

Financial Section and Company Information

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Note: Starting from the fiscal year under review, the fiscal year-end date has changed from the end of March to the end of February. Thus, fiscal 2019 covers the 11-month period of April 1, 2019 to February 29, 2020 and the results therein are compared with the 12-month period of fiscal 2018.

In the Domestic Business, AEON Credit Service Co., Ltd. and the other three companies have changed their accounting period from the end of March to the end of February.

Fiscal 2019 (April 1, 2019–February 29, 2020) will be settled for 11 months. AEON Bank, Ltd. has a fiscal year end in March. There is no change as it is on the last day, but the figures to be incorporated into the consolidated financial results are for fiscal 2019 (April 1, 2019–February 29, 2020) is 11 months.

In the international business, there are no changes in the periods of 2019 and 2018, and both figures are for the local 12 months.

11-Year Summary

Former AEON Credit Service Co., Ltd. (current AEON Financial Service Co., Ltd.)	2009	2010	2011	2012¹
Consolidated cardholders (millions)				
Total	26.53	28.07	29.76	31.85
Domestic	19.05	20.00	21.01	22.24
For the year (millions of yen)				
Operating revenues	172,430	169,191	169,853	205,972
Operating expenses	151,869	148,473	145,572	172,892
Operating income	20,560	20,717	24,280	33,080
Ordinary income	20,424	20,823	24,268	33,367
Profit attributable to owners of parent	197	9,540	8,988	13,616
Per share information (yen)				
Book value per share	994.42	1,015.17	1,012.52	1,235.28
Earnings per share	1.26	60.83	57.30	88.12
Diluted earnings per share	1.26	—	57.30	78.25
At year-end (millions of yen)				
Operating loans	423,324	293,427	255,704	421,196
Operating loans including securitized receivables	476,651	434,735	488,549	518,908
Accounts receivable—installment	300,782	384,261	427,634	507,315
Accounts receivable—installment including securitized receivables	443,290	504,001	552,749	740,027
Total assets	866,364	901,578	907,658	2,534,208
Net assets	176,717	180,199	181,852	258,872
Key indicators (%)				
Operating income ratio	11.9	12.2	14.3	16.1
Equity ratio (domestic standard)	18.0	17.7	17.5	9.1
Return on assets	2.4	2.4	2.7	1.9
Return on equity	0.1	6.1	5.7	7.0
Dividends				
Dividend per share (yen)	40	40	45	50
Payout ratio (%)	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	2019 (FY)
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Consolidated cardholders (millions)

Total	33.90	35.67	37.22	38.94	40.64	42.69	45.27
Domestic	23.45	24.64	25.88	26.92	27.75	28.40	28.89

For the year (millions of yen)

Operating income	286,070	329,046	359,651	375,166	407,970	439,001	457,280
Operating expenses	244,978	275,965	300,270	313,559	342,223	368,830	392,209
Ordinary profit	41,092	53,080	59,380	61,606	65,746	70,171	65,070
Profit attributable to owners of parent	20,743	30,491	35,785	39,454	38,677	39,408	34,149

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	1,823.05
Earnings per share	104.62	152.55	180.09	189.75	179.29	182.64	158.25
Diluted earnings per share	99.49	152.04	180.00	183.96	170.02	173.2	154.15

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	2,535,358
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	4,153,294
Accounts receivable—installment	957,403	1,038,221	1,022,387	1,182,193	1,294,632	1,453,160	1,543,135
Accounts receivable—installment including securitized receivables	1,085,969	1,185,191	1,314,385	1,523,981	1,779,143	1,970,668	2,125,629
Total assets	3,163,117	3,589,495	3,745,546	4,187,263	4,852,844	5,342,228	5,781,370
Net assets	307,291	324,948	340,886	401,170	437,782	448,705	459,075

Key indicators (%)

Ordinary profit ratio	14.4	16.1	16.5	16.4	16.1	16.0	14.2
Equity ratio (domestic standard)	8.9	8.1	7.4	8.5	8.3	7.3	6.8
Return on assets	1.4	1.6	1.6	1.6	1.5	1.4	1.2
Return on equity	8.2	11.2	12.7	12.4	10.8	10.5	8.8

Dividends

Dividend per share (yen)	60	60	66	68	68	68	68
Payout ratio (%)	57.4	39.3	36.6	35.8	37.9	37.2	43.0

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

Note: Starting from the fiscal year under review, the Group has changed the end its consolidated fiscal year from the end of March to the end of February. As a result, fiscal 2019 refers to the 11 months from April 1, 2019 to February 29, 2020 for some domestic subsidiaries. Therefore, year-on-year comparisons are calculated by dividing the number with the 12-month results of the previous consolidated fiscal year.

Summary of Fiscal 2019 Results

As a financial services company with a close relationship with customers in Asia, AEON Financial Service Co., Ltd. (hereinafter "AFS") has set a medium-to long-term goal to become the number one retail financial services company in Asia.

Over the consolidated fiscal year, AFS has been working on management strategies to promote digital shifts, respond to customer needs, and accelerate growth overseas.

In Japan, AFS made efforts in line with the government's promotion of cashless transactions to help deal with the consumption tax hike that took place in October 2019, working on card membership acquisition measures, focusing on expanding its customer base, and promoting the usage of AEON cards and debit cards both inside and outside the AEON Group. Additionally, card shopping transaction volume grew as a result of campaigns promoting the use of AEON Cards as a primary credit card, that include encouraging utility payment withdrawals via the card. AEON Bank also promoted cross-usage of AEON Cards by putting forth proposals for asset management services such as investment trust and foreign currency deposits, deepening relationships among AEON Card cardholders.

Overseas, AFS expanded its customer base by utilizing smartphones and other digital tools in addition to improving efficiency and refining operations in sales, screening, and collection.

As a result, consolidated operating revenue increased 4.3% year on year, to a record high of ¥457.2 billion. Consolidated operating profit decreased 7.1% year on year, to ¥65.0 billion. Ordinary profit was down 6.2% year on year, to ¥65.7 billion, and profit attributable to owners of parent decreased 13.3% year on year, to ¥34.1 billion. Domestically, this was due to increased sales promotion expenses for promoting cashless payments. Overseas, the application of IFRS No. 9 "Financial Instruments" called for adjustments of consolidated results at AFS from the previous fiscal year, and affected some regional subsidiaries as it was deemed necessary to record costs for bad debt expected to appear for normal loans in addition to doing so for delinquent loans. As a result, the provision of allowance for doubtful accounts increased, particularly in Thailand, Malaysia, and Hong Kong. Furthermore, improper accounting was discovered in a local subsidiary in the Philippines.

Consolidated Operating Results

(Millions of Yen)

	Fiscal 2015	Fiscal 2016	Fiscal 2017	Fiscal 2018	Fiscal 2019
Operating revenue* ¹	359,651	375,166	407,970	439,001	457,280
Operating profit* ²	59,380	61,606	65,746	70,171	65,070
Profit attributable to owners of parent	35,785	39,454	38,677	39,408	34,149

*1 Ordinary revenue from fiscal 2015–fiscal 2018.

*2 Ordinary profit from fiscal 2015–fiscal 2018.

Segment Results (Fiscal 2019)

(Millions of Yen)

	Domestic Business Total*			Global Business Total*			Total	
	Retail	Solutions		China Area	Mekong Area	Malay Area		
Operating revenue	302,061	185,680	182,360	154,947	18,910	84,120	51,916	457,280
Operating expenses	265,635	170,705	158,656	125,635	12,976	67,059	45,599	392,209
Operating profit	36,426	14,974	23,704	29,311	5,934	17,060	6,316	65,070

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

Consolidated Transaction Volume

(Millions of Yen)

	Fiscal 2015	Fiscal 2016	Fiscal 2017	Fiscal 2018	Fiscal 2019
Credit card purchase contracts	4,315,454	4,711,676	5,191,707	5,618,378	5,669,677
Domestic	4,104,792	4,515,763	4,955,492	5,358,216	5,378,384
Overseas	210,662	195,913	236,215	260,161	291,292
Hire purchase contracts	296,112	315,497	334,790	346,550	351,099
Cash advances	469,741	475,851	508,336	540,997	515,070

- Transaction volume for credit card purchase contracts increased 0.9% year on year due to a variety of efforts aimed at expanding our customer base. Domestically, we focused on young people and those living in urban areas by issuing cards with designs featuring popular characters and cards partnered with commercial facilities. Overseas efforts included issuance of cards in Thailand with special benefits at sports gyms, aimed at health-conscious people. In addition, we implemented promotions to encourage usage both in Japan and overseas that include point-related sales promotions and tie-ups planned in coordination with partners.

- Transaction volume of hire purchase contracts increased 1.3% year on year due to increased transactions for auto loans in Thailand and Myanmar.
- Transaction volume for cash advances decreased 4.8% year on year due to the 11-month fiscal year resulting from the change of the fiscal year-end from the end of March to the end of February. However, when calculated to compensate for this change, transaction volume actually increased 2.5%

Operating Revenue*1

(Millions of Yen)

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

(Millions of Yen)

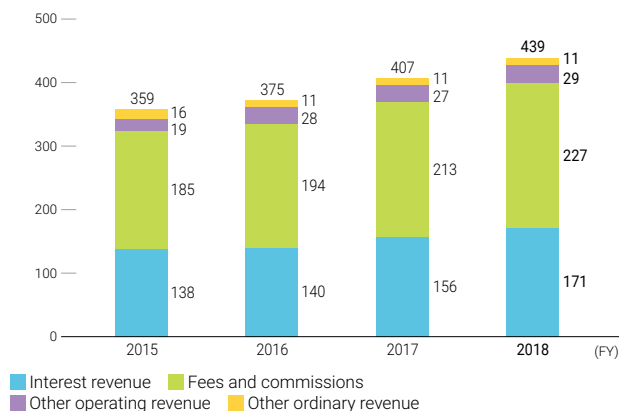
	Fiscal 2018*2	Fiscal 2019*2
Total operating revenue	438,441	457,280
Credit card purchase contracts	125,916	125,700
Hire purchase contracts	40,032	41,914
Financing revenue	146,365	149,815
Gain on bad debts recovered	7,604	9,604
Financial revenue	28,251	30,088
Fees and commissions	60,897	59,565
Other	29,372	40,591

*1 Ordinary revenue is used from fiscal 2015–fiscal 2018.

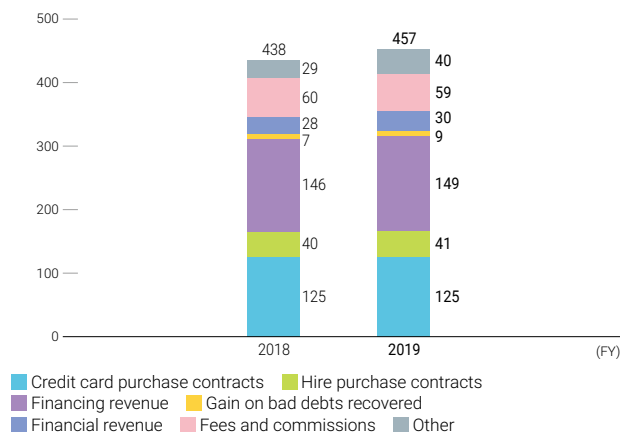
*2 Changes have been made to figures to compensate for an organizational change that took place in fiscal 2019. These changes have been applied to figures displayed for 2018.

- Operating revenue increased 4.3% year on year due to the expansion of business operations in Japan and overseas, as well as increased revenue from securitization of receivables.
- Revenue from credit card purchase contracts only decreased slightly, by 0.2% year on year, as a result of high transaction volume and despite the change in the fiscal-year end, which resulted from calculations for an 11-month fiscal year.
- Revenue from hire purchase contracts increased 4.7% year on year with the increase of transactions for auto loans in Thailand and Myanmar.
- Financing revenue increased 2.4% year on year due to a steady increase in personal loans overseas.
- Financial revenue increased 6.5% year on year, due to increased revenue from interest and dividends on securities from banking business and revenue from sales of securities.
- Other revenue increased 38.2% year on year, due to increased revenue from the securitization of receivables.

(Billions of yen)



(Billions of yen)



Operating expenses*1

(Millions of Yen)

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

(Millions of Yen)

	Fiscal 2018*2	Fiscal 2019*2
Total operating expenses	368,419	392,209
Financial expenses	22,741	24,473
Fees and commissions payments	10,122	9,004
Selling, general and administrative expenses	331,982	354,977
Other	3,572	3,753

*1 Ordinary expenses are used from fiscal 2015–fiscal 2018.

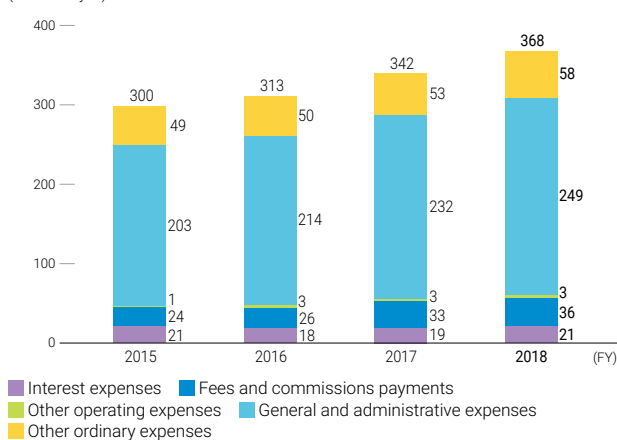
*2 Changes have been made to figures to compensate for an organizational change that took place in fiscal 2019. These changes have been applied to figures displayed for 2018.

- Operating expenses increased 6.5% year on year as a result of expenses related to cashless promotions for Domestic Business' operations, increased expenses related to bad debt in Global Business' operations, and expenses related to improper accounting at a local subsidiary in the Philippines.
- Financial expenses increased 7.6% year on year due to an increase of interest-bearing debt related to expanding

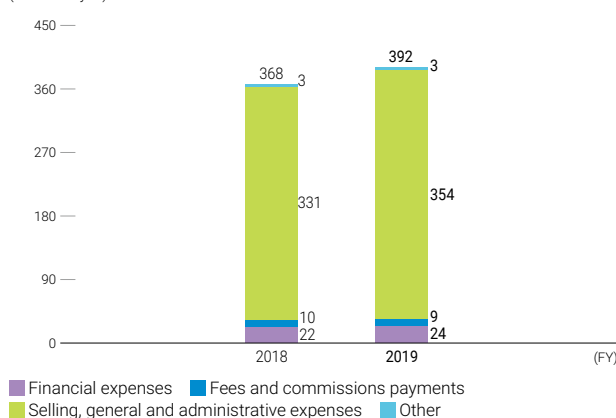
overseas business operations, as well as a drop in domestic funding yields stemming from a decline in interest rates for AEON Bank deposits.

