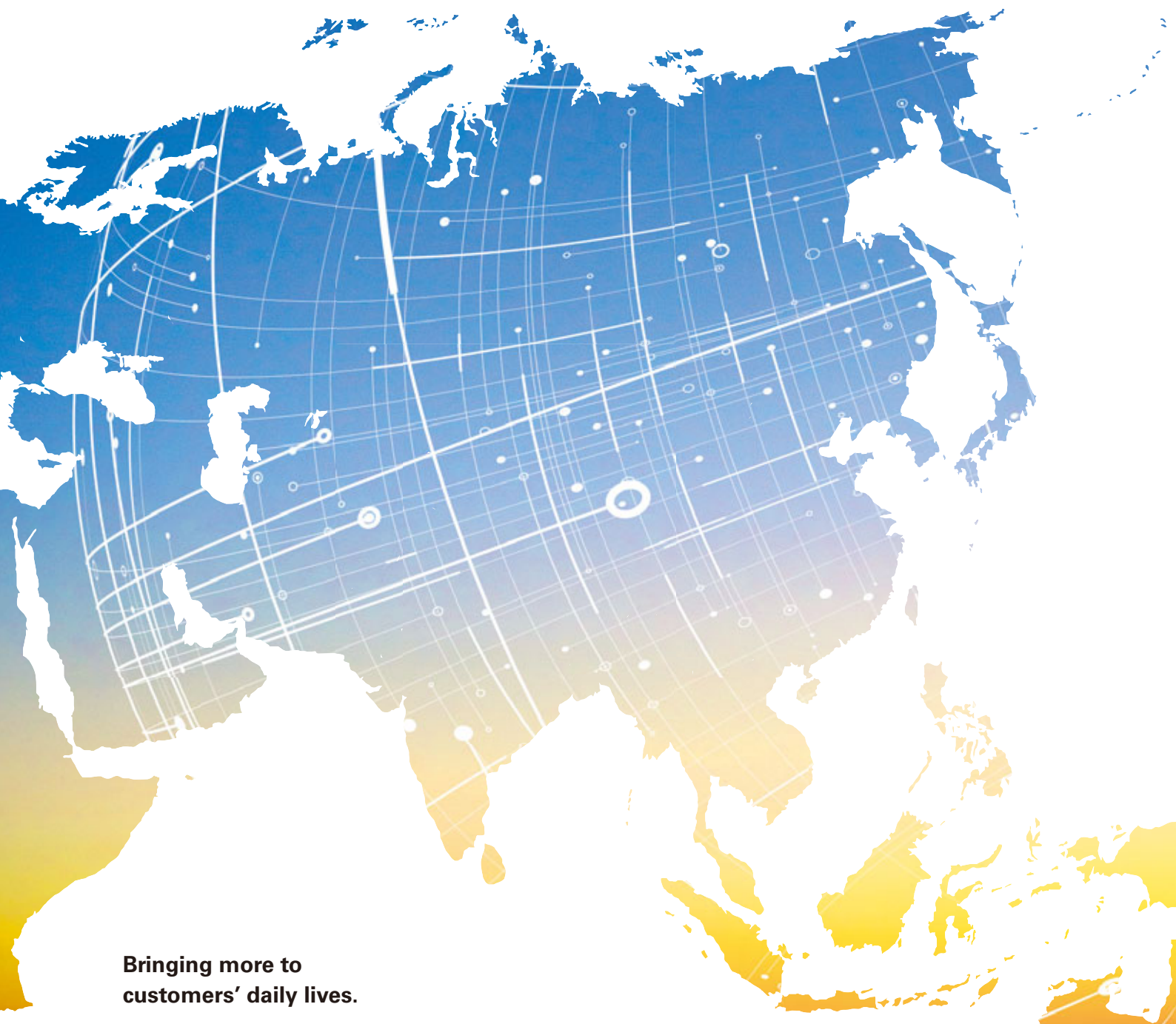




 Planting Seeds of Growth
We are AEON



**Bringing more to
customers' daily lives.**

Annual Report 2019

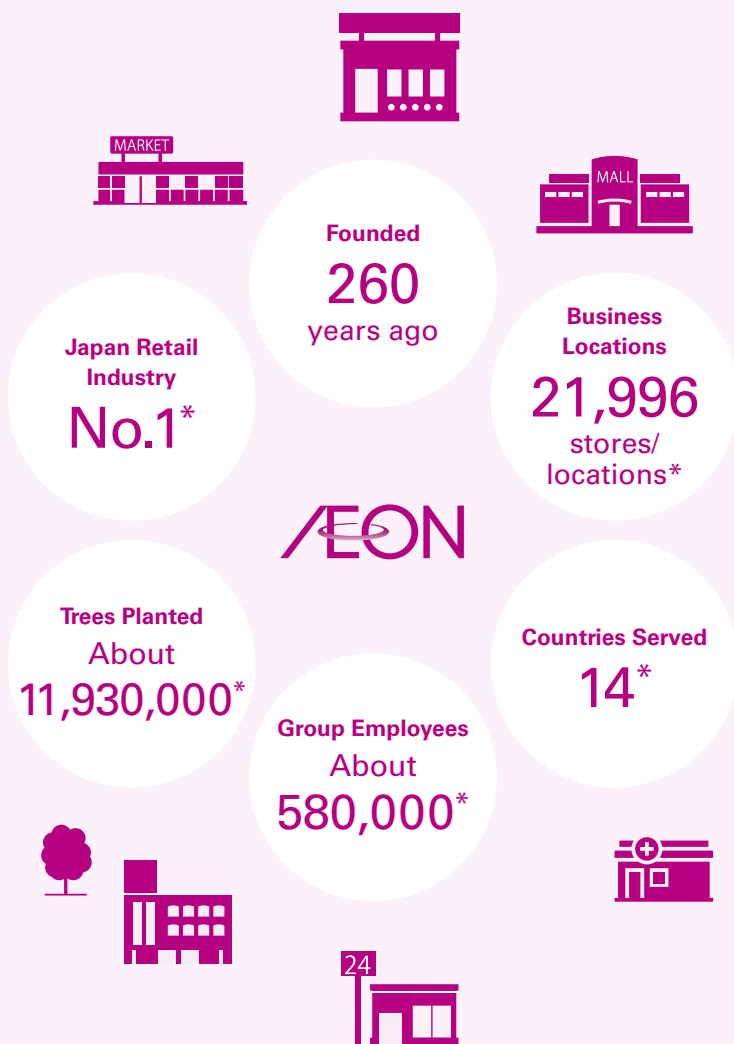
For the year ended March 31, 2019



AEON Financial Service

Value Creation at AFS

With the AEON Group ecosystem as a foundation, AEON Financial Service Co., Ltd. (AFS) provides highly convenient financial services in Japan and the rest of Asia. We seek to be the number one retail financial services company in Asia with services made possible through our roots in the retail sector.



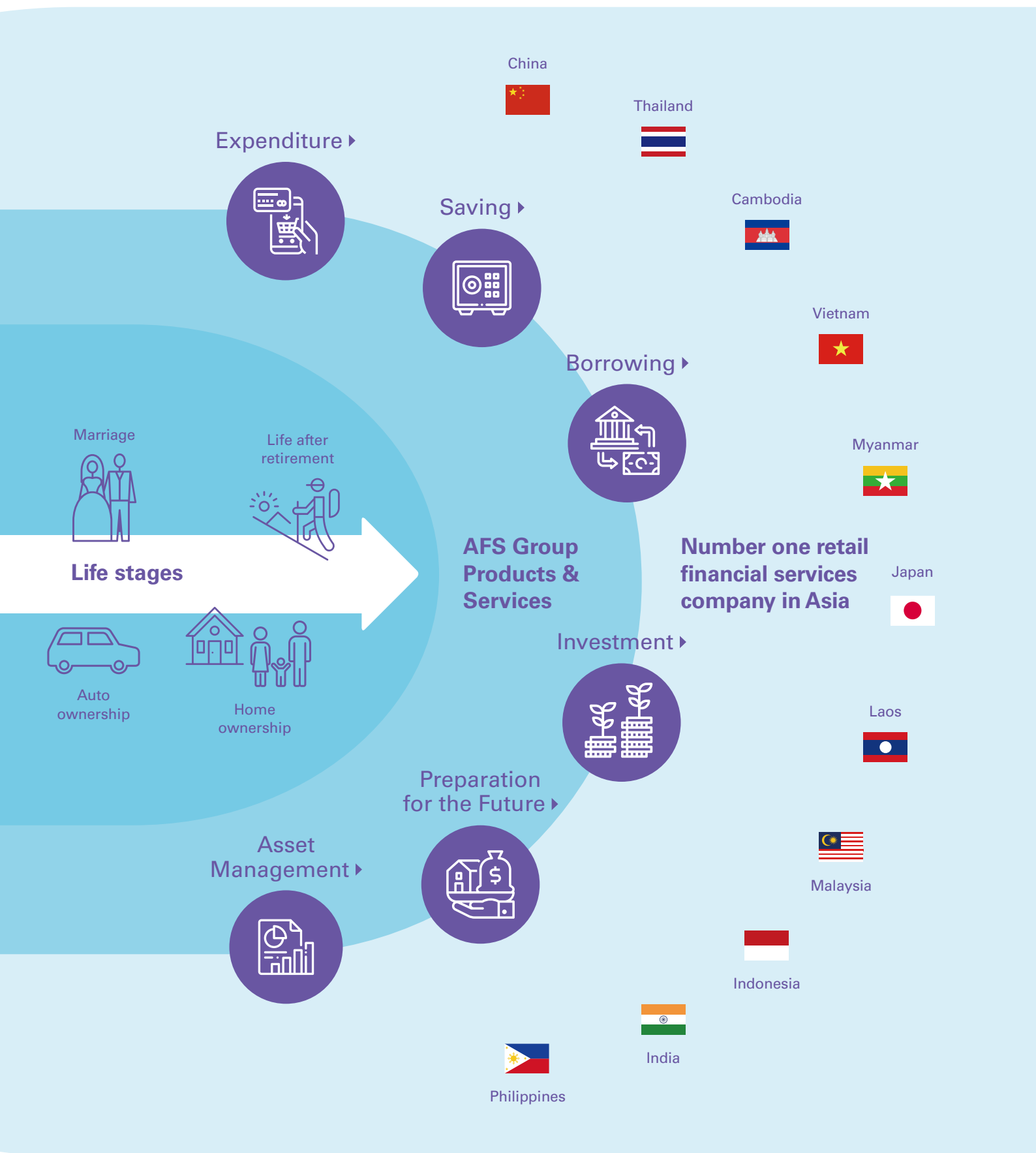
* As of February 28, 2019



Education



Employment



Money is always on the move as people spend, borrow and save. As a comprehensive financial group with roots in the retail sector, one of our greatest strengths is our ability to provide support for diverse lifestyles and at each stage of customers' lives. We will continue to create value unique to the AFS Group that links AEON Group products to financial services.



AFS supports secure and convenient shopping through AEON Card, which comes with various benefits for everyday life; debit cards, which enable payments directly from an AEON Bank account; and e-money WAON, which rewards customers with points each time they shop.

More than 6.6 million people have their main bank account with AEON Bank and use it for day-to-day banking such as ordinary deposits and installment-type time deposits. AEON Bank is the bank of choice for customers of all ages, and account convenience continues to increase with the introduction of new services including smartphone support and biometric authentication systems.

AEON Bank provides loans that meet diverse financing needs at each stage of life.

AEON Product Finance offers services for retailers and provides various consumer loans, including auto loans and renovation loans.

Our investment services help people manage their assets, and include time deposit and investment trust combination products, iDeCo, Tsumitate NISA and foreign currency deposits. We continue to develop a structure that puts the investment needs of each customer first and propose plans based on the most suitable investment products.

We provide whole life insurance to protect against the unexpected, individual annuities for financial security in retirement, student insurance to pay for children's tertiary education, and a variety of short-term, small-amount insurance products that cover everyday risks.

Our apps are a convenient way to shop and manage accounts. With AEON Wallet, an AEON Card account can be ready to use in as little as five minutes after applying. In addition, customers are able to receive coupons, as well as confirm their card transaction history and point balance.

One Step Up

Raise quality of
each individual
customer's daily life

Create employment
opportunities

Build access
to credit

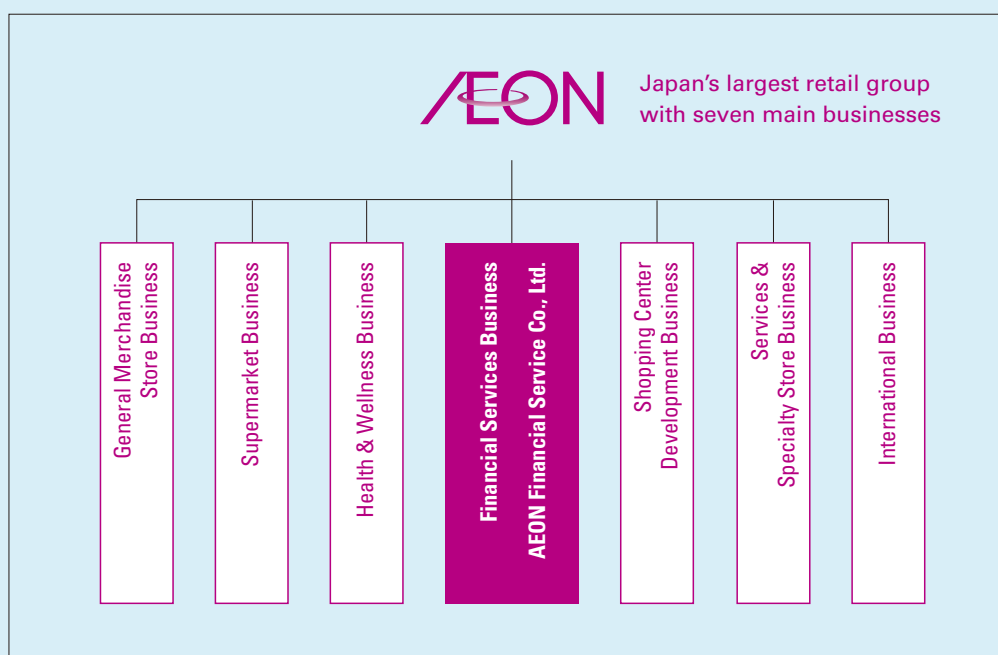
Improve access to
financial services

Management Philosophy and Basic Policies

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

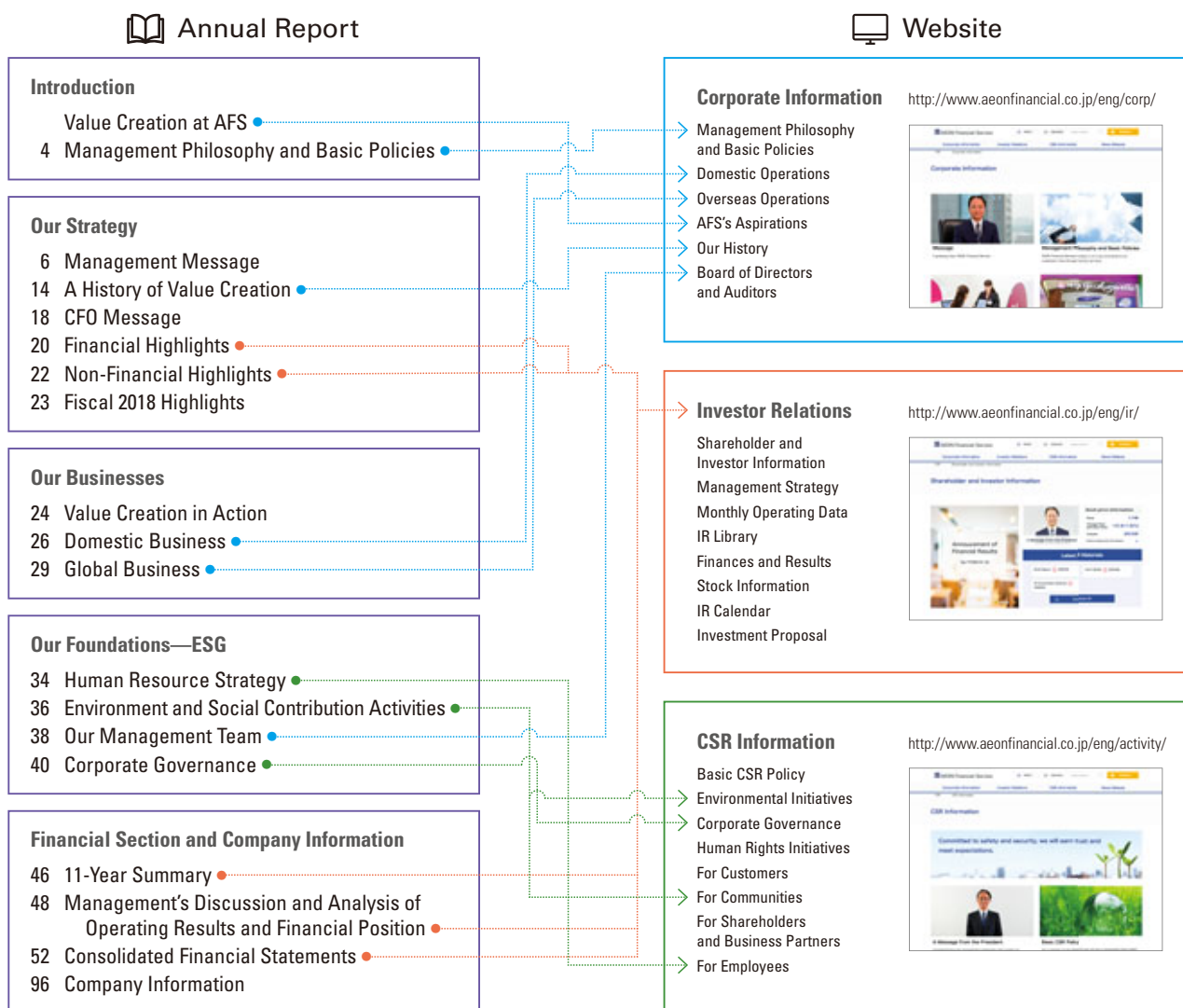
The Management Philosophy of AEON Financial Service Co., Ltd. is to support customers' lifestyles and enable each individual to maximize future opportunities through effective use of credit in Japan and elsewhere in Asia. Our Basic Policies are to put customers first, provide financial services that are closely attuned to customers' lives, earn the trust of society and meet its expectations, and maintain a corporate culture that encourages our people to excel. We are committed to our mission of truly contributing to our customers' lives through financial services.

The AEON Group and AEON Financial Service



The content of this annual report includes information related to our future strategies, policies and financial projections, based on and calculated using currently available data. It includes elements of risk and uncertainty related to economic trends, increased industry competition, market demand, exchange rates, taxes, regulations and other factors. As a result, actual results may materially differ from these forecasts.

Contents



Editorial Policy

AEON Financial Service publishes the Annual Report 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 environmental, social, governance (ESG) and other issues. The objectives of the Annual Report are to help readers understand our ideals and maintain an ongoing dialogue with them.

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

Scope of Report

- Organization: AEON Financial Service Co., Ltd. and its consolidated subsidiaries
- Period: Fiscal 2018 (April 1, 2018 – March 31, 2019)
(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)



Corporate website



Corporate Video



Management Message

**We are constructing
the most customer-oriented
ecosystem in Asia.**

Kenji Kawahara

President and CEO

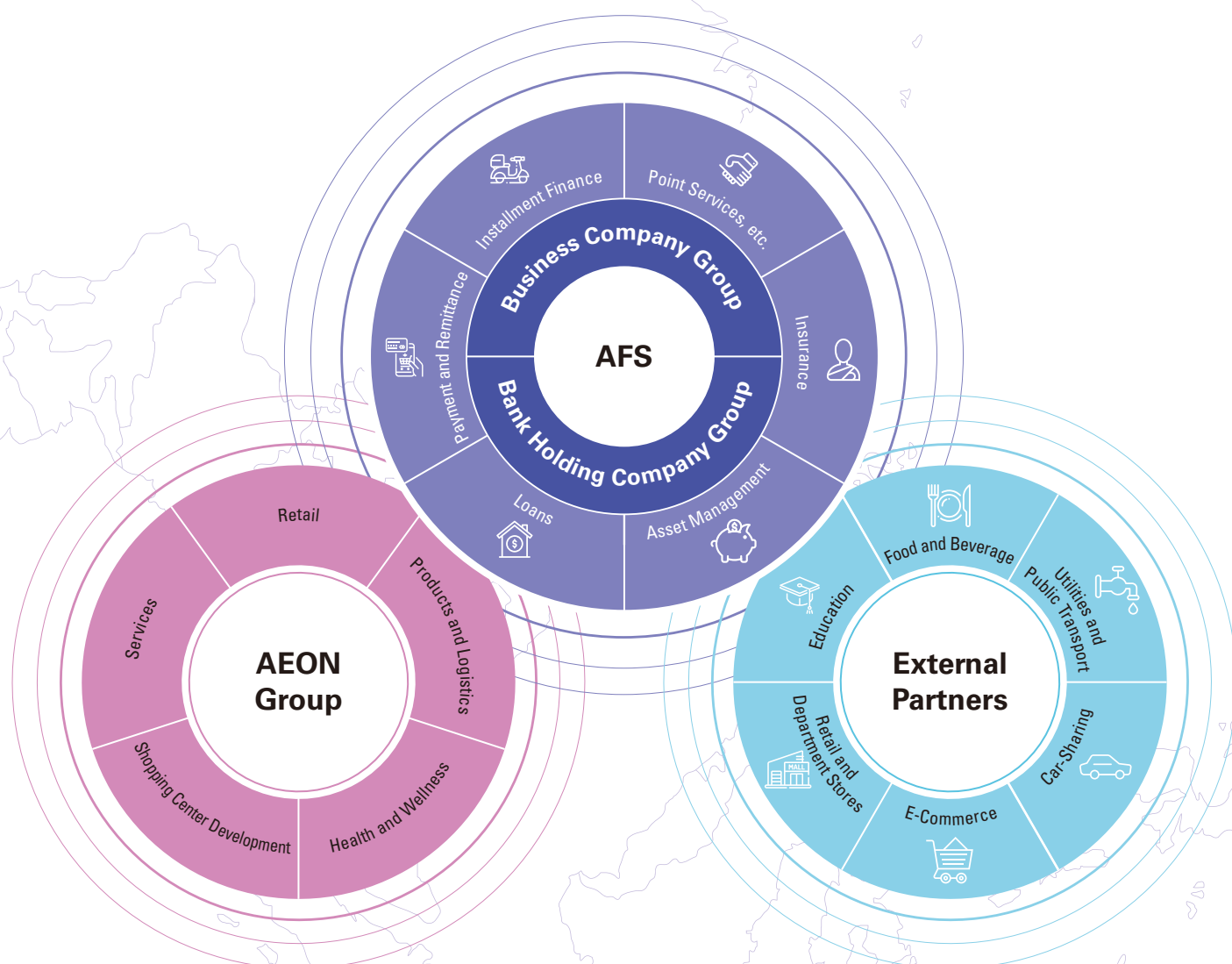


Vision for 2025

The AFS Ecosystem

The unique AEON Financial Service economic sphere linking the AEON Group's retail-centered economic sphere, customers across 11 countries in Asia, including Japan, that use our financial services, and external partners

- Offer services that only a group with roots in the retail sector can provide
- Grow larger and stronger through alliances with companies in other industries to be the number one retail financial services company in Asia



1

AEON Financial Service's Near-Term Vision

AEON Financial Service is a comprehensive financial group with roots in the retail sector. It leverages the AEON Group's brand equity and store network to deliver a unique range of financial services.

Our customer base is principally founded on visitors to AEON Group stores, and consists of a diverse range of individuals with differing family circumstances, living situations and values. One of our major distinguishing points among Japanese financial services companies has been our quick expansion overseas. This is the culmination of working with the rest of the AEON Group to build close relationships with customers, rolling out our business activities to communities across Japan and winning acceptance for them throughout Asia, which has enabled the smooth acquisition of credit card issuer and other licenses. In overseas markets, the synergies we have established with the AEON Group's networks and infrastructure allow us to provide products and services that are closely attuned to customers' daily lives in 11 countries across Asia.

Over the past 38 years, we have flexibly transformed our organizational structure and business model to provide the best solutions to the diverse challenges that customers face in the countries/regions we serve. All of the banking, credit, insurance, and loan products and services we have provided to date incorporate our desire to get closer to customers and enrich their daily lives.

To me, the true meaning of "enrich" is to enable households where people can live happily, regardless of their income level. By providing financial services that address the unique needs of customers, we enrich daily life and bring happiness to families. Our mission



is to enable this virtuous cycle in Japan and throughout Asia. In each country, employees working in our business divisions and at our local subsidiaries and branches apply their ingenuity to increasing access to regionally rooted financial services that are truly necessary to people in their communities.

Our goal is to be the number one retail financial services company in Asia by developing innovative services using the latest information and communication technologies and collaborating with companies in other industries to expand our customer base.

2

Achieving Our Vision by Turning Risks into Opportunities

In fiscal 2018, AEON Financial Service's consolidated operations generated steady growth in Japan, with transaction volume in the credit card business and housing loan volume in the banking business increasing in the range of 4% to 8% year on year. Overseas, sales were strong despite the impact of U.S.–China trade friction. Transaction volumes for credit card shopping and cash advances both saw double-digit growth, supported by firm consumer sentiment.

However, looking at the market over the medium-to-long term, Japan faces a declining birthrate, aging population and shrinking middle-income demographic. Meanwhile, in emerging markets in Asia, the middle-income demographic is expected to expand further due to economic development. Advances in Fin-Tech and other developments are set to drive a further increase in the number of people who use financial services via smartphones both in Japan and overseas. Customers can now enjoy great convenience via their smartphone, using it in place of their cash card, or to open accounts, make payments, buy and sell stock and investment trust products, and apply for various loans. In addition, companies that provide financial services are able to accumulate valuable data relating to consumer household and purchasing behavior. This new trend has also led companies in other industries, such as ICT platform and application development, to successively enter the financial industry. Competitors and the rules of competition have changed significantly, and even the very concept of financial services may undergo a fundamental transformation in the future. This kind of abrupt change in the competitive environment is one of the management risks we are most keenly aware of.

At the same time, I am convinced that our strength as a comprehensive financial group with roots in the retail sector is precisely what will enable us to thrive in this new era. Customers will choose AEON Financial Service because of our unique ability to combine retail and financial resources, such as the extensive and well-known network of AEON Group stores, to offer valuable products and services that traditional financial institutions and emerging competitors cannot. Our Group-wide commitment to forming closer relationships with customers and supporting their lives through our bricks-and-mortar branch network and local subsidiaries, will surely be one of our competitive advantages.

We will leverage such advantages to be the number one retail financial services company in Asia. A key milestone toward achieving our goal is constructing the most customer-oriented ecosystem in Asia by 2025.

Expansion of Customer Base through Collaboration with External Affiliated Merchants



The “AFS Ecosystem” concept expresses the unique AEON Financial Service economic sphere linking the AEON Group’s retail-centered economic sphere, customers across 11 countries in Asia, including Japan, that use our financial services, and external partners. In the process of building this economic sphere, we will integrate retail and finance in a framework that can combine and deliver functions such as investment, spending, and preparation for the future as required at each life stage from childhood to the senior years. Particularly in Asian markets outside Japan, our mission is to provide value to customers in the countries we serve that is not available from other financial institutions, such as building access to credit for middle-income and unbanked* demographics, improving circulation of local currency, and improving access to financial services.

One specific initiative toward constructing the most customer-oriented ecosystem in Asia by 2025 is increasing the number of IDs substantially to 300 million. We must achieve this figure because it represents about 10% of the 3 billion people thought to comprise the middle-income demographic in Asia by around 2025, and that will be the minimum necessary to be a significant market player. Alliances in industries other than finance and retail are key to achieving 300 million IDs. To keep pace with diversifying customer lifestyles, we must provide a diverse portfolio of services and form alliances with companies that have services and customer bases that complement our existing financial businesses. One example from our initiatives in Japan is the issuing of co-branded cards with theme parks and public transport companies in fiscal 2018, which has resulted in a steady increase in cardholders and solidified our customer base. We will build relationships with companies in other industries to expand and strengthen the AFS Ecosystem and create an environment in which our customers, our partners, and we ourselves all benefit.

* People without accounts or access to credit at banks or financial institutions for reasons including low income or migrant status.

3

Accelerating a Digital Shift in Financial Services



Priority Initiatives

Executing a Digital Shift

Enhance product and
service quality

Responding to Customers' Needs

Innovation of channels

Integrating HQ Functions

Increase labor productivity

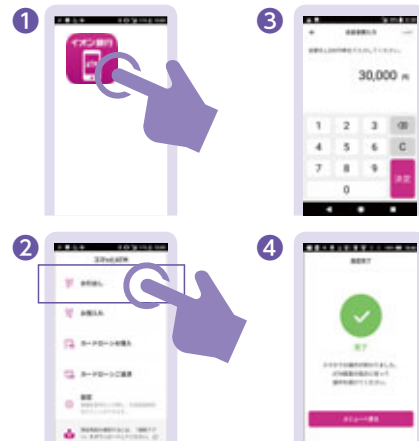
As mentioned previously, since fiscal 2018 we have been expanding our customer base, mainly in overseas markets, while at the same time making a full-scale commitment to digitalization. Cashless settlement is becoming increasingly pervasive in Japan and overseas, and in the near future, the ability to access all types of financial service from a smartphone will be universal. In anticipation of these global changes, we are developing and applying technologies such as the Internet of Things (IoT) and artificial intelligence (AI) and continuously utilizing these technologies in creative new services designed from the customer's perspective.

In Japan, we have introduced an app that allows customers to conduct certain bank transactions just by holding their smartphone over an AEON Bank ATM, and we are conducting field tests of cardless payment using biometric authentication technology. We are also enhancing customer convenience and increasing labor productivity through digital technology. Examples include Japan's first service capable of repairing credit card magnetic defects at an ATM, enhancement of call center functions through the use of an AI-automated chatbot that can handle inquiries 24 hours a day, 365 days a year, and promotion of paperless procedures.

Overseas, we provide a wide range of financial products and services such as credit cards, personal loans, installment finance, insurance, and e-money, mainly in regions where the AEON Group has retail stores. Our strategy is to provide all of these services through mobile apps. We are also enhancing credit screening efficiency using IT technology. Our subsidiary in Malaysia will structure a speedy and highly accurate screening flow by integrating AI, facial recognition, social network information and other analyses into its existing application flow. Furthermore, we are researching methods for building customer

Using Services through the Sumatto ATM Smartphone App

Input transaction through app



Execute transaction at ATM



evaluation models that other companies cannot imitate by combining lifestyle information we infer from purchase data with customer credit history. We plan to create new services that link our data with external data. In addition, we will continue to focus on providing products and services that more closely meet the needs of each customer, such as issuing premium cards to address the expected increase in middle- and high-income earners in Asia. We will improve the quality of our loan portfolio and increase profitability through these initiatives.

We are also investing in systems and IT for our digitalization initiatives. While the total amount of system and IT investment in fiscal 2018 was as planned, investment lagged in some areas in Japan and overseas. Therefore, in fiscal 2019 we will steadily invest in additional development of payment functions for mobile apps and the use of AI in credit screening flows to further address the digital shift and customer needs. In fiscal 2019, we plan to invest approximately ¥30 billion. In addition to our increased head office productivity from the introduction of robotic process automation (RPA),* in fiscal 2019 we will unify the personnel system of AEON Financial Service and five domestic companies, including AEON Credit Service Co., Ltd. and AEON Bank to improve the efficiency of personnel and labor management.

