0.05%	
Borrowed money	514,947	535,989	4,589,543	2.66%	From April 2017 to October 2025
Lease obligations	35,969	34,556	320,576	1.74%	From April 2017 to September 2027

(\*) 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, 2017 and 2016, consisted of the following:

	Millions of Yen		Thousands of
	2017	2016	U.S. Dollars
Issued by the Company:			
¥15,000,000,000 Zero Coupon Convertible Bonds due 2017		¥ 50	
¥30,000 million Zero Coupon Callable Convertible Bonds due 2019	¥ 30,000		\$ 267,380
Unsecured 0.349% pari passu Japanese yen notes due March 2019	10,000	10,000	89,127
Unsecured 0.572% pari passu Japanese yen notes due March 2021	10,000	10,000	89,127
Unsecured 0.83% callable subordinated Japanese yen notes due April 2024	30,000	30,000	267,380
Unsecured 0.83% callable subordinated Japanese yen notes due April 2024	10,000	10,000	89,127
Unsecured 0.402% pari passu Japanese yen notes due March 2020	20,000	20,000	178,253
Unsecured 0.552% pari passu Japanese yen notes due March 2022	10,000	10,000	89,127
Issued by AEON Thana Sinsap (Thailand) Plc.:			
Unsecured 1.155% Thai baht notes due July 2016		1,706	
Unsecured 1.734% Thai baht notes due December 2016		2,269	
Unsecured 1.054% Thai baht notes due August 2017	3,386	3,385	30,176
Unsecured 1.157% Thai baht notes due September 2017	2,262	2,272	20,163
Unsecured 1.368% Thai baht notes due July 2018	1,910	1,912	17,023
Unsecured 1.340% Thai baht notes due November 2018	3,395	3,414	30,253
Unsecured 1.244% Thai baht notes due March 2019	3,356	3,359	29,911
Unsecured 4.43% Thai baht notes due July 2017	3,875	3,811	34,534
Unsecured 1.248% Thai baht notes due September 2017	1,693	1,694	15,087
Unsecured 1.340% Thai baht notes due March 2019	2,224	2,229	19,818
Unsecured 2.87% Thai baht notes due February 2019	645	635	5,751
Unsecured 1.898% Thai baht notes due March 2020	7,852		69,981
Unsecured 1.744% Thai baht notes due March 2020	1,684		15,012
Unsecured 2.207% Thai baht notes due August 2021	1,679		14,967
Unsecured 2.5% Thai baht notes due July 2019	1,291		11,505
Unsecured 2.73% Thai baht notes due December 2019	3,223		28,723
Unsecured 3.48% Thai baht notes due December 2021	3,222		28,720
Unsecured 1.968% Thai baht notes due December 2021	3,354		29,897
Issued by AEON Credit Service (M) Berhad:			
Medium Term Note 3.95% Malaysia Ringgit due April 2017	1,268	1,347	11,297
Medium Term Note 3.95% Malaysia Ringgit due April 2017	1,014	1,078	9,037
Medium Term Note 3.95% Malaysia Ringgit due May 2017	1,394	1,482	12,426
Medium Term Note 3.95% Malaysia Ringgit due July 2017	1,394	1,482	12,426
Total	¥170,121	¥122,125	\$1,516,228

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

	Conversion Price (Yen) <sup>(1)</sup>	Number of shares of Common Stock (thousands) <sup>(2)</sup>	Exercise Period
¥15,000,000,000 Zero Coupon Convertible Bonds due 2017	¥1,339.5		From April 6, 2012 to March 9, 2017
¥30,000 million Zero Coupon Callable Convertible Bonds due 2019	2,558.0	11,728	From November 2016 to September 2019

(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, 2017.

The annual maturities of borrowed money as at March 31, 2017, were as follows:

Years ended March 31	Millions of Yen	Thousands of U.S. Dollars
2018	¥258,098	\$2,300,338
2019	115,120	1,026,024
2020	53,668	478,323
2021	44,826	399,515
2022	37,183	331,402
2023 and thereafter	6,052	53,941
Total	¥514,947	\$4,589,543

The annual maturities of bonds as at March 31, 2017, were as follows:

Years ended March 31	Millions of Yen	Thousands of U.S. Dollars
2018	¥ 16,286	\$ 145,147
2019	21,529	191,884
2020	44,050	392,600
2021	30,000	267,380
2022	8,256	73,584
2023 and thereafter	50,000	445,633
Total	¥170,121	\$1,516,228

The annual maturities of lease obligations as at March 31, 2017, were as follows:

Years ended March 31	Millions of Yen	Thousands of U.S. Dollars
2018	¥ 5,111	\$ 45,556
2019	5,106	45,507
2020	4,896	43,634
2021	4,667	41,592
2022	3,855	34,357
2023 and thereafter	12,334	109,930
Total	¥35,969	\$320,576



## 9. RETIREMENT BENEFITS 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, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Balance at beginning of year	¥5,027	¥4,631	\$44,801
Current service cost	383	356	3,415
Interest cost	46	91	415
Actuarial gains and losses	(151)	257	(1,345)
Benefits paid	(243)	(324)	(2,169)
Other	46	15	414
Balance at end of year	¥5,108	¥5,026	\$45,531

(b) The changes in plan assets for the years ended March 31, 2017 and 2016 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Balance at beginning of year	¥1,496	¥1,319	\$13,336
Expected return on plan assets	38	31	335
Actuarial gains and losses	(63)	27	(564)
Contributions from the employer	237	202	2,116
Benefits paid	(15)	(83)	(130)
Balance at end of year	¥1,693	¥1,496	\$15,093

(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, 2017 and 2016

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Funded defined benefit obligation	¥ 2,187	¥ 2,106	\$ 19,494
Plan assets	(1,693)	(1,496)	(15,093)
	494	610	4,401
Unfunded defined benefit obligation	2,921	2,920	26,037
Net liability arising from defined benefit obligation	¥ 3,415	¥ 3,530	\$ 30,438

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Liability for retirement benefits	¥3,415	¥3,530	\$30,438
Net liability arising from defined benefit obligation	¥3,415	¥3,530	\$30,438

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

(d) The components of net periodic benefit costs for the years ended March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Service cost <sup>(*)</sup>	¥383	¥356	\$3,415
Interest cost	47	91	415
Expected return on plan assets	(38)	(31)	(335)
Recognized actuarial losses	157	77	1,402
Amortization of past service costs	44	44	390
Other	(18)	(37)	(165)
Net periodic benefit costs	¥575	¥500	\$5,122