- Selling, general and administrative expenses increased 6.9% year on year due to enhanced sales promotions in Japan and overseas, which led to higher advertising and point-related costs, in addition to increases in bad debt allowances overseas.

(Billions of yen)



(Billions of yen)


Operating Profit and Profit Attributable to Owners of Parent

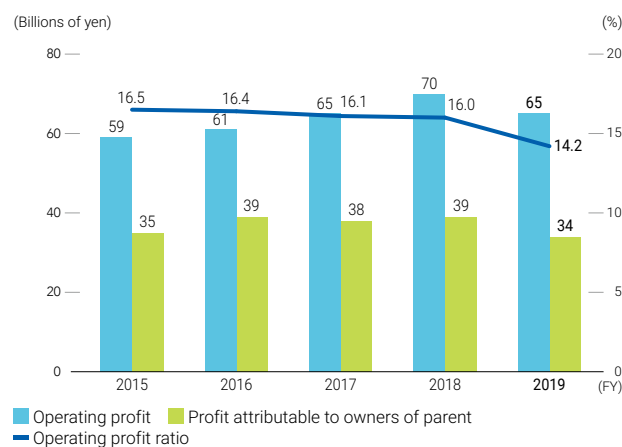
(Millions of Yen)

	Fiscal 2015	Fiscal 2016	Fiscal 2017	Fiscal 2018	Fiscal 2019
Operating Profit*1	59,380	61,606	65,746	70,171	65,070
Operating Profit Ratio*2	16.5%	16.4%	16.1%	16.0%	14.2%
Income before income taxes	59,250	59,665	66,571	69,178	64,530
Total income taxes	14,787	12,065	17,697	17,998	19,535
Profit	44,463	47,599	48,873	51,180	44,994
Profit attributable to non-controlling interests	8,678	8,145	10,196	11,771	10,844
Profit attributable to owners of parent	35,785	39,454	38,677	39,408	34,149

*1 Ordinary profit is used from fiscal 2015–fiscal 2018.

*2 Ordinary profit ratio is used from fiscal 2015–fiscal 2018.

- Operating profit decreased 7.1% year on year. While profit was positively impacted by the additional securitization of receivables to offset the cost of domestic sales promotions, there was an overall decrease due to bad debt allowances overseas exceeding business expansion.
- Profit attributable to owners of parent decreased 13.3% year on year due to an increase in extraordinary losses from recording impairment losses and losses on disposal for non-current assets associated with the replacement of ATMs and other actions. Overseas, profit attributable to non-controlling interests decreased due to the stagnant profit growth of the Group's three subsidiaries listed on overseas stock exchanges.



Finance Receivables*

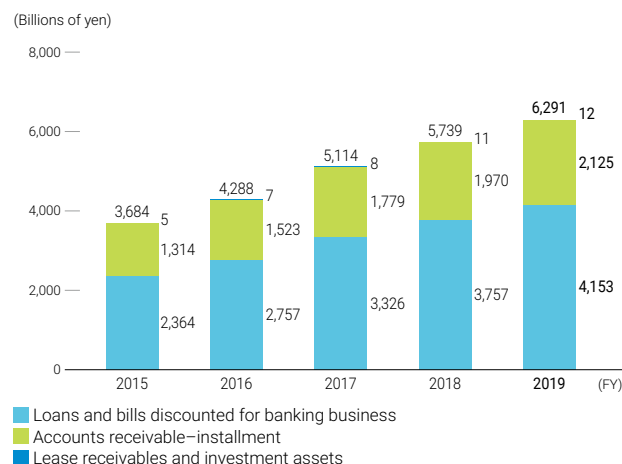
(Millions of Yen)

	March 31, 2016	March 31, 2017	March 31, 2018	March 31, 2019	March 31, 2020
Finance receivables	3,684,236	4,288,519	5,114,222	5,739,721	6,291,706
Loans and bills discounted for banking business	2,364,444	2,757,434	3,326,572	3,757,628	4,153,294
Accounts receivable–installment	1,314,385	1,523,981	1,779,143	1,970,668	2,125,629
Lease receivables and investment assets	5,405	7,103	8,506	11,425	12,782

*1 Figures include off-balance sheet receivables

*2 Figures of loans and bills discounted for banking business represent operating loans and loans and bills discounted for banking business.

- Loans and bills discounted for banking business increased ¥395.6 billion year on year. The main factor in this increase domestically was housing loans, whereas increased transactions for unsecured loans in Thailand and Malaysia played a major part overseas.
- Accounts receivable–installment increased ¥154.9 billion year on year due to an increase in auto loan transactions in Thailand and Malaysia in addition to increased card shopping in Japan



Net Assets and Equity Ratio

(Millions of Yen)

	March 31, 2016	March 31, 2017	March 31, 2018	March 31, 2019	March 31, 2020
Net assets	340,886	401,170	437,782	448,705	459,075
Equity ratio	7.4%	8.5%	8.3%	7.3%	6.8%

- Net assets increased ¥10.3 billion year on year due to the negative impact of cash dividends and other factors being offset from recording profit attributable to owners of parent.
- Shareholders' equity ratio decreased 0.4 points due to a year on year increase of finance receivables amounting to ¥179.7 billion centered in loans and bills discounted for banking business and accounts receivable–installment.



Five-Year Performance Summary

AEON Financial Service Co., Ltd. and Subsidiaries

Year Ended February 29, 2020 and Years Ended March 31, 2019 through 2016

	Millions of Yen		Thousands of U.S. Dollars ^(*)
	2020 ^(*)	2019 ^(*)	2020
For the Year:			
Total operating revenues	¥457,280	¥438,441	\$4,177,982
Total operating expenses	392,210	368,420	3,583,461
Income before income taxes	64,530	69,178	589,587
Net income attributable to owners of the parent	34,150	39,408	312,013
		Yen	U.S. Dollars ^(*)
Per Share Data:			
Net assets	¥1,823.05	¥1,764.05	16.66
Basic net income	158.25	182.64	1.45
Diluted net income	154.15	173.20	1.41
		Millions of Yen	Thousands of U.S. Dollars ^(*)
At Year-End:			
Finance receivables—net of allowance for possible credit losses	¥2,287,047	¥2,197,819	\$20,895,817
Loans in banking business—net of allowance for possible credit losses	1,672,021	1,582,322	15,276,568
Property and equipment	45,303	39,205	413,911
Total assets	5,781,371	5,254,080	52,822,027
Total liabilities	5,322,296	4,805,375	48,627,639
Total equity	459,075	448,705	4,194,388
		Percentage	
Ratios:			
Equity ratio	6.8%	7.2%	
Return on assets	0.6	0.8	
Return on equity	8.8	10.5	

	Millions of Yen		
	2018 ^(*)	2017 ^(*)	2016 ^(*)
For the Year:			
Total income	¥409,426	¥375,272	¥360,932
Total expenses	342,854	315,606	301,681
Income before income taxes	66,572	59,666	59,251
Net income attributable to owners of the parent	38,678	39,454	35,785
		Yen	
Per Share Data:			
Net assets	¥1,714.92	¥1,604.79	¥1,465.31
Basic net income	179.29	189.75	180.09
Diluted net income	170.02	183.96	180.00
		Millions of Yen	
At Year-End:			
Loans and bills discounted—net of allowance for possible credit losses	¥2,238,952	¥1,836,903	¥1,646,425
Installment sales receivables—net of allowance for possible credit losses	1,268,584	1,159,839	1,000,574
Property and equipment	36,978	38,230	36,530
Total assets	4,852,844	4,187,264	3,745,546
Total liabilities	4,415,062	3,786,094	3,404,660
Total equity	437,782	401,170	340,886
		Percentage	
Ratios:			
Equity ratio	7.6%	8.3%	7.8%
Return on assets	0.9	1.0	1.0
Return on equity	10.8	12.4	12.7

(*) 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 ¥109.45 to U.S.\$1, the exchange rate as at February 29, 2020. 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 Group has prepared the consolidated financial statements for the fiscal years ended March 31, 2018, 2017 and 2016 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. Effective from April 1, 2019, AEON Financial Service Co., Ltd. (the "Company") has reorganized its business divisions and is no longer a bank holding company. Accordingly, the Company and its subsidiaries (the "Group") have prepared the consolidated financial statements for the fiscal year ended February 29, 2020 in accordance with the "Ordinance on the Terminology, Forms and Preparation Methods of Consolidated Financial Statements" (Ordinance of the Ministry of Finance No. 28 of 1976), which prescribes classifications of assets and liabilities and revenues and expenses. The financial results for the fiscal year ended March 31, 2019 are reclassified on the modified basis of measurement.

(*) Since the Group has changed its consolidated fiscal year end to the last day of February, the consolidated fiscal year ended February 29, 2020 comprises 11 months from April 1, 2019 to February 29, 2020.

Financial Review

AEON Financial Service Co., Ltd. and Subsidiaries

Year Ended February 29, 2020 and Year Ended March 31, 2019

RESULTS OF OPERATIONS

	Millions of Yen			
	2020	2019	Amount Change	Percentage Change
Operating Revenues:				
Credit card purchase contracts	¥ 125,700	¥ 125,917	¥ (217)	(0.2)%
Hire purchase contracts	41,915	40,032	1,883	4.7
Loan contracts	149,815	146,366	3,449	2.4
Financial revenue	30,088	28,252	1,836	6.5
Fees and commissions	59,566	60,897	(1,331)	(2.2)
Gain on bad debts recovered	9,604	7,605	1,999	26.3
Other operating revenues	40,592	29,372	11,220	38.2
Total operating revenues	457,280	438,441	18,839	4.3
Operating Expenses:				
Financial costs	(24,473)	(22,742)	(1,731)	7.6
Fees and commissions	(9,005)	(10,123)	1,118	(11.0)
Selling, general and administrative expenses	(289,649)	(277,957)	(11,692)	4.2
Provision for possible credit losses and write-off of bad debts	(65,329)	(54,025)	(11,304)	20.9
Other operating expenses	(3,754)	(3,573)	(181)	5.1
Total operating expenses	(392,210)	(368,420)	(23,790)	6.5
Operating Income	¥ 65,070	¥ 70,021	¥ (4,951)	(7.1)%

Consolidated Financial Summary

The Company has set a medium to long term goal to become the "No. 1 retail financial services company in Asia" that enriches the customers' daily lives as the most familiar financial services company in Asia.

For the year ended February 29, 2020, the Group has engaged in "full implementation of digital technologies," "response to the needs of customers" and "acceleration of growth of overseas businesses" as the management strategy.

In the domestic segment, in line with the government's promotion of cashless settlement toward the consumption tax hike from October 2019, the Group worked on measures to acquire new cardholders, expanded its customer base and promoted use of AEON Cards and AEON Debit Cards inside and outside the AEON Group. In addition, as a result of promoting the usage of AEON Cards as the customers' main cards by implementing various campaigns such as setting of automatic utilities payments, the total transaction value of credit card purchases increased for the current fiscal year. AEON Bank Ltd. promoted cross-usage of its investment trusts, foreign currency deposits and asset accumulation services to deepen transactions with AEON Card holders.

In the global segment, the Group worked to expand its customer base by utilizing digital tools such as smartphones,

and to improve the efficiency and streamline operations in marketing, credit review and collection services.

Since the consolidated fiscal year end has been changed from March 31 to the last day of February, the consolidated fiscal year of some domestic consolidated subsidiaries comprises 11 months from April 1, 2019 to February 29, 2020, which is compared against the 12-month period of the fiscal year ended March 31, 2019. As a result, the consolidated operating revenues of the Group increased by 4.3% to a record high of ¥457,280 million (\$4,177,982 thousand) from the fiscal year ended March 31, 2019. In the domestic segment, sales promotion expenses increased due to measures to promote cashless settlements. In the global segment, since some overseas subsidiaries adopted IFRS 9 "Financial Instruments" in the fiscal year ended March 31, 2019, it became necessary to recognize provision for possible credit losses on performing loans and receivables in addition to past due loans and receivables. The provision for possible credit losses increased mainly in Thailand, Malaysia and Hong Kong. Also, there was an adverse effect of inappropriate accounting treatment identified at a local subsidiary in Philippines. Accordingly, operating income decreased by 7.1% to ¥65,070 million (\$594,521 thousand), as compared to the fiscal year ended March 31, 2019.

Finance Receivables and Loans in Banking Business

Millions of Yen

	2020	2019	Amount Change	Percentage Change
Installment sales receivables:				
Credit card purchase contracts	¥ 966,315	¥ 912,110	¥ 54,205	5.9%
Hire purchase contracts	576,821	541,050	35,771	6.6
Subtotal	1,543,136	1,453,160	89,976	6.2
Operating loan receivables	855,410	844,751	10,659	1.3
Allowance for possible credit losses	(111,499)	(100,092)	(11,407)	11.4
Total installment sales receivables	¥2,287,047	¥2,197,819	¥ 89,228	4.1%

Millions of Yen

	2020	2019	Amount Change	Percentage Change
Loans and bills discounted	¥1,674,786	¥1,584,990	¥89,796	5.7%
Allowance for possible credit losses	(2,765)	(2,668)	(97)	3.6
Total loans in banking business	¥1,672,021	¥1,582,322	¥89,699	5.7%

Cash flows

For the year ended February 29, 2020, the net cash provided by operating activities amounted to ¥352,218 million (\$3,218,070 thousand), the net cash used in investing activities amounted to ¥177,439 million (\$1,621,187 thousand) and the net cash used in financing activities amounted to ¥89,041

million (\$813,531 thousand). As a result of the above, the balance of cash and cash equivalents as at February 29, 2020 increased by ¥85,478 million (\$780,978 thousand) to ¥713,407 million (\$6,518,114 thousand) as compared to that as at March 31, 2019.