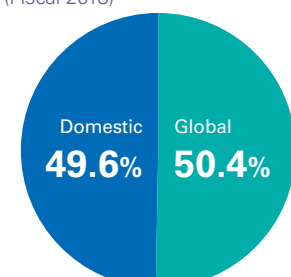
* RPA automates business operations by deploying cognitive technologies such as rule engines, AI and machine learning in software robots.

4

Increasing Earnings while Resolving Social Issues in Countries/Regions We Serve

We must further accelerate overseas business growth to secure a number one position in retail financial services markets in Asia. Consolidated ordinary profit accounted for by the Global Business exceeded 50% for the first time in fiscal 2018 as a result of our various initiatives. Given the growth potential of Asian economies, however, we recognize

Share of Ordinary Profit
(Fiscal 2018)

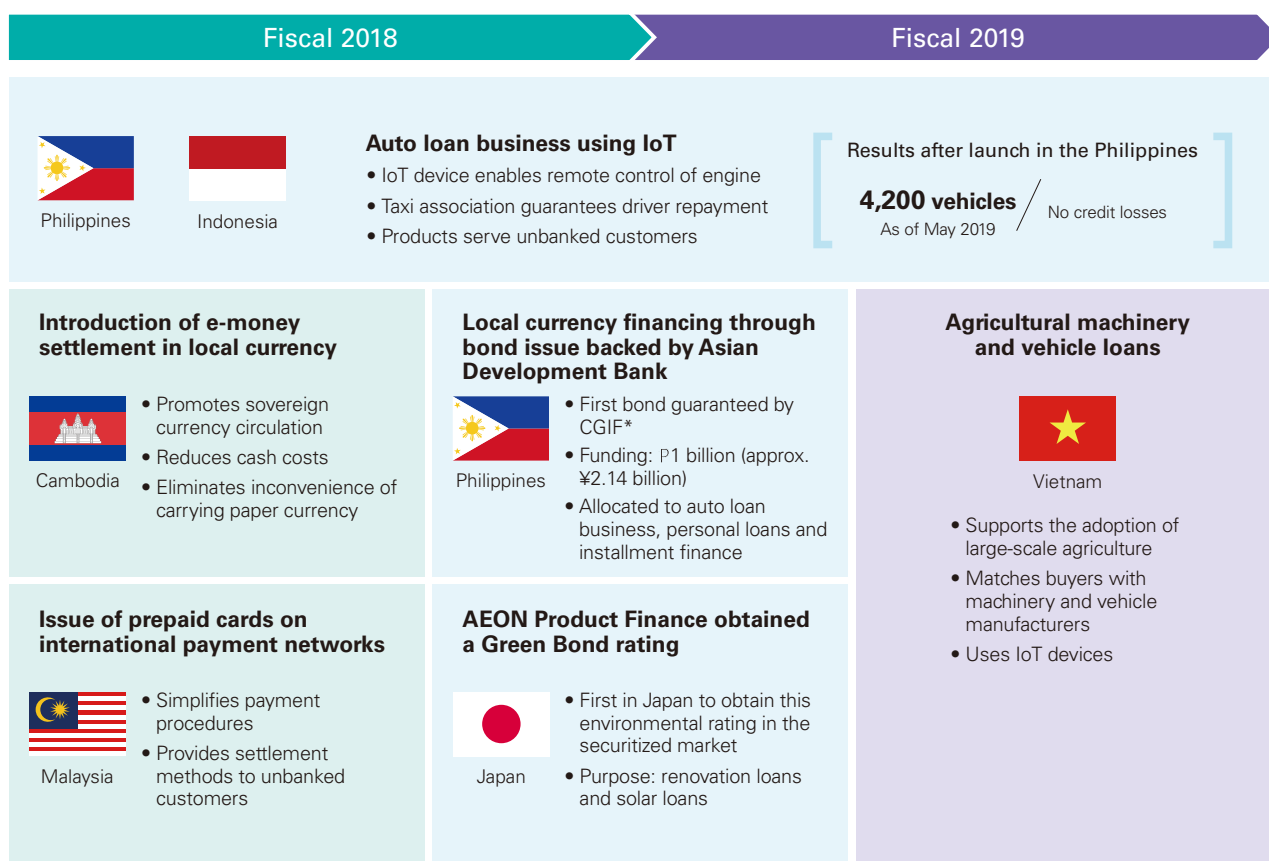


that we must allocate more human resources and IT investment to overseas operations to support additional significant growth.

The Asian countries we serve each face various social issues. Resolving these issues is the key to business opportunities that generate new earnings. In the Philippines, for example, we started an auto loan business for taxi drivers using IoT devices in fiscal 2017, contributing to job creation and income growth in that country. In fiscal 2018, we launched a similar auto loan business in Indonesia. In Cambodia, we offer an e-money service denominated in the local currency, providing a high level of convenience for settlement and remittance without cash or credit cards. In Vietnam, we started installment finance for agricultural machinery to resolve the problems of a decline in the number of agricultural workers and low productivity. Thus, we are actively creating new businesses by linking our expertise to solutions for social issues in each country/region we serve.

We must expand our market share by pivoting from a focused approach to providing a comprehensive portfolio of financial services, so as to become a major player in each country we serve. As we work toward our goal for 2025 of making the AFS Ecosystem the most customer-oriented ecosystem in Asia, over the next few years we need to establish a firm presence among Asian consumers as the provider of choice for financial products and services and the first port of call for all types of financial consultations.

Achieving Sustainable Growth by Resolving Social Issues



* Credit Guarantee and Investment Facility

A History of Value Creation

AEON Financial Service has leveraged the AEON Group's sales network to expand its businesses with a focus on credit cards, as well as banking, insurance and other services, and was quick to actively expand overseas. In addition, we have a history of carefully monitoring changes in the business environment and then flexibly evolving our management system and businesses.

phase 1

External environment

Proliferation of credit cards

- First credit card issued in Japan in 1960. Use subsequently increases centered on cards issued by consumer credit companies.
- Acceptance of credit card transactions spreads in the chain store industry from 1975.



Launch of shopping credit business

Issued our first credit card, Jusco Card, in 1980
Nihon Credit Service Co., Ltd. established in 1981

Management system changes

People want convenience and cost-effectiveness when they spend their money. Employees at Jusco (now AEON) general merchandise stores were quick to understand this mindset as financial services began to gain traction in Japan. We worked with storefront employees, to conceive and implement one idea after another, including cards not requiring a signature for food purchases, combined postal savings cards and rewards on customer appreciation days. Transaction volume and cardholders increased steadily.

The bubble economy and contraction of the Japanese market

- Japan's asset price bubble, characterized by soaring land and stock prices, collapsed in 1991, and the nation entered a recession.
- Japan's birthrate declined moderately. Concerns emerged about population decline and a shrinking domestic market.



Acceleration of overseas operations

Established Hong Kong branch in 1987 (local subsidiary in 1990); local subsidiary in Thailand in 1992; local subsidiary in Malaysia in 1996

Began handling installment finance for furniture and home appliances at AEON Group retail stores

Overseas operations



Hong Kong



Thailand



Malaysia

Other companies in our industry aggressively invested in real estate during the bubble period, but we stayed focused on our main business and began to expand overseas in anticipation of the shrinking domestic market. Backed by economic growth in Asia, we rolled out financial services tailored to the characteristics of each country. Currently, we operate in 11 countries including Japan, and have listed companies on stock exchanges in Hong Kong, Thailand and Malaysia.

Value provided today

One of Japan's top issuers by number of cardholders

More than half of consolidated ordinary profit accounted for by our Global Business

phase 2



Lifestyles diversify while regulations ease

- The number of nuclear families and double-income households increased, and lifestyles diversified.
- Japan eased regulations and brought them in line with global standards, including broadened latitude for online transactions, leading to more companies in other industries entering the banking sector.



Launch of AEON Bank

Established AEON Bank, Ltd. in 2007
AEON Credit Service Co., Ltd. first in the Japanese credit industry to obtain a bank agency license



Indonesia



Philippines



Vietnam



India



Cambodia



Myanmar



Laos

AEON Bank is a financial institution that originated as a new consumer-oriented bank that harnesses a retail sector perspective—making it friendly, convenient and easy to understand. Branches are designed so that customers can drop in freely while shopping. AEON Bank offers services tailored to customers' daily lives, including no ATM fees 24 hours a day, 365 days a year, and banking on Saturdays, Sundays, national holidays, and weekday nights.

Products and services suited to diverse customer lifestyles

Changes in the regulatory environment of the financial industry

- Revision of the Money Lending Business Act introduced maximum credit loan restrictions.
- In the wake of the global financial crisis, international calls for transparent corporate management strengthened, and companies in Japan enhanced corporate governance.



AEON Financial Service launched

AEON Financial Service Co., Ltd. established as a bank holding company in 2013

AEON Bank and AEON Credit Service merged to establish AEON Financial Service and integrated customer databases, including attribute, purchase history and asset information. AEON Financial Service used the diverse customer contact points, and product development and proposal capabilities of the two companies to establish a comprehensive financial business unique to the AEON Group that supports a wide array of secure, convenient and fulfilling lifestyles.

Broad support for customers with financial services not available at other institutions

AEON Financial Service was established in 2013. Since then, we have continued to strengthen and enhance our organizational structure in light of changes in the business environment, while also planning and launching new businesses. In April 2019, having transitioned from a bank holding company to a business company, AEON Financial Service is poised to deliver even greater value to customers.

phase 3 Strengthening our organizational structure as a comprehensive financial group and enhancing our service lineup

External environment

- ICT advances have increased the sophistication and diversity of settlement infrastructure and services, leading to more companies from other industries entering the credit card industry.
- In overseas markets, Japanese and foreign-affiliated companies are successively entering Asian markets as part of the global economic shift toward Asia.

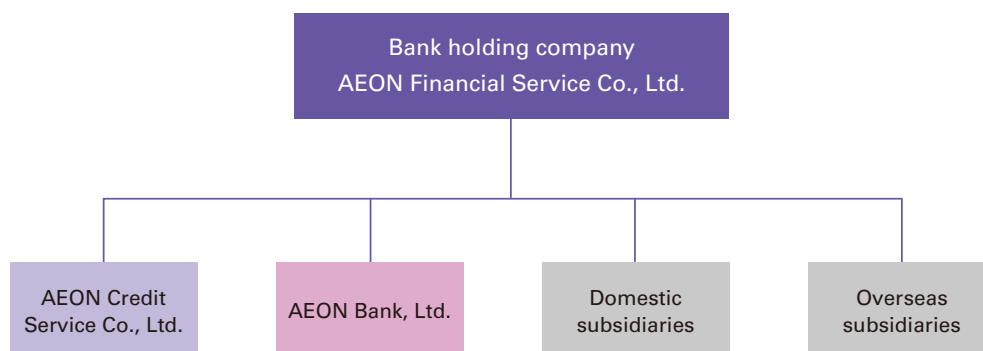
AEON Financial Service, established as a bank holding company in 2013, has expanded its products and services to match the diversifying financial needs of customers. We are continuously improving and enhancing the organizational structure of each Group company to offer financial services that are only possible because of our roots in the retail sector.

As an example, in 2017 AEON Bank began directly managing all bank agency branches previously operated by AEON Credit Service, with the objective of building a system that is a single source for financial products and services tailored to customers' life stages and lifestyles. We want our bank branches to be a trusted and familiar part of customers' lives. To develop approachability and professional knowledge, employees at all branches have been encouraged to acquire

financial planner and other qualifications. With all branches directly managed, we focused on improving the sales and consulting skills of employees and enhanced the sales network in Japan.

Meanwhile, AEON Credit Service has been working to develop new customer segments in collaboration with external partners, improve customer convenience by introducing digital technologies, and increase labor productivity. In these ways and others, since the establishment of AEON Financial Service in 2013, we have developed businesses and enhanced our service lineup as only possible because we are a comprehensive financial group with roots in the retail sector.

Organizational Structure until March 31, 2019



phase 4 Transitioning to a business company to respond flexibly to contemporary needs

- The competitive environment is becoming more challenging as technology companies such as IT platform developers and Fin-Tech firms from other industries enter the financial field.
- In capital markets, domestic and international institutional investors will further increase calls for effective corporate governance that improves corporate value.

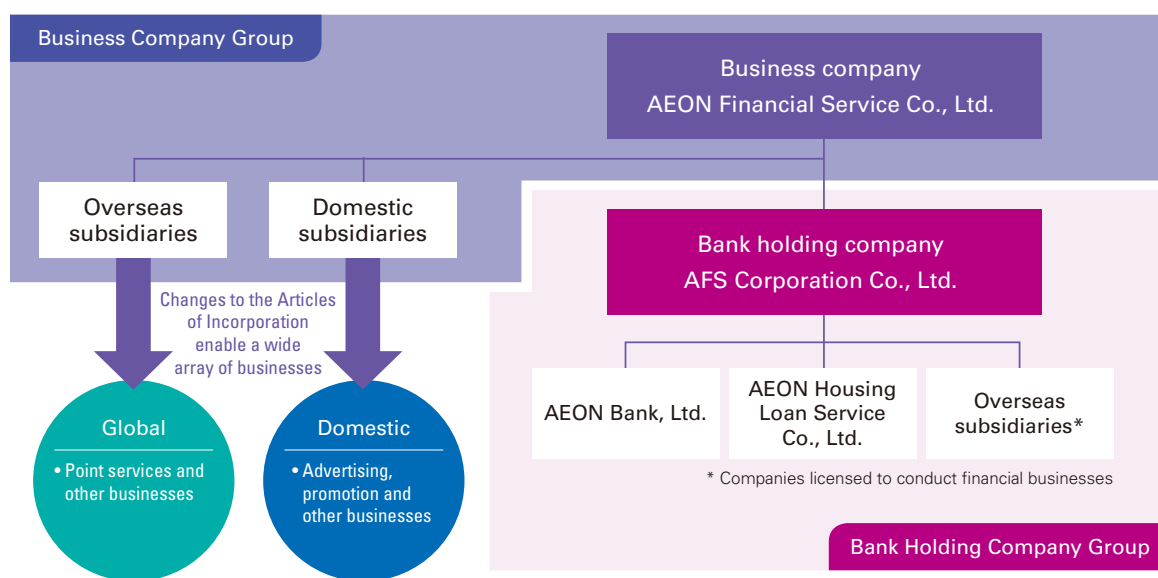
In April 2019, AEON Financial Service Co., Ltd. underwent a change in organizational structure, transitioning from a bank holding company to a business company.

In recent years, transformations in Japan's social structure including the declining birthrate and aging population have changed our operating environment. In addition, a number of factors have intensified competition, including entry into the financial sector by companies from other industries that deploy vast amounts of personal information such as IT platform developers and Fin-Tech firms. We have therefore reorganized our Group structure to build a more flexible business model while maintaining and strengthening our governance system for ensuring sound banking management. Specifically, AEON Financial Service has established a new

bank holding company called AFS Corporation Co., Ltd. and itself became a business company, which will enable us to expand the scope of our businesses without being subject to the provisions of related laws such as the Banking Act.

One benefit of the new organization is that it has enabled AEON Financial Service to enter the reward point and warranty businesses, which have excellent synergy with the retail sector. We will deploy the big data we have acquired through our financial services and partnerships in our marketing programs, provide sales and marketing consulting services to other companies, and work with the advertising industry, as we go about expanding businesses that are best attuned to customer needs.

Organizational Structure from April 1, 2019



CFO Message



We will triumph over a changing operating environment and provide financial support for our businesses as they undergo transformation.

Hideki Wakabayashi

Director and Senior Managing Executive Officer in charge of Corporate Management, Head of Corporate Management Division

More than six years have passed since AEON Financial Service became a comprehensive financial group. However, the external environment has changed significantly during that time, and competition has become very challenging. We must therefore evolve our earnings structure to ensure sustainable growth.

This was the rationale for the April 2019 transition from a bank holding company to a business company, and for establishing an organization that will fundamentally reform our business model. The scope of our business has expanded substantially, which has greatly increased the potential for business development. Our goals are to make strategic investments toward achieving our vision and to build a financial structure that matches our business model.

Investment in IT Systems

We are in the process of investing ¥100 billion in IT systems over the three years from fiscal 2017 through fiscal 2019 to adapt to the rapid advancement of digital technology and improve labor productivity. Based on target ROI levels, we have carefully chosen investment areas and are focusing on key performance indicators (KPIs) such as earnings growth

rate, bad debt allowance ratio, and labor cost efficiency to measure the effectiveness of our investments.

In fiscal 2019, the AEON Group will make a unified effort to prioritize the promotion of cashless transactions in Japan. We will leverage the advantages of being part of one of Japan's largest retail groups to achieve cost efficiency. We will also use new customer acquisition and the growing transaction volume within the AEON Group as a springboard for expanding the use of our products and services outside the AEON Group, and thereby generate earnings growth over the medium and long term.

In the Global Business, the ratio of bad debt allowance and personnel expenses to ordinary income has continued to decrease each year, but their combined ratio to ordinary income was still high at nearly 40% as of the end of fiscal 2018. In this respect, we believe digitalization will have a substantial positive effect. We have invested around ¥4 billion to that end in each of the past three fiscal years. In fiscal 2019, we will introduce AI technology for credit screening and receivables management, and use smartphone apps as a way to consolidate our product and service channels. Overseas development and introduction costs are lower and rate of return is higher than in Japan, so this shall be a focus

Key Performance Indicators

	Fiscal 2015	Fiscal 2016	Fiscal 2017	Fiscal 2018	Fiscal 2019 (Plan)
Consolidated Ordinary Income (YoY)	+9%	+4%	+9%	+8%	+7%*
Reference: Ordinary Income	¥359.6 billion	¥375.1 billion	¥407.9 billion	¥439.0 billion	¥470.0 billion*
Domestic Business					
Ratio of Bad Debt Allowance to Ordinary Income	6%	7%	7%	7%	7%
Ratio of Personnel Expenses to Ordinary Income	18%	17%	16%	16%	15%
Global Business					
Ratio of Bad Debt Allowance to Ordinary Income	25%	26%	24%	23%	22%
Ratio of Personnel Expenses to Ordinary Income	15%	15%	15%	15%	14%

* Due to a change in fiscal year, fiscal 2019 is the 11-month period from April 1, 2019 to February 29, 2020, but the above figures are annualized for the 12-month period from April 1, 2019 to March 31, 2020.

Plan for IT System and Digitalization Investments

Fiscal 2019 Plan: Main Investments (Total: ¥30 billion)	
Domestic ¥20 billion	Mobile apps: Addition of card application and payment functions
	Development of new products and expansion of fee businesses
	Strengthen security: Use of smart cards, construction of system platforms
	Promote cashless transactions: More convenient point programs, etc. and enhanced benefits
Global ¥7 billion	Call centers: Use of AI, updates to credit screening system
	Better marketing promotions, credit screening and receivables management through improvements in analysis
Efficiency ¥3 billion	Operational support: Introduction of robotics and RPA
	Automation-focused system updates

of investment. Furthermore, by actively adopting successful technologies in Japan, we should be able to increase efficiency Group-wide.

Our investments for the integration of IT into our products and services will result in dramatic improvements to operating efficiency. In the Global Business in particular, this will enable us to more quickly provide financial products and services that also feature greater security. It will also open up completely new channels and models, enabling us to target people who previously lacked access to financial services from banks or other institutions. We will complement the introduction of cutting-edge technology by working with a variety of partner companies to propose new service approaches and diversify sources of earnings.

Centralized Funding Functions

We have begun to centralize external funding for subsidiaries in Japan, in conjunction with our transition to a business company. We will implement effective financial management by positioning AEON Financial Service as the nerve center for external funding, in a move to reduce funding costs and consolidate financial functions at our head office, and by consolidating, integrating and combining the resources of each of our business companies. For overseas subsidiaries, we will make effective use of favorable low-interest funding available in Japan and build a system that contributes to stable funding.

Ratio of IT System Investment to Global Business Profit

	Fiscal 2016	Fiscal 2017	Fiscal 2018
Ordinary Profit (YoY)	¥23.2 billion (+21%)	¥28.3 billion (+22%)	¥34.5 billion (+22%)
Ratio of IT System Investment to Profit*	23%	17%	15%

* Profit before non-controlling interests

Capital Efficiency before/after Management Integration

	Fiscal 2012 (before management integration)	Fiscal 2015	Fiscal 2018
Shareholders' equity	¥231.3 billion	¥291.1 billion	¥380.6 billion
Return on equity	7.0%	12.7%	10.5%
Earnings per share	¥88.12	¥180.09	¥182.64
Book value per share	¥1,235.28	¥1,465.31	¥1,764.05

Improved Capital Efficiency

To date, we have consolidated companies engaged in financial business within the AEON Group and conducted M&A with external companies in the course of building a business model that takes advantage of the funding capabilities of a bank to improve capital efficiency while growing our businesses and enhancing our performance.

We will continue to steadily reform our business model and invest in IT to optimize the allocation of resources and provide high-value-added services.

The management integration of 2013 coincided with the introduction of a new operating structure that transformed our capital efficiency. Similarly, we intend to improve profitability and efficiency through our most recent transition to a business company. Our goal for capital efficiency is to support long-term earnings growth as measured by a target ROE of 15%.

Policy for Shareholder Returns

Our basic policy for shareholder returns is to appropriately distribute profits to shareholders while increasing AEON Financial Service's competitiveness by deploying internal reserves to expand our businesses and increase labor productivity. We intend to maintain the payout ratio between 30% and 40% over the medium term while investing in growth.

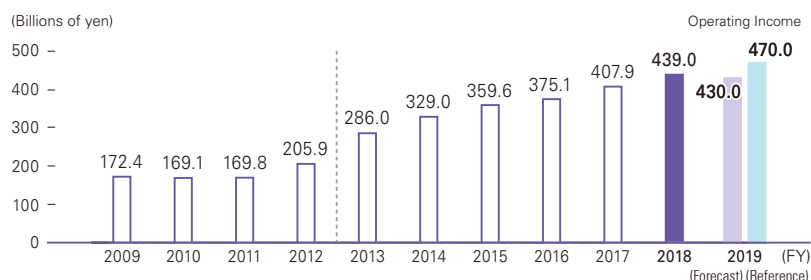
We will invest to strengthen our operating fundamentals, expand our businesses, and generate shareholder returns with the goal of sustainable growth in corporate value.

Financial Highlights

Overview of Fiscal 2018

- Consolidated ordinary income and ordinary profit increased for the eighth consecutive fiscal year.
- Consolidated ordinary income increased 7.6% year on year to ¥439.0 billion due to steady expansion in businesses including card shopping and cash advances, both in Japan and overseas.
- Consolidated ordinary profit increased 6.7% year on year to ¥70.1 billion. In Japan, we increased operating efficiency by centralizing head office functions and introducing RPA. In the Global Business, cost control measures such as labor productivity improvement initiatives enabled a reduction in bad debt expenses, and thus top line growth continued to recover.
- Profit attributable to owners of parent increased 1.9% year on year to ¥39.4 billion. Profit attributable to non-controlling interests increased with ordinary profit for the Global Business segment exceeding 50% of consolidated ordinary profit.

Consolidated Ordinary Income



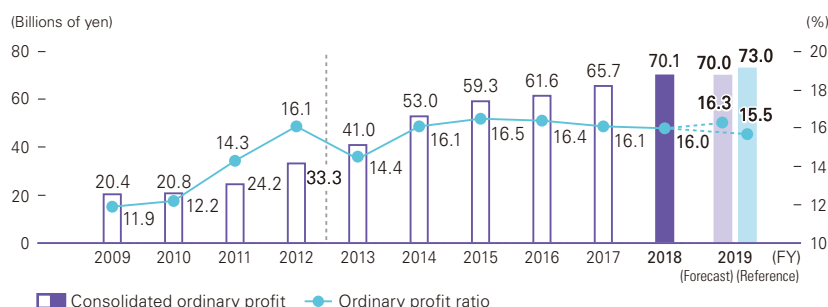
Fiscal 2018

¥439.0 billion

YoY

+7.6% ↑

Consolidated Ordinary Profit and Ordinary Profit Ratio



Consolidated Ordinary Profit

Fiscal 2018 **¥70.1 billion**

YoY

+6.7% ↑

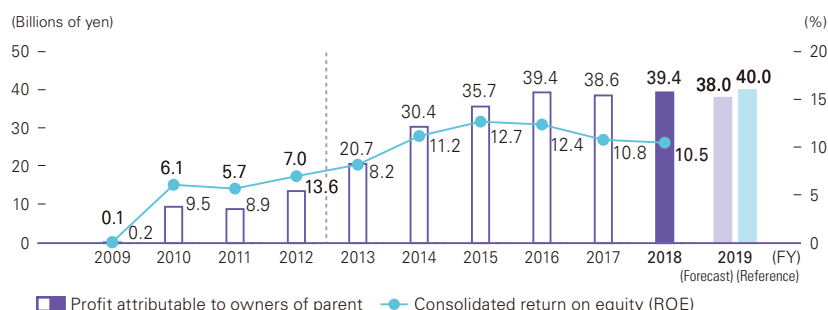
Ordinary Profit Ratio

Fiscal 2018 **16.0%**

YoY

-0.1 percentage points

Profit Attributable to Owners of Parent and Consolidated ROE



Profit Attributable to Owners of Parent

Fiscal 2018 **¥39.4 billion**

YoY

+1.9% ↑

Consolidated ROE

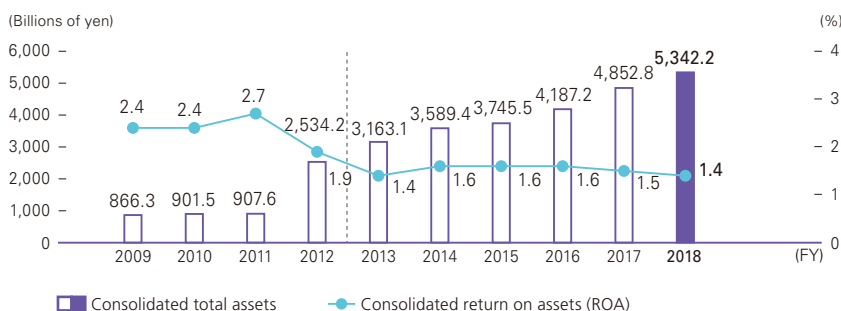
Fiscal 2018 **10.5%**

YoY

-0.3 percentage points

- Notes: 1. The consolidated amounts from fiscal 2013 onward 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, the Company became a bank holding company. Accordingly, the Company has prepared the consolidated financial statements from fiscal 2013 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 fiscal 2012 cover a period of 13 months and 11 days from February 21, 2012 through March 31, 2013.
4. Performance forecasts and payout ratio for fiscal 2019 cover the 11-month period from April 1, 2019 to February 29, 2020.
5. Reference amounts indicate performance forecasts annualized for the 12-month period from April 1, 2019 to March 31, 2020.
6. Due to the change in corporate structure, the Company has adopted operating income in its method of presentation for the performance forecast for fiscal 2019.

Consolidated Total Assets and Consolidated ROA



Consolidated Total Assets

Fiscal 2018

¥5,342.2 billion

Vs. Apr. 1, 2018

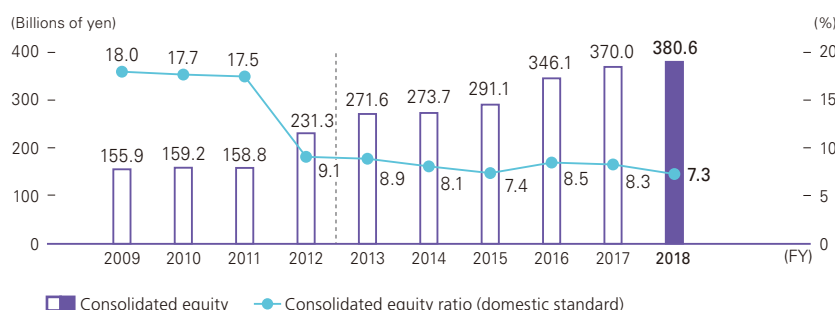
+¥489.3 billion ↑

Consolidated ROA

Fiscal 2018 **1.4%**

YoY **−0.1 percentage points**

Consolidated Equity and Consolidated Equity Ratio (Domestic Standard)



Consolidated Equity

Fiscal 2018

¥380.6 billion

Vs. Apr. 1, 2018

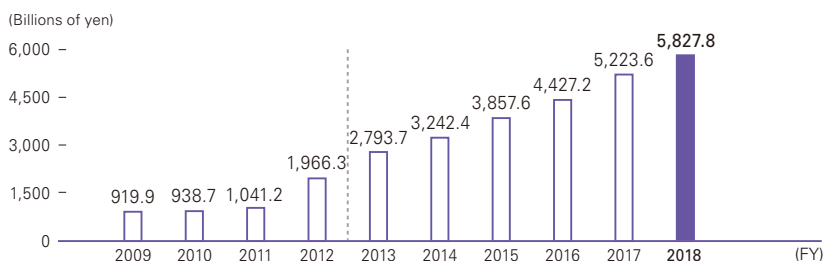
+¥10.6 billion ↑

Consolidated Equity Ratio (Domestic Standard)

Fiscal 2018 **7.3%**

YoY **−1.0 percentage points**

Consolidated Finance Receivables (Before Securitization)



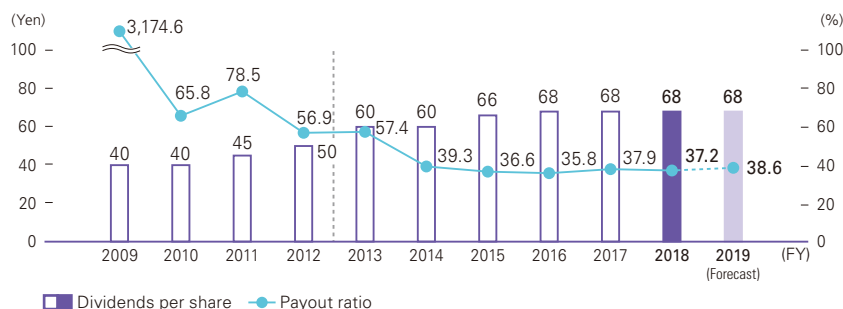
Fiscal 2018

¥5,827.8 billion

Vs. Apr. 1, 2018

+¥604.1 billion ↑

Dividends per Share and Payout Ratio



Note: Includes a dividend of ¥2.00 per share in fiscal 2016 to commemorate the 20th anniversary of the listing of AEON Financial Service.