(\*) 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, 2017 and 2016

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Past service costs	¥ (44)	¥ (44)	\$ (390)
Actuarial gains and losses	(204)	132	(1,821)
Total	¥(248)	¥ 88	\$(2,211)

(f) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as at March 31, 2017 and 2016

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Unrecognized past service costs	¥ 44	¥ 87	\$ 390
Unrecognized actuarial gains and losses	594	799	5,299
Total	¥638	¥886	\$5,689

(g) Plan assets

(i) Components of plan assets

Plan assets consisted of the following:

	2017	2016
Debt securities	53.8%	55.5%
Equity securities	18.7%	14.0%
Assets in the life insurer's general account	14.2%	14.7%
Other <sup>(*)</sup>	13.3%	15.8%
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 current and future allocations of plan assets and 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, 2017 and 2016, were set forth as follows:

	2017 <sup>(*)</sup>	2016 <sup>(*)</sup>
Discount rate	0.8%	0.7%
Expected rate of return on plan assets	2.51%	2.37%

(\*) 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, 2017 and 2016 are ¥495 million (\$4,410 thousand) and ¥445 million, respectively.

The amounts of benefits paid under the advance payment plan for the years ended March 31, 2017 and 2016 are ¥60 million (\$531 thousand) and ¥56 million, respectively.

## 10. EQUITY

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

### (a) Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. For companies that meet certain criteria, such as (i) having a Board of Directors, (ii) having independent auditors, (iii) having an Audit & Supervisory Board, and (iv) the term of service of the directors being prescribed as one year rather than 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.

### (d) Increase in common stock and capital surplus

On September 14, 2016, the Company issued 7,840,000 shares of common stock through public offering. On September 14 and 29, 2016, the Company also issued 9,105,000 shares of common stock through third-party allotment. As a result, common stock and capital surplus of the Group increased by ¥15,231 million (\$135,755 thousand) and ¥15,231 million (\$135,755 thousand), respectively.

## 11. STOCK-BASED COMPENSATION

The stock options outstanding as at March 31, 2017, 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
2017 Stock Option	9 directors	15,300 shares	July 21, 2016	¥ 1 \$0.01	From August 21, 2016 through August 20, 2031

The summary of stock option activity is as follows:

	2017 Stock Option	2016 Stock Option	2015 Stock Option	2014 Stock Option	2013 Stock Option	2012 Stock Option
Nonvested (Shares)						
Outstanding at beginning of year						
Granted	15,300					
Expired						
Vested	15,300					
Outstanding at end of year						
Vested (Shares)						
Outstanding at beginning of year		12,600	9,500	12,000	9,000	13,000
Vested	15,300					
Exercised	4,500	3,600		1,000		7,000
Expired						
Outstanding at end of year	10,800	9,000	9,500	11,000	9,000	6,000
Exercise price	¥ 1 \$ 0.01	¥ 1 \$ 0.01	¥ 1 \$ 0.01	¥ 1 \$ 0.01	¥ 1 \$ 0.01	¥ 1 \$ 0.01
Average stock price upon exercise	¥ 1,806 \$ 16.10	¥ 1,806 \$ 16.10		¥ 2,318 \$ 20.66		¥ 2,416 \$ 21.53
Fair value price at grant date	¥ 1,940 \$ 17.29	¥ 3,072 \$ 27.38	¥2,006 \$17.88	¥ 2,715 \$ 24.20	¥1,081 \$ 9.63	¥ 809 \$ 7.21

The assumptions used to measure fair value of stock options vested during fiscal year 2017 were as follows:

	2017 Stock Option
Measurement method	Black-Scholes option-pricing model
Risk-free interest rate	(0.32)%
Expected life of option grants	7.5 years
Expected volatility of underlying stock	37.94%
Estimated dividend	¥68 per share

**12. OTHER INCOME**

Other income for the years ended March 31, 2017 and 2016, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Gain on bad debts recovered	¥ 7,120	¥ 6,432	\$ 63,463
Other	12,173	10,859	108,492
Total	¥19,293	¥17,291	\$171,955

**13. GENERAL AND ADMINISTRATIVE EXPENSES**

General and administrative expenses for the years ended March 31, 2017 and 2016, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Salaries and allowances	¥ (61,746)	¥ (59,417)	\$ (550,315)
Advertising expenses	(44,884)	(44,214)	(400,039)
Other	(108,028)	(99,922)	(962,815)
Total	¥(214,658)	¥(203,553)	\$(1,913,169)

**14. OTHER EXPENSES**

Other expenses for the years ended March 31, 2017 and 2016, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Provision for loss on refund of interest received	¥(3,906)	¥(3,343)	\$(34,819)
Other	(2,201)	(1,749)	(19,615)
Total	¥(6,107)	¥(5,092)	\$(54,434)

## 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 30.9% and 33.1% for the years ended March 31, 2017 and 2016, respectively. The tax effects of significant temporary differences and tax loss carryforwards, which resulted in deferred tax assets and liabilities as at March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Deferred tax assets:			
Allowance for possible credit losses	¥11,345	¥11,234	\$101,115
Loans and bills discounted and installment sales receivables	67	56	593
Allowance for point program	4,461	3,848	39,762
Allowance for loss on refund of interest received	1,171	1,297	10,433
Accrued income	463	595	4,130
Property and equipment	384	388	3,420
Intangible assets	411	286	3,664
Liability for retirement benefits	708	896	6,310
Tax loss carryforwards	453	5,067	4,037
Unrealized loss on acquisition of subsidiaries	354	814	3,157
Other	8,342	4,924	74,350
Less valuation allowance	(1,356)	(5,714)	(12,088)
Total deferred tax assets	¥26,803	¥23,691	\$238,883
Deferred tax liabilities:			
Depreciation in consolidated foreign subsidiaries	¥ 322	¥ 388	\$ 2,869
Unrealized gain on available-for-sale securities	1,989	2,444	17,733
Unrealized gain on acquisition of subsidiaries	2,317	2,532	20,648
Other	208	238	1,853
Total deferred tax liabilities	¥ 4,836	¥ 5,602	\$ 43,103
Net deferred tax assets	¥21,967	¥18,089	\$195,780

Reconciliations between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income for the years ended March 31, 2017 and 2016, were as follows:

	2017	2016
Effective statutory tax rate	30.9%	33.1%
Earnings not taxable and expenses not deductible for income tax purposes—net	(7.6)	(6.6)
Per capita portion of inhabitants tax	0.5	0.6
Lower income tax rates applicable to income in certain foreign countries	(4.2)	(5.4)
Influence of elimination in consolidation	8.9	7.1
Influence of changes in the statutory tax rate	0.2	3.1
Tax loss carryforwards	(4.0)	(1.2)
Valuation allowance	(3.3)	(5.6)
Other	(1.2)	(0.1)
Actual effective tax rate	20.2%	25.0%

## 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
Total assets	¥ 8,418
Of which: installment sales receivables	1,139
Of which: lease receivables and investment assets	5,611
Total liabilities	1,715
Of which: accounts payable	1,340
Payments for acquisition of business	¥(6,703)

## 17. LEASES

(Lessee side)

The Group leases equipment, software, and other assets.