BUSINESS PERFORMANCE BY REPORTABLE SEGMENT

Total Assets and Ordinary Income by Reportable Segment

Millions of Yen

	2020	2019	Amount Change	Percentage Change
Total Assets:				
Retail	¥4,341,526	¥4,095,401	¥246,125	6.0%
Solutions	903,189	887,580	15,609	1.8
China Area	82,247	91,370	(9,123)	(10.0)
Mekong Area	324,622	296,513	28,109	9.5
Malay Area	293,102	248,972	44,130	17.7
Reconciliations	(163,315)	(365,756)	202,441	(55.3)
Total assets	¥5,781,371	¥5,254,080	¥527,291	10.0%
Operating Revenues ^(*) :				
Retail	¥ 185,681	¥ 188,668	¥ (2,987)	(1.6)%
Solutions	182,360	181,736	624	0.3
China Area	18,910	19,590	(680)	(3.5)
Mekong Area	84,121	72,531	11,590	16.0
Malay Area	51,916	47,059	4,857	10.3
Reconciliations	(65,708)	(71,143)	5,435	(7.6)
Total operating revenues	¥ 457,280	¥ 438,441	¥ 18,839	4.3%
Segment Profits:				
Retail	¥ 14,975	¥ 11,316	¥ 3,659	32.3%
Solutions	23,704	26,403	(2,699)	(10.2)
China Area	5,934	7,126	(1,192)	(16.7)
Mekong Area	17,061	13,990	3,071	22.0
Malay Area	6,316	13,380	(7,064)	(52.8)
Reconciliations	(2,920)	(2,194)	(726)	33.1
Total segment profits	¥ 65,070	¥ 70,021	¥ (4,951)	(7.1)%

(*) For segment revenues, the Group uses operating revenues instead of sales, which are used by normal commercial companies.

Consolidated Balance Sheets

AEON Financial Service Co., Ltd. and Subsidiaries

February 29, 2020 and March 31, 2019

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
ASSETS			
Current assets:			
Cash and cash equivalents (Note 14)	¥ 713,407	¥ 627,929	\$ 6,518,114
Deposits with banks (Notes 5 and 14)	49,485	16,573	452,119
Call loans (Note 14)	53,773	30,497	491,305
Finance receivables—net of allowance for possible credit losses (Notes 4, 5 and 14)	2,287,047	2,197,819	20,895,817
Lease receivables and investment assets (Note 13)	12,782	11,425	116,787
Loans in banking business—net of allowance for possible credit losses (Notes 4, 14, 16 and 20)	1,672,021	1,582,322	15,276,568
Securities in banking business (Notes 3, 5 and 14)	447,229	324,947	4,086,152
Monetary claims bought (Notes 3 and 14)	14,824	13,316	135,438
Money held in trust (Notes 3 and 14)	50,309	22,406	459,652
Other current assets (Note 14)	177,832	148,435	1,624,777
Total current assets	5,478,709	4,975,669	50,056,729
Property and equipment:			
Structures	23,617	13,609	215,778
Equipment	82,130	78,764	750,392
Construction in progress	152	343	1,385
Other property and equipment	604	160	5,515
Total	106,503	92,876	973,070
Accumulated depreciation	(61,200)	(53,671)	(559,159)
Net property and equipment (Note 21)	45,303	39,205	413,911
Investments and other assets:			
Investment securities (Notes 3 and 14)	18,230	19,737	166,561
Deferred tax assets (Note 12)	39,141	34,898	357,620
Guarantee money deposits (Note 5)	55,974	56,116	511,413
Goodwill (Note 21)	18,379	20,061	167,921
Other assets	125,635	108,394	1,147,872
Total investments and other assets	257,359	239,206	2,351,387
Total assets	5,781,371	5,254,080	52,822,027
LIABILITIES AND EQUITY			
Current liabilities:			
Accounts payable (Note 14)	¥ 305,859	¥ 328,968	\$ 2,794,505
Deposits in banking business (Note 14)	3,790,241	3,469,134	34,629,885
Short-term borrowings (Notes 5, 6 and 14)	139,386	161,745	1,273,514
Commercial paper (Notes 6 and 14)	160,151	102,080	1,463,236
Current portion of long-term borrowings (Notes 6 and 14)	106,652	51,143	974,435
Current portion of bonds (Notes 6 and 14)	45,254	50,522	413,465
Current portion of convertible bonds (Notes 6 and 14)	—	29,946	—
Allowance for point program	20,713	17,544	189,250
Other current liabilities (Note 6)	125,363	114,445	1,145,386
Total current liabilities	4,693,619	4,325,527	42,883,676
Non-current liabilities:			
Bonds (Notes 6 and 14)	252,853	92,621	2,310,215
Long-term borrowings (Notes 5, 6 and 14)	316,006	331,935	2,887,215
Deferred tax liabilities (Note 12)	3,627	3,936	33,135
Allowance for loss on refund of interest received	4,965	4,177	45,365
Other liabilities (Notes 6 and 7)	51,226	47,179	468,033
Total non-current liabilities	628,677	479,848	5,743,963
Total liabilities	5,322,296	4,805,375	48,627,639
Commitments and contingent liabilities (Notes 13, 15 and 16)			
Equity (Notes 8 and 9):			
Common stock—authorized, 540,000,000 shares; issued, 216,010,128 shares in 2020 and 225,510,128 shares in 2019	45,698	45,698	417,526
Capital surplus	120,360	120,214	1,099,683
Stock acquisition rights—552 rights in 2020 and 507 rights in 2019	82	104	749
Retained earnings	230,508	235,414	2,106,059
Treasury stock—at cost, 208,452 shares in 2020 and 9,732,022 shares in 2019	(535)	(24,949)	(4,882)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities (Note 3)	2,913	5,151	26,613
Deferred loss on derivatives under hedge accounting	(4,469)	(1,676)	(40,829)
Foreign currency translation adjustments	(467)	1,472	(4,268)
Accumulated adjustments for retirement benefits (Note 7)	(591)	(680)	(5,403)
Total	393,499	380,748	3,595,248
Non-controlling interests	65,576	67,957	599,140
Total equity	459,075	448,705	4,194,388
Total liabilities and equity	¥5,781,371	¥5,254,080	\$52,822,027

See notes to consolidated financial statements.

Consolidated Statements of Income

AEON Financial Service Co., Ltd. and Subsidiaries

Year Ended February 29, 2020 and Year Ended March 31, 2019

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
Operating revenues:			
Credit card purchase contracts	¥ 125,700	¥ 125,917	\$ 1,148,474
Hire purchase contracts	41,915	40,032	382,958
Loan contracts	149,815	146,366	1,368,801
Financial revenue:			
Interest on loans in banking business	19,013	20,888	173,716
Interest and dividends on securities in banking business	4,618	2,799	42,190
Interest on call loans	975	349	8,907
Interest income	586	599	5,353
Other financial revenue	4,896	3,617	44,738
Total financial revenue	30,088	28,252	274,904
Fees and commissions	59,566	60,897	544,226
Gain on bad debts recovered	9,604	7,605	87,751
Other operating revenues	40,592	29,372	370,868
Total operating revenues (Note 21)	457,280	438,441	4,177,982
Operating expenses:			
Financial costs:			
Interest expenses	(18,687)	(17,053)	(170,733)
Interest on deposits in banking business	(3,210)	(3,775)	(29,327)
Other financial costs	(2,576)	(1,914)	(23,540)
Total financial costs	(24,473)	(22,742)	(223,600)
Fees and commissions	(9,005)	(10,123)	(82,275)
Selling, general and administrative expenses (Note 10)	(289,649)	(277,957)	(2,646,409)
Provision for possible credit losses and write-off of bad debts	(65,329)	(54,025)	(596,880)
Other operating expenses	(3,754)	(3,573)	(34,297)
Total operating expenses	(392,210)	(368,420)	(3,583,461)
Operating income	65,070	70,021	594,521
Non-operating revenues (expenses):			
Dividends income	206	242	1,883
Loss on disposal of non-current assets (Note 11)	(682)	(595)	(6,235)
Impairment loss (Note 21)	(304)	(52)	(2,775)
Other non-operating revenues (expenses)—net (Note 11)	240	(438)	2,193
Total non-operating revenues (expenses)	(540)	(843)	(4,934)
Income before income taxes	64,530	69,178	589,587
Income taxes (Note 12):			
Current	(22,677)	(23,555)	(207,193)
Deferred	3,141	5,557	28,703
Total income taxes	(19,536)	(17,998)	(178,490)
Net income	44,994	51,180	411,097
Net income attributable to non-controlling interests	(10,844)	(11,772)	(99,084)
Net income attributable to owners of the parent	¥ 34,150	¥ 39,408	\$ 312,013
		Millions of Yen	U.S. Dollars
PER SHARE OF COMMON STOCK (Note 19):			
Basic net income	¥158.25	¥182.64	\$1.45
Diluted net income	154.15	173.20	1.41
Cash dividends applicable to the year	68.00	68.00	0.62

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

AEON Financial Service Co., Ltd. and Subsidiaries

Year Ended February 29, 2020 and Year Ended March 31, 2019

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
Net income	¥ 44,994	¥51,180	\$411,097
Other comprehensive income (Note 17):			
Unrealized (loss) gain on available-for-sale securities	(2,953)	2,339	(26,983)
Deferred (loss) gain on derivatives under hedge accounting	(4,838)	426	(44,206)
Foreign currency translation adjustments	(3,235)	1,463	(29,552)
Adjustments for retirement benefits	90	(24)	821
Total other comprehensive income	(10,936)	4,204	(99,920)
Comprehensive income:	¥ 34,058	¥55,384	\$311,177
Total comprehensive income attributable to:			
Owners of the parent	¥ 27,268	¥41,784	\$249,137
Non-controlling interests	6,790	13,600	62,040

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

AEON Financial Service Co., Ltd. and Subsidiaries

Year Ended February 29, 2020 and Year Ended March 31, 2019

	Thousands	Millions of Yen											
		Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income				Total	Non-controlling Interests	Total Equity
							Unrealized Gain on Available-for-sale Securities	Deferred Loss on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Accumulated adjustments for retirement benefits			
Balance, April 1, 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	409,500
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
Net income attributable to owners of the parent				34,150							34,150		34,150
Cash dividends, ¥68 per share				(14,674)							(14,674)		(14,674)
Conversion of convertible bonds	1					1					1		1
Purchase of treasury stock	(1)					(1)					(1)		(1)
Disposal of treasury stock	9,524				(19)	60					41		41
Cancellation of treasury stock (Note 8)	(9,500)				(24,354)	24,354							
Change in the parent's ownership interest arising from transactions with non-controlling interests			146								146	(146)	
Change in scope of consolidation				(9)							(9)		(9)
Net change in the year				(22)			(2,238)	(2,793)	(1,939)	89	(6,903)	(2,235)	(9,138)
Balance, February 29, 2020	215,802	¥45,698	¥120,360	¥ 82	¥230,508	¥ (535)	¥ 2,913	¥(4,469)	¥ (467)	¥(591)	¥393,499	¥ 65,576	¥459,075

	Thousands	Thousands of U.S. Dollars (Note 1)											
		Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income				Total	Non-controlling Interests	Total Equity
							Unrealized Gain on Available-for-sale Securities	Deferred Loss on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Accumulated adjustments for retirement benefits			
Balance, March 31, 2019	215,778	\$417,526	\$1,098,345	\$ 946	\$2,150,880	\$(227,949)	\$ 47,060	\$(15,311)	\$ 13,450	\$(6,210)	\$3,478,737	\$620,898	\$4,099,635
Net income attributable to owners of the parent				312,013							312,013		312,013
Cash dividends, \$0.62 per share				(134,065)							(134,065)		(134,065)
Conversion of convertible bonds	1					9					9		9
Purchase of treasury stock	(1)					(2)					(2)		(2)
Disposal of treasury stock	9,524				(169)	546					377		377
Cancellation of treasury stock (Note 8)	(9,500)				(222,514)	222,514							
Change in the parent's ownership interest arising from transactions with non-controlling interests			1,338								1,338	(1,338)	
Change in scope of consolidation				(86)							(86)		(86)
Net change in the year				(197)			(20,447)	(25,518)	(17,718)	807	(63,073)	(20,420)	(83,493)
Balance, February 29, 2020	215,802	\$417,526	\$1,099,683	\$ 749	\$2,106,059	\$ (4,882)	\$ 26,613	\$(40,829)	\$ (4,268)	\$(5,403)	\$3,595,248	\$599,140	\$4,194,388

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

AEON Financial Service Co., Ltd. and Subsidiaries

Year Ended February 29, 2020 and Year Ended March 31, 2019

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
OPERATING ACTIVITIES:			
Income before income taxes	¥ 64,530	¥ 69,178	\$ 589,587
Adjustments for:			
Income taxes—paid	(29,605)	(18,252)	(270,490)
Income taxes—refund	1,853	2,060	16,933
Depreciation and amortization	25,756	20,852	235,323
Amortization of goodwill	1,682	1,835	15,370
Allowance for possible credit losses	12,791	8,991	116,866
Allowance for point program	3,170	3,078	28,959
Allowance for loss on refund of interest received	788	1,052	7,204
Financial revenue	(30,088)	(28,252)	(274,904)
Financial costs	24,473	22,742	223,600
Dividends income	(206)	(242)	(1,883)
Loss on disposal of non-current assets	669	585	6,115
Changes in assets and liabilities:			
Net increase in finance receivables	(117,575)	(214,054)	(1,074,236)
Net increase in loans in banking business	(89,796)	(94,521)	(820,430)
Net increase in lease receivables and investment assets	(1,357)	(2,918)	(12,401)
Net increase in deposits in banking business	321,106	419,401	2,933,819
Net (decrease) increase in accounts payable	(21,344)	16,926	(195,015)
Net increase in borrowed money	23,253	4,555	212,454
Net (increase) decrease in deposits with banks	(33,138)	11,277	(302,768)
Net increase in call loans and others	(24,784)	(38,717)	(226,444)
Net increase in commercial paper	57,953	41,568	529,492
Net increase in bonds	195,270	5,862	1,784,103
Financial revenue received	29,070	26,952	265,605
Financial costs paid	(25,292)	(25,585)	(231,089)
Other—net	(36,961)	(18,643)	(337,700)
Net cash provided by operating activities	352,218	215,730	3,218,070
INVESTING ACTIVITIES:			
Purchases of securities	(495,665)	(887,709)	(4,528,691)
Proceeds from sales of securities	128,892	73,201	1,177,631
Proceeds from redemption of securities	248,980	676,344	2,274,833
Purchases of money held in trust	(30,900)	(22,844)	(282,320)
Proceeds from collection of money held in trust	2,997	437	27,386
Purchases of property and equipment	(5,516)	(11,142)	(50,400)
Proceeds from sale of property and equipment	25	10	227
Purchases of intangible assets	(26,252)	(22,892)	(239,853)
Net cash used in investing activities	(177,439)	(194,595)	(1,621,187)
FINANCING ACTIVITIES:			
Redemption of convertible bonds with stock acquisition rights	(29,945)		(273,596)
Redemption of subordinated bonds	(40,000)		(365,464)
Dividends paid to the Company's shareholders	(14,674)	(14,672)	(134,065)
Proceeds from stock issuance to non-controlling shareholders		5,533	
Repayments to non-controlling shareholders		(2,723)	
Dividends paid to non-controlling shareholders	(4,422)	(4,207)	(40,405)
Purchase of treasury stock	(1)	(1)	(2)
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)	
Net cash used in financing activities	(89,041)	(16,073)	(813,531)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(260)	269	(2,374)
NET INCREASE IN CASH AND CASH EQUIVALENTS	85,478	5,331	780,978
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	627,929	622,598	5,737,136
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 713,407	¥ 627,929	\$ 6,518,114

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Year Ended February 29, 2020 and Year Ended March 31, 2019

01 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 2019 consolidated financial statements to conform to the classifications used in 2020.