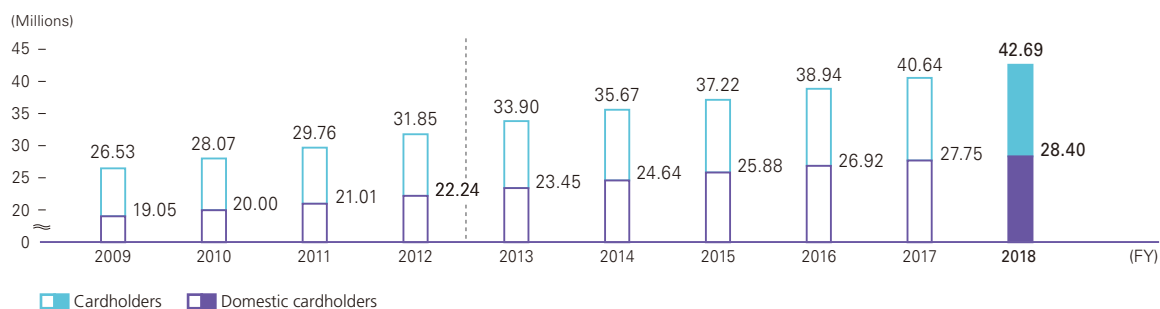
Dividends per Share

Fiscal 2018 **¥68**

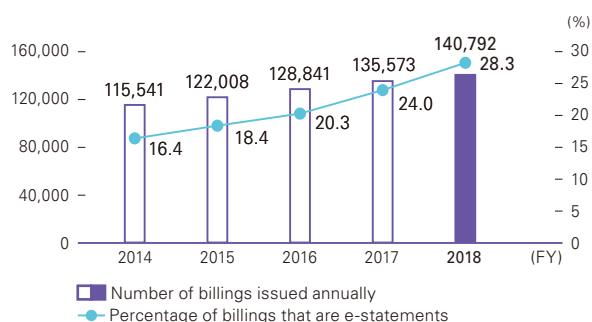
YoY **+/- ¥0**

Non-Financial Highlights

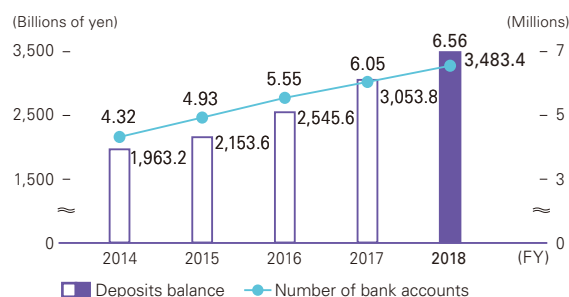
Cardholders



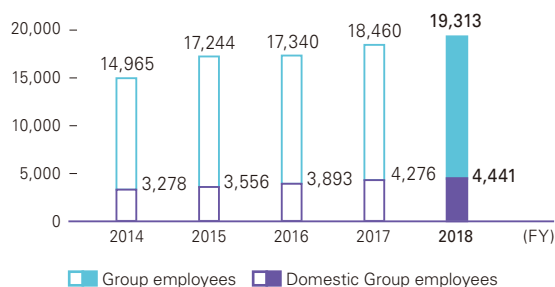
Number of Billings Issued Annually and Percentage of E-Statements



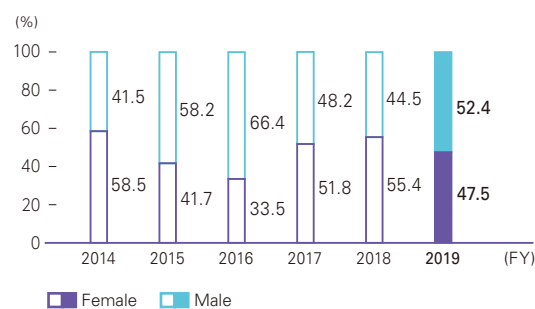
AEON Bank Deposits Balance and Number of Bank Accounts



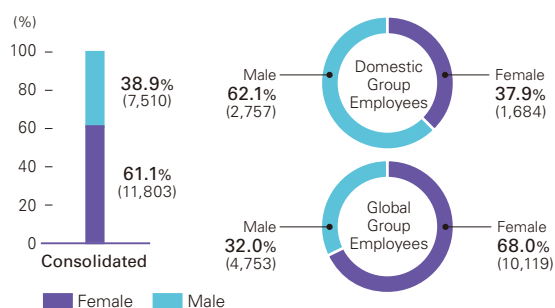
Group Employees



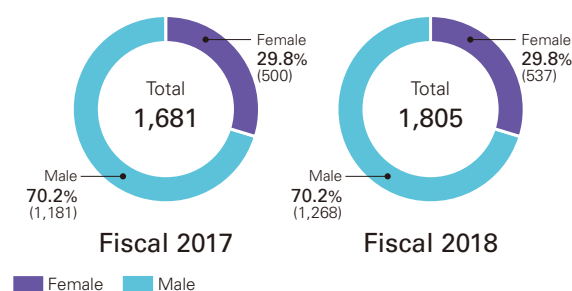
New Graduate Hires in Japan by Gender



Employees by Gender (Fiscal 2018)

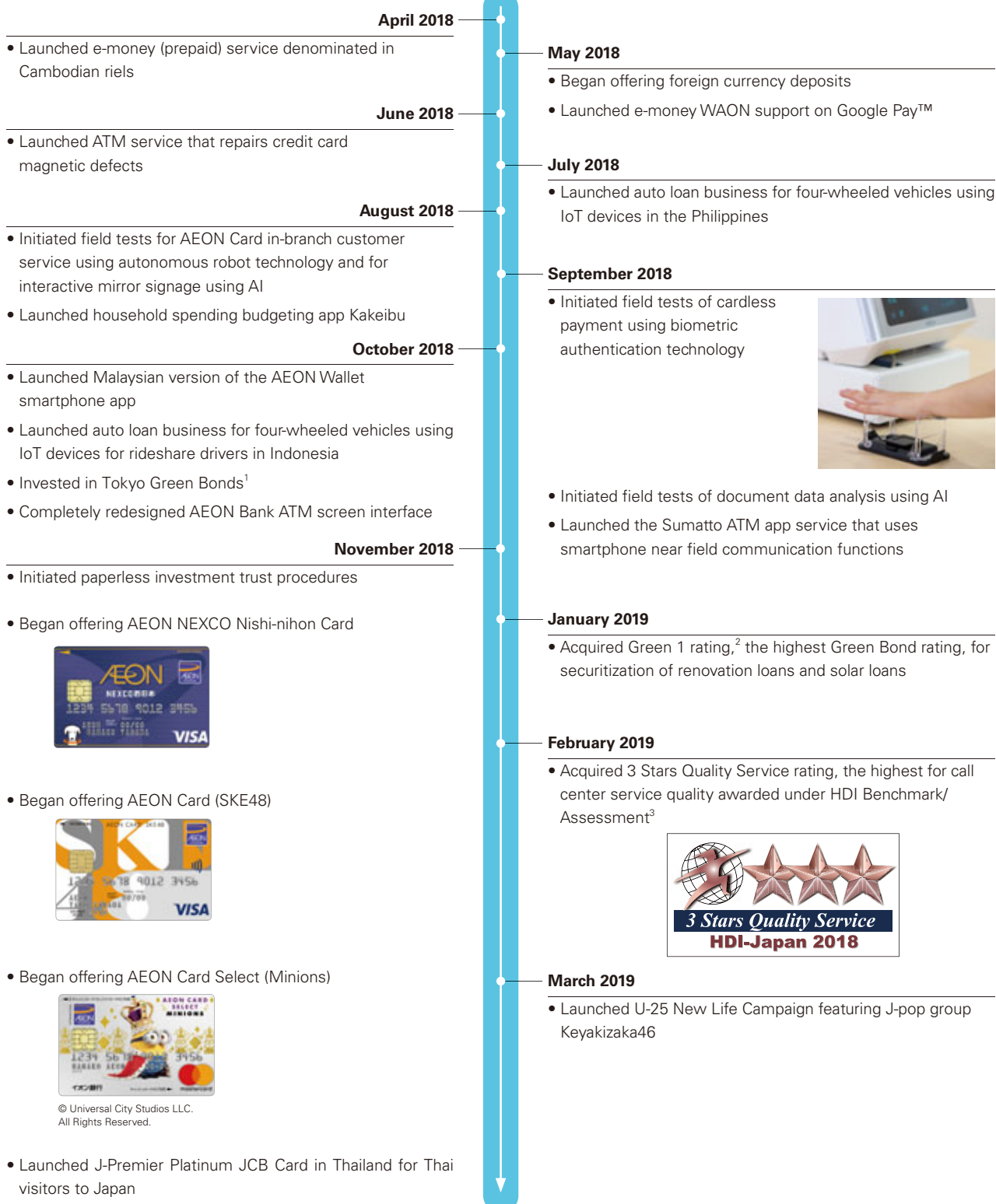


Managers by Gender



- Notes: 1. The consolidated amounts from fiscal 2013 onward 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, the Company became a bank holding company. Accordingly, the Company has prepared the consolidated financial statements from fiscal 2013 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 fiscal 2012 cover a period of 13 months and 11 days from February 21, 2012 through March 31, 2013.

Fiscal 2018 Highlights



Notes: 1. Green Bonds: Bonds issued to fund environmental businesses.

2. Green 1: The highest credit rating given by the Japan Credit Rating Agency, Ltd. to Green Bond issuers in its Green Finance Assessment of environmental management and transparency.

3. HDI Benchmark/Assessment: Specialized judges use criteria based on Help Desk International's (HDI) international standards to evaluate call center response from a customer perspective and assign ratings at one of four levels from zero stars to three stars.

Value Creation in Action

Malaysia



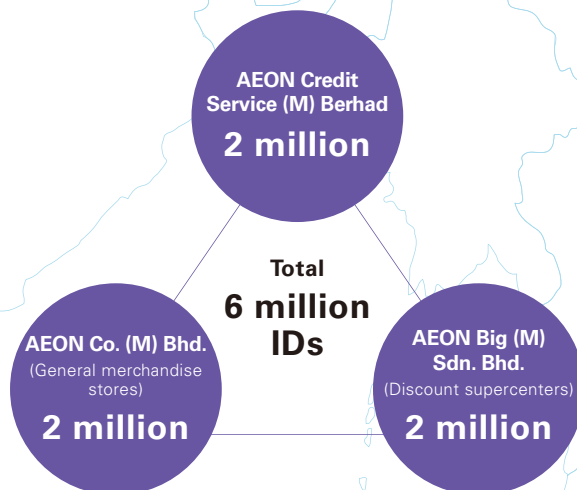
New Initiatives That Integrate Retail and Finance

Malaysia, a federal state with a nominal GDP per capita of over US\$10,000, is well on its way to completing its transformation from emerging economy to developed nation status. In 1996, we established the local subsidiary AEON Credit Service (M) Berhad (ACSM) in Malaysia, and since then we have been involved in businesses including unsecured personal loans, installment finance, and credit cards. In line with our Group-wide strategy of executing a digital shift, we launched the AEON Wallet smartphone app with QR code settlement capabilities and various user benefits in October 2018. This service enables cashless payment with support for prepaid card and point exchange functions. We plan to provide new services in the future, including peer-to-peer transactions and the ability to apply for short-term, small-amount insurance products.

We also launched AEON Wallet in Malaysia as a way to increase earnings for AEON Group companies while integrating and using customer settlement data to make shopping more convenient. The AEON Group operates AEON Co. (M) Bhd. general merchandise stores and AEON Big (M) Sdn. Bhd. discount supercenters in Malaysia. Previously, the two companies and ACSM each issued and managed their own rewards cards and point programs. Having collectively issued approximately 6 million cards, they also managed databases of customer purchase and card transaction history separately. However, this limited the effectiveness of sales promotions, and customers were inconvenienced by having to bring a different card to each store. Therefore, in fall 2018 we combined the cards of the three companies, and built a new settlement platform centering on a universal point program redeemable at any of the companies' stores. Customers can register their card to AEON Wallet, which also has credit card functionality. By letting customers experience the day-to-day convenience of using AEON Wallet, we will accelerate the integration of cardholder information centered on the app and further enhance our customer base.

ACSM is currently using the smartphone settlement platform to combine customer attribute information with purchase history information, and is proactively developing push marketing and financial products through collaboration among the three companies. In addition, we are improving the AEON Wallet user interface and user experience by linking to various existing services such as installment finance, personal loans, and insurance products. This will align our product lineup more closely with customers' lives and establish a flexible framework for determining credit limit. An additional consequence has been that we are seeing favorable results including growing transaction volume at the three companies.

At present, Malaysia has a population of about 32 million. ACSM seeks to acquire approximately 10 million IDs, i.e. roughly one third of the population. We will draw up scenarios to achieve this goal by collaborating with partners in industries other than finance and retail. We are confident that we can further enhance the added value of the financial services that ACSM provides through collaboration with other industries.



I can check my point balance and spending amount without going to a store, which is very convenient.

User feedback for AEON Wallet



"My mother and I both use AEON Wallet, and it is very easy to use. Products at AEON stores are inexpensive and earn points, so that's where I do my shopping for food and daily necessities. I can use the app to check my point balance and spending amount without going to a store, which is very convenient."

Much more convenient than cards— I'm pleased to have decluttered my wallet.

User feedback for AEON Wallet



"A year ago, my wallet was full of cards. Since I started using AEON Wallet, I no longer carry cards and have completely decluttered my wallet. It's really convenient because I can shop just by scanning the QR code displayed on my smartphone. When I shop at AEON Big, I use AEON Wallet instead of handing over a card at checkout."

We will implement measures unique to the AEON Group, such as cross-selling between retail and finance.

No other companies in Malaysia offer products and services that combine retail and finance. The settlement platform built by these three companies of the AEON Group is positioned as an essential part of our customer base, and has the potential to create unprecedented value through analysis of our database of 6 million cardholders. For example, cross-selling will become easier because we will be able to determine each individual's purchase history and propose optimal financial services at each life stage.

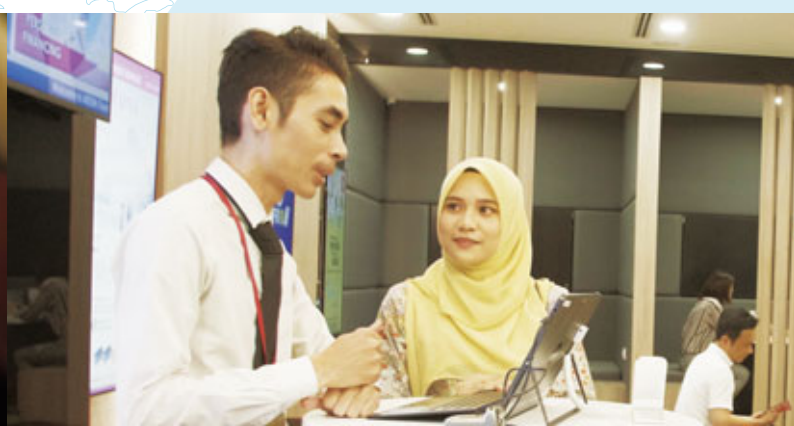
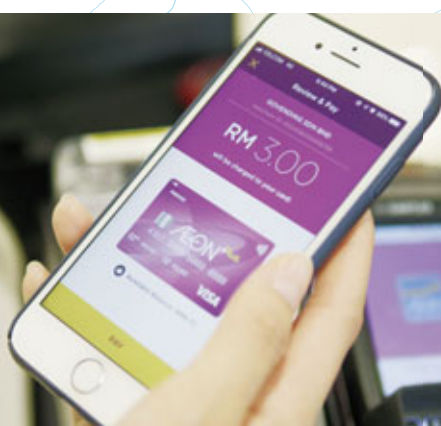
In addition, customer convenience was foremost in mind when we were developing the smartphone app alongside the settlement platform. For example, a function was added that allows customers to easily redeem points within AEON Wallet. Customers have indicated that they appreciate not having to go to a customer service desk to redeem points and the ability to pay at the checkout simply by holding their smartphone over a scanner.

The synergies between retail and finance resulting from the shared assets of the three companies will benefit customers throughout Malaysia, which in turn will enhance our unrivaled presence as a comprehensive financial group.



Shiro Ishida

Chief Marketing Officer
AEON Credit Service (M)
Berhad



Domestic Business

Value
Proposition

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

Main Services

<p>Credit card shopping</p> <p>Annual transaction volume about ¥5,350 billion</p>	<p>Credit card cash advances</p> <p>Annual transaction volume about ¥400 billion</p>	<p>E-money</p> <p>Annual transaction volume about ¥1,880 billion</p>
<p>Installment finance</p> <p>Annual transaction volume about ¥240 billion</p>	<p>AEON Bank housing loans Receivables at end of period (before securitization)</p> <p>about ¥1,800 billion</p>	<p>AEON Bank ordinary and time deposits</p> <p>Deposits at end of period about ¥3,480 billion</p>

AEON Bank's Network in Japan

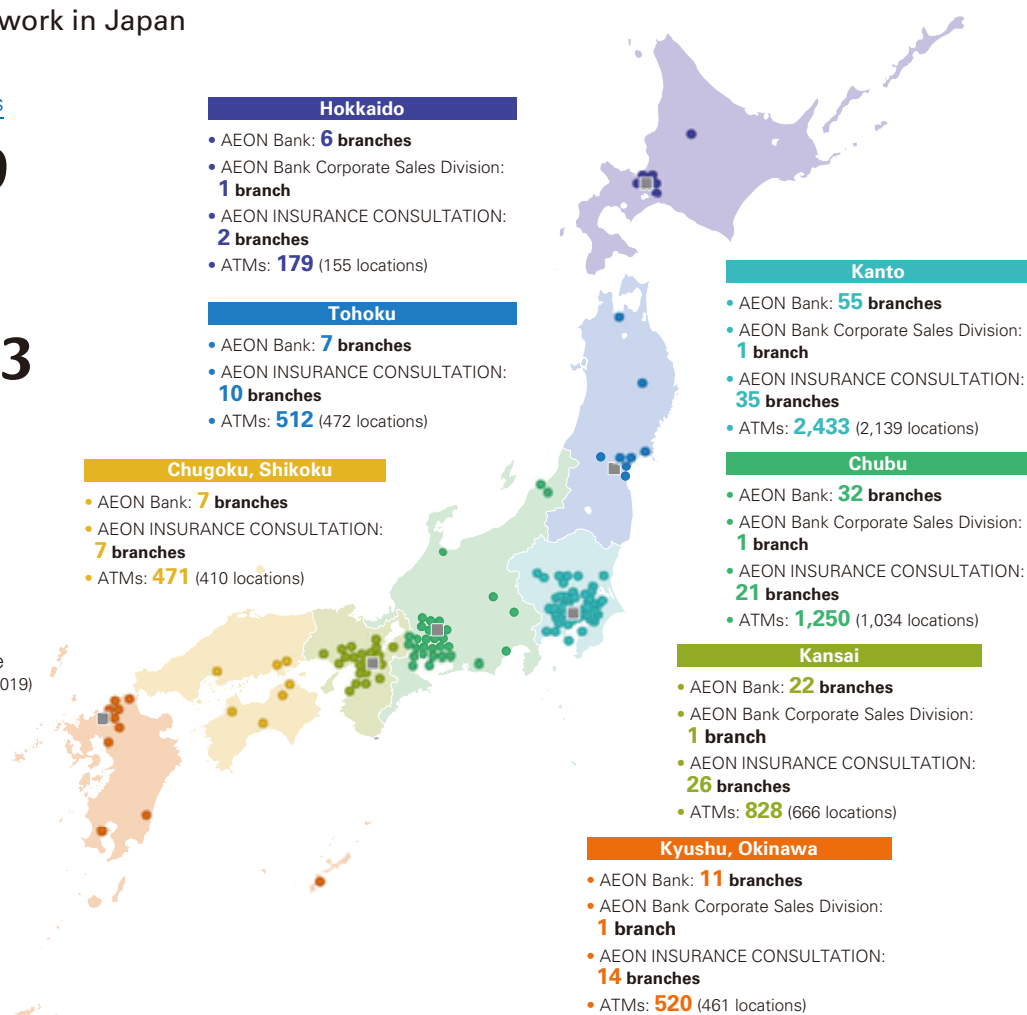
Branches

140

ATMs

6,193

● Branch
■ Corporate sales office
(Figures as of March 31, 2019)



Business Overview

We operate in two segments in Japan: Retail, which is centered on services for individuals, and Solutions, which is centered on corporate services. In the Retail segment, we have leveraged the AEON Group's sales network to build a cardholder base of 28.4 million people in Japan, with a focus on AEON Card. In addition, our bank branches and insurance agencies are mainly located in AEON shopping centers, allowing people to stop by on their way home from work or when out shopping. The Solutions segment mainly provides various financial services including installment finance and leasing and also supports the businesses of affiliated merchants in such ways as providing settlement infrastructure and making proposals for sales promotion plans.



Fiscal 2018 Initiatives

Companies from other industries are entering the settlement services business and collaboration among large corporations is resulting in the growth of new business fields. AEON Financial Service is addressing such changes in the external environment to generate long-term, sustainable growth by enhancing seamless settlement functions and by offering a lineup of financial products and services that are attuned to the needs of customers. In fiscal 2018, we increased the number of cardholders, with a focus on credit cards, and implemented service system reforms by digitalizing channels that serve as points of contact with customers.

New Cards

Acquiring more cardholders for AEON Card and co-branded cards is fundamental to achieving sustainable growth. New cards issued in fiscal 2018 to help us acquire new young and male customers included the AEON Card (SKE48) and the AEON Card (Minions). In addition, we conducted a campaign, featuring J-pop group Keyakizaka46, aimed at helping people 25 and younger get started in life. We also worked with external partners, for example, by issuing the co-branded AEON NEXCO Nishi-nihon Card with West Nippon Expressway Co., Ltd., and strengthened our product lineup of

public transportation-related co-branded cards nationwide to expand our earnings base.



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AEON Card Select (Minions)

Ongoing Digitalization

Digitalization initiatives continued in fiscal 2018. We enhanced customer convenience by launching a service at AEON Bank ATMs that can repair credit card magnetic defects, and by introducing an AI-automated chatbot service, which in addition to being able to handle inquiries 24 hours a day, 365 days a year, also supports branch and call center efficiency. Moreover, we improved customer convenience with smartphone apps. These included Sumatto ATM, which allows customers to conduct certain transactions just by holding their smartphone over an AEON Bank ATM, and Kakeibu, a household spending app that enables asset management. In addition, we began field tests for cardless payment using palm print biometric authentication technology.

Enhanced Proposals for Asset Management Services

We began directly managing all bank branches in fiscal 2017, and all branches have continued to train employees to improve their sales skills and ability to meet customer asset management needs. At the same time, we have enhanced our product lineup by adding foreign currency deposits to complement iDeCo and Tsumitate NISA offerings. We have also made investment trust application procedures paperless, which means they are more convenient for customers. In addition, we launched AEON Bank My Stage, a point program that allows customers to receive higher interest rates on deposits and preferential transfer fees depending on frequency of customer activity. This program encourages people to use the account as their main lifestyle account and for multiple banking transactions. We propose financial services that are suited to each customer by combining the strengths of brick-and-mortar channels with digital convenience.



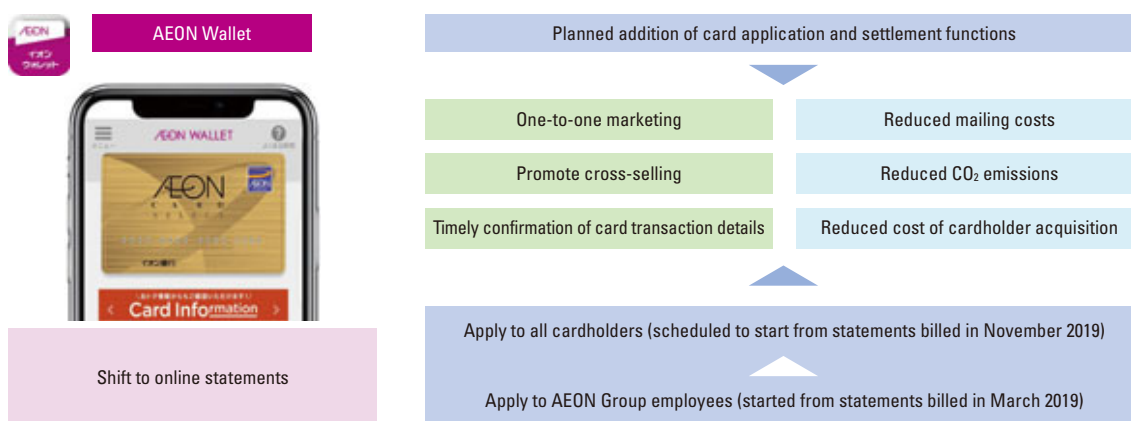
Future Initiatives

Enhanced AEON Wallet Functions

Through the credit card smartphone app AEON Wallet, customers can receive coupons and information on promotional campaigns, as well as confirm card transaction details. From May 2019, expanded functionality will include cardholder application with credit screening completed in as little as five minutes, enabling immediate online and other remote

payments, and shopping at iD affiliated merchants nationwide. In the future, we plan to enhance functionality including through additional settlement options. By expanding functions, we will be able to deliver timely product and service information via the app according to customer needs, thereby replacing materials previously enclosed with monthly paper statements. Furthermore, we will encourage use of paperless statements to reduce environmental impact and mailing costs.

Enabling AEON Card Functions and Related Transactions in the App



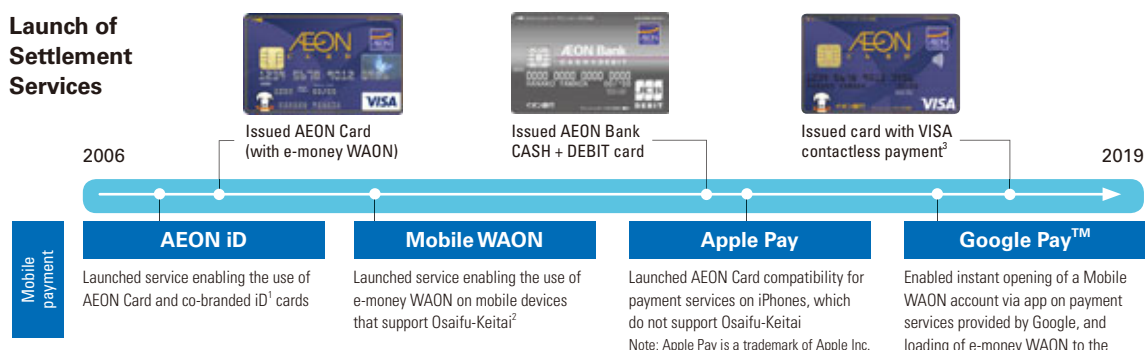
Highlight

Initiatives to Go Cashless

The Ministry of Economy, Trade and Industry announced its Cashless Vision in April 2018, and moved its 40% target for cashless settlement ahead by two years to 2025. In addition, the newly established Commission for Promotion of Cashless Settlement, which involves industry-government-academia collaboration on an industry-wide basis, is further promoting cashless transactions.

The AEON Group has been quick to promote cashless transactions by providing customers with a variety of settlement infrastructure linking finance and retail, including credit cards and e-money WAON service.

Launch of Settlement Services



1. A registered trademark of NTT DoCoMo, Inc. E-money settlement platform for contactless payment via smartphone or card.

2. A registered trademark of NTT DoCoMo, Inc. E-money settlement platform for contactless payment via mobile phone.












3. Payment by simply tapping a checkout terminal with the corresponding symbol. In general, no signature or PIN is required.

Global Business

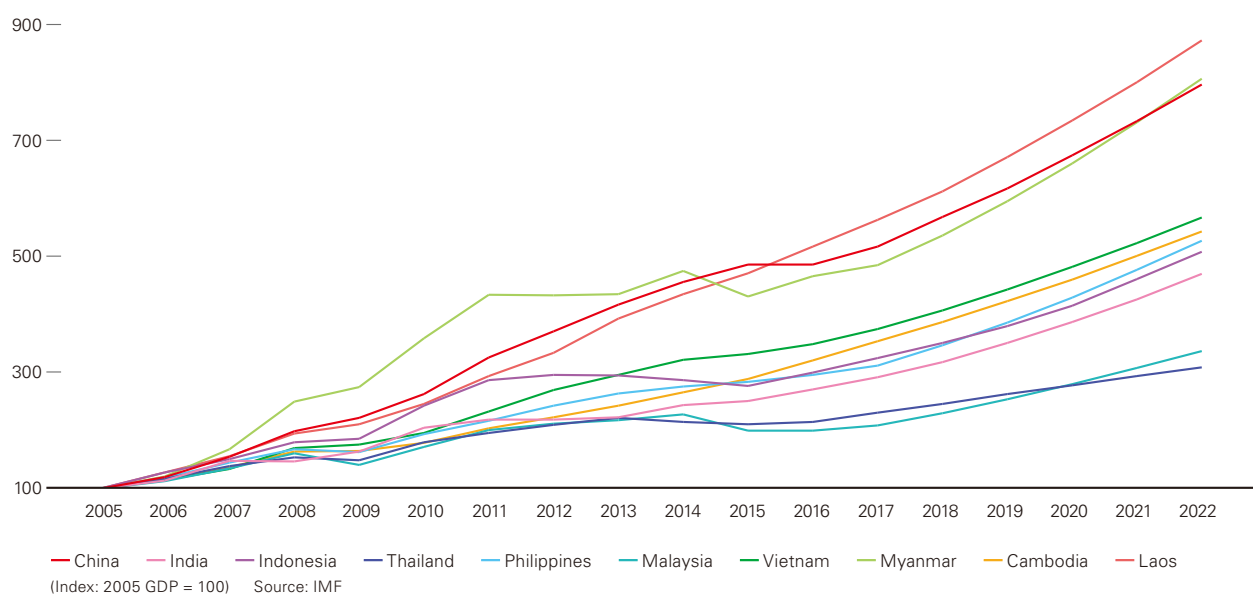
Value Proposition

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

Service Areas and Business Offerings by Country/Region

	China Area		Mekong Area					Malay Area			
											
	Hong Kong	China	Thailand	Cambodia	Vietnam	Myanmar	Laos	Malaysia	Indonesia	India	Philippines
Credit cards	●		●	●				●	●		
Personal loans	●	●	●	●		●		●		●	●
Installment finance		●	●	●	●	●	●	●	●	●	●
E-money (prepaid)				●				●			
Insurance agency	●	●	●					●			
Collections (external partners)		●	●								

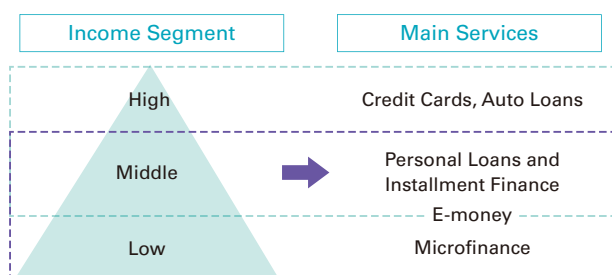
Market Environment GDP by Country (2005–2018 actual, 2019–2022 forecast)



Business Overview

We leveraged the business models and expertise we built in Japan to establish our first overseas base in Hong Kong. We have steadily expanded our business across Asia since then. Working in collaboration with the AEON Group's retail business, our business portfolio combines the installment finance business, which helps people purchase items essential to daily life, the personal loan business, and the credit card business. Our strategies and businesses are tailored to the economic conditions and growth stage of each country we serve, and we have listed subsidiaries in the China area, the Mekong area and the Malay area. All three of these subsidiaries increased revenues and earnings in fiscal 2018. Growth has been steady, and Global Business ordinary profit exceeded 50% of consolidated ordinary profit for the first time.

Main Services by Income Segment



China Area (Hong Kong and China)

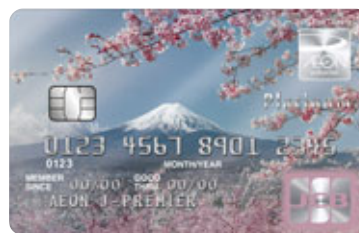
We established a subsidiary in Hong Kong in 1990 and listed it on the Hong Kong Stock Exchange in 1995. Beginning in the 1980s, Hong Kong was a pioneer territory for AEON retail stores outside of Japan, and we continue to collaborate with these stores on plans to promote the use of our services. In fiscal 2018, we issued AEON Card Premium for middle- and high-income demographics, expanded benefits for existing cardholders with annual spending above a designated threshold, and acquired new cardholders. In addition, we continued to enhance point redemption programs in conjunction with local airlines, targeting younger cardholders, and to attract new cardholders with the ONE PIECE Mastercard, which features popular Japanese animation characters.