Total rental expenses for the years ended March 31, 2017 and 2016 were ¥14,288 million (\$127,346 thousand) and ¥12,992 million, respectively.

The minimum rental commitments under noncancelable operating leases as at March 31, 2017 and 2016 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Due within one year	¥3,528	¥2,403	\$31,444
Due after one year	4,756	2,579	42,390
Total	¥8,284	¥4,982	\$73,834

(Lessor side)

(a) Breakdown of lease receivables and investment assets

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Lease payments receivables	¥8,087	¥6,102	\$72,080
Unearned interest income	(983)	(696)	(8,766)
Lease receivables and investment assets	¥7,104	¥5,406	\$63,314

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

	Millions of Yen						
	2017						
	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years	
Lease receivables and investment assets	¥1,998	¥1,663	¥1,209	¥899	¥639	¥1,679	

	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						
	2017						
	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years	
Lease receivables and investment assets	\$17,805	\$14,819	\$10,773	\$8,016	\$5,698	\$14,969	

## 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 Internal Control Promotion 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 Compliance 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 Management 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 mainly measured to quantify credit risk and regularly reported to the Internal Control Promotion 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 Internal Control Promotion 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 Internal Control Promotion 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, 2017 was ¥4,656 million (\$41,496 thousand) (2016: ¥4,337 million). The measurement of VaR is determined considering the notion of

core deposits. The basis of measurement of interest rate volatility has changed from the rate of its change to the width of its change. 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, 2017 was ¥38,744 million (\$345,311 thousand) (2016: ¥37,210 million).

These figures represent the amounts of market risk statistically calculated based on a probability-based approach that takes into account historical market fluctuations. 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 Compliance Department on a daily basis. The monitoring results are reported regularly to the Internal Control Promotion 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, 2017 and 2016 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		
	2017		
	Carrying Amount	Fair Value	Difference
(1) Cash and cash equivalents	¥ 506,203	¥ 506,203	
(2) Deposits with banks	28,454	28,454	
(3) Call loans	30,000	30,000	
(4) Monetary claims bought	3,945	3,945	
(5) Securities	161,416	161,416	
(6) Loans and bills discounted—net of allowance for possible credit losses	1,836,903	1,930,272	¥ 93,369
(7) Installment sales receivables—net of allowance for possible credit losses	1,159,839	1,171,943	12,104
Total	¥3,726,760	¥3,832,233	¥105,473
(8) Deposits	¥2,542,090	¥2,548,285	¥ 6,195
(9) Accounts payable	221,189	221,189	
(10) Commercial paper	38,000	38,000	
(11) Borrowed money	514,947	521,726	6,779
(12) Bonds	140,121	140,700	579
(13) Convertible bonds	30,000	31,770	1,770
Total	¥3,486,347	¥3,501,670	¥ 15,323
(14) Derivative financial instruments (Note 19):			
Hedge accounting not applied			
Hedge accounting applied	¥ 13,466	¥ 13,466	
Total	¥ 13,466	¥ 13,466	

	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	
(10) Commercial paper	68,000	68,000	
(11) Borrowed money	535,989	538,542	2,553
(12) Bonds	122,075	122,949	874
(13) Convertible bonds	50	97	47
Total	¥3,083,887	¥3,088,336	¥ 4,449
(14) Derivative financial instruments (Note 19):			
Hedge accounting not applied	¥ (16)	¥ (16)	
Hedge accounting applied	14,057	14,057	
Total	¥ 14,041	¥ 14,041	

	Thousands of U.S. Dollars		
	2017		
	Carrying Amount	Fair Value	Difference
(1) Cash and cash equivalents	\$ 4,511,611	\$ 4,511,611	
(2) Deposits with banks	253,598	253,598	
(3) Call loans	267,380	267,380	
(4) Monetary claims bought	35,165	35,165	
(5) Securities	1,438,646	1,438,646	
(6) Loans and bills discounted—net of allowance for possible credit losses	16,371,683	17,203,847	\$832,164
(7) Installment sales receivables—net of allowance for possible credit losses	10,337,243	10,445,129	107,886
Total	\$33,215,326	\$34,155,376	\$940,050
(8) Deposits	\$22,656,775	\$22,711,989	\$ 55,214
(9) Accounts payable	1,971,387	1,971,387	
(10) Commercial paper	338,681	338,681	
(11) Borrowed money	4,589,543	4,649,963	60,420
(12) Bonds	1,248,848	1,254,010	5,162
(13) Convertible bonds	267,380	283,155	15,775
Total	\$31,072,614	\$31,209,185	\$136,571
(14) Derivative financial instruments (Note 19):			
Hedge accounting not applied			
Hedge accounting applied	\$ 120,019	\$ 120,019	
Total	\$ 120,019	\$ 120,019	

## (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) Commercial paper

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

(11) Borrowed money

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

(12) Bonds and (13) Convertible bonds

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

(14) Derivative financial instruments

Information on the fair values of derivative financial instruments is included in Note 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
	2017	2016	2017
Stock with no active market quotations	¥1,254	¥1,270	\$11,177
Trust beneficiary rights	7,965	8,990	70,989