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 ¥109.45 to \$1, the exchange rate at February 29, 2020. 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.

Since becoming a bank holding company in 2013, the fiscal year of the Company has been from April 1 to March 31 of the following year as required by the Banking Act. However,

effective from April 1, 2019, the Company has changed its status and is no longer a bank holding company. The Company's fiscal year has been changed from March 1 to the last day of February of the following year because the Group's business partners are mainly retailers and most of these business partners close their books on the last day of February. Also, by unifying the accounting period with listed overseas consolidated subsidiaries, which represent half of the Group's profit, the Group will promote a more integrated global business and better management transparency through timely and appropriate disclosure of management information. As a result, the current consolidated fiscal year comprises 11 months from April 1, 2019 to February 29, 2020.

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

AFS Corporation Co., Ltd.

AEON Bank, Ltd. and other 18 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.

02 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Consolidation—The consolidated financial statements as at February 29, 2020 include the accounts of the Company and its 32 subsidiaries and one affiliate company.

During the current fiscal year, AFS Corporation Co., Ltd. has been included in the scope of consolidation due to its increased materiality.

AEON CREDIT SERVICE (TAIWAN) CO., LTD. has been excluded from the scope of consolidation due to completion of liquidation.

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 bargain purchase gain 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—

Under Accounting Standards Board of Japan ("ASBJ") Practical Issues Task Force ("PITF") No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements," 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. However, financial statements prepared by foreign subsidiaries in accordance with either IFRS or U.S. GAAP (Financial Accounting Standards Board Accounting Standards Codification) tentatively may be used for the consolidation process, except for the following items that should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (i) amortization of goodwill; (ii) scheduled amortization of actuarial gain or loss of defined benefit

plans that has been recorded in equity through other comprehensive income; (iii) expensing capitalized development costs of R&D; (iv) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting; and (v) recording a gain or loss through profit or loss on the sale of an investment in an equity instrument for the difference between the acquisition cost and selling price, and recording impairment loss through profit or loss for other-than-temporary declines in the fair value of an investment in an equity instrument, where a foreign subsidiary elects to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument.

(c) Unification of Accounting Policies Applied to Foreign Associated Companies for the Equity Method—ASBJ

Statement No. 16, “Accounting Standard for Equity Method of Accounting for Investments,” requires adjustments to be made to conform the associate’s accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associate’s financial statements are used in applying the equity method, unless it is impracticable to determine such adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either IFRS or U.S. GAAP tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (i) amortization of goodwill; (ii) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (iii) expensing capitalized development costs of R&D; (iv) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting; and (v) recording a gain or loss through profit or loss on the sale of an investment in an equity instrument for the difference between the acquisition cost and selling price, and recording impairment loss through profit or loss for other-than-temporary declines in the fair value of an investment in an equity instrument, where a foreign associate elects to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument.

(d) Business Combination—Business combinations are accounted for using the purchase method. Acquisition-related costs, such as advisory fees or professional fees, are accounted for as expenses in the periods in which the costs are incurred. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional

amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as at the acquisition date and that would have affected the measurement of the amounts recognized as at that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date. The acquirer recognizes any bargain purchase gain in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase price allocation. A parent’s ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of noncontrolling interest is adjusted to reflect the change in the parent’s ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted is accounted for as capital surplus as long as the parent retains control over its subsidiary.

Effective from April 1, 2019, the Group has reorganized the structure through absorption-type 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 (see Note 18).

(e) 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 (hereinafter, 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.

(f) Finance Receivables—Finance 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.

(g) Allowance for Possible Credit Losses—The allowance for possible credit losses is provided in accordance with the Group’s internal standards developed based on the past credit loss experience and evaluation of potential losses for normal receivables and doubtful receivables.

Certain overseas subsidiaries adopted IFRS 9 and used

the impairment model based on expected credit losses to recognize the amount based on the credit risk as at the end of the reporting period.

The domestic banking subsidiary determines the allowance for possible credit losses in accordance with the internally developed standards for write-offs and provisions. It classifies its obligors into five categories for self-assessment purposes in accordance with "Practical Guidance for Checking Internal Controls for Self-Assessments of Assets by Banks and Other Financial Institutions and for Audits of Loans Written Off and Loan Loss Allowance Provisions" (Japanese Institute of Certified Public Accountants ("JICPA") Special Committee for Audits of Banks, etc., Report No. 4, July 4, 2012), 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 department and credit department 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.

(h) 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.

(i) 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 an impairment loss on the securities for the fiscal year.

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

(k) Stock Issuance Costs—Stock issuance costs as at March 31, 2019, which were deferred and included in other assets, were ¥19 million. There were no stock issuance costs as at February 29, 2020. These costs are amortized by the straight-line method over a period of three years.

(l) Bond Issuance Costs—Bond issuance costs as at February 29, 2020 and March 31, 2019, which have been deferred and included in other assets, were ¥779 million (\$7,118 thousand) and ¥209 million, respectively. These costs are amortized by the interest method through the maturity of the bonds.

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

(n) Allowance for Loss on Refund of Interest Received—The allowance for loss on refund of interest received (the amount of interest that exceeds the ceiling rate imposed by the Interest Rate Restriction Law) is provided by certain domestic subsidiaries of the Group and is stated at the amount considered to be appropriate based on the Group's past refund experience.

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

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

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

Unrecognized actuarial gains and losses of domestic subsidiaries are amortized using the straight-line method within the employees' average remaining service period, commencing from the following fiscal year of incurrence, over a period not exceeding 10 years.

(p) Stock Options—The cost of employee stock options is measured based on the fair value at the date of grant and recognized as compensation expense over the vesting period as consideration for receiving goods or services. In the consolidated balance sheet, stock options are presented as stock acquisition rights as a separate component of equity until exercised.

(q) Recognition of Operating Revenues—The operations of the Group mainly comprise the following, and the recognition of operating revenues 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 at each installment payment date principally by the declining balance method.

(ii) Loan contracts

The Group provides cash advance and loan services. Loan receivables are recognized when cash is drawn down by customers. The interest income and the customer charge at the start of the contract are recognized at each installment payment date principally by the declining balance method.

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

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

See Note 2(z) for the related description for IFRS 16 “Leases.”

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

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

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

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

(w) 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. Revenue and expense accounts of foreign subsidiaries are translated into yen at the average exchange rate. Differences arising from such translation are shown as “Foreign currency translation adjustments” under accumulated other comprehensive income in a separate component of equity.

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

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: (i) derivatives are generally recognized as either assets or liabilities and measured at fair value with gains or losses on derivative transactions recognized in the consolidated statement of income; and (ii) for derivatives used for hedging purposes, if the derivatives qualify for hedge accounting because of a high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on the derivatives are deferred until the maturity of the hedged items. Foreign currency-denominated long-term debt for which forward exchange contracts are used as hedging instruments are translated at the forward exchange rate if the derivatives qualify for hedge accounting. Interest rate swaps are utilized to hedge interest rate exposures of long-term debt. In principle, these swaps which qualify for hedge

accounting are measured at market value at the consolidated balance sheet date and the unrealized gains or losses, net of applicable taxes, are deferred until maturity as deferred gain/loss on derivatives under hedge accounting under accumulated other comprehensive income in a separate component of equity. Interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value, but the differential to be paid or received under the swap agreements is recognized and included in interest expense or income.

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

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

(z) Accounting Changes and Error Corrections—Under 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 are required 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, 2019, overseas consolidated subsidiaries have applied IFRS 16 “Leases.” As a result, right-of-use assets (property and equipment) and lease liabilities (other current and non-current liabilities) as at April 1, 2019 increased by ¥6,347 million (\$57,989 thousand) and ¥6,347 million (\$57,989 thousand), respectively. All lease transactions for lessees are recognized as assets and liabilities in the consolidated balance sheets in principle. In applying this standard, they have adopted the method to recognize the cumulative effects of application of this standard on the date of initial application, which is allowed as the transitional treatment.

The effects of application of this standard on net income for the year ended February 29, 2020 are immaterial.

(aa) New Accounting Pronouncements

The Company and its consolidated domestic subsidiaries

(i) Accounting standards for revenue recognition

- 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. In light of this situation, 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) Accounting standards for fair value measurement

- Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019)
- Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019)
- Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31, July 4, 2019)
- Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, March 31, 2020)

(1) Overview

The IASB and FASB provided detailed guidance on fair value measurement with similar details (IFRS 13 "Fair Value Measurement" for IFRS and Accounting Standards Codification Topic 820 "Fair Value Measurement" for U.S. GAAP). In light of this situation, the ASBJ has taken measures to ensure that Japanese accounting standards are consistent with the international accounting standards, mainly regarding the guidance and disclosure of fair value of financial instruments, and issued the "Accounting Standard for Fair Value Measurement."

The basic policy of the ASBJ in developing the accounting standards for fair value measurement is to improve the comparability of financial statements between domestic and overseas companies by using a uniform fair value measurement method, which is basically achieved by adopting almost all requirements of IFRS 13. In consideration of the practices that have been conducted in Japan to date, the other treatments for individual items are stipulated to the extent that comparability between financial statements is not significantly impaired.

(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.

(ab) Additional Information

(Reclassification of consolidated financial statements)

Previously, the Company adopted the classifications of assets and liabilities and revenues and expenses in accordance with the "Ordinance for the Enforcement of the

Banking Act" (Ordinance of the Ministry of Finance No. 10 of 1982). Effective from April 1, 2019, the Company is no longer a bank holding company and adopts the "Ordinance on the Terminology, Forms and Preparation Methods of Consolidated Financial Statements" (Ordinance of the Ministry of Finance No. 28 of 1976). In order to ensure comparability, the consolidated balance sheet and consolidated statement of income for the year ended March 31, 2019 are restated in accordance with the Ordinance of the Ministry of Finance No. 28.

(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. However, the High Court confirmed and approved the suspension of payment. Currently, AEON Credit is preparing for a judicial review hearing.

The Company believes that 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.

(Accounting estimates on the impact of coronavirus disease 2019 ("COVID-19"))

Regarding the impact of COVID-19 pandemic, the Group considers the collection status of receivables as at the date of preparation of the consolidated financial statements to estimate the allowance for possible credit losses. Certain overseas subsidiaries also consider the external economic indicators available at the end of the reporting period. There is a high degree of uncertainty in the estimate and the subsequent stagnation of economic activities due to the pandemic may affect future losses.

03 SECURITIES IN BANKING BUSINESS, MONETARY CLAIMS BOUGHT, MONEY HELD IN TRUST AND INVESTMENT SECURITIES

Securities in banking business, monetary claims bought and investment securities as at February 29, 2020 and March 31, 2019 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Marketable equity securities	¥ 6,134	¥ 7,429	\$ 56,046
Marketable debt securities:			
Government bonds	1,069	13,932	9,767
Municipal bonds	400	22,919	3,658
Corporate bonds	195,701	70,098	1,788,040
Total marketable debt securities	197,170	106,949	1,801,465
Other securities			
Foreign securities	49,567	36,252	452,875
Other ^(*)	227,412	207,370	2,077,765
Total other securities	276,979	243,622	2,530,640
Total	¥480,283	¥358,000	\$4,388,151

(*) Includes investments in an associated company of ¥211 million (\$1,929 thousand) and ¥194 million as at February 29, 2020 and March 31, 2019, respectively.

The carrying amounts and aggregate fair values of securities in banking business, monetary claims bought and investment securities as at February 29, 2020 and March 31, 2019 were as follows:

	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
February 29, 2020				
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 2,094	¥4,064	¥ (24)	¥ 6,134
Debt securities	195,932	1,238		197,170
Other securities	264,396	3,747	(3,260)	264,883
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

	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
February 29, 2020				
Securities classified as:				
Available-for-sale:				
Equity securities	\$ 19,128	\$37,134	\$ (216)	\$ 56,046
Debt securities	1,790,151	11,314		1,801,465
Other securities	2,415,674	34,234	(29,783)	2,420,125

Available-for-sale securities whose fair values are deemed to be difficult to determine as at February 29, 2020 and March 31, 2019 are disclosed in Note 14.

There was no impairment loss on securities for the years ended February 29, 2020 and March 31, 2019.

Money held in trust as at February 29, 2020 and March 31, 2019 consisted of the following:

		Millions of Yen	
		Consolidated Balance Sheet Amount	Unrealized Gains (Losses)
February 29, 2020			
Trading purposes		¥50,309	

		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)
February 29, 2020			
Trading purposes		\$459,652	

Unrealized gain on available-for-sale securities on the consolidated balance sheets as at February 29, 2020 and March 31, 2019 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Unrealized gain before deferred tax on:			
Available-for-sale securities ^(*)	¥ 5,798	¥ 8,683	\$ 52,978
Deferred tax liabilities	(2,413)	(2,813)	(22,052)
Unrealized gain on available-for-sale securities (before adjustment)	3,385	5,870	30,926
Non-controlling interests	(472)	(719)	(4,313)
Unrealized gain on available-for-sale securities	¥ 2,913	¥ 5,151	\$ 26,613

(*) Includes a gain on revaluation of available-for-sale securities that are included in assets in investment limited partnerships whose fair values are deemed to be difficult to determine, amounted to ¥32 million (\$296 thousand) and ¥68 million for the year ended February 29, 2020 and March 31, 2019, respectively.