AEON Card Premium

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

In the Mekong area, we established our subsidiary in Thailand in 1992 and listed its shares on the Stock Exchange of Thailand in 2001. We have steadily grown in Thailand since then by strengthening our brand. In fiscal 2018, in response to high demand for travel to Japan from Thailand, we launched the J-Premier Platinum JCB Card, which offers benefits at AEON stores in Japan, and continued to generate Group synergies. In addition, we introduced the AEON Happy Pay program, through which we determine the total credit line for purpose loan and personal loan customers on an individual basis at the time of card issue. We also accelerated credit screening for repeat customers, which has expanded transaction volume, while improving labor productivity by going paperless. We also moved forward with digitalization initiatives in each country. In Cambodia, we introduced QR code settlement through AEON Financial Service prepaid accounts using smartphones. In Myanmar, we began using push notifications to announce sales promotions via smartphone app.



AEON J-Premier Platinum JCB Card

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

We established a subsidiary in Malaysia in 1996 and listed its stock on Bursa Malaysia in 2007. Since then, we have acquired cardholders via AEON Group stores and implemented joint programs with partners to increase cardholder numbers and transaction volume. In fiscal 2018, we issued the AEON Member Plus Card equipped with both e-money and point card functions. We have improved customer convenience and promoted cashless transactions by making it possible to link the card to our smartphone app with a QR code settlement function. In India, the number of users of the AEON Fast app for immediate credit screening has continued to expand, which has supported increased transaction volume. In addition, we expanded our sales base and strengthened our brand by opening a branch in Mumbai's largest shopping mall, as a place for accepting applications.



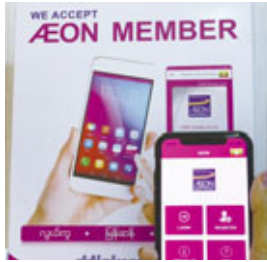
Digitalization Initiatives

The Global Business is carrying out digitalization initiatives in each country we serve and expanding member IDs with a focus on smartphones and other mobile devices. We will build financial and retail databases by providing various products

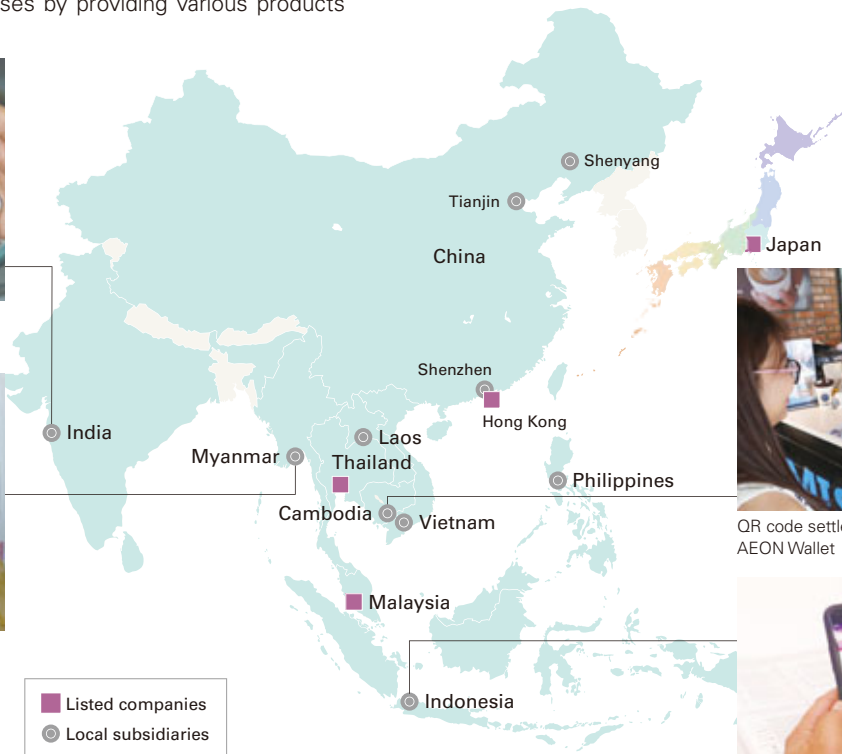
and services via mobile app, including prepaid card, credit card and other settlement services, and financial products including installment finance, personal loans and insurance. This will support our ability to make more precise marketing proposals that are aligned with customer needs.



Immediate credit screening via AEON Fast



Promotional campaigns via AEON Member



QR code settlement via AEON Wallet

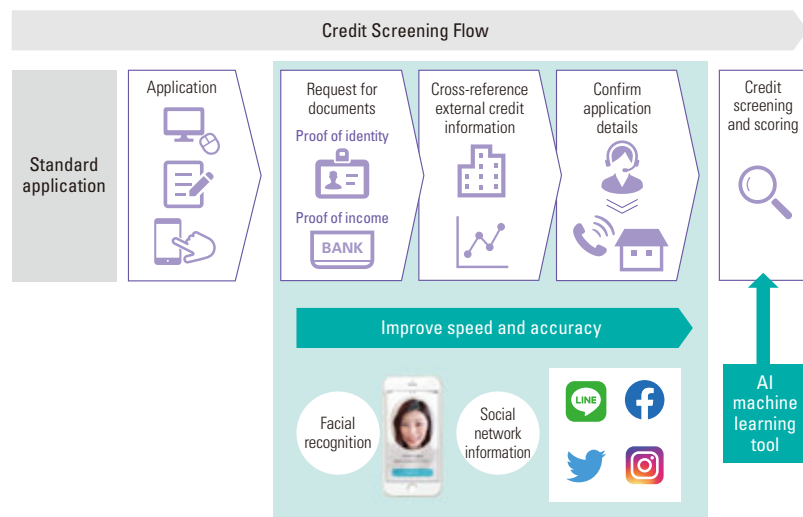


Immediate credit screening via AEON Fast

Highlight

Increasing Efficiency in Credit Screening and Receivables Management through AI Platforms

AEON Financial Service is using IT technology to improve credit screening efficiency. We have integrated AI, facial recognition, and social network information into our standard application flow to structure speedy and highly accurate credit screening. In addition, we are researching ways to build customer evaluation models that combine lifestyle information inferred from purchase data with customer credit history. We are also considering the creation of new services that link our data with external data.



A Platform for Sustainable Growth

We want to contribute to the development of society through our business activities and CSR initiatives in order to realize a sustainable society. We will systematically improve our initiatives to grow sustainably with society into the future.

Basic CSR Policy

As a member of the AEON Group, AEON Financial Service responds to the expectations of stakeholders in accordance with its management philosophy to “support customers’ lifestyles and enable each individual to maximize future opportunities through effective use of credit.” Our objective is to build our businesses to contribute to the development of a sustainable society.

We participate in AEON’s CSR activities to achieve

our objectives. We comply with laws and regulations, and inculcate compliance awareness throughout the operations and front-line business activities of Group companies, including overseas subsidiaries. We also fulfill our social responsibilities by being environmentally conscious, contributing to communities, and enhancing our corporate governance system.

Initiatives to resolve social issues through our businesses



Cambodia

**Providing an e-money service
denominated in Cambodian riels**
**Promoting cashless transactions
with a QR code settlement app**

We support the circulation of Cambodia’s sovereign currency through our smartphone app with QR code settlement and remittance functions, which provides safe, secure and convenient cashless financial services.

Environment and Social Contribution Activities ► Pages 36–37

Management Base

Basic CSR
Policy

Environmental
Policy

CSR
Committee

* International goals for 2030 adopted by world leaders at the UN Sustainable Development Summit at the United Nations headquarters. Designed to create a sustainable society, the SDGs are 17 goals with 169 targets that provide the vision and delineate issues for the world in working together to address problems relating to poverty, climate change, energy and resources, urbanization, and inequality within and among countries/regions.



Sustainable Growth for AEON Financial Service

We promote CSR activities that are aligned with international frameworks, including the United Nations' Sustainable Development Goals (SDGs),* and from the perspective of creating shared value, use mechanisms unique to the financial industry to resolve social issues and reduce environmental impact through our businesses.

Management that integrates CSR with businesses



Philippines

Operating an auto loan business using IoT Creating employment opportunities and stable livelihoods

Remote control of the vehicle engine using an IoT device is a form of credit guarantee that allows us to offer auto loans to low-income earners who were formerly ineligible. We started with loans for tricycles (three-wheeled taxis)—a familiar part of everyday life in the Philippines—and now also offer them for four-wheeled taxis.



Indonesia

Operating an auto loan business using IoT Contributing to society by leveraging our track record in the Philippines

Indonesia has the largest population among ASEAN nations and is experiencing rapid growth, including motorization. We are applying a similar approach to that in the Philippines to issue loans for four-wheeled taxis, enabling employment opportunities and stable livelihoods for more drivers.

Human Resource Strategy

- Health and Productivity Management
- Talent Development
- Talent Placement
- Diversity

Corporate Governance

Internal Control System



► Pages 34–35



► Pages 40–44

Human Resource Strategy

Basic Policy

The Group supports a variety of work styles for its diverse talent, and has established a human resource policy that promotes health and productivity, talent development and diversity so that each employee can thrive as part of an organization of professionals.

Health and Productivity Management

Recognizing that a working environment in which each employee can thrive is essential to improving customer and employee satisfaction, we actively share talent and exchange personnel among Group companies in order to promote Group-wide health and productivity. Exemplifying our approach, seven Group companies received certification under the 2019 Certified Health & Productivity Management Outstanding Organizations Recognition Program (White 500) in February 2019.

The Group mainly focuses on the following issues to promote health and productivity.

1. Ensuring all employees undergo health checkups and supporting follow-up checkups
2. Enhancing support for mental health (four types of care)

Health and Productivity Management Recognition System for Large Enterprises



Initiatives

Establishment of Medical Support Centers

1. Appointment of corporate occupational health physicians and nurses
2. Centralized management, including administering a Group health checkup results database, identifying employees who have not received checkups and issuing reminders, and reviewing checkup results, working hour records, lifestyle questionnaires, and stress checks
3. Enhancements to consultation system
Face-to-face consultation at support centers, consultation by e-mail
4. Hospital and doctor referrals
5. Health seminars



Enhanced Support for Mental Health

1. Formulation and implementation of a mental health promotion plan
2. Enhanced preventive strategies
(training for self-care and care by line managers)
3. Enhanced support for returning to work
4. Enhancements to consultation system
Face-to-face consultation at support centers, consultation by e-mail



Self-care training

Talent Placement

As an organization of comprehensive financial services professionals, we actively share talent and exchange personnel among Group companies. We facilitate intra-Group mobility with a common HR system (including recognition of qualifications, personnel evaluation, and compensation system) for key Group companies in Japan, and employment

infrastructure that ensures employees receive fair and equal treatment regardless of where they are working in the Group.

We will further promote optimal talent placement, exchange and development, to enhance our capabilities as an organization of comprehensive financial services professionals—one of our core strengths.

Talent Development

We focus on talent development based on the AEON Group philosophy that “education is the greatest benefit.” AEON Financial Service leads executive compliance training and global human resource development, and confers various awards aimed at improving customer service, while Group companies in Japan lead executive training for managers and section managers. Overseas, AEON Credit Service (M) Berhad plays a key role in providing management training for executives in Asia.

Compliance Training for Officers

AEON Financial Service sponsors training each year for all officers at domestic and overseas companies to foster high-level awareness of compliance, deepen understanding of various laws and regulations, and strengthen Group governance.

In fiscal 2018, we complemented AEON Group common compliance training with our own more practical program of training sessions in Japan and Thailand. A total of 124 employees attended.



Compliance training for officers

Global Talent Development

We have established an overseas dispatch training system to develop executive management candidates at each Group company and thus meet strategic needs in expanding the Global Business. Over the course of about a year, practical training at domestic and overseas subsidiaries cultivates global sensibilities, an understanding of diversity, and a desire to take on challenges among young employees.

AFS Customer Service Awards

With the goal of improving customer service satisfaction, the AFS Customer Service Awards bring together call center employees recognized for excellence in accordance with monitoring guidelines shared domestically and overseas, and employees recognized for excellence in accordance with the standards (for branches, etc.) of individual Group companies. By encouraging them to share best practices, we are working to improve the level of service Group-wide.



AFS Customer Service Awards ceremony

Diversity

Our diversity initiatives include Peace Farm, an agricultural scheme that employs people with a broad range of disabilities. Furthermore, through the hire of people with disabilities as massage therapists and other positions, as of March 2019, the employment rate for people with disabilities was 2.32% at our eight companies in Japan, exceeding the statutory employment rate of 2.2%.

Our overseas subsidiaries are particularly advanced as workplaces where women can excel, and female representation in management at domestic and overseas companies is approximately 30%. We will continue to ensure

that women are able to excel by transforming attitudes with an emphasis on women's career development.



Work at Peace Farm

Environment and Social Contribution Activities

● Environmental Conservation

Basic Approach

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 Initiatives

ISO 14001 Certification

AEON Financial Service has established its own management structure for environmental activities. Major domestic subsidiary AEON Credit Service Co., Ltd. and the three listed subsidiaries overseas have acquired ISO 14001 certification and are working to reduce environmental impact. AEON Credit Service's initiatives include improving business process efficiency, formulating an annual plan for its education and training system, and implementing ISO education to raise environmental awareness among employees.

Reducing Resource Use

We are making effective use of limited resources and reducing environmental impact to support a recycling-oriented society. We have reduced paper consumption through the introduction of the Web Statements service, which allows customers to access credit card statements online and via the AEON Wallet smartphone app. Other initiatives include making credit card applications, housing loan applications, and investment trust procedures paperless.

Tree Planting

AEON Financial Service Group employees energetically participate in tree planting activities sponsored by the AEON Environmental Foundation. In Japan, employees have participated in tree planting activities in locations including Watari, Miyagi Prefecture in October 2018. Overseas, our team, which included business partners and was led by an AEON Financial Service director, participated in tree planting in Jakarta, Indonesia in September 2018.



Tree planting in Jakarta, Indonesia

● Social Contribution

Financial Literacy Classes

AEON Financial Service, AEON Credit Service and AEON Bank regularly provide financial education to help high school and university students develop their knowledge of finance and economics so that they can lead a more prosperous life.

Support for Recovery from the Great East Japan Earthquake

Since fiscal 2017, we have been participating in volunteer cotton harvesting as part of land rehabilitation in Iwaki, Fukushima Prefecture in cooperation with The People, an NPO. In fiscal 2018, our second year of participation, employees of Group companies and members of their families took part. AEON Financial Service and AEON Credit Service also made donations to The People, and AEON Financial Service sponsored the Cotton Summit event.

AEON Bank established a dedicated account for accepting donations in support of reconstruction after the Great East Japan Earthquake. Collected funds are used for activities to aid people in the affected areas. In addition, we sponsored the Concert for Great East Japan Earthquake Reconstruction: 150 Years in Memoriam Gioachino Antonio Rossini in the affected areas with the special cooperation of Vatican City.

Community Contribution Overseas

Group companies overseas also contribute to the regions they serve, as close-knit members of their communities. We held a charity bowling event to support the Ramathibodi Foundation in Thailand, which is engaged in cancer treatment and hepatocyte and genetic research. We also donated essential supplies to facilities for seniors, and to elementary and junior high schools through the Thai Red Cross Society. In Malaysia, we raised funds for children with disabilities. In addition, we continue to provide scholarship support for students in Asian countries and international students (mainly from Asia) studying in Japan.

Donations and Fundraising

AEON Financial Service, AEON Credit Service, AEON Bank and AEON Insurance Service donate 1% of their income before income taxes to the AEON 1% Club Foundation. The foundation collaborates with cooperating Group companies to support projects with three main themes: sound development of the next generation, promotion of friendship with foreign countries, and sustainable development of regional communities.

In addition, we continue to engage in numerous



Financial education



Volunteers harvesting cotton



Charity bowling event in Thailand

fundraising activities in collaboration with customers, with funds raised through the charity program “24 Hour Television: Love Saves the Earth” (Nippon Television Network), as well as from customer donations through their AEON Bank account or Tokimeki points earned on AEON Card payments. We also worked with The C.W. Nicol Afan Woodland Trust to sponsor the Forest and Children Fund, and with Japan for UNHCR to sponsor the UNHCR Refugee Welfare Fund.

Our Management Team

Directors



Masaki Suzuki

Chairman

- 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
- 2015 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)
- Representative Director and Chairman of the Company
- 2017 Executive Officer in charge of General Finance Business of AEON Co., Ltd. (current position)
- 2019 Chairman of the Company (current position)
- Representative Director and Chairman of AFS Corporation Co., Ltd. (current position)



Kenji Kawahara

President and CEO

- 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 Director of AEON Bank, Ltd. (current position)
- Director of AEON Credit Service Co., Ltd.
- Director of AEON Product Finance Co., Ltd. (current position)
- President and CEO of the Company
- Director and Chairman of AEON Financial Service (Hong Kong) Co., Ltd. (current position)
- 2018 Chairman and Director of AEON Credit Service Co., Ltd. (current position)
- President and CEO in charge of Risk Management & Compliance of the Company
- 2019 President and CEO of the Company (current position)



Masao Mizuno

Director and Executive Vice President

- 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 and 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.
- 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.
- 2016 Director and Executive Vice President in charge of Overseas Business of the Company
- 2017 Director and Executive Vice President of the Company
- 2018 Director and Executive Vice President in charge of New Business Models of the Company
- 2019 Director and Executive Vice President in charge of New Business Development and Head of New Business Development Division of the Company (current position)



Hideki Wakabayashi

Director and Senior Managing Executive Officer

- 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 (Outside) 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.
- 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
- 2018 Director of AEON Insurance Service Co., Ltd. (current position)
- 2019 Director and Senior Managing Executive Officer in charge of Corporate Management and Head of Corporate Management Division of the Company (current position)



Masaaki Mangetsu

Director and Managing Executive Officer

- 1981 Joined Jusco Co., Ltd. (currently, AEON Co., Ltd.)
- 2013 COO of GMS Business of AEON (China) Co., Ltd.
- 2014 Director and Executive Officer of AEON Credit Service Co., Ltd.
- 2015 Director of AEON Credit Service Co., Ltd.
- 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
- Director and Chairman of AEON Credit Service (Asia) Co., Ltd. (current position)
- 2019 Chairman of AEON Micro Finance (Shenzhen) Co., Ltd. (current position)
- Director of AEON Credit Service (Philippines) Inc. (current position)
- Director of AEON Credit Service (M) Berhad (current position)
- Director and Managing Executive Officer in charge of Overseas Business Strategy & Innovation Planning and Head of the Overseas Business Strategy Division and Head of Innovation Planning Division of the Company (current position)



Yoshitaka Yamada

Director and Senior Executive Officer

- 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 & General Affairs, and Head of Human Resources & General Affairs Division of the Company
- 2019 Director and Senior Executive Officer in charge of Human Resources & General Affairs and Head of Human Resources & General Affairs Division of the Company (current position)



Tomoyuki Mitsufuji

Director and Senior Executive Officer

- 1987 Joined The Sanwa Bank, Limited (currently, MUFG Bank, Ltd.)
- 1999 Vice President of Structured Finance Department of Sanwa International plc (London)
- 2005 Senior Vice President of Investment Banking Division and Head of Capital Market Department of Tokyo Branch of Lehman Brothers Japan Inc.
- 2006 Leader of Market Funds Group of AEON Financial Project Co., Ltd. (currently, AEON Bank, Ltd.)
- 2007 Executive Officer and Head of Market Funds Department of AEON Bank, Ltd.
- 2010 Director, Executive Officer and Head of Market Funds Department of AEON Bank, Ltd.
- 2014 Director, Managing Executive Officer in charge of Corporate Business Department, Corporate Planning Department and Asset Management Department of AEON Bank, Ltd.
- 2019 Director of AEON Bank, Ltd.
- Head of Risk Management & Compliance Division and Head of Risk Management Department of the Company
- Director and Senior Executive Officer in charge of Risk Management & Compliance and Head of Risk Management & Compliance Division of the Company (current position)



Hiroyuki Watanabe

Director

- 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 Relations 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, Senior Managing Executive Officer and Head of Sales Division of AEON Bank, Ltd.
- 2015 President and Representative Director of AEON Bank, Ltd.
- 2016 Director of AEON Credit Service Co., Ltd.
- 2017 Director and Executive Vice President of the Company
- 2018 Executive Officer, Human Resources and Administration, and Administration & Risk Management of AEON Co., Ltd. (current position)
- Director of AEON Bank, Ltd.
- Director of Zag Zag Co., Ltd. (current position)
- Director of the Company (current position)



Junya Hakoda Director (Outside)

1974 Joined Mitsubishi Rayon Co., Ltd. (currently, Mitsubishi Chemical Corporation)
1980 Joined Price Waterhouse Certified Public Accountants Office
1983 Joined Aoyama Audit Corporation
2006 Partner of PricewaterhouseCoopers Aarata
2008 Eminent Professor of Graduate School of Keio University
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



Yoshimi Nakajima Director (Outside)

1980 Joined The Yasuda Trust & Banking Co., Ltd. (currently, Mizuho Trust & Banking 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 Societe Generale Securities Ltd.
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.
2017 Outside Director of Yamaha Corporation (current position)
Outside Director of the Company (current position)
2018 Outside Director of Japan Freight Railway Company (current position)
External Director of ULVAC, Inc. (current position)



Kotaro Yamazawa Director (Outside)

1980 Joined Bank of Japan
2006 Seconded to Osaka Securities Exchange Co., Ltd.
2010 Director and 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.
Corporate Auditor (Outside) of the Company
Outside Director of Tokyo Commodity Exchange, Inc. (current position)
Special Advisor of Glory Ltd. (current position)
2018 Outside Auditor of WingArc1st Inc. (current position)
2019 Outside Director of the Company (current position)



Tatsuya Sakuma Director (Outside)

1983 Public Prosecutor of Tokyo, Naha and Niigata District Public Prosecutors Offices, Criminal Affairs Bureau of the Ministry of Justice, and First Secretary of Embassy of Japan in the United States of America
1999 Chief of Investigations, Human Rights Bureau of the Ministry of Justice
2005 Deputy Head of Special Investigation Task Force of the Tokyo District Public Prosecutors Office
2008 Head of Special Investigation Task Force of the Tokyo District Public Prosecutors Office
2010 Chief Public Prosecutor of Otsu, Maebashi and Chiba District Public Prosecutors Offices, Director of United Nations Asia and Far East Institute for the Prevention of Crime and the Treatment of Offenders, and Director-General of the Research and Training Institute of the Minister of Justice (until 2019)
2019 Outside Director of bitFlyer, Inc. (current position)
Outside Director of the Company (current position)

Corporate Auditors



Junichi Suzuki Corporate Auditor (Full-Time) (Outside)

1980 Joined Jusco Co., Ltd. (currently, AEON Co., Ltd.)
1998 General Manager of Administration Division of Siam-Jusco Co., Ltd. (currently, AEON (Thailand) Co., Ltd.)
2002 Director and General Manager of Administration Division of Siam-Jusco Co., Ltd.
2009 Director, Vice President and General Manager of Administration Division of Beijing AEON Co., Ltd.
2011 General Manager of Administration Division of AEON Stores (Hong Kong) Co., Ltd.
2012 Director and Vice President of AEON Stores (Hong Kong) Co., Ltd.
2015 Corporate Auditor (Full-Time) of AEON Mall Co., Ltd.
2018 Outside Audit & Supervisory Board Member (permanent) of AEON Bank, Ltd. (current position)
Corporate Auditor (Full-Time) (Outside) of the Company (current position)
2019 Corporate Auditor of AFS Corporation Co., Ltd. (current position)



Go Otani Corporate Auditor (Outside)

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 Headquarters (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 (Outside) of the Company (current position)



Takayuki Sakaki Corporate Auditor

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.
Corporate Auditor of AEON Bike Co., Ltd.
Corporate Auditor of the Company (current position)
2019 Auditor of Bio c' Bon Japon Co., Ltd. (current position)



Yuko Yogo Corporate Auditor (Outside)

1982 Joined Tokyo Branch of Morgan Bank (currently JP Morgan)
1993 Vice President of Global Market Department of JPMorgan Securities
1996 Japan Office Country Manager of Enterprise Attraction Bureau of Scottish Development International
2002 Vice President, General Manager of Administration Division and Manager of Internal Control of Tokyo Branch of TD Securities
2008 Representative Executive Officer of FIL Holdings Limited
2016 Executive Officer and Head of Human Resources of FIL Investments (Japan) Limited
2019 Corporate Auditor (Outside) of the Company (current position)

Corporate Governance

Message from the Presiding Officer of the Board of Directors



Kenji Kawahara

President, CEO and
Presiding Officer of the
Board of Directors

In Pursuit of Corporate Governance Unique to AEON Financial Service

Building a more sophisticated corporate governance structure to accelerate management oversight and business execution

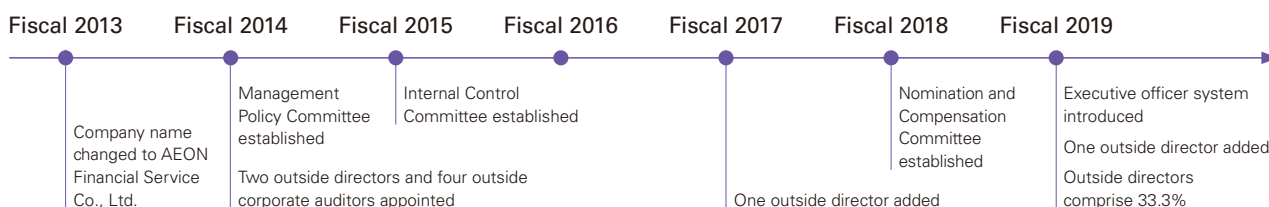
Since its stock listing in 1996, AEON Financial Service has continued to evolve its corporate governance structure to strengthen management and its ability to respond to the business environment. As measures to enhance the effectiveness of the Board of Directors, we strengthened management execution and supervisory functions by establishing the Management Policy Committee in fiscal 2014 and the Internal Control Committee in fiscal 2015. In fiscal 2018, we established the Nomination and Compensation Committee to further enhance management transparency.

In fiscal 2019, following our transition to a business company and subsequent reorganization, we reviewed the composition of the Board of Directors and introduced an executive officer system, targeting accelerated management and a more sophisticated corporate governance structure. The Board of Directors consists of six full-time directors, two part-time directors, and four outside directors who enhance management oversight while accommodating diverse perspectives. Four corporate auditors help ensure sound, appropriate management. The ten executive officers, including senior executive officers, ensure efficient business execution based on appropriate supervisory functions. We will continue to enhance the effectiveness of the Board of Directors, speed up the decision-making process, and further strengthen corporate governance.

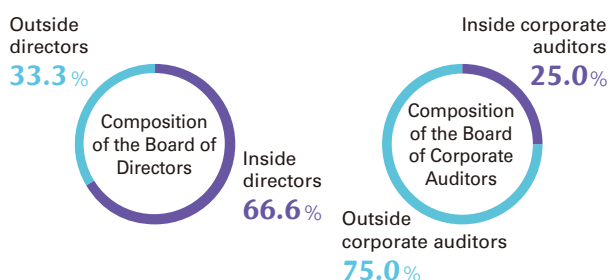
Maximizing corporate value through AEON Group governance

AEON Co., Ltd. is the largest shareholder and also the largest customer of AEON Financial Service. In addition, AEON has a customer base that is indispensable to AEON Financial Service's various businesses, both in Japan and overseas. The AEON Group has traditionally emphasized entrepreneurship and by listing its subsidiaries, it aims to ensure management autonomy while also nurturing and developing executives capable of taking on responsibility for the future of the AEON Group as a whole. In other words, the AEON Group believes that listing creates a business environment in which both parent and subsidiary can benefit. In line with this philosophy, AEON Financial Service also has three listed overseas subsidiaries. Outside directors and outside corporate auditors ensure that stakeholder opinions are properly reflected at meetings of the Board of Directors, and that listed companies operate independently, rationally and efficiently.

Corporate Governance Timeline



Board Composition (As of July 1, 2019)



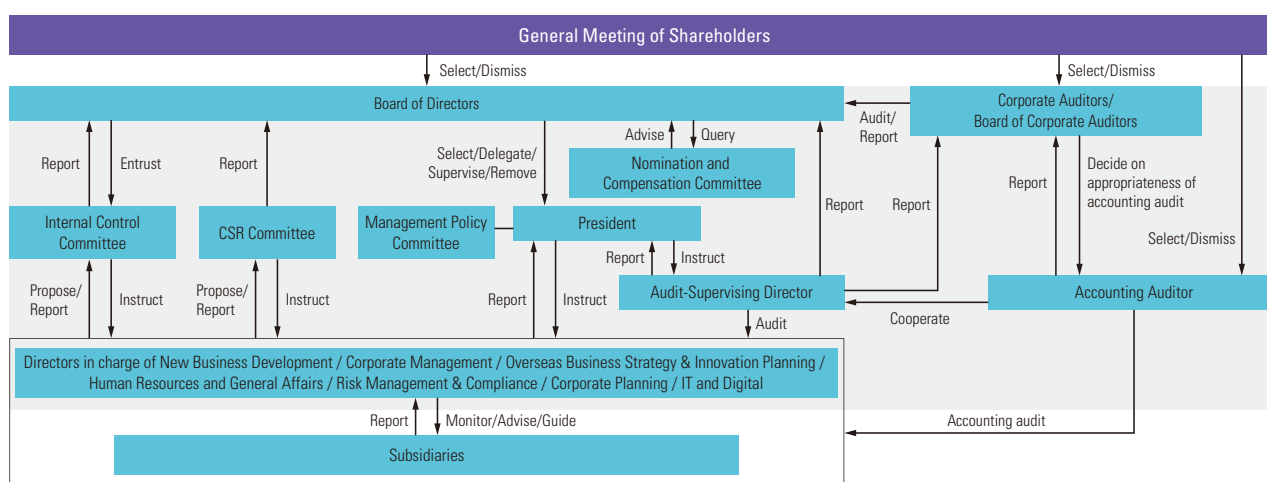
Number of Meetings (Fiscal 2018)

Management Policy Committee	Board of Directors	Board of Corporate Auditors
28	18	14

Basic Principles of Corporate Governance

1. We shall be guided by the AEON Basic Principles of “Pursuing peace, respecting humanity, and contributing to local communities, always with the customer’s point of view as its core” of AEON Co., Ltd., the parent company of AEON Financial Service Co., Ltd., and ensure adherence throughout the Group.
2. Based on the spirit of our Management Philosophy, we shall implement our Basic Policies and respect the independence and autonomy of each Group company.
3. All executives and employees of the Group shall cooperate to implement the following based on shareholder returns, mutual benefit with stakeholders, and social contribution.
 - (i) At all levels of decision-making, from the Board of Directors to individual departments, we shall gather sufficient information on advantages, disadvantages and risks to conduct multilateral assessments through free and vigorous discussions, employing an appropriate process in order to make optimal decisions that comply with laws, regulations and other social norms.
 - (ii) We shall pursue continuous growth by pursuing efficient operations, innovative businesses and maximization of Group synergies, and thereby enrich the daily lives of our customers.
 - (iii) For employees, we shall develop talent capable of thinking and acting autonomously by providing fair treatment and evaluation, and appropriate opportunities for people to demonstrate and fulfill their potential.
 - (iv) We shall contribute to society through our businesses and implement sustainable management.

Corporate Governance Structure (As of July 1, 2019)



Our Basic Approach to Corporate Governance

AEON Financial Service Co., Ltd. (“the Company”) is a member of the AEON Group. The AEON Basic Principles, “Pursuing peace, respecting humanity, and contributing to local communities, always with the customer’s point of view as its core,” guide us. The Company’s Basic Policies are “to put customers first, provide financial services that are closely attuned to customers’ lives, earn the trust of society and meet its expectations, and maintain a corporate culture that encourages our people to excel.”

The Company consistently develops, strengthens and enhances corporate governance to ensure transparent, fair, prompt and decisive decision-making with due consideration of the perspectives of all stakeholders in order to achieve sustainable growth and increased corporate value over the medium term.