## (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					
	2017					
	Up to 1 year	1-3 years	3-5 years	5-7 years	7-10 years	Over 10 years
Due from banks	¥ 484,447					
Call loans	30,000					
Monetary claims bought			¥ 63	¥ 590		¥ 3,209
Securities:						
Available-for-sale securities:						
Government bonds		¥ 45,000	5,000			500
Corporate bonds	32,000	3,000	20,500	5,000	¥ 3,000	25,967
Other			8,000			
Total	32,000	48,000	33,500	5,000	3,000	26,467
Loans and bills discounted <sup>(1), (2)</sup>	431,417	361,438	159,676	64,512	83,852	678,145
Installment sales receivables <sup>(1)</sup>	771,866	149,541	127,907	48,998	28,905	27,024
Total	¥1,749,730	¥558,979	¥321,146	¥119,100	¥115,757	¥734,845

	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 <sup>(1), (2)</sup>	791,132	293,127	105,222	41,450	49,056	325,842
Installment sales receivables <sup>(1)</sup>	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

	Thousands of U.S. Dollars					
	2017					
	Up to 1 year	1-3 years	3-5 years	5-7 years	7-10 years	Over 10 years
Due from banks	\$ 4,317,708					
Call loans	267,380					
Monetary claims bought			\$ 564	\$ 5,260		\$ 28,597
Securities:						
Available-for-sale securities:						
Government bonds		\$ 401,069	44,563			4,456
Corporate bonds	285,205	26,738	182,710	44,563	\$ 26,738	231,438
Other			71,301			
Total	285,205	427,807	298,574	44,563	26,738	235,894
Loans and bills discounted <sup>(*)</sup> , <sup>(2)</sup>	3,845,073	3,221,368	1,423,135	574,971	747,345	6,044,075
Installment sales receivables <sup>(*)</sup>	6,879,375	1,332,809	1,139,995	436,703	257,624	240,860
Total	\$15,594,741	\$4,981,984	\$2,862,268	\$1,061,497	\$1,031,707	\$6,549,426

(\*) Loans and bills discounted and installment sales receivables for the years ended March 31, 2017 and 2016 exclude ¥57,417 million (\$511,741 thousand) and ¥51,728 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, 2017 and 2016 exclude loans of ¥3,104 million (\$27,661 thousand) and ¥4,256 million with no specific recoverable amounts, such as loans to borrowers classified as legal bankruptcy, substantial bankruptcy, or possible bankruptcy, and ¥52,619 million (\$468,973 thousand) and ¥38,474 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					
	2017					
	Up to 1 year	1-3 years	3-5 years	5-7 years	7-10 years	Over 10 years
Deposits <sup>(*)</sup>	¥1,927,596	¥509,765	¥103,923			
Commercial paper	38,000					
Borrowed money	258,098	168,788	82,009	¥ 3,404	¥ 2,648	
Bonds	16,286	35,579	38,256	10,000	40,000	
Convertible bonds		30,000				
Lease obligations	5,111	10,002	8,522	5,426	6,052	¥856
Total	¥2,245,091	¥754,134	¥232,710	¥18,830	¥48,700	¥856

	Millions of Yen					
	2016					
	Up to 1 year	1-3 years	3-5 years	5-7 years	7-10 years	Over 10 years
Deposits <sup>(*)</sup>	¥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

	Thousands of U.S. Dollars					
	2017					
	Up to 1 year	1-3 years	3-5 years	5-7 years	7-10 years	Over 10 years
Deposits <sup>(*)</sup>	\$17,180,001	\$4,543,367	\$ 926,233			
Commercial paper	338,681					
Borrowed money	2,300,338	1,504,348	730,917	\$ 30,342	\$ 23,598	
Bonds	145,147	317,104	340,964	89,127	356,506	
Convertible bonds		267,380				
Lease obligations	45,556	89,141	75,949	48,362	53,942	\$7,626
Total	\$20,009,723	\$6,721,340	\$2,074,063	\$167,831	\$434,046	\$7,626

(\*) 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, 2017 and 2016 consisted of the following:

	Millions of Yen		
	2017		
	Contract Amount	Fair Value	Unrealized Gain/Loss
Currency swap contracts:			
Receive JPY/Pay THB	¥50,848	¥ (3,108)	¥ (3,108)
Receive USD/Pay HKD	5,619	137	137
Receive USD/Pay MYR	67,080	14,702	14,702
Receive USD/Pay THB	86,897	2,766	2,766
Receive USD/Pay IDR	503	(68)	(68)
Interest rate swap contracts:			
Receive floating/Pay fixed	51,367	(963)	(963)

	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)

	Thousands of U.S. Dollars		
	2017		
	Contract Amount	Fair Value	Unrealized Gain/Loss
Currency swap contracts:			
Receive JPY/Pay THB	\$453,188	\$ (27,707)	\$ (27,707)
Receive USD/Pay HKD	50,082	1,225	1,225
Receive USD/Pay MYR	597,865	131,037	131,037
Receive USD/Pay THB	774,486	24,653	24,653
Receive USD/Pay IDR	4,486	(606)	(606)
Interest rate swap contracts:			
Receive floating/Pay fixed	457,817	(8,583)	(8,583)

Derivative financial instruments not qualifying for hedge accounting as at March 31, 2016, 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

There were no derivative financial instruments not qualifying for hedge accounting as at March 31, 2017.

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
	2017	2016	2017
Total loan limits	¥8,344,957	¥7,983,549	\$74,375,729
Loan executed	537,083	481,416	4,786,837
Unexercised portion of loan commitments	¥7,807,874	¥7,502,133	\$69,588,892



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, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Unutilized commitments	¥32,090	¥18,437	\$286,007
Of which: those expiring within one year	11,475	6,973	102,273

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, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Unrealized (loss) gain on available-for-sale securities:			
(Losses) gains arising during the year	¥ (358)	¥ 2,534	\$ (3,191)
Reclassification adjustments to profit or loss	(1,088)	(191)	(9,699)
Amount before income tax effect	(1,446)	2,343	(12,890)
Income tax effect	443	(718)	3,947
Total	¥(1,003)	¥ 1,625	\$ (8,943)
Deferred gain on derivatives under hedge accounting:			
Gains (losses) arising during the year	¥ 732	¥ (788)	\$ 6,523
Reclassification adjustments to profit or loss	2,064	825	18,402
Amount before income tax effect	2,796	37	24,925
Income tax effect	(528)	39	(4,706)
Total	¥ 2,268	¥ 76	\$ 20,219
Foreign currency translation adjustments:			
Losses arising during the year	¥(2,023)	¥(12,684)	\$(18,026)
Amount before income tax effect	(2,023)	(12,684)	(18,026)
Total	¥(2,023)	¥(12,684)	\$(18,026)
Adjustments for retirement benefit:			
Gains (losses) arising during the year	¥ 88	¥ (229)	\$ 780
Reclassification adjustments to profit or loss	160	141	1,431
Amount before income tax effect	248	(88)	2,211
Income tax effect	(81)	20	(725)
Total	¥ 167	¥ (68)	\$ 1,486
Total other comprehensive income	¥ (591)	¥(11,051)	\$ (5,264)