04 FINANCE RECEIVABLES AND LOANS IN BANKING BUSINESS

Finance receivables as at February 29, 2020 and March 31, 2019 consisted of the following:

		Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020	
Installment sales receivables:				
Credit card purchase contracts	¥ 966,315	¥ 912,110	\$ 8,828,826	
Hire purchase contracts	576,821	541,050	5,270,175	
Subtotal	1,543,136	1,453,160	14,099,001	
Operating loan receivables ^(*)	855,410	844,751	7,815,536	
Allowance for possible credit losses	(111,499)	(100,092)	(1,018,720)	
Total	¥2,287,047	¥2,197,819	\$20,895,817	

(*) Includes cash advances and personal loan receivables.

Loans in banking business as at February 29, 2020 and March 31, 2019 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Loans and bills discounted ^(*)	¥1,674,786	¥1,584,990	\$15,301,838
Allowance for possible credit losses	(2,765)	(2,668)	(25,270)
Total	¥1,672,021	¥1,582,322	\$15,276,568

(*) Includes housing loan receivables.

Bills discounted are accounted for as financial transactions in accordance with "Treatment for Accounting and Auditing of Application of Accounting Standard for Financial Instruments in Banking Industry" (JICPA Industry Audit Committee Report No. 24, February 13, 2020). The Group has rights to sell or pledge commercial bills discounted without restrictions. The total face value as at February 29, 2020 and March 31, 2019 were ¥77 million (\$707 thousand) and ¥132 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 February 29, 2020 and March 31, 2019 were ¥7,002 million (\$63,977 thousand) and ¥7,007 million, respectively.

05 PLEDGED ASSETS

Assets pledged as collateral as at February 29, 2020 and March 31, 2019 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Assets pledged as collateral:			
Cash and cash equivalents	¥ 534	¥ 5,927	\$ 4,875
Finance receivables	26,564	29,505	242,709
Securities in banking business	24,437	27,617	223,267
Total	¥51,535	¥63,049	\$470,851
Liabilities corresponding to assets pledged as collateral:			
Short-term borrowings	¥20,000	¥20,000	\$182,732
Long-term borrowings (including current portion)	13,087	23,159	119,573
Total	¥33,087	¥43,159	\$302,305

In addition to the assets presented above, the following assets were pledged as collateral for exchange settlements and other transactions as at February 29, 2020 and March 31, 2019:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Guarantee money deposits (Initial margins deposited at central counterparty clearing houses)	¥50,000	¥50,000	\$456,830

06 SHORT-TERM BORROWINGS, COMMERCIAL PAPER, BONDS, LONG-TERM BORROWINGS AND LEASE OBLIGATIONS

Short-term borrowings, commercial paper, bonds, long-term borrowings and lease obligations included in other liabilities as at February 29, 2020 and March 31, 2019 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars	Average interest rate ^(*)	Due
	2020	2019	2020	2020	
Short-term borrowings	¥139,386	¥161,745	\$1,273,514	1.61%	
Commercial paper	160,151	102,080	1,463,236	0.36%	
Long-term borrowings (current portion)	106,652	51,143	974,435	3.65%	
Lease obligations (current portion)	12,586	8,153	114,991	1.70%	
Long-term borrowings (non-current portion)	316,006	331,935	2,887,215	3.39%	From January 2021 to August 2026
Lease obligations (non-current portion)	31,915	28,703	291,597	1.62%	From January 2021 to December 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 February 29, 2020 and March 31, 2019 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Issued by the Company:			
¥30,000 million Zero Coupon Callable Convertible Bonds due 2019		¥ 29,946	
Unsecured 0.572% pari passu Japanese yen notes due March 2021	¥ 10,000	10,000	\$ 91,366
Unsecured 0.83% callable subordinated Japanese yen notes due April 2019		30,000	
Unsecured 0.83% callable subordinated Japanese yen notes due April 2019		10,000	
Unsecured 0.402% pari passu Japanese yen notes due April 2020	20,000	20,000	182,732
Unsecured 0.552% pari passu Japanese yen notes due April 2022	10,000	10,000	91,366
Unsecured 0.23% pari passu Japanese yen notes due May 2022	30,000		274,098
Unsecured 0.35% pari passu Japanese yen notes due May 2024	30,000		274,098
Unsecured 0.19% pari passu Japanese yen notes due March 2023	25,000		228,415
Unsecured 0.3% pari passu Japanese yen notes due September 2024	25,000		228,415
Unsecured 0.38% pari passu Japanese yen notes due September 2026	20,000		182,732
Unsecured 0.22% pari passu Japanese yen notes due July 2023	30,000		274,098
Unsecured 0.3% pari passu Japanese yen notes due January 2025	20,000		182,732
Issued by AEON Product Finance Co., Ltd.:			
Unsecured 0.38% Japanese yen notes due April 2023	5,000	5,000	45,683
Unsecured 0.4% Japanese yen notes due October 2023	5,000	5,000	45,683
Issued by AEON THANA SINSAP (THAILAND) PLC.:			
Unsecured 2.594% Thai baht notes due March 2019		3,349	
Unsecured 0.486% Thai baht notes due March 2019		2,233	
Unsecured 2.709% Thai baht notes due March 2020	7,696	7,791	70,311
Unsecured 2.544% Thai baht notes due March 2020	1,649	1,670	15,067
Unsecured 2.874% Thai baht notes due August 2021	1,643	1,664	15,009
Unsecured 2.5% Thai baht notes due July 2019		1,412	
Unsecured 2.73% Thai baht notes due December 2019		3,528	
Unsecured 3.48% Thai baht notes due December 2021	3,457	3,525	31,585
Unsecured 2.85% Thai baht notes due December 2021	3,282	3,324	29,983
Unsecured 2.5% Thai baht notes due August 2020	692	705	6,321
Unsecured 2.5% Thai baht notes due September 2020	1,038	1,058	9,482
Unsecured 2.5% Thai baht notes due September 2020	346	353	3,160
Unsecured 2.37% Thai baht notes due December 2020	6,917	7,054	63,200
Unsecured 2.93% Thai baht notes due December 2022	3,457	3,526	31,585
Unsecured 2.96% Thai baht notes due November 2020	6,916	7,051	63,192
Unsecured 3.26% Thai baht notes due November 2021	2,766	2,820	25,268
Unsecured 2.27% Thai baht notes due November 2022	9,676		88,409
Unsecured 2.57% Thai baht notes due November 2024	3,455		31,570
Issued by AEON CREDIT SERVICE (M) BERHAD:			
Unsecured 3.8% senior Malaysia ringgit notes due February 2027	7,787		71,148
Unsecured 3.85% senior Malaysia ringgit notes due February 2028	5,192		47,432
Issued by AEON CREDIT SERVICE (PHILIPPINES) INC.:			
Unsecured 7.299% Philippine peso notes due November 2021	1,925	1,869	17,590
Unsecured 7.695% Philippine peso notes due November 2023	213	211	1,950
Total	¥298,107	173,089	\$2,723,680

The annual maturities of long-term borrowings as at February 29, 2020 were as follows:

Years ended the last day of February	Millions of Yen	Thousands of U.S. Dollars
2021	¥106,652	\$ 974,435
2022	70,099	640,462
2023	73,338	670,054
2024	79,287	724,416
2025	73,207	668,863
2026 and thereafter	20,075	183,420
Total	¥422,658	\$3,861,650

The annual maturities of bonds as at February 29, 2020 were as follows:

Years ended the last day of February	Millions of Yen	Thousands of U.S. Dollars
2021	¥ 45,254	\$ 413,465
2022	23,072	210,801
2023	53,133	485,458
2024	65,214	595,829
2025	78,455	716,815
2026 and thereafter	32,979	301,312
Total	¥298,107	\$2,723,680

The annual maturities of lease obligations as at February 29, 2020 were as follows:

Years ended the last day of February	Millions of Yen	Thousands of U.S. Dollars
2021	¥12,586	\$114,991
2022	10,439	95,380
2023	6,498	59,371
2024	4,748	43,383
2025	3,306	30,203
2026 and thereafter	6,924	63,260
Total	¥44,501	\$406,588

07 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 February 29, 2020 and March 31, 2019 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Balance at beginning of year	¥6,178	¥5,891	\$56,447
Current service cost	557	535	5,087
Interest cost	51	36	465
Actuarial gains and losses	(11)	(6)	(103)
Benefits paid	(169)	(396)	(1,543)
Other	63	118	580
Balance at end of year	¥6,669	¥6,178	\$60,933

(b) The changes in plan assets for the years ended February 29, 2020 and March 31, 2019 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Balance at beginning of year	¥2,057	¥1,944	\$18,800
Expected return on plan assets	66	55	600
Actuarial gains and losses	(75)	(174)	(686)
Contributions from the employer	256	248	2,340
Benefits paid	(17)	(15)	(153)
Balance at end of year	¥2,287	¥2,058	\$20,901

(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 February 29, 2020 and March 31, 2019

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Funded defined benefit obligation	¥ 2,997	¥ 2,692	\$ 27,381
Plan assets	(2,287)	(2,058)	(20,901)
	710	634	6,480
Unfunded defined benefit obligation	3,672	3,486	33,552
Net liability arising from defined benefit obligation	¥ 4,382	¥ 4,120	\$ 40,032

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Liability for retirement benefits ^(*)	¥4,382	¥4,120	\$40,032
Net liability arising from defined benefit obligation	¥4,382	¥4,120	\$40,032

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

(d) The components of net periodic benefit costs for the years ended February 29, 2020 and March 31, 2019 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Service cost (*)	¥557	¥535	\$5,087
Interest cost	51	36	466
Expected return on plan assets	(66)	(55)	(600)
Recognized actuarial losses	356	141	3,256
Amortization of past service costs	19	228	174
Other	21	7	191
Net periodic benefit costs	¥938	¥892	\$8,574

(*) 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 February 29, 2020 and March 31, 2019

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Past service costs			
Actuarial gains and losses	¥(98)	¥29	\$(896)
Total	¥(98)	¥29	\$(896)

(f) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as at February 29, 2020 and March 31, 2019

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Unrecognized actuarial gains and losses	¥882	¥980	\$8,060
Total	¥882	¥980	\$8,060

(g) Plan assets

(i) Components of plan assets

Plan assets consisted of the following:

	2020	2019
Debt securities	43.0%	42.6%
Equity securities	25.4%	23.7%
Assets in the life insurer's general account	12.1%	13.3%
Other (*)	19.5%	20.4%
Total	100.0%	100.0%

(*) Includes mainly cash and alternative investments.

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

The expected rate of return on plan assets is determined considering the 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 February 29, 2020 and March 31, 2019 were set forth as follows:

	2020 ^(*)	2019 ^(*)
Discount rate	0.4%	0.6%
Expected rate of return on plan assets	3.12%	2.83%

(*) 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 February 29, 2020 and March 31, 2019 are ¥588 million (\$5,369 thousand) and ¥565 million, respectively.

The amounts of benefits paid under the advance payment plan for the years ended February 29, 2020 and March 31, 2019 are ¥92 million (\$841 thousand) and ¥63 million, respectively.

08 EQUITY

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

(a) Dividends

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

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

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

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

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital

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

(c) Treasury stock and treasury stock acquisition rights

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

(d) Significant change in equity

The Company resolved and effected a cancellation of its treasury stock at the Board of Directors meeting held on August 27, 2019. As a result, the balances of retained earnings and treasury stock decreased by ¥24,354 million (\$222,514 thousand), respectively.

(i) Class of shares cancelled	Common stock
(ii) Number of shares cancelled	9,500,000 shares
(iii) Amount of shares cancelled	¥24,354 million (\$222,514 thousand)
(iv) Cancellation date	September 20, 2019

09 STOCK-BASED COMPENSATION

The stock options outstanding as at February 29, 2020 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
2020 Stock Option	7 directors	15,000 shares	July 21, 2019	¥ 1 \$0.01	From August 21, 2019 through August 20, 2034

The summary of stock option activity is as follows:

	2020 Stock Option	2019 Stock Option	2018 Stock Option	2017 Stock Option	2016 Stock Option	2015 Stock Option	2014 Stock Option	2013 Stock Option	2012 Stock Option
Non-vested (Shares)									
Outstanding at beginning of year									
Granted	15,000								
Expired									
Vested	15,000								
Outstanding at end of year									
Vested (Shares)									
Outstanding at beginning of year		8,100	9,900	10,800	5,400	4,500	7,000	3,500	1,500
Vested	15,000								
Exercised	9,600	2,700	2,700	4,500	900	900	2,000		
Expired									
Outstanding at end of year	5,400	5,400	7,200	6,300	4,500	3,600	5,000	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	¥ 1 \$0.01
Average stock price upon exercise	¥1,624 \$14.84	¥1,869 \$17.08	¥1,786 \$16.32	¥1,733 \$15.83	¥2,266 \$20.70	¥2,266 \$20.70	¥2,266 \$20.70		
Fair value price at grant date	¥1,309 \$11.96	¥1,808 \$16.52	¥1,856 \$16.96	¥1,940 \$17.72	¥3,072 \$28.07	¥2,006 \$18.33	¥2,715 \$24.81	¥1,081 \$ 9.88	¥ 809 \$7.39

The assumptions used to measure fair value of stock options vested during fiscal year 2020 were as follows:

	2020 Stock Option
Measurement method	Black-Scholes option-pricing model
Risk-free interest rate	(0.2235)%
Expected life of option grants	7.5 years
Expected volatility of underlying stock	33.74%
Estimated dividend	¥68 per share

10 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the years ended February 29, 2020 and March 31, 2019 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Salaries and allowances	¥ (65,022)	¥ (65,027)	\$ (594,079)
Advertising expenses	(65,339)	(54,778)	(596,974)
Provision for bonuses	(4,865)	(4,012)	(44,453)
Retirement benefit expenses	(1,618)	(1,520)	(14,784)
Provision for loss on refund of interest received	(3,155)	(3,231)	(28,829)
Provision for point program	(3,170)	(3,078)	(28,959)
Other	(146,480)	(146,311)	(1,338,331)
Total	¥(289,649)	¥(277,957)	\$ (2,646,409)

11 NON-OPERATING REVENUES (EXPENSES)

Loss on disposal of non-current assets for the years ended February 29, 2020 and March 31, 2019 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Structures	¥ (36)	¥(150)	\$ (337)
Equipment	(252)	(174)	(2,304)
Software	(393)	(271)	(3,593)
Other	(1)		(1)
Total	(682)	(595)	(6,235)

Other non-operating revenues (expenses)—net for the years ended February 29, 2020 and March 31, 2019 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Gain on investments in partnership	¥187		\$1,709
Impairment loss on investment securities	(2)	¥ (34)	(19)
Other—net	55	(404)	503
Total	¥240	¥(438)	\$2,193

12 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 30.6% for the years ended February

29, 2020 and March 31, 2019, respectively. The tax effects of significant temporary differences and tax loss carryforwards, which resulted in deferred tax assets and liabilities as at February 29, 2020 and March 31, 2019 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Deferred tax assets:			
Allowance for possible credit losses	¥22,337	¥19,811	\$204,085
Loans in banking business and finance receivables	117	100	1,067
Allowance for point program	6,562	5,529	59,955
Allowance for loss on refund of interest received	1,520	1,279	13,891
Accrued income	683	440	6,244
Property and equipment	700	481	6,400
Intangible assets	523	487	4,776
Liability for retirement benefits	1,214	1,179	11,091
Tax loss carryforwards	287	740	2,621
Unrealized loss on acquisition of subsidiaries	33	38	302
Other	10,051	8,669	91,832
Less valuation allowance	(3,730)	(2,889)	(34,083)
Total deferred tax assets	¥40,297	¥35,864	\$368,181
Deferred tax liabilities:			
Depreciation in consolidated foreign subsidiaries	¥ 529	¥ 239	\$ 4,830
Unrealized gain on available-for-sale securities	2,414	2,873	22,052
Unrealized gain on acquisition of subsidiaries	1,573	1,685	14,370
Other	267	105	2,444
Total deferred tax liabilities	¥ 4,783	¥ 4,902	\$ 43,696
Net deferred tax assets	¥35,514	¥30,962	\$324,485

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 February 29, 2020 and March 31, 2019 were as follows:

	2020	2019
Effective statutory tax rate	30.6%	30.6%
Per capita portion of inhabitants tax	0.3	0.4
Lower income tax rates applicable to income in certain foreign countries	(5.7)	(5.3)
Impact from elimination in consolidation	2.5	2.2
Tax loss carryforwards	(1.1)	(1.2)
Valuation allowance	3.0	0.7
Income taxes for prior periods	0.3	0.0
Other	0.4	(1.4)
Actual effective tax rate	30.3%	26.0%

13 LEASES

(Lessee side)

The Group leases equipment, software, and other assets.