Corporate Governance Structure

The Company aims to further strengthen management control and corporate governance. To this end, it has established the Management Policy Committee and Internal Control Committee in addition to the Board of Directors. Furthermore, to ensure sound management, 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). Moreover, the full-

time corporate auditor cooperates with the Company’s audit department and other parties to audit the execution of duties by directors on a day-to-day basis.

The Board of Directors comprises six full-time directors, two part-time directors and four outside directors who have extensive experience in fields such as legal affairs, accounting, and overseas management to reflect the realities of the Company’s business and to add diversity that enhances decision-making and management oversight. Four corporate auditors, three of whom are outside corporate auditors, also attend meetings of the Board of Directors. From the perspective of the effectiveness and efficiency of operations, the Board of Directors resolves important matters concerning the management of the Company and the Group pursuant to deliberation by the Management Policy Committee and the Internal Control Committee.

The Management Policy Committee is an advisory body that discusses management decision-making executed on the President and CEO’s authority. It consists of the President and CEO and full-time directors, and deliberates on business execution policies and individual action items at the Company and its subsidiaries.

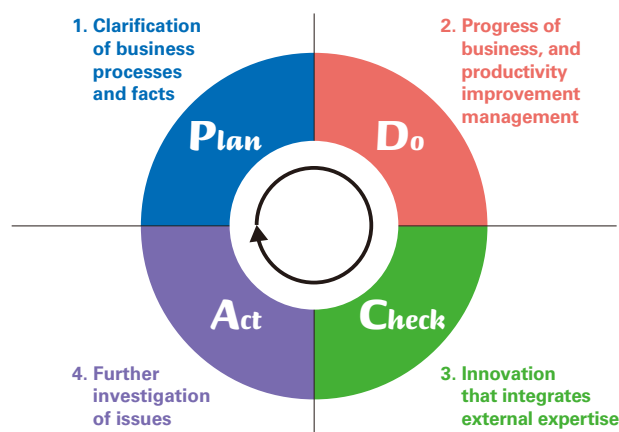
With the aim of realizing sustainable growth and increased corporate value for the Group over the medium and long term, the Internal Control Committee comprehensively and expertly discusses and makes decisions on matters regarding the development of the internal control system within the scope entrusted by the Board of Directors and then provides reports and opinions to the Board of Directors.

Initiatives to Increase the Effectiveness of the Board of Directors

Participants of Board of Directors meetings are surveyed concerning issues such as management by the Board of Directors, composition of the Board of Directors, and communication with stakeholders. The results are analyzed and evaluated, and a PDCA cycle is applied to address the various issues identified.

This initiative has supported corporate governance reforms that include enhancing the operation of the Board of Directors in ways such as thoroughly explaining agenda items to participants prior to meetings and establishing the Nomination and Compensation Committee.

We will continue to enhance the functional effectiveness of the Board of Directors.



Status of Outside Directors

Name	Independent Director	Supplementary Information: Concurrent Positions	Reasons for Appointment
Junya Hakoda	●	Corporate Auditor of Schroder Investment Management (Japan) Limited	Mr. Hakoda has practical experience as an expert certified public accountant and extensive insight into internal control. He has been selected 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.
Yoshimi Nakajima	●	Outside Director of Yamaha Corporation; Outside Director of Japan Freight Railway Company; External Director of ULVAC, Inc.	Ms. Nakajima has been selected as Outside Director 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.
Kotaro Yamazawa	●	Outside Director of Tokyo Commodity Exchange, Inc.; Special Advisor of Glory Ltd.; Outside Auditor of WingArc1st Inc.	Mr. Yamazawa has been selected as Outside Director in light of the opinions he can offer on the Company's management from various perspectives, his extensive personal network in the financial industry and the knowledge of finance, accounting and corporate governance gained during his tenure at the Bank of Japan and a stock exchange. Mr. Yamazawa does not have any special interests in the Company.
Tatsuya Sakuma	●	Outside Director of bitFlyer, Inc.	Mr. Sakuma has been selected as Outside Director to strengthen our internal control system with a focus on compliance by making use of the extensive legal experience and insight he has gained from positions of leadership including Head of Special Investigation Task Force of the Tokyo District Public Prosecutors Office. Mr. Sakuma does not have any special interests in the Company.

Status of Outside Corporate Auditors

Name	Independent Auditor	Supplementary Information: Concurrent Positions	Reasons for Appointment
Go Otani	●	—	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.
Junichi Suzuki	—	Corporate Auditor of AEON Bank, Ltd.; Corporate Auditor of AFS Corporation Co., Ltd.	Given Mr. Suzuki's extensive overseas experience, we believe his oversight and effective advice on overall management will contribute to the proper and appropriate management of the Company. Mr. Suzuki does not have any special interests in the Company.
Yuko Yogo	●	—	Ms. Yogo has been selected as an Outside Corporate Auditor to strengthen our corporate governance system in light of the opinions and suggestions she can offer, based on her experience as a representative executive officer of a holding company, her deep insights and global perspective obtained from her long tenure as a manager responsible for internal control and personnel management at foreign-capital-affiliated financial institutions, and her social perspective. Ms. Yogo does not have any special interests in the Company.

Policies for Compensation Amount and Method of Calculation

Officer Compensation (Fiscal 2018)

Classification	Total Compensation (millions of yen)	Total Compensation by Classification (millions of yen)				Number of Recipients
		Base Compensation	Stock Options	Performance-Linked Compensation	Retirement Benefits	
Directors (excluding outside directors)	341	224	29	87	—	11
Corporate Auditors (excluding outside corporate auditors)	—	—	—	—	—	—
Outside officers	65	65	—	—	—	7

Note: Number of recipients and total compensation includes compensation for one corporate auditor who retired at the conclusion of the Ordinary General Meeting of Shareholders held on June 20, 2018.

- 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.
 - Base compensation is determined based on individual assessment within the standard amount for each position and paid monthly. Base compensation for directors who concurrently serve at and receive compensation as officers of affiliated companies is handled on an individual basis.
 - Performance-linked compensation is weighted at about 30% of total cash remuneration (base compensation plus performance-linked compensation), with the weight increasing according to responsibilities. The payment for performance-linked compensation will be 100% of the standard amount when the targets set at the beginning of the fiscal year are achieved, and ranges from 0% to 200% based on performance and individual evaluation for the relevant fiscal year.
 - Performance-linked compensation consists of compensation linked to Company results and compensation for individual performance. Compensation linked to Company results is determined by comprehensively considering performance and applying a coefficient to the standard compensation for each position based on the ratio of actual to target consolidated and/or Company results.
 - Compensation for individual performance is determined by applying a coefficient to the standard compensation for each position based on individual evaluation, the performance of the relevant business units, and the ratio of actual to target management goals achieved.
 - Equity-linked compensation in the form of stock options aims to align stock price, performance and compensation. Recipients share the benefits of stock price increases and the risk of stock price declines with shareholders. Stock acquisition rights are allocated as stock options that reflect business performance and serve to motivate and encourage recipients in consistently improving business performance and increasing corporate value. The number of stock acquisition rights allocated is determined by adjusting the standard number for each position according to performance in the relevant fiscal year.
- Outside directors receive only fixed compensation and are not subject to Company or individual performance evaluation.
- The 34th Ordinary General Meeting of Shareholders on June 24, 2015 resolved to limit compensation for directors to a total of ¥550 million per year. Monetary compensation is limited to ¥400 million per year (including ¥50 million for outside directors), and equity-linked compensation is limited to ¥150 million per year as determined by the fair market value of the stock options.
- The Board of Directors resolved at a June 20, 2018 meeting to give the President and CEO the authority to determine the policy and calculation method for compensation of Company officers, the scope of which includes monetary compensation for individual directors. Performance-linked compensation is determined in accordance with the ratio of actual to target Company and individual performance of the officer.

KPIs for performance-linked compensation are mainly based on the ratio of actual to targeted ordinary profit. Factors including non-recurring income, changes in the operating environment during the fiscal year, and revisions of intracompany transactions influence the actual amount of performance-linked compensation.

The Company has selected ordinary profit as the main KPI because it best reflects normal business performance.

Remuneration Type for Each Position of Director

Position	Composition of Officer Compensation			Total
	Base Compensation	Performance-Linked Compensation		
		Performance-Linked Compensation	Equity-Linked Compensation in the Form of Stock Options for Medium-to-Long-Term Incentive	
Director with Additional Title	100%–50%	0%–35%	0%–15%	100%
Director	100%–56%	0%–37%	0%–7%	
Outside Director	100%	0%	0%	

Note: This table shows the extent to which performance-linked compensation paid may increase or decrease based on changes in performance, as a percentage of the total annual amount of officer compensation set at a reference value of 100%. Calculated based on actual payments.








Dialogue with Stakeholders

The Company engages in responsible dialogue with shareholders and investors, mainly through top management and the investor relations department. We will continue to improve corporate value through responsible dialogue.

Status of Investor Relations Activities

Investor Relations Activities	Details	Explanation by Representative Directors	Actions (Fiscal 2018 Actual)
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 announcements of the IR quiet period.	—	—
Company briefings for individual investors	We hold company briefing sessions for individual investors to showcase the Company and explain its performance.	No	Briefings: 1 Number of participants: 115
Periodic briefings for analysts and institutional investors	Representative directors or the director in charge of corporate management periodically conduct briefings.	Yes	Dialogue counterparties: 151 companies
Periodic briefings for foreign investors	We publish English annual reports and an English version of the IR website. We translate various reporting materials into English and regularly hold meetings with overseas investors.	Yes	Dialogue counterparties: 31 companies
Availability of investor relations materials on the corporate website	We publish various materials, including audio versions of results briefings. We also publish monthly information.	—	Earnings release reports: Quarterly Other investor relations materials: As needed
Establishment of a department/person in charge of investor relations	Responsibility for disclosure has been transferred from the Investor Relations Office to the Corporate Planning Department.	—	—
Others	The President and 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.	Yes	Meetings: 156

External Recognition of AEON Financial Service (As of June 30, 2019)

IR Website	Awards and Accreditations
Nikko Investor Relations Co., Ltd.	 2018 All Japanese Listed Companies' Website Ranking Overall ranking: Best Sites (Sector ranking: Other Financing Business; 3rd place, Excellent Site)
Daiwa Investor Relations Co., Ltd.	 2018 Internet IR Awards Excellence Award
Gomez Consulting Co., Ltd., a subsidiary of Morningstar Japan K.K.	 Gomez IR Site Ranking 2018 Excellent Company: Bronze Award
Index	Awards and Accreditations
MSCI Japan ESG Select Leaders Index*	 Selected for inclusion for three consecutive years (ESG rating: AA / AAA-B)
SNAM Sustainability Index	 Selected for inclusion for eight consecutive years
JPX-Nikkei Index 400	 Selected for inclusion for six consecutive years
Other	Awards and Accreditations
Nikkei Smart Work	 Overall assessment: 3.5 stars
HDI Benchmark/Assessment	 3 Stars Quality Service (highest rating)

* The MSCI Japan ESG Select Leaders Index is a free float-adjusted market capitalization weighted index designed to represent the performance of companies that have high Environmental, Social and Governance (ESG) performance from within its parent index, the MSCI Japan IMI Top 700 Index, and targets coverage of 50% of the parent index.

The inclusion of AEON Financial Service Co., Ltd. in any MSCI Index, and the use of MSCI logos, trademarks, service marks or index names herein, do not constitute a sponsorship, endorsement or promotion of AEON Financial Service Co., Ltd. by MSCI or any of its affiliates. The MSCI Indexes are the exclusive property of MSCI. MSCI and the MSCI Index names and logos are trademarks or service marks of MSCI or its affiliates.

Investor Relations Information Disclosure

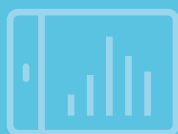
Materials	Japanese	English
Announcement of results	●	●
Timely disclosure materials	●	●
Materials for individual investors	●	—
Shareholder and stock information	●	—
Performance and financial graphs and data	●	●

Credit Rating Information (As of June 30, 2019)

Rating Agency	Long-Term	Short-Term
Japan Credit Rating Agency, Ltd. (JCR)	A (Stable)	J-1
Rating and Investment Information, Inc. (R&I)	A- (Stable)	a-1



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11-Year Summary

Former AEON Credit Service Co., Ltd. (current AEON Financial Service Co., Ltd.)	2008	2009	2010	2011	2012 ¹
Consolidated cardholders (millions)					
Total	24.94	26.53	28.07	29.76	31.85
Domestic	17.90	19.05	20.00	21.01	22.24
For the year (millions of yen)					
Operating revenues	176,007	172,430	169,191	169,853	205,972
Operating expenses	149,396	151,869	148,473	145,572	172,892
Operating income	26,611	20,560	20,717	24,280	33,080
Ordinary income	26,805	20,424	20,823	24,268	33,367
Profit attributable to owners of parent	14,788	197	9,540	8,988	13,616
Per share information (yen)					
Book value per share	1,036.35	994.42	1,015.17	1,012.52	1,235.28
Earnings per share	94.29	1.26	60.83	57.30	88.12
Diluted earnings per share	94.28	1.26	—	57.30	78.25
At year-end (millions of yen)					
Operating loans	483,527	423,324	293,427	255,704	421,196
Operating loans including securitized receivables	501,605	476,651	434,735	488,549	518,908
Accounts receivable—installment	245,378	300,782	384,261	427,634	507,315
Accounts receivable—installment including securitized receivables	395,776	443,290	504,001	552,749	740,027
Total assets	854,193	866,364	901,578	907,658	2,534,208
Net assets	181,901	176,717	180,199	181,852	258,872
Key indicators (%)					
Operating income ratio	15.1	11.9	12.2	14.3	16.1
Equity ratio (domestic standard)	19.0	18.0	17.7	17.5	9.1
Return on assets	3.1	2.4	2.4	2.7	1.9
Return on equity	9.1	0.1	6.1	5.7	7.0
Dividends					
Dividend per share (yen)	40	40	40	45	50
Payout ratio (%)	42.4	3,174.6	65.8	78.5	56.9

Notes: 1. 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.
2. The consolidated amounts from the fiscal year ended March 31, 2014 onward 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.
3. 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.

AEON Financial Service Co., Ltd. ²	2013 ³	2014	2015	2016	2017	2018 (FY)
Consolidated cardholders (millions)						
Total	33.90	35.67	37.22	38.94	40.64	42.69
Domestic	23.45	24.64	25.88	26.92	27.75	28.40
For the year (millions of yen)						
Ordinary income	286,070	329,046	359,651	375,166	407,970	439,001
Ordinary expenses	244,978	275,965	300,270	313,559	342,223	368,830
Ordinary profit	41,092	53,080	59,380	61,606	65,746	70,171
Profit attributable to owners of parent	20,743	30,491	35,785	39,454	38,677	39,408
Per share information (yen)						
Book value per share	1,316.00	1,377.56	1,465.31	1,604.79	1,714.92	1,764.05
Earnings per share	104.62	152.55	180.09	189.75	179.29	182.64
Diluted earnings per share	99.49	152.04	180.00	183.96	170.02	173.20
At year-end (millions of yen)						
Loans and bills discounted	1,276,741	1,474,236	1,673,997	1,864,904	2,271,666	2,429,740
Loans and bills discounted including securitized receivables	1,531,376	1,873,598	2,364,444	2,757,434	3,326,572	3,757,628
Accounts receivable—installment	957,403	1,038,221	1,022,387	1,182,193	1,294,632	1,453,160
Accounts receivable—installment including securitized receivables	1,085,969	1,185,191	1,314,385	1,523,981	1,779,143	1,970,668
Total assets	3,163,117	3,589,495	3,745,546	4,187,263	4,852,844	5,342,228
Net assets	307,291	324,948	340,886	401,170	437,782	448,705
Key indicators (%)						
Ordinary profit ratio	14.4	16.1	16.5	16.4	16.1	16.0
Equity ratio (domestic standard)	9.0	8.1	7.4	8.5	8.3	7.3
Return on assets	1.4	1.6	1.6	1.6	1.5	1.4
Return on equity	8.2	11.2	12.7	12.4	10.8	10.5
Dividends						
Dividend per share (yen)	60	60	66	68	68	68
Payout ratio (%)	57.4	39.3	36.6	35.8	37.9	37.2

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

Summary of Fiscal 2018 Results

Japan's economy continued a moderate recovery, backed by factors including improved corporate earnings and employment conditions. Overseas, the economies of Asia were generally firm, although several factors created uncertainty for government and economic policy. These included concerns about the direction of China's economy resulting from U.S.–China trade friction, and the impact of the slowing pace of U.S. interest rate increases on interest rate policy trends in Asian countries.

With regard to the financial and economic environment, in Japan, the shift toward cashless transactions has accelerated—the Ministry of Economy, Trade and Industry established the Commission for Promotion of Cashless Settlement, and new payment services have become available. At the same time, companies from other industries have entered the settlement services market and alliances among major players have resulted in the expansion of new business fields.

The Company's medium-to-long-term management strategy is to enrich the daily lives of customers through financial services. We are enhancing seamless settlement functions and our lineup of financial products and services that meet the needs of customers. We are also strengthening sales and marketing by developing a broad sales network with a focus on Japan and the rest of Asia.

During fiscal 2018, domestic and overseas Group companies promoted digitalization, addressed customer needs and accelerated growth overseas.

In Japan, we introduced an app that enables users to execute transactions simply by holding a smartphone over an ATM, and conducted field tests of palm print biometric authentication technology for cardless settlement. In addition, we harnessed digital technologies to improve convenience for customers and raise labor productivity, including the introduction of a service that can repair credit card magnetic defects at ATMs, an AI-automated chatbot service that can handle inquiries 24 hours a day, 365 days a year to strengthen call center functions, and paperless procedures.

Overseas, we promoted cashless transactions in the countries we serve, including the introduction of QR code settlement via smartphone in Malaysia and Cambodia. As a key initiative in Malaysia, we consolidated our member base with the member bases of retailers AEON Malaysia and AEON Big Malaysia. Supported by a smartphone app, this consolidation enables us to deploy services that are better able to meet customer needs through marketing and product development that combines customer attribute and settlement information with purchase history. Our listed subsidiaries in Hong Kong, Thailand and Malaysia issued new cards targeting middle- and high-income demographics, and worked to enhance customer loyalty.

As a result, consolidated ordinary income increased 7.6% year on year to ¥439.0 billion and ordinary profit increased 6.7% to ¥70.1 billion. Profit attributable to owners of parent increased 1.9% to ¥39.4 billion.

Consolidated Operating Results

(Millions of yen)

	Fiscal 2014	Fiscal 2015	Fiscal 2016	Fiscal 2017	Fiscal 2018
Ordinary income	329,046	359,651	375,166	407,970	439,001
Ordinary profit	53,080	59,380	61,606	65,746	70,171
Profit attributable to owners of parent	30,491	35,785	39,454	38,677	39,408

Segment Results (Fiscal 2018)

(Millions of yen)

	Domestic Business Total*			Global Business Total*				Total
		Retail	Solutions		China Area	Mekong Area	Malay Area	
Ordinary income	298,446	188,982	181,772	139,213	19,610	72,543	47,058	439,001
Ordinary expenses	264,415	177,715	155,349	104,691	12,471	58,541	33,678	368,830
Ordinary profit	34,031	11,267	26,422	34,521	7,139	14,002	13,380	70,171

* Domestic Business and Global Business totals are after elimination of intersegment transactions.

Consolidated Transaction Volume

(Millions of yen)

	Fiscal 2014	Fiscal 2015	Fiscal 2016	Fiscal 2017	Fiscal 2018
Credit card purchase contracts	4,015,129	4,315,454	4,711,676	5,191,707	5,618,378
Hire purchase contracts	250,248	296,112	315,497	334,790	346,550
Cash advances	448,306	469,741	475,851	508,336	540,997

Credit Card Purchase Contracts Transaction Volume

(Millions of yen)

	Fiscal 2014	Fiscal 2015	Fiscal 2016	Fiscal 2017	Fiscal 2018
Domestic	3,821,041	4,104,792	4,515,763	4,955,492	5,358,216
Global	194,088	210,662	195,913	236,215	260,161

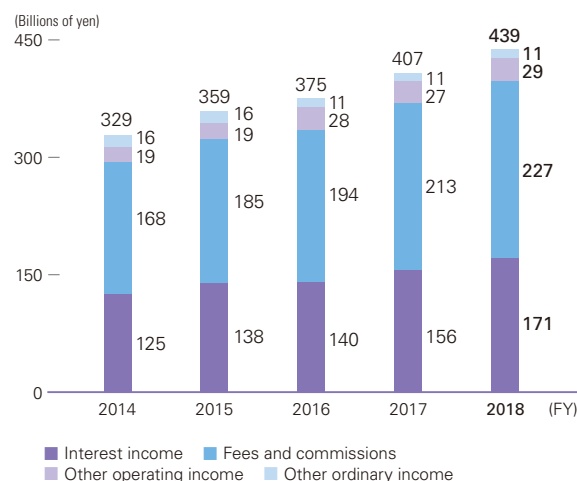
- We took measures to expand our customer base, issuing new co-branded cards targeting young and male customers in Japan, and issuing premium cards targeting middle- and high-income demographics at our overseas listed subsidiaries in Hong Kong, Thailand and Malaysia. In addition, credit card purchase contracts transaction volume increased steadily as a result of point sales promotions and reward programs that offer experiences, including invitations to exclusive theme park events, in Japan and overseas. In addition, cash advance transaction volume increased year on year due largely to expansion in Japan and Thailand.
- Hire purchase contracts transaction volume increased year on year mainly from growth in auto and motorcycle installment financing in Malaysia, as well as from auto loans in Japan and Thailand.

Ordinary Income

(Millions of yen)

	Fiscal 2014	Fiscal 2015	Fiscal 2016	Fiscal 2017	Fiscal 2018
Ordinary income	329,046	359,651	375,166	407,970	439,001
Interest income	125,493	138,810	140,240	156,161	171,243
Fees and commissions	168,283	185,072	194,641	213,390	227,014
Other operating income	19,053	19,759	28,621	27,125	29,233
Other ordinary income	16,215	16,010	11,663	11,292	11,510

- Ordinary income increased 7.6% year on year because of business expansion in Japan and overseas and the impact of the weaker yen, which had a positive effect of ¥2 billion.
- Interest income increased 9.7% year on year due to increased receivables, mainly in cash advances in Japan and personal loans in Thailand and Malaysia.
- Fees and commissions increased 6.4% year on year due to steady expansion of credit card purchase contracts and hire purchase contracts, in terms of both transaction volume and receivables, in Japan and overseas.
- Other operating income increased 7.8% because securitized receivables increased 15.0% year on year to ¥18.3 billion.



Ordinary Expenses

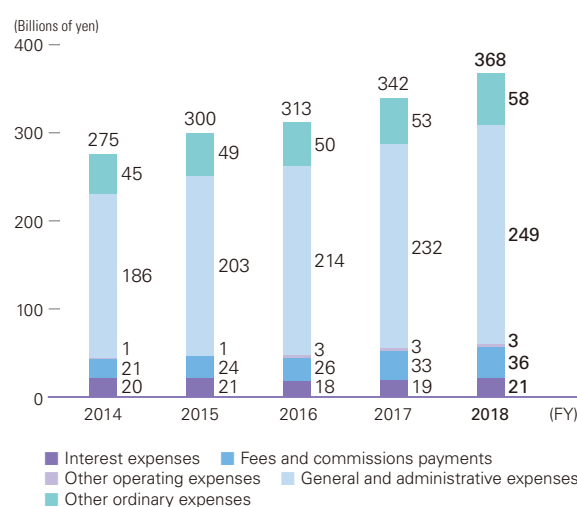
(Millions of yen)

	Fiscal 2014	Fiscal 2015	Fiscal 2016	Fiscal 2017	Fiscal 2018
Ordinary expenses	275,965	300,270	313,559	342,223	368,830
Interest expenses	20,677	21,305	18,996	19,479	21,448
Fees and commissions payments	21,838	24,667	26,372	33,307	36,018
Other operating expenses	1,109	1,437	3,452	3,585	3,824
General and administrative expenses	186,474	203,553	214,431	232,291	249,442
Other ordinary expenses	45,865	49,306	50,306	53,559	58,095

- Ordinary expenses increased 7.8% year on year. In Japan, expenses increased due to enhanced point sales promotions to increase transaction volume, and investments in systems and IT to increase labor productivity. Overseas, expenses increased largely as a result of hiring additional employees to accommodate business expansion.
- Interest expenses increased 10.1% year on year. Funding interest decreased in Japan because AEON Bank sourced funding from ordinary deposits and through the securitization of finance receivables. However, interest-bearing debt increased because of growth in finance receivables overseas.
- Fees and commissions payments increased 8.1% year on year, due to higher fee payments led by business expansion in Japan and overseas. Expenses associated with investments to enhance labor productivity also increased in Japan.
- Other operating expenses increased 6.7% year on year because leasing costs increased.
- General and administrative expenses increased 7.4% year on year. This was due to an increase in advertising and promotion expenses resulting from intensified sales promotions in Japan and overseas, and an increase in

depreciation expenses associated primarily with systems investment in Japan.

- Other ordinary expenses increased 8.5% year on year. In Japan, the bad debt allowance increased 12.6% year on year, primarily for credit card receivables, and allowance for loss on refund of interest received increased 16.2%. Overseas, the bad debt allowance increased because of business expansion and changes in accounting standards.

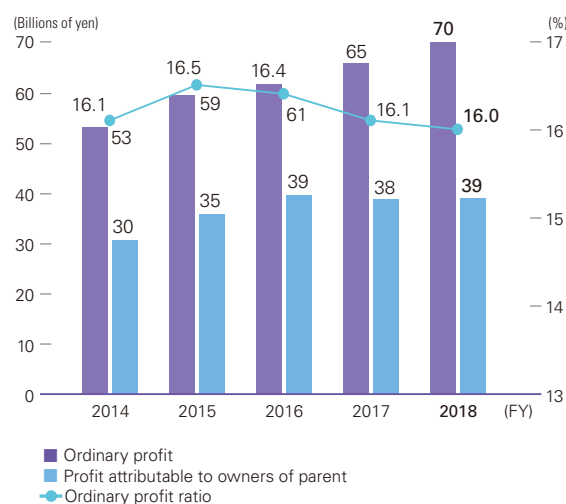


Ordinary Profit and Profit Attributable to Owners of Parent

(Millions of yen)

	Fiscal 2014	Fiscal 2015	Fiscal 2016	Fiscal 2017	Fiscal 2018
Ordinary profit	53,080	59,380	61,606	65,746	70,171
Ordinary profit ratio	16.1%	16.5%	16.4%	16.1%	16.0%
Income before income taxes	52,752	59,250	59,665	66,571	69,178
Total income taxes	14,065	14,787	12,065	17,697	17,998
Profit	38,687	44,463	47,599	48,873	51,180
Profit attributable to non-controlling interests	8,195	8,678	8,145	10,196	11,771
Profit attributable to owners of parent	30,491	35,785	39,454	38,677	39,408

- Ordinary profit increased 6.7% year on year because solid overseas performance more than compensated for the increase in proactive investments in Japan. However, as a result of up-front expenditures, the ordinary profit ratio decreased 0.1 percentage points year on year to 16.0%.
- Profit attributable to owners of parent increased 1.9% year on year. Extraordinary income decreased absent non-recurring gains of ¥1.4 billion on the sale of businesses owned by a Thai subsidiary in the previous fiscal year, and extraordinary losses increased due to store consolidation and disposal of assets due to changes in credit card regulations. In addition, earnings growth in the Global Business resulted in a larger share of profits held by non-controlling interests.

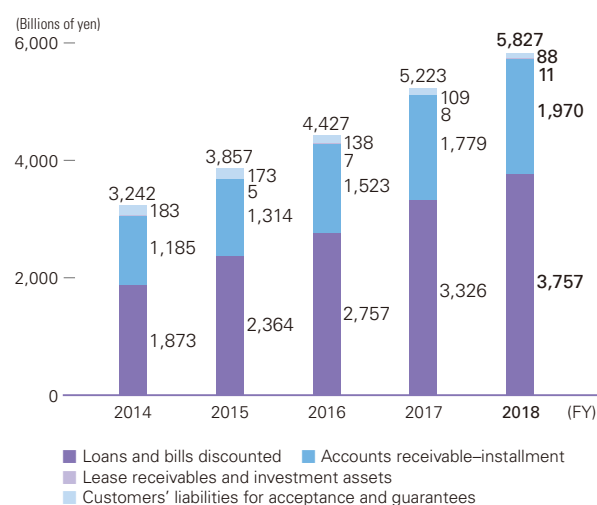


Finance Receivables

(Millions of yen)

	March 31, 2015	March 31, 2016	March 31, 2017	March 31, 2018	March 31, 2019
Finance receivables	3,242,422	3,857,677	4,427,249	5,223,683	5,827,870
Loans and bills discounted	1,873,598	2,364,444	2,757,434	3,326,572	3,757,628
Accounts receivable–installment	1,185,191	1,314,385	1,523,981	1,779,143	1,970,668
Lease receivables and investment assets	—	5,405	7,103	8,506	11,425
Customers' liabilities for acceptance and guarantees	183,632	173,441	138,729	109,461	88,148

- Loans and bills discounted increased ¥431.0 billion from a year earlier. Housing loans, cash advances and other unsecured loans increased in Japan. Overseas, unsecured loans increased, primarily in Thailand and Malaysia.
- Accounts receivable–installment increased ¥191.5 billion from a year earlier. In Japan, credit card purchase contracts and hire purchase contracts increased. Overseas, credit card purchase contracts and hire purchase contracts increased, mainly because of higher demand for consumer durables as a result of a consumption tax holiday during tax code changes in Malaysia.

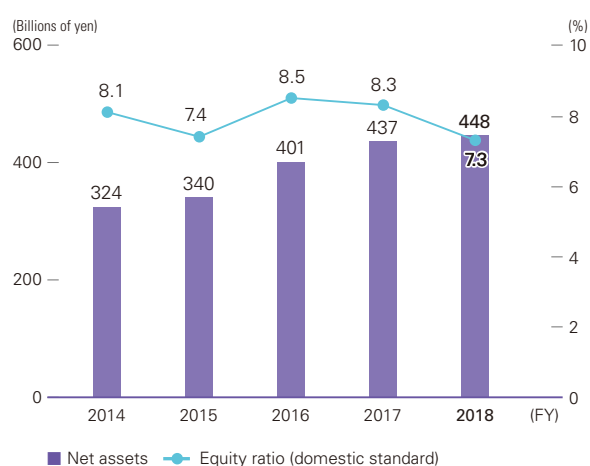


Net Assets and Equity Ratio (Domestic Standard)

(Millions of yen)

	March 31, 2015	March 31, 2016	March 31, 2017	March 31, 2018	March 31, 2019
Net assets	324,948	340,886	401,170	437,782	448,705
Equity ratio (domestic standard)	8.1%	7.4%	8.5%	8.3%	7.3%

- Net assets increased ¥10.9 billion from a year earlier. Profit attributable to owners of parent contributed to increased retained earnings.
- The equity ratio (domestic standard) decreased 1.02 percentage points from a year earlier. Finance receivables, primarily loans and bills discounted and accounts receivable–installment, increased ¥604.1 billion year on year.