## 22. NET INCOME PER SHARE

Basic and diluted EPS for the years ended March 31, 2017 and 2016, 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
<b>For the year ended March 31, 2017:</b>				
Basic EPS				
Net income	¥39,454			
Net income available to common shareholders	¥39,454	207,931	¥189.75	\$1.69
Effect of dilutive securities				
—Warrants of the Company		57		
—Convertible bonds of the Company		6,480		
Diluted EPS				
—Net income for computation	¥39,454	214,468	¥183.96	\$1.64
<b>For the year ended March 31, 2016:</b>				
Basic EPS				
Net income	¥35,785			
Net income available to common shareholders	¥35,785	198,705	¥180.09	
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	

## 23. RELATED PARTY TRANSACTIONS

There were no transactions between the Company and related parties for the years ended March 31, 2017 and 2016.

Transactions between the Company's consolidated subsidiaries and related parties for the years ended March 31, 2017 and 2016, were as follows:

(1) Transactions with a subsidiary of the parent company and the Company's other subsidiaries

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
AEON Retail Co., Ltd. (subsidiary of the parent company)			
Loans and bills discounted	¥39,000	¥41,000	\$347,594
Other assets		35	
Lending of loans	40,995	13,779	365,370
Interest income	405	446	3,611

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	2017	2017	2017	2017
Housing loans (Loans and bills discounted)			¥184	\$1,637

	Transaction amount	Balance at end
	Millions of Yen	Millions of Yen
Directors and executive officers of the Company, its subsidiaries and AEON Co., Ltd. <sup>(*)</sup>	2016	2016
Housing loans (Loans and bills discounted in banking business)		¥167

(\*) 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.

## 24. 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.

### (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 statement 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						
		2017						
		Reportable Segment						
		Credit	Banking	Overseas	Fee Business and Other	Subtotal	Reconciliations <sup>(2)</sup>	Total
Ordinary income <sup>(1)</sup>								
Ordinary income from customers	¥	174,102	¥ 48,645	¥113,298	¥ 39,121	¥ 375,166		¥ 375,166
Intersegment income or transfers		1,795	4,460	1	14,959	21,215	¥ (21,215)	
Total ordinary income		175,897	53,105	113,299	54,080	396,381	(21,215)	375,166
Segment profit <sup>(3)</sup>	¥	40,372	¥ 589	¥ 22,545	¥ 4,303	¥ 67,809	¥ (6,202)	¥ 61,607
Segment assets		¥1,564,795	¥2,094,004	¥553,369	¥178,222	¥4,390,390	¥(203,126)	¥4,187,264
Other items								
Depreciation and amortization	¥	3,978	¥ 1,922	¥ 4,468	¥ 6,452	¥ 16,820	¥ 763	¥ 17,583
Amortization of goodwill		178	970	28	755	1,931	(66)	1,865
Interest income		63,334	18,760	58,048	1,629	141,771	(1,531)	140,240
Interest expenses		3,204	1,369	13,744	330	18,647	349	18,996
Provision for possible credit losses		15,526	(501)	27,168	1,853	44,046		44,046
Increases in tangible and intangible assets		14,913	5,040	4,322	10,745	35,020	1,551	36,571

		Millions of Yen						
		2016						
		Reportable Segment						
		Credit	Banking	Overseas	Fee Business and Other	Subtotal	Reconciliations <sup>(2)</sup>	Total
Ordinary income <sup>(1)</sup>								
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 <sup>(3)</sup>	¥	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

Thousands of U.S. Dollars							
2017							
Reportable Segment							
	Credit	Banking	Overseas	Fee Business and Other	Subtotal	Reconciliations <sup>(2)</sup>	Total
Ordinary income <sup>(1)</sup>							
Ordinary income from customers	\$ 1,551,715	\$ 433,554	\$ 1,009,791	\$ 348,669	\$ 3,343,729		\$ 3,343,729
Intersegment income or transfers	15,998	39,753	4	133,323	189,078	\$ (189,078)	
Total ordinary income	1,567,713	473,307	1,009,795	481,992	3,532,807	(189,078)	3,343,729
Segment profit <sup>(3)</sup>	\$ 359,823	\$ 5,252	\$ 200,934	\$ 38,348	\$ 604,357	\$ (55,278)	\$ 549,079
Segment assets	\$13,946,475	\$18,663,141	\$4,931,987	\$1,588,435	\$39,130,038	\$(1,810,395)	\$37,319,643
Other items							
Depreciation and amortization	\$ 35,460	\$ 17,128	\$ 39,820	\$ 57,505	\$ 149,913	\$ 6,802	\$ 156,715
Amortization of goodwill	1,588	8,642	250	6,730	17,210	(588)	16,622
Interest income	564,477	167,207	517,358	14,515	1,263,557	(13,646)	1,249,911
Interest expenses	28,556	12,204	122,497	2,938	166,195	3,111	169,306
Provision for possible credit losses	138,380	(4,461)	242,138	16,512	392,569		392,569
Increases in tangible and intangible assets	132,919	44,919	38,520	95,767	312,125	13,820	325,945

(\*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 statement of income.

(\*2) ¥(6,202) million (\$5,278) thousand of reconciliations to segment profit/(loss) for the year ended March 31, 2017 and ¥(6,830) million of reconciliations to segment profit for the year ended March 31, 2016 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, ¥(203,126) million (\$1,810,395) thousand of reconciliations to segment assets for the year ended March 31, 2017 and ¥(159,696) million of reconciliations to segment assets for the year ended March 31, 2016 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 statement of income.