Total rental expenses for the years ended February 29, 2020 and March 31, 2019 were ¥13,249 million (\$121,053 thousand) and ¥17,259 million, respectively.

The minimum rental commitments under noncancelable operating leases as at February 29, 2020 and March 31, 2019 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Due within one year	¥1,447	¥4,243	\$13,224
Due after one year	1,262	4,695	11,531
Total	¥2,709	¥8,938	\$24,755

(Lessor side)

(a) Breakdown of lease receivables and investment assets

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Lease payments receivables	¥13,918	¥12,298	\$127,166
Unearned interest income	(1,136)	(873)	(10,379)
Lease receivables and investment assets	¥12,782	¥11,425	\$116,787

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

	Millions of Yen					
	2020					
	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Lease receivables and investment assets	¥3,159	¥2,244	¥2,013	¥1,787	¥1,723	¥2,992

	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

	Thousands of U.S. Dollars					
	2020					
	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Lease receivables and investment assets	\$28,861	\$20,508	\$18,398	\$16,325	\$15,740	\$27,334

14 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, borrowings, 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.

The domestic banking subsidiary mainly calculates Value at Risk (an estimated amount of loss on financial instruments held for a certain future time period based on the historical data at a certain confidence level, hereinafter "VaR") to quantify credit risk and regularly reports 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.

The domestic banking subsidiary performs quantitative market risk analysis for all financial instruments held 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 appropriately responds to customer needs for various financial services provided by the Group and improve its overall earning capacity.

The domestic banking subsidiary measures and manages VaR as the interest rate risk management structure throughout its internal divisions. The domestic banking subsidiary also 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: "for the various risks that we face, we capture the risks assessed for each risk category comprehensively based on a consistent approach as much as possible to ensure more reliable and continuous performance."

The domestic banking subsidiary 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, it 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 mitigated.

(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 domestic banking subsidiary, the Monte-Carlo simulation (holding period: 120 days, historical observation period: three year, and confidence interval: 99%) is applied to calculate VaR. The amount of VaR as at February 29, 2020 was ¥5,953 million (\$5,387 thousand) (¥10,657 million, as at March 31, 2019).

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.

(b) Fair value of financial instruments

The carrying amount of financial instruments in the consolidated balance sheets, the fair value, and the difference between the two as at February 29, 2020 and March 31, 2019 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

	2020		
	Carrying Amount	Fair Value	Difference
(1) Cash and cash equivalents	¥ 713,407	¥ 713,407	
(2) Deposits with banks	49,485	49,485	
(3) Call loans	53,773	53,773	
(4) Finance receivables—net of allowance for possible credit losses	2,287,047	2,396,075	¥109,028
(5) Loans in banking business—net of allowance for possible credit losses	1,672,021	1,702,784	30,763
(6) Securities in banking business	447,229	447,229	
(7) Monetary claims bought	14,824	14,824	
(8) Money held in trust	50,309	50,309	
(9) Foreign exchanges ^(*)	6,362	6,362	
(10) Investment securities	6,134	6,134	
Total	¥5,300,591	¥5,440,382	¥139,791
(11) Accounts payable	¥ 305,859	¥ 305,859	
(12) Deposits in banking business	3,790,241	3,792,093	¥ 1,852
(13) Short-term borrowings	139,386	139,386	
(14) Commercial paper	160,151	160,151	
(15) Bonds (including current portion)	298,107	298,501	394
(17) Long-term borrowings (including current portion)	422,658	425,944	3,286
Total	¥5,116,402	¥5,121,934	¥ 5,532
(18) Derivative financial instruments (Note 15):			
Hedge accounting not applied	¥ 5	¥ 5	
Hedge accounting applied	(12,658)	(12,658)	
Total	¥ (12,653)	¥ (12,653)	

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) Finance receivables—net of allowance for possible credit losses	2,197,819	2,303,131	¥105,312
(5) Loans in banking business—net of allowance for possible credit losses	1,582,322	1,609,221	26,899
(6) Securities in banking business	324,947	324,947	
(7) Monetary claims bought	13,316	13,316	
(8) Money held in trust	22,406	22,406	
(9) Foreign exchanges ^(*)	1,635	1,635	
(10) Investment securities	7,459	7,459	
Total	¥4,824,903	¥4,957,114	¥132,211
(11) Accounts payable	¥ 328,968	¥ 328,968	
(12) Deposits in banking business	3,469,134	3,472,233	¥ 3,099
(13) Short-term borrowings	161,745	161,745	
(14) Commercial paper	102,080	102,080	
(15) Bonds (including current portion)	143,143	143,236	93
(16) Convertible bonds with stock acquisition rights (including current portion)	29,946	30,155	209
(17) Long-term borrowings (including current portion)	383,078	381,795	(1,283)
Total	¥4,618,094	¥4,620,212	¥ 2,118
(18) Derivative financial instruments (Note 15):			
Hedge accounting not applied	¥ 3	¥ 3	
Hedge accounting applied	(12,080)	(12,080)	
Total	¥ (12,077)	¥ (12,077)	

Thousands of U.S. Dollars

	2020		
	Carrying Amount	Fair Value	Difference
(1) Cash and cash equivalents	\$ 6,518,114	\$ 6,518,114	
(2) Deposits with banks	452,119	452,119	
(3) Call loans	491,305	491,305	
(4) Finance receivables—net of allowance for possible credit losses	20,895,817	21,891,959	\$ 996,142
(5) Loans in banking business—net of allowance for possible credit losses	15,276,568	15,557,641	281,073
(6) Securities in banking business	4,086,152	4,086,152	
(7) Monetary claims bought	135,438	135,438	
(8) Money held in trust	459,652	459,652	
(9) Foreign exchanges ^(*)	58,129	58,129	
(10) Investment securities	56,046	56,046	
Total	\$48,429,340	\$49,706,555	\$1,277,215
(11) Accounts payable	\$ 2,794,505	\$ 2,794,505	
(12) Deposits in banking business	34,629,885	34,646,811	\$ 16,926
(13) Short-term borrowings	1,273,514	1,273,514	
(14) Commercial paper	1,463,236	1,463,236	
(15) Bonds (including current portion)	2,723,680	2,727,279	3,599
(17) Long-term borrowings (including current portion)	3,861,650	3,891,670	30,020
Total	\$46,746,470	\$46,797,015	\$ 50,545
(18) Derivative financial instruments (Note 15):			
Hedge accounting not applied	\$ 42	\$ 42	
Hedge accounting applied	(115,650)	(115,650)	
Total	\$ (115,608)	\$ (115,608)	

(*) Included in "Other current assets" in the consolidated balance sheets.

(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) Finance receivables—net of allowance for possible credit losses

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

(5) Loans in banking business—net of allowance for possible credit losses

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.

(6) Securities in banking business and (10) Investment 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) 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.

(8) Money held in trust

The fair value of money held in trust, which comprises trust assets, is determined by the same method as "(5) Loans in banking business—net of allowance for possible credit losses" described above.

(9) 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.

(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) Deposits in banking business

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.

(13) Short-term borrowings and (17) Long-term borrowings

The fair value of borrowings 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 borrowing 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 borrowings (within one year) is considered to approximate fair value because these items are settled in a short period not exceeding one year.

(14) Commercial paper

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

(15) Bonds and (16) 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.

(18) Derivative financial instruments

Information on the fair values of derivative financial instruments is included in Note 15.

(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
	2020	2019	2020
Stock with no active market quotations	¥ 2,309	¥ 2,323	\$ 21,099
Trust beneficiary rights	5,163	5,757	47,167
Investments in limited partnerships	4,624	4,198	42,249
Total	¥12,096	¥12,278	\$110,515

(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

	2020					
	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Due from banks	¥ 675,069					
Call loans	53,773					
Finance receivables ^(*)	1,420,990	¥284,779	¥205,354	¥142,442	¥ 68,505	¥ 211,849
Loans in banking business ^(*)	207,292	97,182	76,623	72,621	64,573	1,096,918
Securities in banking business:						
Available-for-sale securities:						
Government bonds						1,000
Municipal bonds			200	200		
Corporate bonds	137,700	1,300	800			54,746
Foreign securities	1,642	8,000	1,696	2,254	4,103	31,091
Total	139,342	9,300	2,696	2,454	4,103	86,837
Monetary claims bought						14,691
Money held in trust	6,702	5,865	5,117	4,475	3,875	24,275
Total	¥2,503,168	¥397,126	¥289,790	¥221,992	¥141,056	¥1,434,570

Millions of Yen

	2019					
	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Due from banks	¥ 579,815					
Call loans	30,497					
Finance receivables ^(*)	1,376,974	¥263,875	¥218,262	¥140,721	¥ 65,808	¥ 172,629
Loans in banking business ^(*)	147,007	92,225	84,858	59,885	65,689	1,075,290
Securities in banking business:						
Available-for-sale securities:						
Government bonds	2,500					11,000
Municipal bonds				200	200	22,190
Corporate bonds	3,000	16,700	1,300	800		47,246
Foreign securities	20,111		8,000			8,036
Total	25,611	16,700	9,300	1,000	200	88,472
Monetary claims bought				126		13,145
Money held in trust	2,529	2,245	1,990	1,761	1,566	12,316
Total	¥2,162,433	¥375,045	¥314,410	¥203,493	¥133,263	¥1,361,852

Thousands of U.S. Dollars

	2020					
	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Due from banks	\$ 6,167,829					
Call loans	491,305					
Finance receivables ^(*)	12,983,009	\$2,601,904	\$1,876,237	\$1,301,435	\$ 625,906	\$ 1,935,577
Loans in banking business ^(*)	1,893,944	887,915	700,072	663,509	589,972	10,022,090
Securities in banking business:						
Available-for-sale securities:						
Government bonds						9,137
Municipal bonds			1,828	1,828		
Corporate bonds	1,258,109	11,877	7,309			500,194
Foreign securities	14,997	73,093	15,497	20,596	37,483	284,067
Total	1,273,106	84,970	24,634	22,424	37,483	793,398
Monetary claims bought						134,228
Money held in trust	61,236	53,586	46,747	40,884	35,407	221,792
Total	\$22,870,429	\$3,628,375	\$2,647,690	\$2,028,252	\$1,288,768	\$13,107,085

(*) Finance receivables for the years ended February 29, 2020 and March 31, 2019 exclude ¥69,789 million (\$637,637 thousand) and ¥65,400 million, respectively, which have no specific contractual maturity date due to late payments or being under negotiations.

(*) Loans in banking business for the years ended February 29, 2020 and March 31, 2019 exclude loans of ¥4,702 million (\$42,958 thousand) and ¥4,262 million with no specific recoverable amounts, such as loans to borrowers classified as legal bankruptcy, substantial bankruptcy, or possible bankruptcy, and ¥54,876 million (\$501,377 thousand) and ¥55,863 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

	2020					
	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Deposits in banking business ^(*)	¥3,601,057	¥ 93,092	¥ 46,608	¥ 29,027	¥ 20,457	
Short-term borrowings	139,386					
Commercial paper	160,151					
Bonds	45,254	23,072	53,133	65,214	78,455	¥32,979
Long-term borrowings	106,652	70,099	73,338	79,287	73,207	20,075
Lease obligations	12,586	10,439	6,498	4,748	3,306	6,924
Total	¥4,065,086	¥196,702	¥179,577	¥178,276	¥175,425	¥59,978

Millions of Yen

	2019					
	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Deposits in banking business ^(*)	¥3,124,115	¥209,749	¥ 76,334	¥ 40,376	¥ 18,560	
Short-term borrowings	161,745					
Commercial paper	102,080					
Bonds	50,522	45,682	23,202	13,526	10,211	
Long-term borrowings	51,143	116,328	62,365	49,570	72,409	¥31,263
Convertible bonds with stock acquisition rights	29,946					
Lease obligations	8,153	8,401	5,449	4,277	3,245	7,331
Total	¥3,527,704	¥380,160	¥167,350	¥107,749	¥104,425	¥38,594

Thousands of U.S. Dollars

	2020					
	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Deposits in banking business ^(*)	\$32,901,386	\$ 850,540	\$ 425,843	\$ 265,209	\$ 186,907	
Short-term borrowings	1,273,514					
Commercial paper	1,463,236					
Bonds	413,465	210,801	485,458	595,828	716,815	\$301,313
Long-term borrowings	974,435	640,462	670,054	724,416	668,863	183,420
Lease obligations	114,991	95,380	59,371	43,383	30,203	63,260
Total	\$37,141,027	\$1,797,183	\$1,640,726	\$1,628,836	\$1,602,788	\$547,993

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

15 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 February 29, 2020 and March 31, 2019 consisted of the following:

Millions of Yen			
2020			
	Contract Amount	Fair Value	Unrealized Gain/Loss
Currency swap contracts:			
Receive JPY/Pay HKD	¥ 3,052	¥ (127)	¥ (127)
Receive JPY/Pay THB	26,412	(1,786)	(1,786)
Receive USD/Pay HKD	5,445	25	25
Receive USD/Pay MYR	89,990	(2,701)	(2,701)
Receive USD/Pay THB	90,769	(6,268)	(6,268)
Interest rate swap contracts:			
Receive floating/Pay fixed	44,829	(1,801)	(1,801)

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)

Thousands of U.S. Dollars			
2020			
	Contract Amount	Fair Value	Unrealized Gain/Loss
Currency swap contracts:			
Receive JPY/Pay HKD	\$ 27,882	\$ (1,161)	\$ (1,161)
Receive JPY/Pay THB	241,312	(16,317)	(16,317)
Receive USD/Pay HKD	49,745	232	232
Receive USD/Pay MYR	822,204	(24,678)	(24,678)
Receive USD/Pay THB	829,316	(57,267)	(57,267)
Interest rate swap contracts:			
Receive floating/Pay fixed	409,584	(16,459)	(16,459)

Derivative financial instruments not qualifying for hedge accounting as at February 29, 2020 and March 31, 2019 consisted of the following:

Millions of Yen

	2020		
	Contract Amount	Fair Value	Unrealized Gain/Loss
Currency forward contracts:			
Short position	¥306	¥1	¥1
Long position	844	4	4

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

	2020		
	Contract Amount	Fair Value	Unrealized Gain/Loss
Currency forward contracts:			
Short position	\$2,792	\$ 8	\$ 8
Long position	7,707	34	34

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.