Five-Year Summary

AEON Financial Service Co., Ltd. and Subsidiaries

Year Ended March 31, 2019 and Years Ended March 31, 2018 through 2015

	Millions of Yen					Thousands of U.S. Dollars ^(*)
	2019 ^(*)	2018 ^(*)	2017 ^(*)	2016 ^(*)	2015 ^(*)	2019
For the Year:						
Total income	¥ 439,012	¥ 409,426	¥ 375,272	¥ 360,932	¥ 329,047	\$ 3,954,709
Total expenses	369,834	342,854	315,606	301,681	276,294	3,331,536
Income before income taxes	69,178	66,572	59,666	59,251	52,753	623,173
Net income attributable to owners of the parent	39,408	38,678	39,454	35,785	30,492	354,997

	Yen					U.S. Dollars ^(*)
Per Share Data:						
Net assets	¥ 1,764.05	¥ 1,714.92	¥ 1,604.79	¥ 1,465.31	¥ 1,377.56	\$ 15.89
Basic net income	182.64	179.29	189.75	180.09	152.55	1.65
Diluted net income	173.20	170.02	183.96	180.00	152.04	1.56

	Millions of Yen					Thousands of U.S. Dollars ^(*)
At Year-End:						
Loans and bills discounted— net of allowance for possible credit losses	¥2,364,087	¥2,238,952	¥1,836,903	¥1,646,425	¥1,448,023	\$21,296,167
Installment sales receivables— net of allowance for possible credit losses	1,416,054	1,268,584	1,159,839	1,000,574	1,015,155	12,756,090
Property and equipment	39,205	36,978	38,230	36,530	35,774	353,165
Total assets	5,342,229	4,852,844	4,187,264	3,745,546	3,589,496	48,123,851
Total liabilities	4,893,524	4,415,062	3,786,094	3,404,660	3,264,548	44,081,827
Equity	448,705	437,782	401,170	340,886	324,948	4,042,024

	Percentage				
Ratios:					
Equity ratio	7.1%	7.6%	8.3%	7.8%	7.6%
Return on assets	0.8	0.9	1.0	1.0	0.9
Return on equity	10.5	10.8	12.4	12.7	11.2

(*)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 ¥111.01 to U.S.\$1, the exchange rate as at March 31, 2019. 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 AEON Financial Service Co., Ltd. (the "Company") has prepared the consolidated financial statements for the fiscal years ended March 31, 2019, 2018, 2017, 2016 and 2015 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.

Financial Review

AEON Financial Service Co., Ltd. and Subsidiaries
Years Ended March 31, 2019 and 2018

RESULTS OF OPERATIONS

	Millions of Yen			
	2019	2018	Amount Change	Percentage Change
Consolidated gross profits ^(*) :				
Net interest income	¥ 149,794	¥ 136,681	¥ 13,113	9.6%
Net fees and commissions	190,995	180,082	10,913	6.1
Net other operating income	25,409	23,541	1,868	7.9
Total consolidated gross profits	366,198	340,304	25,894	7.6
General and administrative expenses	(249,442)	(232,291)	(17,151)	7.4
Provision for possible credit losses and write-off of bad debts	(54,025)	(49,779)	(4,246)	8.5
Net other income	6,447	8,338	(1,891)	(22.7)
Income before income taxes	69,178	66,572	2,606	3.9
Income taxes:				
Current	(23,555)	(14,962)	(8,593)	57.4
Deferred	5,557	(2,736)	8,293	(303.1)
Total income taxes	(17,998)	(17,698)	(300)	1.7
Net income	51,180	48,874	2,306	4.7
Net income attributable to non-controlling interests	(11,772)	(10,196)	(1,576)	15.5
Net income attributable to owners of the parent	¥ 39,408	¥ 38,678	¥ 730	1.9%

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

Consolidated Financial Summary

The domestic business environment for the year ended March 31, 2019 was on the track of gradual recovery on the basis of improving corporate earnings and employment situations. The Asian economy showed a steady growth as a whole, while being affected by uncertainties about the political and economic policies including outlook for Chinese economy triggered by the trade dispute between China and the U.S. and trends of policy interest rates in Asian countries induced by the slowed pace in the U.S. interest rates hike.

As for the financial and economic environment, Ministry of Economy, Trade and Industry in Japan has established “Payments Japan Association” and new settlement services have been launched to further promote cashless settlements. More companies in different sectors are entering the settlement service business and the business is expanding to new areas through alliance among major companies.

Under such circumstances, AEON Financial Service Co., Ltd. (hereinafter, “the Company”) has established a broad marketing network centered in Asia, including Japan, to strengthen sales and marketing capabilities with data utilization. Through these initiatives, the Company has set its medium to long term business strategy to enrich customers’ daily lives, by providing seamless settlement functions, financial products and services that suit the needs of customers.

For the year ended March 31, 2019, the Company and its domestic and overseas subsidiaries (collectively, “the Group”) have been actively engaged in achieving key action plans, i.e. “full implementation of digital technologies,”

“response to the needs of customers” and “acceleration of growth of overseas business.”

In the domestic segments, the Group has launched a smartphone application which enables customers to transact on compatible ATMs with smartphones only and experimented on technologies for card-less settlements with authentication of customers’ biometric information. In addition, the Group has strived to enhance customer convenience and productivity through digitalization, such as services to restore information contained in the magnetic stripes of credit cards at ATMs in case of demagnetization, around-the-clock artificial intelligence (“AI”) empowered automated chat services that are accessible to customers 365 days a year to improve the call center operations and promote paperless operations.

In the global segments, the Group has introduced settlement services via QR codes on smartphones in Malaysia and Cambodia to promote cashless settlements. Particularly in Malaysia, the Group has unified the smartphone applications and consolidated the membership information of AEON Malaysia and AEON BiG Malaysia, which operate retail businesses in Malaysia. The Group aims to develop product and services offering that better suit customers’ needs by analyzing customer information of attributes and settlements, combined with their purchase information. The listed subsidiaries in Hong Kong, Thailand and Malaysia have issued new cards targeting middle- and high-income earners to improve customer loyalty.

Loans and Bills Discounted and Installment Sales Receivables

	Millions of Yen			
	2019	2018	Amount Change	Percentage Change
Loans and bills discounted	¥2,429,740	¥2,271,667	¥158,073	7.0%
Allowance for possible credit losses	(65,653)	(32,715)	(32,938)	100.7
Total loans and bills discounted	¥2,364,087	¥2,238,952	¥125,135	5.6%

	Millions of Yen			
	2019	2018	Amount Change	Percentage Change
Installment sales receivables:				
Credit card purchase contracts	¥ 912,110	¥ 829,210	¥ 82,900	10.0%
Hire purchase contracts	541,050	465,422	75,628	16.2
Subtotal	1,453,160	1,294,632	158,528	12.2
Allowance for possible credit losses	(37,106)	(26,048)	(11,058)	42.5
Total installment sales receivables	¥1,416,054	¥1,268,584	¥147,470	11.6%

Cash flows

For the year ended March 31, 2019, the net cash provided by operating activities amounted to ¥215,730 million (\$1,943,340 thousand), the net cash used in investing activities amounted to ¥194,595 million (\$1,752,954 thousand) and the net cash used in financing activities amounted to ¥16,073

million (\$144,785 thousand). As a result of the above, the balance of cash and cash equivalents as at March 31, 2019 increased by ¥5,331 million (\$48,026 thousand) to ¥627,929 million (\$5,656,513 thousand) as compared to that as at March 31, 2018.

BUSINESS PERFORMANCE BY REPORTABLE SEGMENT

Total assets and ordinary income by reportable segment

	Millions of Yen			
	2019	2018	Amount Change	Percentage Change
Total Assets:				
Retail	¥ 4,105,584	¥ 3,671,896	¥ 433,688	11.8%
Solutions	2,314,706	2,156,871	157,835	7.3
China Area	91,370	90,723	647	0.7
Mekong Area	296,513	284,069	12,444	4.4
Malay Area	248,972	221,390	27,582	12.5
Reconciliations	(1,714,916)	(1,572,105)	(142,811)	9.1
Total assets	¥ 5,342,229	¥ 4,852,844	¥ 489,385	10.1%
Ordinary income^(*):				
Retail	¥ 188,982	¥ 177,303	¥ 11,679	6.6%
Solutions	181,772	171,006	10,766	6.3
China Area	19,611	19,463	148	0.8
Mekong Area	72,544	63,954	8,590	13.4
Malay Area	47,059	40,379	6,680	16.5
Reconciliations	(70,966)	(64,135)	(6,831)	10.7
Total ordinary income	¥ 439,002	¥ 407,970	¥ 31,032	7.6%

(*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.

Consolidated Balance Sheet

AEON Financial Service Co., Ltd. and Subsidiaries
March 31, 2019 and 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
ASSETS			
Cash and cash equivalents (Note 17)	¥ 627,929	¥ 622,598	\$ 5,656,513
Deposits with banks (Notes 7 and 17)	16,573	27,872	149,292
Call loans (Note 17)	30,497		274,720
Monetary claims bought (Notes 3 and 17)	13,316	5,096	119,953
Money held in trust (Notes 3 and 17)	22,406		201,841
Securities (Notes 3, 7, and 17)	344,684	210,862	3,104,980
Loans and bills discounted—net of allowance for possible credit losses (Notes 4, 7, 17, 19, and 22)	2,364,087	2,238,952	21,296,167
Foreign exchanges (Note 17)	1,635		14,732
Installment sales receivables—net of allowance for possible credit losses (Notes 4, 7, and 17)	1,416,054	1,268,584	12,756,090
Lease receivables and investment assets (Note 16)	11,425	8,507	102,919
Other assets (Note 7 and 22)	231,193	208,221	2,082,629
Property and equipment (Note 5)	39,205	36,978	353,165
Intangible assets (Note 6)	100,178	92,356	902,420
Deferred tax assets (Note 15)	34,898	23,357	314,367
Customers' liabilities for acceptances and guarantees	88,149	109,461	794,063
Total assets	¥5,342,229	¥4,852,844	\$48,123,851
LIABILITIES AND EQUITY			
Liabilities:			
Deposits (Note 17)	¥3,469,134	¥3,049,733	\$31,250,648
Accounts payable (Note 17)	329,068	312,649	2,964,306
Commercial paper (Notes 8 and 17)	102,080	60,500	919,555
Borrowed money (Notes 7, 8, and 17)	544,823	539,393	4,907,874
Bonds (Notes 8 and 17)	143,143	135,666	1,289,463
Convertible bonds with stock acquisition rights (Notes 8 and 17)	29,946	29,948	269,760
Other liabilities (Notes 8 and 9)	161,524	156,252	1,455,041
Allowance for point program	17,544	14,466	158,039
Allowance for loss on refund of interest received	4,177	3,125	37,624
Deferred tax liabilities (Note 15)	3,936	3,869	35,454
Acceptances and guarantees	88,149	109,461	794,063
Total liabilities	4,893,524	4,415,062	44,081,827
Commitments and contingent liabilities (Notes 16, 18, and 19)			
Equity (Notes 10 and 11):			
Common stock—authorized, 540,000,000 shares; issued, 225,510,128 shares in 2019 and 225,510,128 shares in 2018	45,698	45,698	411,658
Capital surplus	120,214	120,026	1,082,910
Stock acquisition rights—507 rights in 2019 and 648 rights in 2018	104	105	933
Retained earnings	235,414	227,387	2,120,654
Treasury stock—at cost, 9,732,022 shares in 2019 and 9,746,639 shares in 2018	(24,949)	(24,986)	(224,745)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities (Note 3)	5,151	3,556	46,399
Deferred loss on derivatives under hedge accounting	(1,676)	(1,877)	(15,096)
Foreign currency translation adjustments	1,472	870	13,261
Accumulated adjustments for retirement benefits (Note 9)	(680)	(658)	(6,123)
Total	380,748	370,121	3,429,851
Non-controlling interests	67,957	67,661	612,173
Total equity	448,705	437,782	4,042,024
Total liabilities and equity	¥5,342,229	¥4,852,844	\$48,123,851

See notes to consolidated financial statements.

Consolidated Statement of Income

AEON Financial Service Co., Ltd. and Subsidiaries
Years Ended March 31, 2019 and 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
Income:			
Interest income:			
Interest on loans and bills discounted (Note 22)	¥ 167,254	¥ 153,569	\$ 1,506,653
Interest and dividends on securities	2,949	2,058	26,563
Interest on call loans	349	1	3,148
Interest on due from banks and deposits	599	451	5,395
Other interest income	92	82	833
Total interest income	171,243	156,161	1,542,592
Fees and commissions (Note 4)	227,014	213,390	2,044,989
Other operating income	29,234	27,126	263,341
Other income (Note 12)	11,521	12,749	103,787
Total income	439,012	409,426	3,954,709
Expenses:			
Interest expenses			
Interest on deposits	(3,775)	(3,210)	(34,005)
Interest on borrowed money	(15,013)	(13,823)	(135,244)
Interest on bonds	(2,089)	(2,042)	(18,814)
Other interest expenses	(572)	(405)	(5,150)
Total interest expenses	(21,449)	(19,480)	(193,213)
Fees and commissions	(36,019)	(33,308)	(324,466)
Other operating expenses	(3,825)	(3,585)	(34,455)
General and administrative expenses (Notes 9, 13 and 16)	(249,442)	(232,291)	(2,247,026)
Provision for possible credit losses and write-off of bad debts	(54,025)	(49,779)	(486,670)
Other expenses (Note 14)	(5,074)	(4,411)	(45,706)
Total expenses	(369,834)	(342,854)	(3,331,536)
Income before income taxes	69,178	66,572	623,173
Income taxes (Note 15):			
Current	(23,555)	(14,962)	(212,191)
Deferred	5,557	(2,736)	50,059
Total income taxes	(17,998)	(17,698)	(162,132)
Net income	51,180	48,874	461,041
Net income attributable to non-controlling interests	(11,772)	(10,196)	(106,044)
Net income attributable to owners of the parent	¥ 39,408	¥ 38,678	\$ 354,997

	Yen	U.S. Dollars
PER SHARE OF COMMON STOCK (Note 21):		
Basic net income	¥ 182.64	\$ 1.65
Diluted net income	173.20	1.56
Cash dividends applicable to the year	68.00	0.61

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

AEON Financial Service Co., Ltd. and Subsidiaries
Years Ended March 31, 2019 and 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
Net income	¥51,180	¥48,874	\$461,041
Other comprehensive income (Note 20):			
Unrealized gain (loss) on available-for-sale securities	2,339	(1,398)	21,066
Deferred gain on derivatives under hedge accounting	426	595	3,839
Foreign currency translation adjustments	1,463	3,431	13,178
Adjustments for retirement benefits (Note 9)	(24)	(217)	(214)
Total other comprehensive income	4,204	2,411	37,869
Comprehensive income:	¥55,384	¥51,285	\$498,910
Total comprehensive income attributable to:			
Owners of the parent	¥41,784	¥39,597	\$376,395
Non-controlling interests	13,600	11,688	122,515

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

AEON Financial Service Co., Ltd. and Subsidiaries
Years Ended March 31, 2019 and 2018

	Thousands	Millions of Yen											
	Outstanding Number of Shares of Common Stock	Accumulated Other Comprehensive Income									Total	Non- controlling Interests	Total Equity
		Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock	Unrealized Gain on Available- for-sale Securities	Deferred Loss on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Accumulated adjustments for retirement benefits			
Balance, April 1, 2017	215,719	¥45,698	¥121,211	¥112	¥203,401	¥(25,100)	¥4,893	¥(2,244)	¥(1,235)	¥(441)	¥346,295	¥ 54,875	¥401,170
Net income attributable to owners of the parent					38,678						38,678		38,678
Cash dividends, ¥68 per share					(14,669)						(14,669)		(14,669)
Conversion of convertible bonds	20					52					52		52
Purchase of treasury stock	(1)					(2)					(2)		(2)
Disposal of treasury stock	25				(23)	64					41		41
Change in the parent's ownership interest arising from transactions with non-controlling interests			(1,185)								(1,185)	1,185	
Net change in the year				(7)			(1,337)	367	2,105	(217)	911	11,601	12,512
Balance, March 31, 2018	215,763	¥45,698	¥120,026	¥105	¥227,387	¥(24,986)	¥3,556	¥(1,877)	¥ 870	¥(658)	¥370,121	¥ 67,661	¥437,782
Cumulative effects of changes in accounting policies					(16,704)						(16,704)	(11,537)	(28,241)
Restated balance	215,763	45,698	120,026	105	210,683	(24,986)	3,556	(1,877)	870	(658)	353,417	56,124	409,541
Net income attributable to owners of the parent					39,408						39,408		39,408
Cash dividends, ¥68 per share					(14,672)						(14,672)		(14,672)
Conversion of convertible bonds	1					2					2		2
Purchase of treasury stock	(1)					(1)					(1)		(1)
Disposal of treasury stock	15				(5)	36					31		31
Change in the parent's ownership interest arising from transactions with non-controlling interests			188								188	(188)	
Net change in the year				(1)			1,595	201	602	(22)	2,375	12,021	14,396
Balance, March 31, 2019	215,778	¥45,698	¥120,214	¥104	¥235,414	¥(24,949)	¥5,151	¥(1,676)	¥ 1,472	¥(680)	¥380,748	¥ 67,957	¥448,705

	Thousands	Thousands of U.S. Dollars (Note 1)												
	Outstanding Number of Shares of Common Stock	Accumulated Other Comprehensive Income										Total	Non-controlling Interests	Total Equity
		Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock	Unrealized Gain on Available-for-sale Securities	Deferred Loss on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Accumulated adjustments for retirement benefits				
Balance, March 31, 2018	215,763	\$411,658	\$1,081,216	\$942	\$2,048,350	\$(225,084)	\$32,035	\$(16,906)	\$ 7,842	\$(5,928)	\$3,334,125	\$ 609,505	\$3,943,630	
Cumulative effects of changes in accounting policies					(150,473)						(150,473)	(103,927)	(254,400)	
Restated balance	215,763	411,658	1,081,216	942	1,897,877	(225,084)	32,035	(16,906)	7,842	(5,928)	3,183,652	505,578	3,689,230	
Net income attributable to owners of the parent					354,997						354,997		354,997	
Cash dividends, \$0.61 per share					(132,170)						(132,170)		(132,170)	
Conversion of convertible bonds	1					18					18		18	
Purchase of treasury stock	(1)					(5)					(5)		(5)	
Disposal of treasury stock	15				(50)	326					276		276	
Change in the parent's ownership interest arising from transactions with non-controlling interests			1,694								1,694	(1,694)		
Net change in the year				(9)			14,364	1,810	5,419	(195)	21,389	108,289	129,678	
Balance, March 31, 2019	215,778	\$411,658	\$1,082,910	\$933	\$2,120,654	\$(224,745)	\$46,399	\$(15,096)	\$13,261	\$(6,123)	\$3,429,851	\$ 612,173	\$4,042,024	

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

AEON Financial Service Co., Ltd. and Subsidiaries
Years Ended March 31, 2019 and 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
OPERATING ACTIVITIES:			
Income before income taxes	¥ 69,178	¥ 66,572	\$ 623,173
Adjustments for:			
Depreciation and amortization	20,852	19,221	187,837
Amortization of goodwill	1,835	1,836	16,532
Allowance for possible credit losses	8,991	7,812	80,998
Allowance for point program	3,078	(52)	27,724
Allowance for loss on refund of interest received	1,052	(682)	9,476
Allowance for contingent loss		(566)	
Interest income	(171,243)	(156,161)	(1,542,592)
Interest expenses	21,449	19,480	193,213
Net increase in loans and bills discounted	(150,661)	(401,564)	(1,357,186)
Net increase in installment sales receivables	(157,914)	(108,315)	(1,422,521)
Net increase in lease receivables and investment assets	(2,918)	(1,403)	(26,289)
Net increase in deposits	419,401	507,643	3,778,050
Net increase in accounts payable	16,926	87,210	152,479
Net increase in borrowed money	4,555	28,488	41,031
Net decrease in deposits with banks	11,277	580	101,584
Net (increase) decrease in call loans and others	(38,717)	28,850	(348,771)
Net increase in commercial paper	41,568	22,500	374,456
Proceeds from sale and leaseback	2,952	4,323	26,589
Interest income received	170,585	155,906	1,536,661
Interest expenses paid	(24,355)	(19,305)	(219,394)
Other	(15,969)	(46,938)	(143,851)
Subtotal	231,922	215,435	2,089,199
Income taxes—paid	(18,252)	(18,233)	(164,417)
Income taxes—refund	2,060	1,739	18,558
Net cash provided by operating activities	215,730	198,941	1,943,340
INVESTING ACTIVITIES:			
Purchases of securities	(887,709)	(370,505)	(7,996,658)
Proceeds from sales of securities	73,201	137,990	659,404
Proceeds from redemption of securities	676,344	189,183	6,092,637
Purchases of money held in trust	(22,844)		(205,781)
Proceeds from collection of money held in trust	437		3,940
Purchases of property and equipment	(11,142)	(8,623)	(100,365)
Proceeds from sale of property and equipment	10	18	87
Purchases of intangible assets	(22,892)	(22,415)	(206,218)
Proceeds from business divestitures		6,277	
Net cash used in investing activities	(194,595)	(68,075)	(1,752,954)
FINANCING ACTIVITIES:			
Proceeds from issuance of convertible bonds with stock acquisition rights		3,284	
Dividends paid to the Company's shareholders	(14,672)	(14,669)	(132,170)
Proceeds from stock issuance to non-controlling shareholders	5,533	52	49,849
Repayments to non-controlling shareholders	(2,723)	(80)	(24,529)
Dividends paid to non-controlling shareholders	(4,207)	(3,620)	(37,899)
Purchase of treasury stock	(1)	(2)	(5)
Proceeds from disposal of treasury stock	1	1	1
Purchase of additional shares in subsidiaries that do not result in change in scope of consolidation	(4)	(204)	(32)
Net cash used in financing activities	(16,073)	(15,238)	(144,785)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	269	767	2,425
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,331	116,395	48,026
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	622,598	506,203	5,608,487
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 627,929	¥ 622,598	\$ 5,656,513

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years Ended March 31, 2019 and 2018

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 2018 consolidated financial statements to conform to the classifications used in 2019.

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 ¥111.01 to \$1, the exchange rate at March 31, 2019. 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.

The balance sheet date of the consolidated subsidiaries excluding the companies below corresponds with the consolidated closing date.

AEON CREDIT SERVICE (ASIA) CO., LTD.

AEON THANA SINSAP (THAILAND) PLC.

AEON CREDIT SERVICE (M) BERHAD and other 24 companies

The above companies are consolidated with appropriate adjustments to material transactions during the periods between their respective balance sheet dates and the consolidated closing date. Certain subsidiaries are consolidated using their provisional financial statements as at certain dates within three months prior to the consolidated closing date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Consolidation—The consolidated financial statements as at March 31, 2019 include the accounts of the Company and its 32 subsidiaries and one affiliate company.

During the current fiscal year, AEON CREDIT GUARANTEE (CHINA) CO., LTD. has been excluded from the scope of consolidation due to completion of liquidation.

AFS Corporation Co., Ltd., a wholly-owned subsidiary of the Company, is also excluded from the scope of consolidation because the effect of the Company's share of its assets, ordinary revenue, net income, retained earnings and other comprehensive income on the Group's consolidated financial results is immaterial to the extent that the exclusion does not influence financial statement users' reasonable judgments on the Group's financial position and financial performance.

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 comprise cash in hand and 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 management determines is 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 2 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, 2019 and 2018, which have been deferred and

included in other assets, were ¥19 million (\$170 thousand) and ¥64 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, 2019 and 2018, which have been deferred and included in other assets, were ¥209 million (\$1,885 thousand) and ¥253 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 at the end of the fiscal year based on past experience.

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

(n) Retirement 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 not exceeding 10 years.

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

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

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

(i) Credit card purchase contracts and hire purchase contracts

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

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

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.

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

Finance lease assets that deem to transfer ownership of the leased property to the lessee are depreciated using the same method for property and equipment. Finance lease assets that do not deem to transfer ownership of the leased property to the lessee are depreciated using the straight-

line method over the lease period, with zero residual value.

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

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

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).”

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

(t) Appropriations of Retained Earnings—Appropriations of retained earnings are reflected in the consolidated financial statements in the following year upon the Board of Directors’ resolution or shareholders’ approval.

(u) Foreign Currency Transactions—All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates as at 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.

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

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

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: (i) all derivatives are recognized as either assets or liabilities and measured at fair value with gains or losses on derivative transactions recognized in the consolidated 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.

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

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

(y) Accounting Changes and Error Corrections

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

(i) Changes in accounting policies

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

(ii) Changes in presentation

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

(iii) Changes in accounting estimates

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

(iv) Correction of prior-period errors

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

Effective from April 1, 2018, overseas consolidated subsidiaries have applied the following accounting standards. In applying these accounting standards, they have adopted the method to recognize the cumulative effects of application of these accounting standards on the date of initial application, which is allowed as the transitional treatment.

(i) IFRS 9 “Financial Instruments”

This standard introduces new requirements for classification and measurement of financial instruments and hedge accounting. Overseas consolidated subsidiaries applied this standard and one of main effects is in change of the method for measurement of allowance for possible credit losses of loans and bills discounted and installment sales receivables.

As a result, allowance for possible credit losses and deferred tax assets as at April 1, 2018 have increased by ¥35,018 million (\$315,448 thousand) and ¥6,777 million (\$61,048 thousand), respectively. Non-controlling interests and retained earnings as at April 1, 2018 have decreased by ¥11,537 million (\$103,927 thousand) and ¥16,704 million (\$150,473 thousand), respectively.

The effects on net income and per share information for the year ended March 31, 2019 are immaterial.

(ii) IFRS 15 “Revenue from Contracts with Customers”

This standard introduces a single comprehensive model that entities use to account for revenues from contracts with customers.

The effects of application of this standard on net profit

or loss and per share information for the year ended March 31, 2019 are immaterial.

(z) New Accounting Pronouncements

(i) The Company and its consolidated domestic subsidiaries

- Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 30, 2018)
- Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 30, 2018)

(1) Overview

The International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) in the United States jointly developed comprehensive accounting standards for revenue recognition and released the “Revenue from Contracts with Customers” (IFRS 15 in the IASB and Topic 606 in the FASB) in May 2014. Given that IFRS 15 will be effective from a fiscal year starting on or after January 1, 2018 and that Topic 606 will be effective from a fiscal year starting after December 15, 2017, the ASBJ has developed comprehensive accounting standards for revenue recognition and published them in step with the Implementation Guidance.

The basic policy of the ASBJ in developing accounting standards for revenue recognition is to set accounting standards, with the incorporation of the basic principles of IFRS 15 as a starting point, from a standpoint of comparability between financial statements, which is one of the benefits of ensuring consistency with IFRS 15. It is also intended to provide alternative accounting treatments to the extent not to compromise comparability, if there is any commonly accepted practice in Japan that should be taken into account.

(2) Effective date

The Group plans to apply these accounting standards at the beginning of the fiscal year ending February 28, 2023.

(3) Effects of adoption of these accounting standards

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

(ii) Consolidated overseas subsidiaries

The Group has not applied the following new and revised accounting standards that have been issued but not yet effective as at March 31, 2019. The Group is currently evaluating the effects of adoption of these accounting standards.

Accounting Standard	Description	Effective date
“Leases” (IFRS 16)	IFRS 16 introduces a single accounting model that lessees recognize assets and liabilities for all types of leases.	Year ending February 29, 2020

**(aa) Additional Information
(Litigation)**

On December 12, 2017, AEON CREDIT SERVICE (M) BERHAD (hereinafter, "AEON Credit"), a consolidated subsidiary of the Company, received the notice of an additional tax levy related to income tax for the years of 2009 to 2015 to pay MYR 96 million from the Inland Revenue Board of Malaysia. AEON Credit believed that there were reasonable grounds to disagree with the notice and continued with the judiciary proceedings.

On April 5, 2019, the provisional stay order of enforcement of the notice was dismissed at the Court of Appeal. Currently, AEON Credit is preparing for a judicial review hearing to be held on July 1, 2019.

The Company and AEON Credit's assertions are reasonable based on the external professional advices obtained. The effect of the notice of the additional tax levy on the Group's financial results is considered to depend on the subsequent proceedings. Therefore, the notified amount of additional tax is not reflected in the Group's consolidated financial statements for the current fiscal year.

(Reorganization through change in the Company's corporate structure and corporate split)

Effective from April 1, 2019, the Company has reorganized the Group's structure through absorption-type corporate split (hereinafter, "the corporate split") where shares of the Company's subsidiaries including AEON Bank, Ltd. being transferred to AFS Corporation Co., Ltd. (hereinafter, "AFS Corporation"), a wholly-owned subsidiary of the Company, based on the approval of the corporate split agreement and amendment of the Articles of Incorporation of the Company at the Extraordinary General Meeting of Shareholders held on March 15, 2019. Accordingly, the Company itself is no longer a bank holding company.

(i) Purpose

The Company operates in 11 countries in Asia including Japan. The Group is a comprehensive financial group originating from retail business and has 32 consolidated subsidiaries and one affiliate company ("AFS Group").

To become "the number one retail financial services company in Asia," the AFS Group aims to "construct the most customer-oriented ecosystems (an economic zone) in Asia by 2025" through the significant expansion of the Group's customer base from the current number of member IDs of 4.1 million to 300 million over the medium to long term.

The external environment is severely changing and the AFS Group is exposed to a declining population and rapid aging of the Japanese society in addition to new competition from IT Platform companies which hold enormous amount of personal data and other sectors

possessing the latest technologies such as Fintech entering into the financial services industry.

Under such business environment, the AFS Group led the organizational structure with the Company, being a bank holding company on the top, thus were limited in scope of its businesses, as required under the relevant laws and regulations.

The Company determined that the reorganization was required to build more flexible business model while maintaining a sound governance system with banking business.

Specifically, the reorganization through establishment of AFS Corporation as a bank holding company and changing the Company's status allows the Company or Group to expand its business scope.

(ii) Summary of the reorganization

(1) Method of the reorganization

- ① Reallocation of assets within the Group to enable the Company to transit from a bank holding company
- ② Domestic subsidiaries and certain overseas subsidiaries of the Company, including AEON Bank, Ltd., were reorganized to fall directly under the management of AFS Corporation through the corporate split.

(2) Details of the corporate split

The Company received 9,999 shares of AFS Corporation as a consideration of the corporate split.

(3) Amount of assets and liabilities involved in the corporate split (as at March 31, 2019)

Total assets: ¥244,046 million (\$2,198,419 thousand)
(shares of related companies)

(4) Handling of share acquisition rights and convertible bonds with stock acquisition rights in the corporate split

There is no applicable information.

(5) Change in equity due to the corporate split

There is no change in the Company's equity due to the corporate split.

(6) Obligation to receive rights

AFS Corporation received the voting rights of its subsidiaries in the corporate split.

(7) Fulfillment of obligations

Liabilities and obligations of the Company and AFS Corporation are expected to be fulfilled effective from the date of the corporate split.

(iii) Subsidiaries involved in the corporate split

AEON Bank, Ltd., AEON Housing Loan Service Co., Ltd., AEON Credit Service (Philippines) Inc. and AEON Specialized Bank (Cambodia) Plc.

3. MONETARY CLAIMS BOUGHT, MONEY HELD IN TRUST AND SECURITIES

Monetary claims bought and securities as at March 31, 2019 and 2018, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Marketable equity securities	¥ 7,429	¥ 6,730	\$ 66,919
Marketable debt securities:			
Government bonds	13,932	12,041	125,501
Municipal bonds	22,919	20,314	206,459
Corporate bonds	70,098	64,075	631,462
Total marketable debt securities	106,949	96,430	963,422
Other securities			
Foreign securities	36,252	30,061	326,560
Other ^(*)	207,370	82,737	1,868,032
Total other securities	243,622	112,798	2,194,592
Total	¥358,000	¥215,958	\$3,224,933

(*) Includes investments in associated companies of ¥194 million (\$1,745 thousand) and ¥224 million as at March 31, 2019 and 2018, respectively.