#### (d) Information about geographic areas

##### (i) Ordinary income<sup>(1)(2)</sup>

Millions of Yen			
2017			
Japan	Thailand	Other	Total
¥261,868	¥55,855	¥57,443	¥375,166

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

Thousands of U.S. Dollars			
2017			
Japan	Thailand	Other	Total
\$2,333,938	\$497,821	\$511,970	\$3,343,729

(\*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			
2017			
Japan	Thailand	Other	Total
¥29,433	¥7,219	¥1,578	¥38,230

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

Thousands of U.S. Dollars			
2017			
Japan	Thailand	Other	Total
\$262,327	\$64,343	\$14,059	\$340,729

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

	Millions of Yen				
	2017				
	Credit	Banking	Overseas	Fee Business and Other	Total
Goodwill at March 31, 2017 <sup>(*)</sup>	¥1,114	¥13,328		¥9,290	¥23,732

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

	Thousands of U.S. Dollars				
	2017				
	Credit	Banking	Overseas	Fee Business and Other	Total
Goodwill at March 31, 2017 <sup>(*)</sup>	\$9,925	\$118,790		\$82,802	\$211,517

(\*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."

## 25. SUBSEQUENT EVENTS

## Appropriations of retained earnings

The following appropriation of retained earnings as at March 31, 2017, was approved at the Company's Board of Directors' meeting held on May 25, 2017:

	Millions of Yen	Thousands of U.S. Dollars
	2017	2017
Year-end cash dividends, ¥39.00 (\$0.35) per share <sup>(*)</sup>	¥8,413	\$74,983

(\*1) Includes a commemorative dividend of ¥1 (\$0.01) for the 20th anniversary of listing.

## 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, 2017, 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.

### 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, 2017, 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*

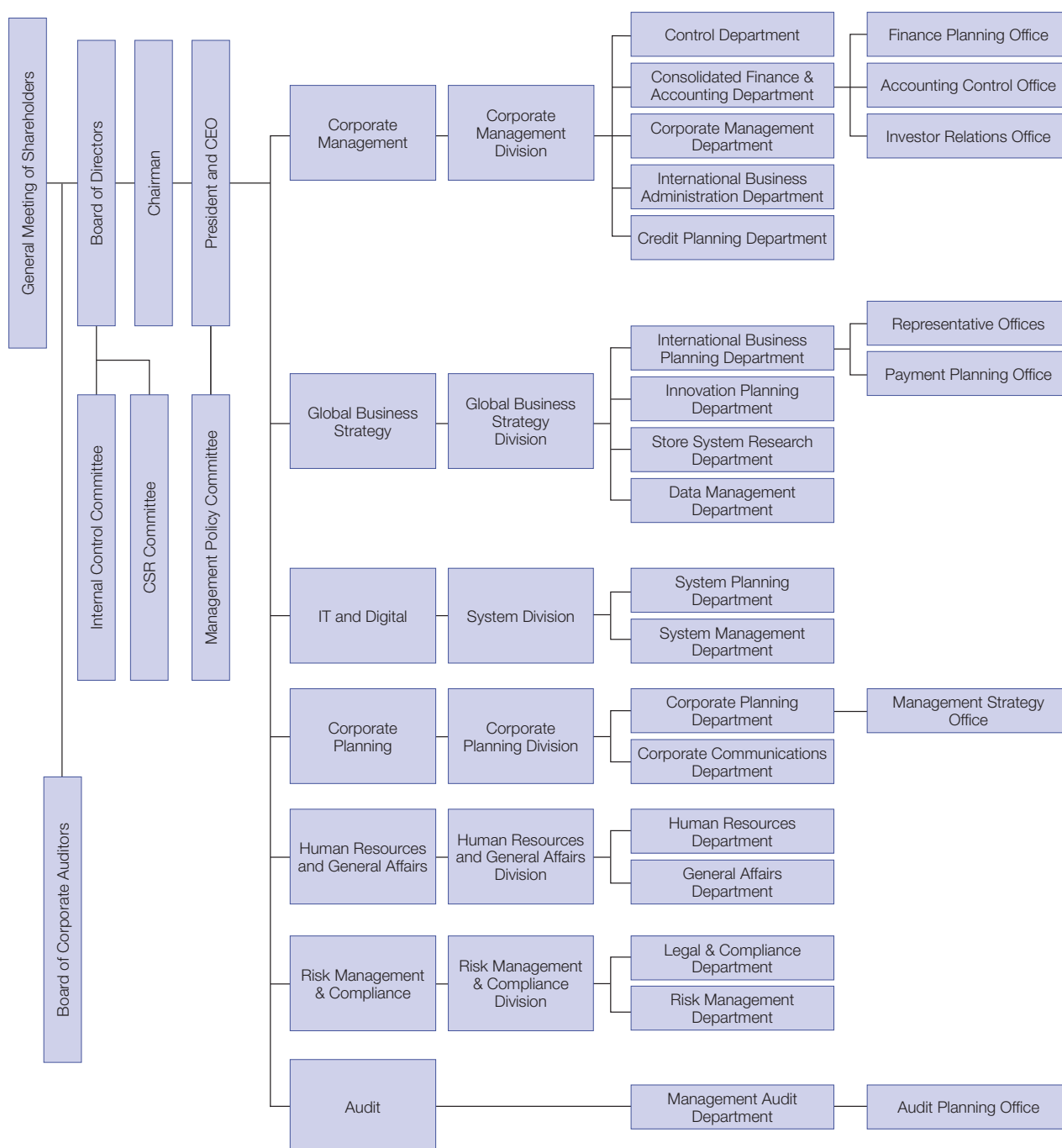
June 27, 2017

# Company Information

## Corporate Data (As of March 31, 2017)

Company Name	AEON Financial Service Co., Ltd.	Consolidated Employees	17,340
Established	June 20, 1981	Consolidated Cardholders	38.94 million
Representatives	Masaki Suzuki, Chairman Kenji Kawahara, President and CEO	Consolidated Ordinary Income	¥375,166 million
Capital Stock	¥45,698 million	Head Office	Terrace Square, 3-22, Kandanishiki-cho, Chiyoda-ku, Tokyo 101-0054, Japan
		Telephone Number	+81-(0)3-5281-2080