16 LOAN COMMITMENTS AND CONTINGENT LIABILITIES

(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
	2020	2019	2020
Total loan limits	¥9,445,832	¥9,124,554	\$86,302,709
Loan executed	561,031	594,913	5,125,910
Unexercised portion of loan commitments	¥8,884,801	¥8,529,641	\$81,176,799

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 February 29, 2020 and March 31, 2019 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Unutilized commitments	¥29,323	¥30,140	\$267,908
Of which: those expiring within one year	3,861	20,109	35,278

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.

Contingent liabilities as at February 29, 2020 and March 31, 2019 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Guarantee obligation related to credit guarantee business for general customers operated by a consolidated subsidiary	¥72,231	¥88,149	\$659,942

17 OTHER COMPREHENSIVE INCOME

Reclassification adjustments to profit or loss and tax effects of other comprehensive income for the years ended February 29, 2020 and March 31, 2019 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Unrealized (loss) gain on available-for-sale securities:			
(Losses) gains arising during the year	¥ (2,602)	¥ 3,279	\$ (23,774)
Reclassification adjustments to profit or loss	(1,526)	(298)	(13,947)
Amount before income tax effect	(4,128)	2,981	(37,721)
Income tax effect	1,175	(642)	10,738
Total	¥ (2,953)	¥ 2,339	\$ (26,983)
Deferred (loss) gain on derivatives under hedge accounting:			
Losses arising during the year	¥ (4,353)	¥ (898)	\$ (39,776)
Reclassification adjustments to profit or loss	(1,844)	1,399	(16,851)
Amount before income tax effect	(6,197)	501	(56,627)
Income tax effect	1,359	(75)	12,421
Total	¥ (4,838)	¥ 426	\$ (44,206)
Foreign currency translation adjustments:			
(Losses) gains arising during the year	¥ (3,331)	¥ 1,417	\$ (30,431)
Reclassification adjustments to profit or loss	96	46	879
Amount before income tax effect	(3,235)	1,463	(29,552)
Total	¥ (3,235)	¥ 1,463	\$ (29,552)
Adjustments for retirement benefit:			
Losses arising during the year	¥ (64)	¥ (179)	\$ (583)
Reclassification adjustments to profit or loss	162	150	1,479
Amount before income tax effect	¥ 98	¥ (29)	\$ 896
Income tax effect	(8)	5	(75)
Total	¥ 90	¥ (24)	\$ 821
Total other comprehensive income	¥ (10,936)	¥ 4,204	\$ (99,920)

18 BUSINESS COMBINATION

Transaction under common control

Effective from April 1, 2019, the Group has reorganized the 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, 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) Outline of the business combination

(1) Type of business subject to the business combination

Banking and money lending business

(2) Date of business combination

April 1, 2019

(3) Legal form of business combination

The Group has reorganized the structure through the corporate split where shares of the Company's subsidiaries including AEON Bank, Ltd. being transferred to AFS Corporation, a wholly-owned subsidiary of the Company. Accordingly, the Company itself is no longer a bank holding company.

(4) Name of the company after the combination AFS

Corporation Co., Ltd.

(5) Other information concerning the outline of the business combination

The Company operates in 12 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 (collectively, "AFS Group").

The external environment is severely changing and the AFS Group is exposed to a declining population and rapid ageing 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, which was a bank holding company on the top, thus were limited in scope of its businesses, as required under the relevant laws and regulations.

In order to build a more flexible business model while maintaining a sound governance system with banking business, the Group conducted the reorganization through establishment of AFS Corporation as a bank holding company and changing the Company's status to allow the Company or Group to expand its business scope.

(ii) Summary of accounting treatment

This business combination is treated as a transaction under common control based on the "Accounting Standard for Business Combinations" and "Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures."

19 NET INCOME PER SHARE

Basic and diluted EPS for the years ended February 29, 2020 and March 31, 2019 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, 2020:				
Basic EPS				
Net income	¥34,150			
Net income available to common shareholders	¥34,150	215,793	¥158.25	\$1.45
Effect of dilutive securities				
–Warrants of the Company		45		
–Convertible bonds with stock acquisition rights of the Company		5,696		
Diluted EPS				
–Net income for computation	¥34,150	221,534	¥154.15	\$1.41
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	
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	

20 RELATED PARTY TRANSACTIONS

There were no transactions between the Company and related parties for the years ended February 29, 2020 and March 31, 2019.

Transactions between the Company's consolidated subsidiaries and related parties for the years ended February 29, 2020 and March 31, 2019 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
	2020	2019	2020
AEON Retail Co., Ltd. (subsidiary of the parent company)			
Loans in banking business	¥34,000	¥35,000	\$310,644
Other assets	51	2	467
Lending of loans	31,525	36,885	288,027
Interest income	285	357	2,607

(*) 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	2020	2020	2020	2020
Housing loans (Loans in banking business)			¥222	\$2,031

	Transaction amount	Balance at end
	Millions of Yen	Thousands of U.S. Dollars
Directors, executive officers and their close relatives of the Company and its subsidiaries	2019	2019
Housing loans (Loans in banking business)		¥232

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.

21 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 operating revenues, 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.

The Group has prepared the consolidated financial statements for the fiscal year ended February 29, 2020 in accordance with the Ordinance of the Ministry of Finance No. 28 of 1976, which prescribes classifications of assets and liabilities and revenues and expenses. Accordingly, the basis of measurement for the reportable segment profit has changed from ordinary income used in the past to operating income. The segment information for the fiscal year ended March 31, 2019 is restated on the modified basis of measurement.

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

Millions of Yen

	2020							
	Reportable Segment					Subtotal	Reconciliations ^(*)	Total
	Domestic		Global					
	Retail	Solutions	China Area	Mekong Area	Malay Area			
Operating revenues ^(*)								
Operating revenues from customers	¥ 182,383	¥120,324	¥18,903	¥ 84,079	¥ 51,916	¥ 457,605	¥ (325)	¥ 457,280
Intersegment revenue or transfers	3,298	62,036	7	42		65,383	(65,383)	
Total operating revenues	185,681	182,360	18,910	84,121	51,916	522,988	(65,708)	457,280
Segment profit ^(*)	¥ 14,975	¥ 23,704	¥ 5,934	¥ 17,061	¥ 6,316	¥ 67,990	¥ (2,920)	¥ 65,070
Segment assets	¥4,341,526	¥903,189	¥82,247	¥324,622	¥293,102	¥5,944,686	¥(163,315)	¥5,781,371
Other items								
Depreciation and amortization	¥ 6,477	¥ 11,375	¥ 1,215	¥ 4,160	¥ 2,090	¥ 25,317	¥ 439	¥ 25,756
Amortization of goodwill	1,290	392				1,682		1,682
Financial costs	3,952	1,029	914	8,076	9,720	23,691	782	24,473
Provision for possible credit losses	277	20,539	1,283	24,623	15,912	62,634	99	62,733
Increases in tangible and intangible assets	6,241	22,152	1,808	5,608	3,182	38,991	805	39,796

Millions of Yen

	2019							
	Reportable Segment					Subtotal	Reconciliations ^(*)	Total
	Domestic		Global					
	Retail	Solutions	China Area	Mekong Area	Malay Area			
Operating revenues ^(*)								
Operating revenues from customers	¥ 185,523	¥112,732	¥19,583	¥ 72,505	¥ 47,059	¥ 437,402	¥ 1,039	¥ 438,441
Intersegment revenue or transfers	3,145	69,004	7	26		72,182	(72,182)	
Total operating revenues	188,668	181,736	19,590	72,531	47,059	509,584	(71,143)	438,441
Segment profit ^(*)	¥ 11,316	¥ 26,403	¥ 7,126	¥ 13,990	¥ 13,380	¥ 72,215	¥ (2,194)	¥ 70,021
Segment assets	¥4,095,401	¥887,580	¥91,370	¥296,513	¥248,972	¥5,619,836	¥(365,756)	¥5,254,080
Other items								
Depreciation and amortization	¥ 6,449	¥ 10,244	¥ 576	¥ 1,930	¥ 1,175	¥ 20,374	¥ 478	¥ 20,852
Amortization of goodwill	1,407	428				1,835		1,835
Financial costs	4,824	947	1,157	7,675	7,693	22,296	446	22,742
Provision for possible credit losses	545	21,528	485	19,471	9,602	51,631	(314)	51,317
Increases in tangible and intangible assets	11,899	17,420	346	2,109	2,005	33,779	844	34,623

Thousands of U.S. Dollars

	2020							
	Reportable Segment					Subtotal	Reconciliations ^(*)	Total
	Domestic		Global					
	Retail	Solutions	China Area	Mekong Area	Malay Area			
Operating revenues ^(*)								
Operating revenues from customers	\$ 1,666,356	\$ 1,099,349	\$ 172,714	\$ 768,191	\$ 474,340	\$ 4,180,950	\$ (2,968)	\$ 4,177,982
Intersegment revenue or transfers	30,132	566,802	62	385		597,381	(597,381)	
Total operating revenues	1,696,488	1,666,151	172,776	768,576	474,340	4,778,331	(600,349)	4,177,982
Segment profit ^(*)	\$ 136,818	\$ 216,574	\$ 54,219	\$ 155,877	\$ 57,711	\$ 621,199	\$ (26,678)	\$ 594,521
Segment assets	\$39,666,751	\$8,252,064	\$751,457	\$2,965,942	\$2,677,954	\$54,314,168	\$(1,492,141)	\$52,822,027
Other items								
Depreciation and amortization	\$ 59,181	\$ 103,927	\$ 11,103	\$ 38,003	\$ 19,096	\$ 231,310	\$ 4,013	\$ 235,323
Amortization of goodwill	11,783	3,587				15,370		15,370
Financial costs	36,111	9,403	8,349	73,785	88,807	216,455	7,145	223,600
Provision for possible credit losses	2,531	187,655	11,719	224,971	145,386	572,262	901	573,163
Increases in tangible and intangible assets	57,018	202,398	16,520	51,236	29,071	356,243	7,353	363,596

(*) For segment revenue, the Group uses operating revenues instead of sales, which are used by normal commercial companies.

(*) Details of the reconciliations are as follows:

- (1) A reconciliation to operating revenues from customers of ¥ (325) million (\$ (2,968) thousand) and ¥1,039 million represent operating revenues of holding company and others included in consolidation unattributable to any reportable segment for the years ended February 29, 2020 and March 31, 2019, respectively.
- (2) A reconciliation to segment profit of ¥ (2,920) million (\$ (26,678) thousand) and ¥ (2,194) million represent the operating revenues of holding company and others included in consolidation unallocated to any reportable segment and the eliminations of intersegment transactions for the years ended February 29, 2020 and March 31, 2019, respectively.
- (3) A reconciliation to segment assets of ¥ (163,315) million (\$ (1,492,141) thousand) and ¥ (365,756) 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 February 29, 2020 and March 31, 2019, respectively.

(*) Segment profit 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) Operating revenues ^(*)^(*)

Millions of Yen

2020				
Japan	Thailand	Malaysia	Other	Total
¥302,205	¥77,206	¥45,950	¥31,919	¥457,280

Millions of Yen

2019				
Japan	Thailand	Malaysia	Other	Total
¥299,019	¥67,375	¥41,375	¥30,672	¥438,441

Thousands of U.S. Dollars

2020				
Japan	Thailand	Malaysia	Other	Total
\$2,761,120	\$705,404	\$419,831	\$291,627	\$4,177,982

(*) For segment revenue, the Group uses operating revenues instead of sales, which are used by normal commercial companies.

(*) Operating revenues are classified by country or region based on the location of the customers.

(ii) Property and equipment

Millions of Yen

2020			
Japan	Thailand	Other	Total
¥33,390	¥5,571	¥6,342	¥45,303

Millions of Yen

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

Thousands of U.S. Dollars

2020			
Japan	Thailand	Other	Total
\$305,067	\$50,898	\$57,946	\$413,911

(e) Information about impairment losses on non-current assets by reportable segment

Millions of Yen

2020 ^(*)						
Domestic		Global				Total
Retail	Solutions	China Area	Mekong Area	Malay Area	Reconciliations	
¥269	¥5				¥30	¥304

Millions of Yen

2019						
Domestic		Global				Total
Retail	Solutions	China Area	Mekong Area	Malay Area	Reconciliations	
¥52						¥52

Thousands of U.S. Dollars

2020 ^(*)						
Domestic		Global				Total
Retail	Solutions	China Area	Mekong Area	Malay Area	Reconciliations	
\$2,456	\$49				\$270	\$2,775

(f) Information about goodwill by reportable segment

Millions of Yen

	2020					
	Domestic		Global			Total
	Retail	Solutions	China Area	Mekong Area	Malay Area	
Goodwill at February 29, 2020 ^(*)	¥ 16,588	¥ 1,791				¥18,379

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

Thousands of U.S. Dollars

	2020					
	Domestic		Global			Total
	Retail	Solutions	China Area	Mekong Area	Malay Area	
Goodwill at February 29, 2020 ^(*)	\$151,556	\$16,365				\$167,921

(*) Amortization of goodwill is disclosed in "(c) Information about operating revenues, profit (loss), assets, and other items for each reportable segment."