The carrying amounts and aggregate fair values of monetary claims bought and securities as at March 31, 2019 and 2018, were as follows:

	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2019				
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 2,064	¥ 5,376	¥ (11)	¥ 7,429
Debt securities	105,001	1,949	(1)	106,949
Other securities	230,042	3,623	(2,322)	231,343
March 31, 2018				
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 2,052	¥ 4,678		¥ 6,730
Debt securities	95,619	813	¥ (2)	96,430
Other securities	103,788	976	(991)	103,773

	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2019				
Securities classified as:				
Available-for-sale:				
Equity securities	\$ 18,589	\$48,430	\$ (100)	\$ 66,919
Debt securities	945,870	17,557	(5)	963,422
Other securities	2,072,263	32,639	(20,919)	2,083,983

Available-for-sale securities whose fair values are deemed to be difficult to determine as at March 31, 2019 and 2018 are disclosed in Note 17.

There was no loss on revaluation of securities for the years ended March 31, 2019 and 2018.

Money held in trust as at March 31, 2019 consisted of the following:

	Millions of Yen	
	Consolidated Balance Sheet Amount	Unrealized Gains (Losses)
March 31, 2019		
Trading purposes	¥ 22,406	
	Thousands of U.S. Dollars	
	Consolidated Balance Sheet Amount	Unrealized Gains (Losses)
March 31, 2019		
Trading purposes	\$201,841	

Unrealized gain on available-for-sale securities on the consolidated balance sheets as at March 31, 2019 and 2018 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Unrealized gain before deferred tax on:			
Available-for-sale securities ^(*)	¥ 8,683	¥ 5,407	\$ 78,218
Deferred tax liabilities	(2,813)	(1,850)	(25,336)
Unrealized gain on available-for-sale securities (before adjustment)	5,870	3,557	52,882
Non-controlling interests	(719)	(1)	(6,483)
Unrealized gain on available-for-sale securities	¥ 5,151	¥ 3,556	\$ 46,399

(*) Includes a loss on revaluation of available-for-sale securities that comprise assets in investment limited partnerships whose fair values are deemed to be difficult to determine of ¥68 million (\$616 thousand) and ¥66 million for the years ended March 31, 2019 and 2018, respectively.

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

Loans and bills discounted as at March 31, 2019 and 2018, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Loans and bills discounted	¥2,429,740	¥2,271,667	\$21,887,584
Allowance for possible credit losses	(65,653)	(32,715)	(591,417)
Total	¥2,364,087	¥2,238,952	\$21,296,167

Loans and bills discounted as at March 31, 2019 and 2018, included the following:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Loans to bankrupt borrowers ^{(*)1}	¥ 3,021	¥ 2,409	\$ 27,208
Non-accrual delinquent loans ^{(*)2}	40,139	35,792	361,580
Restructured loans ^{(*)3}	24,075	21,641	216,875
Total	¥67,235	¥59,842	\$605,663

(*)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, 2019 and 2018. "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, 2019 and 2018 was ¥132 million (\$1,188 thousand) and ¥231 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, 2019 and 2018 was ¥7,007 million (\$63,124 thousand) and ¥7,013 million, respectively.

Installment sales receivables as at March 31, 2019 and 2018, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Installment sales receivables:			
Credit card purchase contracts	¥ 912,110	¥ 829,210	\$ 8,216,470
Hire purchase contracts	541,050	465,422	4,873,883
Subtotal	1,453,160	1,294,632	13,090,353
Allowance for possible credit losses	(37,106)	(26,048)	(334,263)
Total	¥1,416,054	¥1,268,584	\$12,756,090

Fees and commissions for the years ended March 31, 2019 and 2018, included the following:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Credit card purchase contracts	¥125,917	¥116,249	\$1,134,284

5. PROPERTY AND EQUIPMENT

Property and equipment as at March 31, 2019 and 2018, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Structures	¥ 13,609	¥ 12,744	\$ 122,590
Equipment	78,764	69,879	709,526
Construction in progress	343	494	3,091
Other property and equipment	160	142	1,441
Subtotal	92,876	83,259	836,648
Accumulated depreciation	(53,671)	(46,281)	(483,483)
Total	¥ 39,205	¥ 36,978	\$ 353,165

6. INTANGIBLE ASSETS

Intangible assets as at March 31, 2019 and 2018, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Software	¥ 74,612	¥64,555	\$672,116
Goodwill	20,061	21,896	180,715
Other intangible assets	5,505	5,905	49,589
Total	¥100,178	¥92,356	\$902,420

7. PLEDGED ASSETS

Assets pledged as collateral as at March 31, 2019 and 2018, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Assets pledged as collateral:			
Deposits with banks	¥ 5,927	¥ 521	\$ 53,392
Securities	27,617	27,433	248,776
Loans and bills discounted	17,771	16,335	160,087
Installment sales receivables	11,734	11,117	105,698
Total	¥63,049	¥55,406	\$567,953
Liabilities corresponding to assets pledged as collateral:			
Borrowed money	¥43,159	¥46,636	\$388,787

In addition to the assets presented above, the following assets were pledged as collateral for exchange settlements and other transactions as at March 31, 2019 and 2018:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Securities		¥19,305	
Other assets (Initial margins deposited at central counterparty clearing houses)	¥50,000	34,222	\$450,410

Moreover, other assets included guarantee money deposits, and these amounts as at March 31, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Guarantee money deposits	¥56,116	¥40,094	\$505,507

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, 2019 and 2018, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars	Average interest rate ^(*)	Due
	2019	2018	2019	2019	
Commercial paper	¥102,080	¥ 60,500	\$ 919,555	0.17%	
Borrowed money	544,823	539,393	4,907,874	2.88%	From April 2019 to October 2025
Lease obligations	36,856	38,639	332,010	1.45%	From May 2019 to March 2029

(*) 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 with stock acquisition rights as at March 31, 2019 and 2018, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Issued by the Company:			
¥30,000 million Zero Coupon Callable Convertible Bonds due 2019	¥ 29,946	¥ 29,948	\$ 269,760
Unsecured 0.349% pari passu Japanese yen notes due March 2019		10,000	
Unsecured 0.572% pari passu Japanese yen notes due March 2021	10,000	10,000	90,082
Unsecured 0.83% callable subordinated Japanese yen notes due April 2019	30,000	30,000	270,246
Unsecured 0.83% callable subordinated Japanese yen notes due April 2019	10,000	10,000	90,082
Unsecured 0.402% pari passu Japanese yen notes due March 2020	20,000	20,000	180,164
Unsecured 0.552% pari passu Japanese yen notes due March 2022	10,000	10,000	90,082
Issued by AEON Product Finance Co., Ltd.:			
Unsecured 0.38% Japanese yen notes due April 2023	5,000		45,041
Unsecured 0.4% Japanese yen notes due October 2023	5,000		45,041
Issued by AEON Thana Sinsap (Thailand) Plc.:			
Unsecured 1.936% Thai baht notes due July 2018		1,835	
Unsecured 2.535% Thai baht notes due November 2018		3,245	
Unsecured 2.594% Thai baht notes due March 2019	3,349	3,224	30,171
Unsecured 0.486% Thai baht notes due March 2019	2,233	2,234	20,120
Unsecured 2.87% Thai baht notes due February 2019		684	
Unsecured 3.242% Thai baht notes due March 2020	7,791	7,522	70,180
Unsecured 3.094% Thai baht notes due March 2020	1,670	1,613	15,044
Unsecured 3.543% Thai baht notes due August 2021	1,664	1,607	14,989
Unsecured 2.5% Thai baht notes due July 2019	1,412	1,367	12,718
Unsecured 2.73% Thai baht notes due December 2019	3,528	3,415	31,778
Unsecured 3.48% Thai baht notes due December 2021	3,525	3,414	31,755
Unsecured 3.544% Thai baht notes due December 2021	3,324	3,211	29,941
Unsecured 2.5% Thai baht notes due August 2020	705	683	6,356
Unsecured 2.5% Thai baht notes due September 2020	1,058	1,025	9,534
Unsecured 2.5% Thai baht notes due September 2020	353	341	3,177
Unsecured 2.37% Thai baht notes due December 2020	7,054	6,831	63,542
Unsecured 2.93% Thai baht notes due December 2022	3,526	3,415	31,762
Unsecured 2.96% Thai baht notes due November 2020	7,051		63,517
Unsecured 3.26% Thai baht notes due November 2021	2,820		25,404
Issued by AEON CREDIT SERVICE (PHILIPPINES) INC.:			
Unsecured 7.299% Philippine peso notes due November 2021	1,869		16,836
Unsecured 7.695% Philippine peso notes due November 2023	211		1,901
Total	¥173,089	¥165,614	\$1,559,223

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

	Conversion Price (Yen) ^(*)1)	Number of Shares of Common Stock (Thousands) ^(*)2)	Exercise Period
¥30,000 million Zero Coupon Callable Convertible Bonds due 2019	¥2,558.0	11,707	From November 1, 2016 to September 11, 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, 2019.

The annual maturities of borrowed money as at March 31, 2019, were as follows:

Years ended March 31	Millions of Yen	Thousands of U.S. Dollars
2020	¥226,439	\$2,039,808
2021	106,332	957,862
2022	68,866	620,353
2023	46,424	418,197
2024	65,499	590,029
2025 and thereafter	31,263	281,625
Total	¥544,823	\$4,907,874

The annual maturities of bonds as at March 31, 2019, were as follows:

Years ended March 31	Millions of Yen	Thousands of U.S. Dollars
2020	¥ 89,929	\$ 810,098
2021	46,221	416,372
2022	13,202	118,926
2023	13,526	121,844
2024	10,211	91,983
2025 and thereafter		
Total	¥173,089	\$1,559,223

The annual maturities of lease obligations as at March 31, 2019, were as follows:

Years ended March 31	Millions of Yen	Thousands of U.S. Dollars
2020	¥ 8,153	\$ 73,442
2021	8,401	75,680
2022	5,449	49,085
2023	4,277	38,530
2024	3,245	29,230
2025 and thereafter	7,331	66,043
Total	¥36,856	\$332,010

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 allows them to calculate their benefit obligations as the amount of benefits that would be payable if they voluntarily retire or terminate at fiscal year-end.

(a) The changes in defined benefit obligation (including the obligation calculated by the simple method) for the years ended March 31, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Balance at beginning of year	¥5,891	¥5,109	\$53,063
Current service cost	535	416	4,817
Interest cost	36	53	324
Actuarial gains and losses	(6)	452	(54)
Benefits paid	(396)	(107)	(3,566)
Other	118	(32)	1,069
Balance at end of year	¥6,178	¥5,891	\$55,653

(b) The changes in plan assets for the years ended March 31, 2019 and 2018 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Balance at beginning of year	¥1,944	¥1,693	\$17,510
Expected return on plan assets	55	45	496
Actuarial gains and losses	(174)	(13)	(1,570)
Contributions from the employer	248	220	2,236
Benefits paid	(15)	(1)	(136)
Balance at end of year	¥2,058	¥1,944	\$18,536

(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, 2019 and 2018^(*)

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Funded defined benefit obligation	¥ 2,692	¥ 2,480	\$ 24,254
Plan assets	(2,058)	(1,944)	(18,536)
	634	536	5,718
Unfunded defined benefit obligation	3,486	3,411	31,399
Net liability arising from defined benefit obligation	¥ 4,120	¥ 3,947	\$ 37,117

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Liability for retirement benefits	¥4,120	¥3,947	\$37,117
Net liability arising from defined benefit obligation	¥4,120	¥3,947	\$37,117

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

(d) The components of net periodic benefit costs for the years ended March 31, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Service cost ^(*)	¥535	¥416	\$4,817
Interest cost	36	53	324
Expected return on plan assets	(55)	(45)	(496)
Recognized actuarial losses	141	218	1,274
Amortization of past service costs	228	46	2,055
Other	7	24	61
Net periodic benefit costs	¥892	¥712	\$8,035

(*) 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, 2019 and 2018

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Past service costs		¥ (44)	
Actuarial gains and losses	¥29	357	\$259
Total	¥29	¥313	\$259

(f) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as at March 31, 2019 and 2018

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Unrecognized actuarial gains and losses	¥980	¥952	\$8,830
Total	¥980	¥952	\$8,830

(g) Plan assets

(i) Components of plan assets

Plan assets consisted of the following:

	2019	2018
Debt securities	42.6%	53.1%
Equity securities	23.7%	21.1%
Assets in the life insurer's general account	13.3%	13.2%
Other ^(*)	20.4%	12.6%
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, 2019 and 2018, were set forth as follows:

	2019 ^(*)	2018 ^(*)
Discount rate	0.6%	0.7%
Expected rate of return on plan assets	2.83%	2.67%

(*) In addition to the above, salary increase rate by age calculated as at the base date of March 31, 2016 was used as an assumption.

The required contribution amounts to the defined contribution pension plan for the years ended March 31, 2019 and 2018 are ¥565 million (\$5,092 thousand) and ¥539 million, respectively.

The amounts of benefits paid under the advance payment plan for the years ended March 31, 2019 and 2018 are ¥63 million (\$565 thousand) and ¥63 million, respectively.

10. EQUITY

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

(a) Dividends

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

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

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

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

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

(c) Treasury stock and treasury stock acquisition rights

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

11. STOCK-BASED COMPENSATION

The stock options outstanding as at March 31, 2019, 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
2018 Stock Option	8 directors	18,100 shares	July 21, 2017	¥ 1 \$0.01	From August 21, 2017 through August 20, 2032
2019 Stock Option	7 directors	16,300 shares	July 21, 2018	¥ 1 \$0.01	From August 21, 2018 through August 20, 2033

The summary of stock option activity is as follows:

	2019 Stock Option	2018 Stock Option	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	16,300							
Expired								
Vested	16,300							
Outstanding at end of year								
Vested (Shares)								
Outstanding at beginning of year		9,900	10,800	9,000	6,800	7,000	3,500	1,500
Vested	16,300							
Exercised	8,200			3,600	2,300			
Expired								
Outstanding at end of year	8,100	9,900	10,800	5,400	4,500	7,000	3,500	1,500
Exercise price	¥ 1 \$ 0.01	¥ 1 \$ 0.01	¥ 1 \$ 0.01	¥ 1 \$ 0.01	¥ 1 \$ 0.01	¥ 1 \$ 0.01	¥ 1 \$ 0.01	¥ 1 \$ 0.01
Average stock price upon exercise	¥2,263 \$20.39			¥2,172 \$19.57	¥2,465 \$22.21			
Fair value price at grant date	¥1,808 \$16.29	¥1,856 \$16.72	¥1,940 \$17.48	¥3,072 \$27.67	¥2,006 \$18.07	¥2,715 \$24.46	¥1,081 \$ 9.74	¥ 809 \$ 7.29

The assumptions used to measure fair value of stock options vested during fiscal year 2019 were as follows:

	2019 Stock Option
Measurement method	Black-Scholes option-pricing model
Risk-free interest rate	(0.0510)%
Expected life of option grants	7.5 years
Expected volatility of underlying stock	34.21%
Estimated dividend	¥68 per share

12. OTHER INCOME

Other income for the years ended March 31, 2019 and 2018, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Gain on bad debts recovered	¥ 7,605	¥ 6,691	\$ 68,507
Group life insurance	1,833	1,611	16,515
Gain on transfer from business divestitures		1,452	
Other	2,083	2,995	18,765
Total	¥11,521	¥12,749	\$103,787

13. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the years ended March 31, 2019 and 2018, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Salaries and allowances	¥ (68,241)	¥ (65,415)	\$ (614,730)
Advertising expenses	(57,856)	(51,510)	(521,175)
Other	(123,345)	(115,366)	(1,111,121)
Total	¥(249,442)	¥(232,291)	\$(2,247,026)

14. OTHER EXPENSES

Other expenses for the years ended March 31, 2019 and 2018, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Provision for loss on refund of interest received	¥(3,231)	¥(2,780)	\$(29,108)
Business structure reform expenses ^(*)		(217)	
Other	(1,843)	(1,414)	(16,598)
Total	¥(5,074)	¥(4,411)	\$(45,706)

(*) These expenses were incurred in the absorption-type corporate split between the Group's consolidated subsidiaries effective as at October 1, 2017.

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 30.6% and 30.9% for the years ended

March 31, 2019 and 2018, respectively. The tax effects of significant temporary differences and tax loss carryforwards, which resulted in deferred tax assets and liabilities as at March 31, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Deferred tax assets:			
Allowance for possible credit losses	¥19,811	¥ 9,988	\$178,463
Loans and bills discounted and installment sales receivables	100	117	900
Allowance for point program	5,529	4,641	49,808
Allowance for loss on refund of interest received	1,279	961	11,521
Accrued income	440	447	3,959
Property and equipment	481	509	4,329
Intangible assets	487	393	4,385
Liability for retirement benefits	1,179	1,145	10,625
Tax loss carryforwards	740	1,569	6,670
Unrealized loss on acquisition of subsidiaries	38	46	340
Other	8,669	6,880	78,095
Less valuation allowance	(2,889)	(3,142)	(26,024)
Total deferred tax assets	¥35,864	¥23,554	\$323,071
Deferred tax liabilities:			
Depreciation in consolidated foreign subsidiaries	¥ 239	¥ 239	\$ 2,150
Unrealized gain on available-for-sale securities	2,873	1,940	25,877
Unrealized gain on acquisition of subsidiaries	1,685	1,808	15,180
Other	105	79	951
Total deferred tax liabilities	¥ 4,902	¥ 4,066	\$ 44,158
Net deferred tax assets	¥30,962	¥19,488	\$278,913

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, 2019 and 2018, were as follows:

	2019	2018
Effective statutory tax rate	30.6%	30.9%
Per capita portion of inhabitants tax	0.4	0.5
Lower income tax rates applicable to income in certain foreign countries	(5.3)	(4.9)
Influence of elimination in consolidation	2.2	2.6
Influence of changes in the statutory tax rate		0.1
Tax loss carryforwards	(1.2)	(1.0)
Valuation allowance	0.7	0.2
Other	(1.4)	(1.8)
Actual effective tax rate	26.0%	26.6%

16. LEASES

(Lessee side)

The Group leases equipment, software, and other assets.

Total rental expenses for the years ended March 31, 2019 and 2018 were ¥17,259 million (\$155,475 thousand) and ¥15,716 million, respectively.

The minimum rental commitments under noncancelable operating leases as at March 31, 2019 and 2018 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Due within one year	¥4,243	¥3,899	\$38,219
Due after one year	4,695	4,454	42,299
Total	¥8,938	¥8,353	\$80,518

(Lessor side)

(a) Breakdown of lease receivables and investment assets

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Lease payments receivables	¥12,298	¥9,374	\$110,781
Unearned interest income	(873)	(867)	(7,862)
Lease receivables and investment assets	¥11,425	¥8,507	\$102,919

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

	Millions of Yen					
	2019					
	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Lease receivables and investment assets	¥3,084	¥2,536	¥1,551	¥1,355	¥1,420	¥2,352

	Millions of Yen					
	2018					
	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Lease receivables and investment assets	¥2,555	¥2,003	¥1,276	¥911	¥722	¥1,907

	Thousands of U.S. Dollars					
	2019					
	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Lease receivables and investment assets	\$27,775	\$22,847	\$13,974	\$12,207	\$12,794	\$21,184

17. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(a) Conditions of financial instruments

(i) Group policy for financial instruments

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

The Group raises funds for these businesses mainly through customer deposits, borrowings from financial institutions, issuance of bonds and commercial paper, and securitization of receivables in the view of the markets 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 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. Financial liabilities are also exposed to interest rate risk and foreign exchange risk.

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 Management Department as a supervisory function for management of risks related to financial instruments. In order to develop group-wide risk management structures, the fundamental matters on risk management for the Group are set forth in "Group Risk Management Policies."

These risk management structures are audited internally by the 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, 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 market risk of financial instruments held by the Company's major consolidated domestic subsidiaries, the Monte-Carlo simulation (holding period: 120 days, historical observation period: three year, and confidence interval: 99%) is applied to calculate VaR. From the current fiscal year, methods of calculating VaR are unified to the Monte-

Carlo simulation and major assumptions such as holding period and historical observation period are reassessed. The amount of VaR as at March 31, 2019 was ¥10,657 million (\$96,000 thousand) (2018: ¥2,020 million for interest rate risk and ¥27,085 million for security price risk, as calculated by the previous method). Although foreign subsidiaries and certain domestic 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.

These figures represent the amounts of market risk calculated statistically 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 and adjusting short-term/long-term balances taking into account the market conditions.

The domestic banking subsidiary controls liquidity risk by establishing a payment reserve asset holding ratio and cash gap limits, which are monitored by the Risk Management Department. 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 18 for the details regarding fair value for derivatives.

(b) Fair value of financial instruments

The carrying amount of financial instruments in the consolidated balance sheet, the fair value, and the difference between the two as at March 31, 2019 and 2018 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		
	2019		
	Carrying Amount	Fair Value	Difference
(1) Cash and cash equivalents	¥ 627,929	¥ 627,929	
(2) Deposits with banks	16,573	16,573	
(3) Call loans	30,497	30,497	
(4) Monetary claims bought	13,316	13,316	
(5) Money held in trust	22,406	22,406	
(6) Securities	332,406	332,406	
(7) Loans and bills discounted—net of allowance for possible credit losses	2,364,087	2,481,222	¥117,135
(8) Foreign exchanges	1,635	1,635	
(9) Installment sales receivables—net of allowance for possible credit losses	1,416,054	1,431,130	15,076
Total	¥4,824,903	¥4,957,114	¥132,211
(10) Deposits	¥3,469,134	¥3,472,233	¥ 3,099
(11) Accounts payable	329,068	329,068	
(12) Commercial paper	102,080	102,080	
(13) Borrowed money	544,823	543,540	(1,283)
(14) Bonds	143,143	143,236	93
(15) Convertible bonds with stock acquisition rights	29,946	30,155	209
Total	¥4,618,194	¥4,620,312	¥ 2,118
(16) Derivative financial instruments (Note 18):			
Hedge accounting not applied	¥ 3	¥ 3	
Hedge accounting applied	(12,080)	(12,080)	
Total	¥ (12,077)	¥ (12,077)	

	Millions of Yen		
	2018		
	Carrying Amount	Fair Value	Difference
(1) Cash and cash equivalents	¥ 622,598	¥ 622,598	
(2) Deposits with banks	27,872	27,872	
(4) Monetary claims bought	5,096	5,096	
(6) Securities	201,837	201,837	
(7) Loans and bills discounted—net of allowance for possible credit losses	2,238,952	2,328,699	¥ 89,747
(9) Installment sales receivables—net of allowance for possible credit losses	1,268,584	1,270,195	1,611
Total	¥4,364,939	¥4,456,297	¥ 91,358
(10) Deposits	¥3,049,733	¥3,055,895	¥ 6,162
(11) Accounts payable	312,649	312,649	
(12) Commercial paper	60,500	60,500	
(13) Borrowed money	539,393	538,968	(425)
(14) Bonds	135,666	136,006	340
(15) Convertible bonds with stock acquisition rights	29,948	32,550	2,602
Total	¥4,127,889	¥4,136,568	¥ 8,679
(16) Derivative financial instruments (Note 18):			
Hedge accounting not applied			
Hedge accounting applied	¥ (9,412)	¥ (9,412)	
Total	¥ (9,412)	¥ (9,412)	

Thousands of U.S. Dollars

	2019		
	Carrying Amount	Fair Value	Difference
(1) Cash and cash equivalents	\$ 5,656,513	\$ 5,656,513	
(2) Deposits with banks	149,292	149,292	
(3) Call loans	274,720	274,720	
(4) Monetary claims bought	119,953	119,953	
(5) Money held in trust	201,841	201,841	
(6) Securities	2,994,371	2,994,371	
(7) Loans and bills discounted—net of allowance for possible credit losses	21,296,167	22,351,339	\$1,055,172
(8) Foreign exchanges	14,732	14,732	
(9) Installment sales receivables—net of allowance for possible credit losses	12,756,090	12,891,897	135,807
Total	\$43,463,679	\$44,654,658	\$1,190,979
(10) Deposits	\$31,250,648	\$31,278,563	\$ 27,915
(11) Accounts payable	2,964,306	2,964,306	
(12) Commercial paper	919,555	919,555	
(13) Borrowed money	4,907,874	4,896,315	(11,559)
(14) Bonds	1,289,463	1,290,299	836
(15) Convertible bonds with stock acquisition rights	269,760	271,648	1,888
Total	\$41,601,606	\$41,620,686	\$ 19,080
(16) Derivative financial instruments (Note 18):			
Hedge accounting not applied	\$ 32	\$ 32	
Hedge accounting applied	(108,820)	(108,820)	
Total	\$ (108,788)	\$ (108,788)	

(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) Money held in trust

The fair value of money held in trust, which comprises trust assets, is determined by the same method as “(7) Loans and bills discounted—net of allowance for possible credit losses” described below.

(6) 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.

(7) 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

at 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 that reflect credit risk adjustments for the type and maturity of loan receivables with a discount rate consisting of a risk-free rate and collection costs of each product (expense ratio).

(8) Foreign exchanges

Foreign exchanges are foreign currency deposits with other banks (due from foreign banks). The carrying amount of foreign exchanges is considered to approximate fair value because these deposits have no maturities.

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

The fair value of installment sales receivables is determined by discounting expected cash flows that reflect credit risk adjustments for the type and maturity of installment sales receivables with a discount rate consisting of a risk-free rate and collection costs of each product (expense ratio).

(10) Deposits

For demand deposits, the amount payable on demand as at 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.

(11) 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.

(12) Commercial paper

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

(13) Borrowed money

The fair value of borrowed money with fixed-interest rates is determined by discounting the total amounts of principal and interest payments into certain periods using 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 not exceeding one year.

(14) Bonds and (15) Convertible bonds with stock acquisition rights

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

(16) Derivative financial instruments

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

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

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

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Stock with no active market quotations	¥2,323	¥1,655	\$20,924
Trust beneficiary rights	5,757	5,797	51,867
Investments in limited partnerships	4,198	1,573	37,818

(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						
2019						
	Up to 1 year	1-3 years	3-5 years	5-7 years	7-10 years	Over 10 years
Due from banks	¥ 579,815					
Call loans	30,497					
Monetary claims bought			¥ 126			¥ 13,145
Money held in trust	2,529	¥ 4,235	3,326	¥ 2,600	¥ 2,917	6,799
Securities:						
Available-for-sale securities:						
Government bonds	2,500					11,000
Municipal bonds			400		22,190	
Corporate bonds	3,000	18,000	800			47,246
Other	20,111	8,000			800	7,236
Total	25,611	26,000	1,200		22,990	65,482
Loans and bills discounted ^(*1, *2)	584,221	448,076	204,978	102,043	157,200	837,860
Installment sales receivables ^(*1)	979,964	211,143	118,883	45,996	33,049	34,050
Total	¥2,202,637	¥689,454	¥328,513	¥150,639	¥216,156	¥957,336

Millions of Yen						
2018						
	Up to 1 year	1-3 years	3-5 years	5-7 years	7-10 years	Over 10 years
Due from banks	¥ 596,731					
Call loans						
Monetary claims bought			¥ 304			¥ 4,726
Securities:						
Available-for-sale securities:						
Government bonds		¥ 12,000				
Municipal bonds			200		¥ 20,050	
Corporate bonds	15,000	19,700	1,300		1,500	25,847
Other	20,000		8,000			1,799
Total	35,000	31,700	9,500		21,550	27,646
Loans and bills discounted ^(*1, *2)	527,271	430,064	208,255	¥100,494	141,197	773,614
Installment sales receivables ^(*1)	856,084	188,947	114,245	46,970	29,683	33,016
Total	¥2,015,086	¥650,711	¥332,304	¥147,464	¥192,430	¥839,002

Thousands of U.S. Dollars						
2019						
	Up to 1 year	1-3 years	3-5 years	5-7 years	7-10 years	Over 10 years
Due from banks	\$ 5,223,087					
Call loans	274,720					
Monetary claims bought			\$ 1,140			\$ 118,414
Money held in trust	22,782	\$ 38,151	29,962	\$ 23,422	\$ 26,274	61,250
Securities:						
Available-for-sale securities:						
Government bonds	22,520					99,090
Municipal bonds			3,603		199,892	
Corporate bonds	27,025	162,147	7,207			425,601
Other	181,164	72,066			7,206	65,181
Total	230,709	234,213	10,810		207,098	589,872
Loans and bills discounted ^(*1, *2)	5,262,786	4,036,361	1,846,483	919,221	1,416,096	7,547,605
Installment sales receivables ^(*1)	8,827,708	1,902,018	1,070,919	414,347	297,710	306,734
Total	\$19,841,792	\$6,210,743	\$2,959,314	\$1,356,990	\$1,947,178	\$8,623,875

(*1) Loans and bills discounted and installment sales receivables for the years ended March 31, 2019 and 2018 exclude ¥65,400 million (\$589,139 thousand) and ¥55,298 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, 2019 and 2018 exclude loans of ¥4,262 million (\$38,397 thousand) and ¥4,067 million with no specific recoverable amounts, such as loans to borrowers classified as legal bankruptcy, substantial bankruptcy, or possible bankruptcy, and ¥55,863 million (\$503,221 thousand) and ¥57,096 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					
	2019					
	Up to 1 year	1-3 years	3-5 years	5-7 years	7-10 years	Over 10 years
Deposits ^(*)	¥3,124,115	¥286,083	¥ 58,936			
Commercial paper	102,080					
Borrowed money	226,439	175,198	111,923	¥31,263		
Bonds	59,983	59,423	23,737			
Convertible bonds with stock acquisition rights	29,946					
Lease obligations	8,153	13,850	7,522	4,496	¥2,835	
Total	¥3,550,716	¥534,554	¥202,118	¥35,759	¥2,835	

	Millions of Yen					
	2018					
	Up to 1 year	1-3 years	3-5 years	5-7 years	7-10 years	Over 10 years
Deposits ^(*)	¥2,755,036	¥260,010	¥ 34,687			
Commercial paper	60,500					
Borrowed money	302,351	122,393	78,646	¥31,517	¥4,486	
Bonds	21,222	52,798	21,646	40,000		
Convertible bonds with stock acquisition rights		29,948				
Lease obligations	7,481	14,805	7,997	4,489	3,867	
Total	¥3,146,590	¥479,954	¥142,976	¥76,006	¥8,353	

	Thousands of U.S. Dollars					
	2019					
	Up to 1 year	1-3 years	3-5 years	5-7 years	7-10 years	Over 10 years
Deposits ^(*)	\$28,142,642	\$2,577,095	\$ 530,911			
Commercial paper	919,555					
Borrowed money	2,039,808	1,578,215	1,008,227	\$281,624		
Bonds	540,339	535,298	213,826			
Convertible bonds with stock acquisition rights	269,760					
Lease obligations	73,442	124,765	67,760	40,503	\$25,540	
Total	\$31,985,546	\$4,815,373	\$1,820,724	\$322,127	\$25,540	

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

18. DERIVATIVES

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

Derivative financial instruments are subject to market risk and credit risk. Since the Group enters into derivative financial instruments only for hedging purposes, market risk

in those hedging instruments is basically offset by opposite movements in the value of hedged items. The credit risk on those derivative financial instruments is limited as the counterparties are major financial institutions with high-credit ratings.