## Organization





## Affiliated Companies

Company Name	Location	Capital (millions of yen)	Main Business <sup>1</sup>	Voting Rights (%) <sup>2</sup>	Relationship to the Company			
					Concurrently Serving Officers	Financial Assistance	Business Transactions	Facility Leasing
AEON Co., Ltd. <sup>3</sup>	Mihama-ku, Chiba	220,007	Pure holding company	Ownership: 45.2 (3.0)	1	—	Outsourcing fees	Rental of office premises
ACS Credit Management Co., Ltd.	Mihama-ku, Chiba	600	Fee Business and Other	99.4	—	—	Management fees, outsourcing fees	Subletting of office premises
AEON S.S. Insurance Co., Ltd.	Chiyoda-ku, Tokyo	280	Fee Business and Other	100.0 (10.0)	—	—	Management fees, outsourcing fees	Subletting of office premises
AEON Housing Loan Service Co., Ltd.	Shinjuku-ku, Tokyo	3,340	Fee Business and Other	100.0 (49.0)	—	—	Management fees, outsourcing fees	Subletting of office premises
AEON Bank, Ltd. <sup>4,5</sup>	Koto-ku, Tokyo	51,250	Credit, Banking	100.0	6	—	Management fees, outsourcing fees	Subletting of office premises
AEON Insurance Service Co., Ltd.	Mihama-ku, Chiba	250	Fee Business and Other	99.0 (99.0)	—	—	Management fees, outsourcing fees	Subletting of office premises
AEON Credit Service Co., Ltd. <sup>4,5</sup>	Chiyoda-ku, Tokyo	500	Credit, Fee Business and Other	100.0	7	Loans of capital	Management fees, outsourcing fees	Subletting of office premises
AEON Product Finance Co., Ltd.	Chiyoda-ku, Tokyo	3,910	Credit	100.0	1	Loans of capital	Management fees, outsourcing fees	Subletting of office premises
ACS Leasing Co., Ltd.	Chiyoda-ku, Tokyo	250	Fee Business and Other	100.0 (100.0)	—	—	—	—
AEON Credit Service (Asia) Co., Ltd. <sup>5</sup>	Hong Kong	HKD 269 million	Overseas	52.7 (52.7)	1	—	Management fees	—
AEON Thana Sinsap (Thailand) Plc. <sup>4,7</sup>	Thailand	THB 250 million	Overseas	54.3 (19.2)	1	—	Management fees	—
AEON Credit Service (M) Berhad <sup>8</sup>	Malaysia	MYR 72 million	Overseas	59.7	—	—	Management fees	—
AEON Credit Service (Taiwan) Co., Ltd.	Taiwan	TWD 22 million	Overseas	100.0 (7.1)	—	—	—	—
AEON Credit Card (Taiwan) Co., Ltd.	Taiwan	TWD 841 million	Overseas	100.0 (100.0)	—	—	—	—
AEON Information Service (Shenzhen) Co., Ltd.	Shenzhen, China	RMB 2 million	Overseas	100.0 (50.0)	—	—	—	—
ACS Capital Corporation Ltd.	Thailand	THB 60 million	Overseas	26.4 [73.6]	—	—	Management fees	—
PT. AEON Credit Service Indonesia	Indonesia	IDR 100,200 million	Overseas	85.0 (10.4) [3.7]	—	—	Management fees	—
AEON Credit Guarantee (China) Co., Ltd.	Beijing, China	RMB 141 million	Overseas	100.0 (50.0)	—	—	—	—
ACS Servicing (Thailand) Co., Ltd.	Thailand	THB 148 million	Overseas	100.0 (100.0)	—	—	Management fees	—
AEON Credit Service Systems (Philippines) Inc.	Philippines	PHP 300 million	Overseas	100.0 (10.0)	—	—	—	—
ACS Trading Vietnam Co., Ltd.	Vietnam	VND 50,000 million	Overseas	100.0 (60.0)	—	—	Management fees	—
AEON Insurance Brokers (HK) Ltd.	Hong Kong	HKD 1 million	Overseas	100.0 (100.0)	—	—	—	—
AEON Micro Finance (Shenyang) Co., Ltd.	Shenyang, China	HKD 123 million	Overseas	100.0 (100.0)	—	—	—	—
AEON Credit Service India Pvt. Ltd.	India	INR 910 million	Overseas	75.0 (20.0)	—	—	—	—
AEON Specialized Bank (Cambodia) Plc.	Cambodia	USD 10 million	Overseas	100.0 (80.0)	—	—	Management fees	—
AEON Financial Service (Hong Kong) Co., Ltd. <sup>5</sup>	Hong Kong	RMB 740 million	Overseas	100.0	1	—	Management fees	—
AEON Micro Finance (Tianjin) Co., Ltd.	Tianjin, China	RMB 100 million	Overseas	100.0 (100.0)	—	—	—	—
AEON Leasing Service (Lao) Co., Ltd.	Laos	LAK 28,000 million	Overseas	100.0 (100.0)	—	—	—	—
AEON Credit Service (Philippines) Inc.	Philippines	PHP 300 million	Overseas	60.0 (10.0)	—	—	Management fees	—
AEON Microfinance (Myanmar) Co., Ltd.	Myanmar	MMK 8,259 million	Overseas	100.0 (100.0)	—	—	Management fees	—
AEON Insurance Service (Thailand) Co., Ltd.	Thailand	THB 100 million	Overseas	100.0 (100.0)	—	—	Management fees	—
AEON Micro Finance (Shenzhen) Co., Ltd.	Shenzhen, China	RMB 150 million	Overseas	100.0 (100.0)	—	—	—	—
Eternal 6 Special Purpose Vehicle Co., Ltd.	Thailand	THB 0 million	Overseas	26.0 (26.0)	—	—	—	—
ATS Rabbit Special Purpose Vehicle Co., Ltd.	Thailand	THB 0 million	Overseas	48.7 (48.7)	—	—	—	—
Horizon Master Trust (AEON 2006-1)	Hong Kong	—	Overseas	—	—	—	—	—
(Equity-method affiliate) Fujitsu Credit Service Systems (Tianjin) Co., Ltd.	Tianjin, China	RMB 20 million	Overseas	49.0	—	—	—	—

Notes: 1. Segment names are in the Main Business column.

2. Figures in parentheses in the Voting Rights column indicate percentage of directly or indirectly owned voting rights. Figures in square brackets indicate percentage of voting rights held by entities that are close to and agree with the Company as indicated in external documents.

3. AEON Co., Ltd. is a company that submits annual securities reports.

4. AEON Bank, Ltd., AEON Credit Service Co., Ltd., and AEON Thana Sinsap (Thailand) Plc. each account for more than 10% of consolidated ordinary income (excluding intersegment transactions).

5. Specified subsidiary

6. Shares of AEON Credit Service (Asia) Co., Ltd. are listed on the Hong Kong Stock Exchange.

7. Shares of AEON Thana Sinsap (Thailand) Plc. are listed on the Stock Exchange of Thailand.

8. Shares of AEON Credit Service (M) Berhad are listed on Bursa Malaysia.

## Share Information

### Major Shareholders

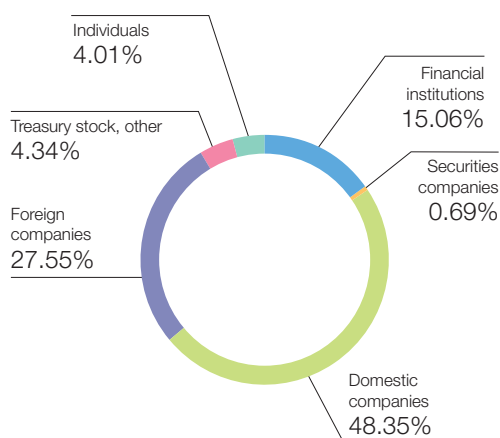
Shareholder Name	Shares Held (thousands)	Percentage of Total Shares Held (%)
AEON Co., Ltd.	97,443	43.21
State Street Bank and Trust Company 505001	8,632	3.83
State Street Bank and Trust Company 505223	6,982	3.10
The Master Trust Bank of Japan, Ltd. (Trust Account)	6,080	2.70
Japan Trustee Services Bank, Ltd. (Trust Account)	4,170	1.85
State Street Bank and Trust Company	4,073	1.81
The Bank of New York Mellon 140044	2,901	1.29
Japan Trustee Services Bank, Ltd. (Trust Account 9)	2,712	1.20
Maxvalu Nishinihon Co., Ltd.	2,646	1.17
The Chase Manhattan Bank, Ltd 385036	2,627	1.17

Notes: In addition to the above, the Company holds 9,791,000 shares of treasury stock.  
Shares held are rounded down to the nearest thousand and percentage of total shares held is rounded down to two decimal places.

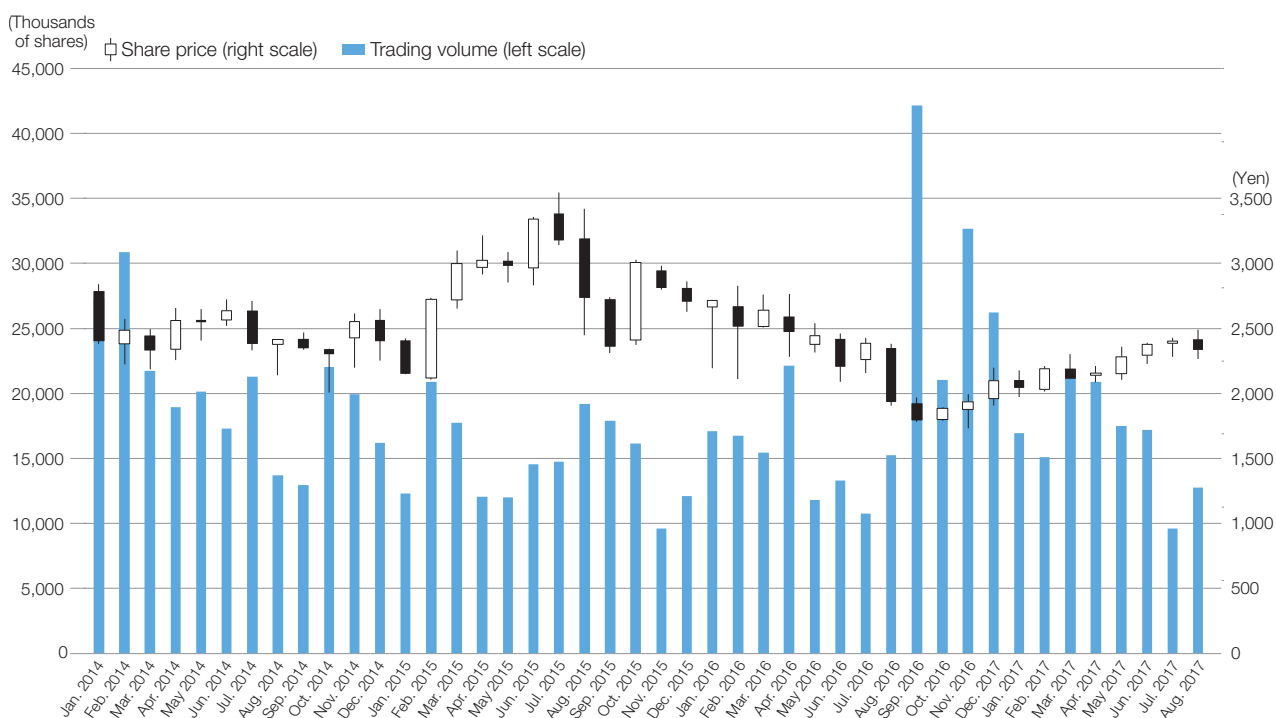
### Share Data

Shares Authorized	540,000,000
Shares Issued	225,510,128
Shareholders	16,431

### Shareholding Ratio by Type of Shareholder



## Share Price and Trading Volume

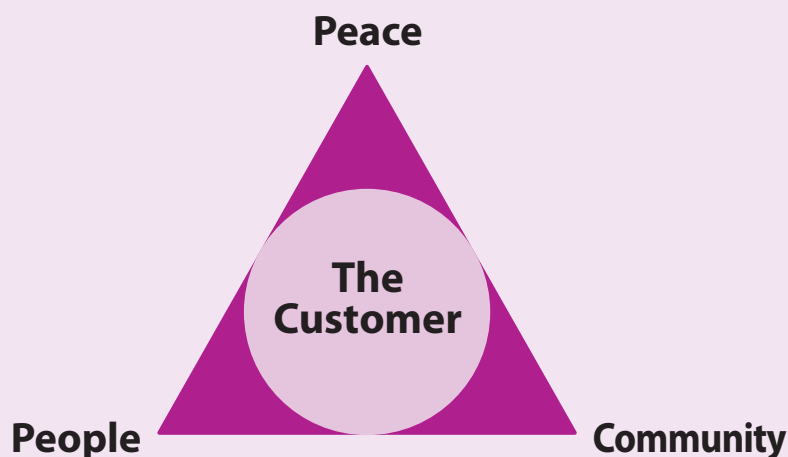


## About the AEON Group

### AEON Basic Principles



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



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

Aeon Basic Principles are the following:

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

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



# **AEON Financial Service**

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

<http://www.aeonfinancial.co.jp/eng/>