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

Derivative financial instruments qualifying for hedge accounting as at March 31, 2019 and 2018 consisted of the following:

Millions of Yen			
2019			
	Contract Amount	Fair Value	Unrealized Gain/Loss
Currency swap contracts:			
Receive JPY/Pay THB	¥34,617	¥(2,631)	¥(2,631)
Receive USD/Pay HKD	5,480	188	188
Receive USD/Pay MYR	67,690	(2,352)	(2,352)
Receive USD/Pay THB	93,064	(6,622)	(6,622)
Interest rate swap contracts:			
Receive floating/Pay fixed	62,160	(663)	(663)

Millions of Yen			
2018			
	Contract Amount	Fair Value	Unrealized Gain/Loss
Currency swap contracts:			
Receive JPY/Pay THB	¥52,276	¥(5,000)	¥(5,000)
Receive USD/Pay HKD	5,321	216	216
Receive USD/Pay MYR	77,512	3,880	3,880
Receive USD/Pay THB	85,878	(7,636)	(7,636)
Interest rate swap contracts:			
Receive floating/Pay fixed	61,220	(872)	(872)

Thousands of U.S. Dollars			
2019			
	Contract Amount	Fair Value	Unrealized Gain/Loss
Currency swap contracts:			
Receive JPY/Pay THB	\$311,837	\$(23,698)	\$(23,698)
Receive USD/Pay HKD	49,361	1,696	1,696
Receive USD/Pay MYR	609,767	(21,189)	(21,189)
Receive USD/Pay THB	838,342	(59,657)	(59,657)
Interest rate swap contracts:			
Receive floating/Pay fixed	559,945	(5,972)	(5,972)

Derivative financial instruments not qualifying for hedge accounting as at March 31, 2019 consisted of the following:

Millions of Yen			
2019			
	Contract Amount	Fair Value	Unrealized Gain/Loss
Currency forward contracts:			
Short position	¥ 29	¥ (1)	¥ (1)
Long position	860	4	4

Thousands of U.S. Dollars			
2019			
	Contract Amount	Fair Value	Unrealized Gain/Loss
Currency forward contracts:			
Short position	\$ 260	\$ (1)	\$ (1)
Long position	7,748	33	33

There were no derivative financial instruments not qualifying for hedge accounting as at March 31, 2018.

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

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

19. LOAN COMMITMENTS

(Lender side)

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
	2019	2018	2019
Total loan limits	¥9,124,554	¥8,752,115	\$82,195,785
Loan executed	594,913	565,132	5,359,094
Unexercised portion of loan commitments	¥8,529,641	¥8,186,983	\$76,836,691

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 has entered into overdraft facility and loan commitment contracts with corporate customers. 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, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Unutilized commitments	¥30,140	¥36,906	\$271,509
Of which: those expiring within one year	20,109	12,940	181,145

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, credit maintenance, 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 for credit maintenance.

(Borrower side)

The Group has entered into overdraft facility and loan commitment contracts with four (2018: 16) financial institutions. The unexercised portion of overdraft facilities and loan commitments was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Total loan limits	¥51,800	¥70,000	\$466,625
Loan executed	1,800		16,215
Unutilized portion of overdraft facilities and loan commitments	¥50,000	¥70,000	\$450,410

20. OTHER COMPREHENSIVE INCOME

Reclassification adjustments to profit or loss and tax effects of other comprehensive income for the years ended March 31, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Unrealized gain (loss) on available-for-sale securities:			
Gains (losses) arising during the year	¥3,279	¥ (927)	\$29,538
Reclassification adjustments to profit or loss	(298)	(1,088)	(2,684)
Amount before income tax effect	2,981	(2,015)	26,854
Income tax effect	(642)	617	(5,788)
Total	¥2,339	¥(1,398)	\$21,066
Deferred gain on derivatives under hedge accounting:			
Losses arising during the year	¥ (898)	¥(3,232)	\$ (8,090)
Reclassification adjustments to profit or loss	1,399	3,978	12,602
Amount before income tax effect	501	746	4,512
Income tax effect	(75)	(151)	(673)
Total	¥ 426	¥ 595	\$ 3,839
Foreign currency translation adjustments:			
Gains arising during the year	¥1,417	¥ 3,431	\$12,764
Reclassification adjustments to profit or loss	46		414
Amount before income tax effect	1,463	3,431	13,178
Total	¥1,463	¥ 3,431	\$13,178
Adjustments for retirement benefit:			
Losses arising during the year	¥ (179)	¥ (465)	\$ (1,610)
Reclassification adjustments to profit or loss	150	152	1,351
Amount before income tax effect	(29)	(313)	(259)
Income tax effect	5	96	45
Total	¥ (24)	¥ (217)	\$ (214)
Total other comprehensive income	¥4,204	¥ 2,411	\$37,869

21. NET INCOME PER SHARE

Basic and diluted EPS for the years ended March 31, 2019 and 2018, were as follows:

	Net Income Attributable to Owners of the Parent	Weighted- Average Shares	EPS	
	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
For the year ended March 31, 2019:				
Basic EPS				
Net income	¥39,408			
Net income available to common shareholders	¥39,408	215,771	¥182.64	\$1.65
Effect of dilutive securities				
—Warrants of the Company		51		
—Convertible bonds with stock acquisition rights of the Company		11,707		
Diluted EPS				
—Net income for computation	¥39,408	227,529	¥173.20	\$1.56
For the year ended March 31, 2018:				
Basic EPS				
Net income	¥38,678			
Net income available to common shareholders	¥38,678	215,728	¥179.29	
Effect of dilutive securities				
—Warrants of the Company		59		
—Convertible bonds with stock acquisition rights of the Company		11,708		
Diluted EPS				
—Net income for computation	¥38,678	227,495	¥170.02	

22. RELATED PARTY TRANSACTIONS

There were no transactions between the Company and related parties for the years ended March 31, 2019 and 2018.

Transactions between the Company's consolidated subsidiaries and related parties for the years ended March 31, 2019 and 2018, 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
AEON Retail Co., Ltd. (subsidiary of the parent company)	2019	2018	2019
Loans and bills discounted	¥35,000	¥37,000	\$315,287
Other assets	2		16
Lending of loans	36,885	38,490	332,267
Interest income	357	351	3,220

(*) The parent company is AEON Co., Ltd., which is listed on the Tokyo Stock Exchange, First Section.

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	2019	2019	2019	2019
Housing loans (Loans and bills discounted)			¥232	\$2,091

	Transaction Amount	Balance at End
	Millions of Yen	Millions of Yen
Directors, executive officers and their close relatives of the Company and its subsidiaries	2018	2018
Housing loans (Loans and bills discounted)		¥138

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

23. SEGMENT INFORMATION

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

(a) Description of reportable segments

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

As for the “Domestic” business, the Group has classified it into “Retail” and “Solutions” segments to clarify the responsibilities for their respective functions for domestic customers. As for the “Global” business, the Group has classified it into “China Area” (such as Hong Kong), “Mekong Area” (such as Thailand) and “Malay Area” (such as Malaysia) segments focusing on the Group’s three listed companies to facilitate the horizontal development of the Group’s business models.

Accordingly, the Group has five reportable segments, “Retail” and “Solutions” in “Domestic” segment and “China Area,” “Mekong Area” and “Malay Area” in “Global” segment.

“Retail” consists of the banking and insurance businesses where individual customers are the main targets.

“Solutions” consists of the businesses which provide the Group’s financial services to member shops through database utilization such as processing and hire purchase businesses.

“China Area,” “Mekong Area” and “Malay Area” consist of the businesses which provide financial services focus on the needs from individual customers of each area and member shops such as credit card and loan businesses.

(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									
2019									
Reportable Segment									

	Millions of Yen															
	2018															
	Reportable Segment															
	Domestic		Global			Subtotal	Reconciliations ⁽¹²⁾	Total								
Retail	Solutions	China Area	Mekong Area	Malay Area												
Ordinary income ⁽¹⁾																
Ordinary income from customers	¥	175,297	¥	103,817	¥19,462	¥	63,912	¥	40,379	¥	402,867	¥	5,103	¥	407,970	
Intersegment income or transfers		2,006		67,189		1		42		69,238		(69,238)				
Total ordinary income		177,303		171,006		19,463		63,954		40,379		472,105		(64,135)		407,970
Segment profit ⁽¹³⁾	¥	9,223	¥	27,549	¥	6,015	¥	12,507	¥	9,811	¥	65,105	¥	641	¥	65,746
Segment assets		¥3,671,896		¥2,156,871		¥90,723		¥284,069		¥221,390		¥6,424,949		¥(1,572,105)		¥4,852,844
Other items																
Depreciation and amortization	¥	5,654	¥	9,473	¥	643	¥	1,944	¥	865	¥	18,579	¥	642	¥	19,221
Amortization of goodwill		1,408		428								1,836				1,836
Interest income		89,377		1,029		10,930		46,494		8,551		156,381		(220)		156,161
Interest expenses		3,567		1,014		1,231		6,919		6,363		19,094		386		19,480
Provision for possible credit losses		933		18,131		1,632		15,860		10,453		47,009		403		47,412
Increases in tangible and intangible assets		10,048		21,233		428		1,408		1,655		34,772		901		35,673

Thousands of U.S. Dollars

	2019							
	Reportable Segment					Subtotal	Reconciliations ⁽²⁾	Total
	Domestic		Global					
	Retail	Solutions	China Area	Mekong Area	Malay Area			
Ordinary income ⁽¹⁾								
Ordinary income from customers	\$ 1,672,205	\$ 1,015,829	\$176,592	\$ 653,261	\$ 423,915	\$ 3,941,802	\$ 12,812	\$ 3,954,614
Intersegment income or transfers	30,188	621,610	66	229		652,093	(652,093)	
Total ordinary income	1,702,393	1,637,439	176,658	653,490	423,915	4,593,895	(639,281)	3,954,614
Segment profit ⁽³⁾	\$ 101,496	\$ 238,016	\$ 64,310	\$ 126,136	\$ 120,531	\$ 650,489	\$ (18,369)	\$ 632,120
Segment assets	\$36,983,908	\$20,851,327	\$823,082	\$2,671,042	\$2,242,792	\$63,572,151	\$(15,448,300)	\$48,123,851
Other items								
Depreciation and amortization	\$ 58,095	\$ 92,280	\$ 5,188	\$ 17,387	\$ 10,580	\$ 183,530	\$ 4,307	\$ 187,837
Amortization of goodwill	12,674	3,858				16,532		16,532
Interest income	864,397	13,700	95,913	477,801	95,011	1,546,822	(4,230)	1,542,592
Interest expenses	36,791	10,888	10,409	66,999	65,634	190,721	2,492	193,213
Provision for possible credit losses	4,909	193,929	4,369	175,399	86,500	465,106	(2,834)	462,272
Increases in tangible and intangible assets	107,188	156,925	3,117	18,998	18,065	304,293	7,600	311,893

(*)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) Details of the reconciliations are as follows:

(1) A reconciliation to ordinary revenue from customers of ¥1,423 million (\$12,812 thousand) and ¥5,103 million represent ordinary revenue of holding company and others included in consolidation unattributable to any reportable segment for the years ended March 31, 2019 and 2018, respectively.

(2) A reconciliation to segment profit of ¥(2,039) million (\$ (18,369) thousand) and ¥641 million represent the ordinary profits of holding company and others included in consolidation unallocated to any reportable segment and the eliminations of intersegment transactions for the years ended March 31, 2019 and 2018, respectively.

(3) A reconciliation to segment assets of ¥(1,714,916) million (\$ (15,448,300) thousand) and ¥(1,572,105) million represent the corporate assets of holding company and others included in consolidation unallocated to any reportable segment and the eliminations of intersegment transactions for the years ended March 31, 2019 and 2018, respectively.

(*)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^(*)(*)

Millions of Yen			
2019			
Japan	Thailand	Other	Total
¥299,391	¥67,395	¥72,216	¥439,002

Millions of Yen			
2018			
Japan	Thailand	Other	Total
¥283,449	¥60,994	¥63,527	¥407,970

Thousands of U.S. Dollars			
2019			
Japan	Thailand	Other	Total
\$2,696,972	\$607,110	\$650,532	\$3,954,614

(*)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			
2019			
Japan	Thailand	Other	Total
¥33,874	¥2,775	¥2,556	¥39,205

Millions of Yen			
2018			
Japan	Thailand	Other	Total
¥31,882	¥2,788	¥2,308	¥36,978

Thousands of U.S. Dollars			
2019			
Japan	Thailand	Other	Total
\$305,145	\$24,994	\$23,026	\$353,165

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

	Millions of Yen					
	2019					
	Domestic		Global			Total
	Retail	Solutions	China Area	Mekong Area	Malay Area	
Goodwill at March 31, 2019 ^(*)	¥17,877	¥2,184				¥20,061

	Millions of Yen					
	2018					
	Domestic		Global			Total
	Retail	Solutions	China Area	Mekong Area	Malay Area	
Goodwill at March 31, 2018 ^(*)	¥19,284	¥2,612				¥21,896

	Thousands of U.S. Dollars					
	2019					
	Domestic		Global			Total
	Retail	Solutions	China Area	Mekong Area	Malay Area	
Goodwill at March 31, 2019 ^(*)	\$161,044	\$19,671				\$180,715

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

24. SUBSEQUENT EVENTS

Issuance of unsecured bonds

The Company issued unsecured bonds pursuant to the resolution at the Company's Board of Directors' meeting held on April 26, 2019. The key information of the unsecured bonds is summarized as follows:

(i)	(1) Name	5th Unsecured Bonds (with limited inter-bond pari passu clause)
	(2) Total amount of issue	¥30 billion (\$270,246 thousand)
	(3) Interest rate	0.23% per annum
	(4) Issue price	100% of the principal amount of the bonds
	(5) Issue date	May 28, 2019
	(6) Maturity date	May 27, 2022
	(7) Method of redemption	Bullet redemption at maturity Retirement by purchase of the bonds can be made at any time from the day following the closing date.
	(8) Closing date	May 28, 2019
	(9) Use of proceeds	To be applied toward the partial repayment of borrowed money.
(ii)	(1) Name	6th Unsecured Bonds (with limited inter-bond pari passu clause)
	(2) Total amount of issue	¥30 billion (\$270,246 thousand)
	(3) Interest rate	0.35% per annum
	(4) Issue price	100% of the principal amount of the bonds
	(5) Issue date	May 28, 2019
	(6) Maturity date	May 28, 2024
	(7) Method of redemption	Bullet redemption at maturity Retirement by purchase of the bonds can be made at any time from the day following the closing date.
	(8) Closing date	May 28, 2019
	(9) Use of proceeds	To be applied toward the partial repayment of borrowed money.
(iii)	(1) Name	7th Unsecured Bonds (with limited inter-bond pari passu clause)
	(2) Total amount of issue	¥25 billion (\$225,205 thousand)
	(3) Interest rate	0.19% per annum
	(4) Issue price	100% of the principal amount of the bonds
	(5) Issue date	September 20, 2019
	(6) Maturity date	March 20, 2023
	(7) Method of redemption	Bullet redemption at maturity Retirement by purchase of the bonds can be made at any time from the day following the closing date.
	(8) Closing date	September 20, 2019
	(9) Use of proceeds	To be applied toward the partial repayment of borrowed money.
(iv)	(1) Name	8th Unsecured Bonds (with limited inter-bond pari passu clause)
	(2) Total amount of issue	¥25 billion (\$225,205 thousand)
	(3) Interest rate	0.30% per annum
	(4) Issue price	100% of the principal amount of the bonds
	(5) Issue date	September 20, 2019
	(6) Maturity date	September 20, 2024
	(7) Method of redemption	Bullet redemption at maturity Retirement by purchase of the bonds can be made at any time from the day following the closing date.
	(8) Closing date	September 20, 2019
	(9) Use of proceeds	To be applied toward the partial repayment of borrowed money.
(v)	(1) Name	9th Unsecured Bonds (with limited inter-bond pari passu clause)
	(2) Total amount of issue	¥20 billion (\$180,164 thousand)
	(3) Interest rate	0.38% per annum
	(4) Issue price	100% of the principal amount of the bonds
	(5) Issue date	September 20, 2019
	(6) Maturity date	September 18, 2026
	(7) Method of redemption	Bullet redemption at maturity Retirement by purchase of the bonds can be made at any time from the day following the closing date.
	(8) Closing date	September 20, 2019
	(9) Use of proceeds	To be applied toward the partial repayment of borrowed money.

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, 2019, 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, 2019, 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.



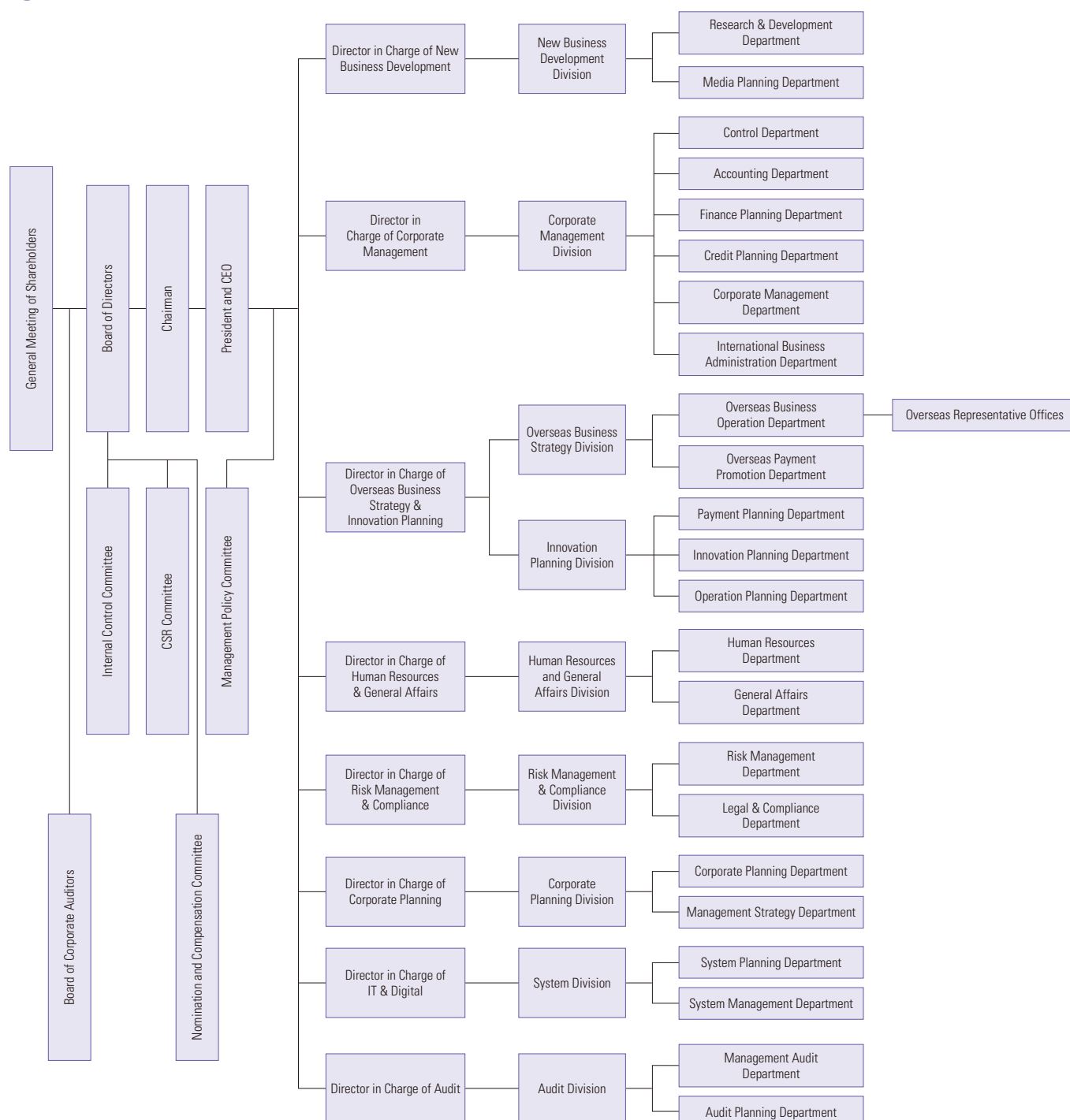
June 25, 2019
(October 31, 2019 as to Note 24)

Company Information

Corporate Data

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

Organization (As of July 1, 2019)



Affiliated Companies

Company Name	Location	Capital (millions of yen)	Main Business ¹	Voting Rights (%) ²	Relationship to the Company			
					Concurrently Serving Officers	Financial Assistance	Business Transactions	Facility Leasing
(Parent) AEON Co., Ltd. ³	Mihama-ku, Chiba	220,007	Pure holding company	Ownership: 49.9 (2.5)	2	—	Outsourcing fees	Rental of office premises
(Consolidated Subsidiaries) ACS Credit Management Co., Ltd.	Mihama-ku, Chiba	600	Solutions	99.5	—	—	Management fees, outsourcing fees	—
AEON S.S. Insurance Co., Ltd.	Chiyoda-ku, Tokyo	280	Solutions	100.0 (10.0)	—	—	Management fees, outsourcing fees	Subletting of office premises
AEON Housing Loan Service Co., Ltd.	Chiyoda-ku, Tokyo	3,340	Solutions	100.0 (49.0)	—	Loans of capital	Management fees, outsourcing fees	Subletting of office premises
AEON Bank, Ltd. ^{4,5}	Koto-ku, Tokyo	51,250	Retail	100.0	7	—	Management fees, outsourcing fees	Subletting of office premises
AEON Insurance Service Co., Ltd.	Mihama-ku, Chiba	250	Retail	99.0 (99.0)	1	—	Management fees, outsourcing fees	Subletting of office premises
AEON Credit Service Co., Ltd. ^{4,5}	Chiyoda-ku, Tokyo	500	Solutions	100.0	6	—	Management fees, outsourcing fees	Subletting of office premises
AEON Product Finance Co., Ltd.	Chiyoda-ku, Tokyo	3,910	Solutions	100.0	1	Loans of capital	Management fees, outsourcing fees	Subletting of office premises
ACS Leasing Co., Ltd.	Chiyoda-ku, Tokyo	250	Solutions	100.0 (100.0)	—	Loans of capital	Management fees, outsourcing fees	—
AEON Credit Service (Asia) Co., Ltd. ⁶	Hong Kong	HKD 269 million	China Area	52.8 (52.8)	1	—	Management fees	—
AEON Thana Sinsap (Thailand) Plc. ^{4,7}	Thailand	THB 250 million	Mekong Area	54.3 (19.2)	1	—	Management fees	—
AEON Credit Service (M) Berhad ^{6,8}	Malaysia	MYR 534 million	Malay Area	62.6	—	—	Management fees	—
AEON Credit Service (Taiwan) Co., Ltd.	Taiwan	TWD 22 million	China Area	100.0 (7.1)	—	—	—	—
AEON Credit Card (Taiwan) Co., Ltd.	Taiwan	TWD 615 million	China Area	100.0 (100.0)	—	—	—	—
AEON Information Service (Shenzhen) Co., Ltd.	Shenzhen, China	RMB 2 million	China Area	100.0 (50.0)	—	—	—	—
ACS Capital Corporation Ltd.	Thailand	THB 30 million	Holding Company or Other	29.0 (47.5)	—	—	Management fees	—
PT. AEON Credit Service Indonesia	Indonesia	IDR 200,400 million	Malay Area	85.0 (10.4)	—	—	Management fees	—
ACS Servicing (Thailand) Co., Ltd.	Thailand	THB 148 million	Mekong Area	100.0 (100.0)	—	—	Management fees	—
AEON Credit Service Systems (Philippines) Inc.	Philippines	PHP 300 million	Holding Company or Other	100.0 (10.0)	1	—	—	—
ACS Trading Vietnam Co., Ltd.	Vietnam	VND 50,000 million	Mekong Area	100.0 (60.0)	—	—	Management fees	—
AEON Insurance Brokers (HK) Ltd.	Hong Kong	HKD 1 million	China Area	100.0 (100.0)	—	—	—	—
AEON Micro Finance (Shenyang) Co., Ltd.	Shenyang, China	HKD 123 million	China Area	100.0 (100.0)	—	—	—	—
AEON Credit Service India Pvt. Ltd.	India	INR 2,500 million	Malay Area	100.0 (7.3)	—	—	—	—
AEON Specialized Bank (Cambodia) Plc.	Cambodia	USD 20 million	Mekong Area	100.0 (50.0)	1	—	Management fees	—
AEON Financial Service (Hong Kong) Co., Ltd. ⁵	Hong Kong	RMB 740 million	Holding Company or Other	100.0	1	—	Management fees	Subletting of office premises
AEON Micro Finance (Tianjin) Co., Ltd.	Tianjin, China	RMB 100 million	China Area	100.0 (100.0)	—	—	—	—
AEON Leasing Service (Lao) Co., Ltd.	Laos	LAK 28,000 million	Mekong Area	100.0 (100.0)	—	—	—	—
AEON Credit Service (Philippines) Inc.	Philippines	PHP 390 million	Malay Area	78.9 (5.3)	—	—	Management fees	—
AEON Microfinance (Myanmar) Co., Ltd.	Myanmar	MMK 8,259 million	Mekong Area	100.0 (100.0)	—	—	Management fees	—
AEON Insurance Service (Thailand) Co., Ltd.	Thailand	THB 100 million	Mekong Area	100.0 (100.0)	—	—	Management fees	—
AEON Micro Finance (Shenzhen) Co., Ltd.	Shenzhen, China	RMB 150 million	China Area	100.0 (100.0)	—	—	—	—
ATS Rabbit Special Purpose Vehicle Co., Ltd.	Thailand	THB 0 million	Mekong Area	48.7 (48.7)	—	—	—	—
Horizon Master Trust (AEON 2006-1)	Hong Kong	—	China Area	—	—	—	—	—
(Equity-Method Affiliate) Fujitsu Credit Service Systems (Tianjin) Co., Ltd.	Tianjin, China	RMB 20 million	Holding Company or Other	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

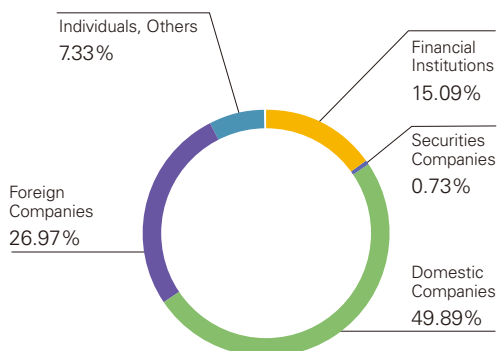
Basic Share Information

(As of March 31, 2019)

Stock Listing	Tokyo Stock Exchange
Industry Sector	Other Financing Business
Securities Code	8570
Share Unit	100
Fiscal Year	April 1 to March 31 of the following year
Dividend Record Date	March 31 (interim dividend: September 30)
Authorized Shares	540,000,000
Issued Shares	225,510,128
Shareholders	13,086

Shareholding Ratio by Type of Shareholder

(As of March 31, 2019)

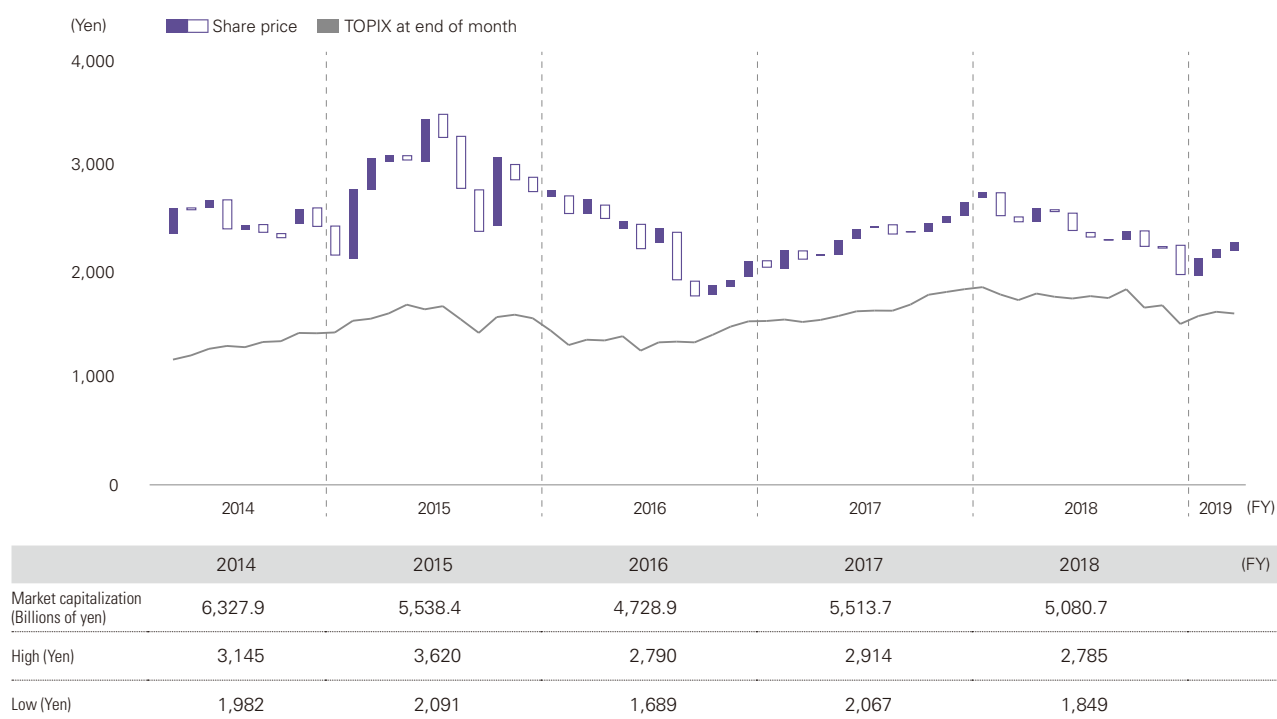


Major Shareholders (As of March 31, 2019)

Shareholder Name	Shares Held (thousands)	Percentage of Total Shares Held (Excluding Treasury Stock) (%)
AEON Co., Ltd.	102,166	47.35
State Street Bank and Trust Company 505223	9,421	4.37
The MasterTrust Bank of Japan, Ltd. (Trust Account)	7,032	3.26
State Street Bank and Trust Company 505001	6,826	3.16
Japan Trustee Services Bank, Ltd. (Trust Account)	4,900	2.27
The Chase Manhattan Bank, Ltd 385036	2,929	1.36
Maxvalu Nishinihon Co., Ltd.	2,646	1.23
Japan Trustee Services Bank, Ltd. (Trust Account 5)	2,478	1.15
The Bank of New York Mellon 140044	2,255	1.05
SSBTC CLIENT OMNIBUS ACCOUNT	1,997	0.93

Notes: In addition to the above, the Company holds 9,732,000 shares of treasury stock.

Share Price and Tokyo Stock Price Index (TOPIX)

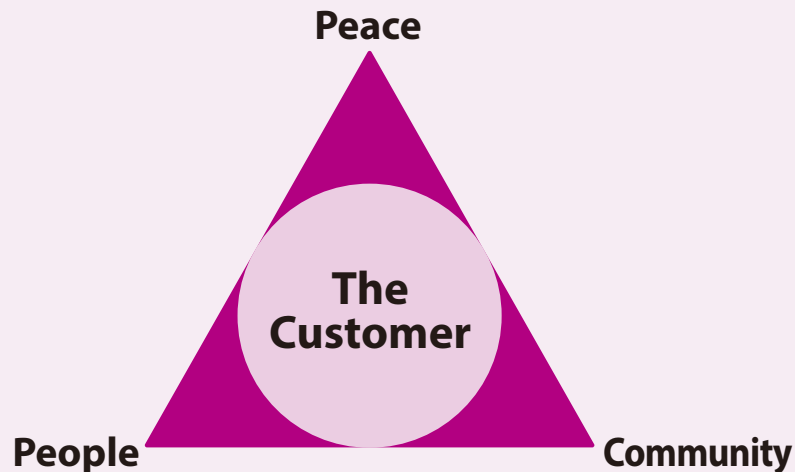


About the AEON Group

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/>