22 SUBSEQUENT EVENTS**(a) Acquisition of shares**

At the Board of Directors meeting held on February 4, 2020, the Company resolved to acquire shares of Allianz Life Insurance Japan Ltd. (hereinafter, "Allianz Life Japan"), a Japanese life insurance subsidiary of Allianz SE, through a third-party allotment to make Allianz Life Japan a subsidiary of the Company, subject to the approval of the relevant authorities. On March 31, 2020, the Company acquired the shares and made Allianz Life Japan a subsidiary of the Company.

(i) Purpose of the acquisition of shares

Allianz Life Japan is a life insurance company which has over 20,000 existing insurance contracts (as at March 31, 2019).^{*1} As part of the Group's strategy, the Group is considering entering the life insurance business in collaboration with

AEON Group companies with the aim of extending healthy life expectancy in an aging Japanese society. The Group believes that the acquisition of shares of Allianz Life Japan will provide a valuable opportunity and foundation for starting the life insurance business.

Through this life insurance business, the Group plans to support customers' activities to improve their health to prevent illness, with proposing health improvement measures in cooperation with "goods, activities and services" provided by AEON Group companies.

Going forward, the Group intends to grow the life insurance business as a core business of the Group through new strategies while protecting existing policyholders' benefits.^{*2}

^{*1}: Allianz Life Japan has suspended the new contracts since January 2012.

^{*2}: There is no plan to change the terms and conditions of the existing policyholders' insurance contracts.

(ii) Name of acquired company and its business

(1) Name	Allianz Life Insurance Japan Ltd. The company name has been changed to "AEON Allianz Life Insurance Co., Ltd." on May 1, 2020
(2) Type of business	Insurance
(3) Capital	¥34,399.90 million (\$314,298 thousand) (as at March 31, 2020)

(iii) Stock acquisition date March 31, 2020

(iv) Number of shares acquired, acquisition cost and ownership ratio after acquisition

(1) Number of shares acquired	32,400 shares
(2) Acquisition cost	¥3,240 million (\$29,603 thousand)
Advisory fees	¥420 million (\$3,837 thousand)
(3) Ownership ratio after acquisition	60.0%

(v) Funding method for payment to acquire stocks The Company's own funds are utilized.

(b) Suspension of business in member stores and restrictions of debt collection activities

Due to the COVID-19 pandemic, overseas countries in which the Group operates have imposed stay-at-home orders, bans on activities for companies and orders to close commercial facilities. In addition, the governments and central banks have issued notifications to protect customers such as instructions to set grace periods for their debt. The Group also has restrictions of debt collection activities, which result in reductions and exemptions of interests.

In Japan, there have also been requests to avoid unnecessary outings and to close business facilities based on the

declaration of state of emergency. In order to ensure the safety of customers and employees and to provide services continuously, the Group takes measures such as refraining from visiting customers and requesting customers not to visit stores to execute contracts, closing some stores and changing opening hours.

As a result, transaction volume has decreased and restrictions have been placed on debt collection activities, and the Group expects a decrease in operating revenues and an increase in provision for possible credit losses and write-off of bad debts from the following fiscal year.

(c) Issuance of unsecured bonds

The Company issued unsecured bonds pursuant to the resolution at the Company's Board of Directors' meeting held on July 22, 2020. The key information of the unsecured bonds is summarized as follows:

(i) (1) Name: 12th Unsecured Bonds (with limited inter-bond pari passu clause)	
(2) Total amount of issue	¥10 billion (\$91,366 thousand)
(3) Interest rate	0.290% per annum
(4) Issue price	100% of the principal amount of the bonds
(5) Issue date	July 30, 2020
(6) Maturity date	January 30, 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	July 30, 2020
(9) Use of proceeds	To be applied toward the partial repayment of borrowed money.
(ii) (1) Name	13th Unsecured Bonds (with limited inter-bond pari passu clause)
(2) Total amount of issue	¥5 billion (\$45,683 thousand)
(3) Interest rate	0.380% per annum
(4) Issue price	100% of the principal amount of the bonds
(5) Issue date	July 30, 2020
(6) Maturity date	July 30, 2025
(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	July 30, 2020
(9) Use of proceeds	To be applied toward the partial repayment of borrowed money.



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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated balance sheet of AEON Financial Service Co., Ltd. and its subsidiaries as of February 29, 2020, 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 February 29, 2020, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

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

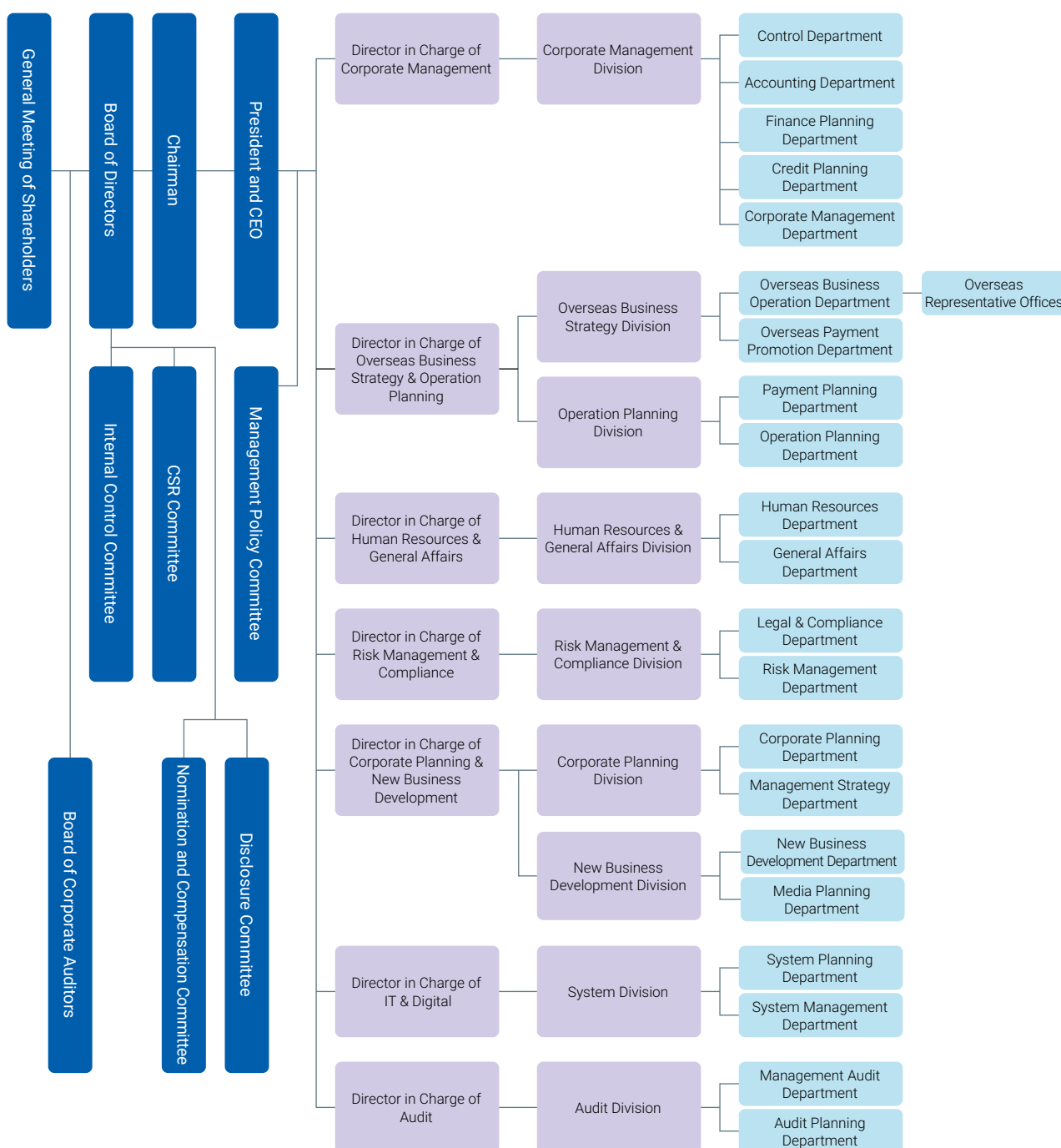
Deloitte Touche Tohmatsu LLC
May 27, 2020
(August 28, 2020 as to Note 22(c))

Company Information

Corporate Data

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

Organization (As of June 1, 2020)



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 (2.0)	1	–	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 (100.0)	–	Loans of capital	Management fees, outsourcing fees	Subletting of office premises
AEON Bank, Ltd. ^{4,5}	Koto-ku, Tokyo	51,250	Retail	100.0 (100.0)	1	–	Management fees, outsourcing fees	Subletting of office premises
AEON Insurance Service Co., Ltd.	Mihama-ku, Chiba	250	Retail	99.0	1	–	Management fees, outsourcing fees	Subletting of office premises
AEON Credit Service Co., Ltd. ^{4,5,8}	Chiyoda-ku, Tokyo	500	Solutions	100.0	2	Loans of capital	Management fees, outsourcing fees	Subletting of office premises
AEON Product Finance Co., Ltd.	Chiyoda-ku, Tokyo	3,910	Solutions	100.0	–	Loans of capital	Management fees, outsourcing fees	Subletting of office premises
ACS Leasing Co., Ltd.	Chiyoda-ku, Tokyo	250	Solutions	100.0	–	Loans of capital	Management fees, outsourcing fees	–
AFS Corporation Co., Ltd.	Chiyoda-ku, Tokyo	2,000	Holding Company or Other	100.0	1	Loans of capital	Management fees, outsourcing fees	Subletting of office premises
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)	2	–	Management fees	–
AEON Credit Service (M) Berhad ^{4,5,8}	Malaysia	MYR 565 million	Malay Area	61.9	1	–	Management fees	–
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 [71.0]	–	–	Management fees	–
PT. AEON Credit Service Indonesia	Indonesia	IDR 200,400 million	Malay Area	95.5 (20.9)	1	–	Management fees	–
ACS Servicing (Thailand) Co., Ltd.	Thailand	THB 148 million	Mekong Area	100.0 (100.0)	1	–	Management fees	–
AEON Credit Service Systems (Philippines) Inc.	Philippines	PHP 300 million	Holding Company or Other	100.0	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 (100.0)	1	–	–	–
AEON Financial Service (Hong Kong) Co., Ltd. ⁵	Hong Kong	RMB 740 million	Holding Company or Other	100.0	–	–	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)	–	–	Management fees	–
AEON Credit Service (Philippines) Inc.	Philippines	PHP 500 million	Malay Area	93.8	1	–	–	–
AEON Microfinance (Myanmar) Co., Ltd.	Myanmar	MMK 17,021 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)	1	–	–	–
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. and AEON Credit Service (M) Berhad each account for more than 10% of consolidated ordinary revenue (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

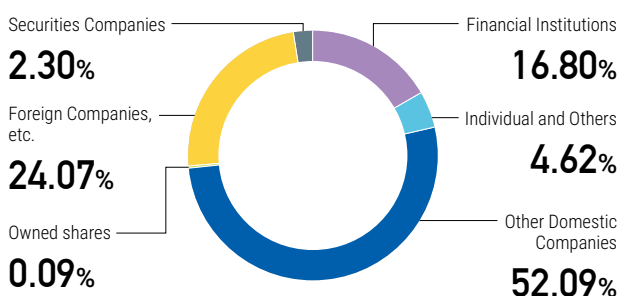
Basic Share Information

(As of February 29, 2020)

Stock Listing	Tokyo Stock Exchange
Industry Sector	Other Financing Business
Securities Code	8570
Share Unit	100
Fiscal Year	March 1 to February 29 of the following year
Dividend Record Date	End of February (interim dividend: August 31)
Authorized Shares	540,000,000
Issued Shares	216,010,128
Shareholders	18,584

Shareholding Ratio by Type of Shareholder

(As of February 29, 2020)



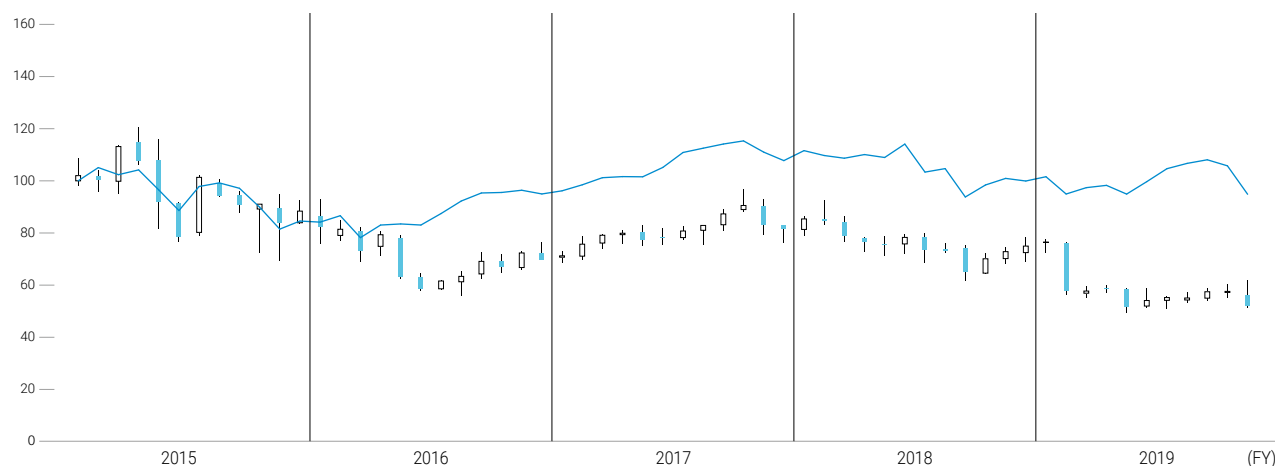
Major Shareholders

(As of February 29, 2020)

Shareholder Name	Shares Held (thousands)	Percentage of Total Shares Held (Excluding Treasury Stock) (%)
AEON Co., Ltd.	103,236	47.84
State Street Bank and Trust Company 505223	9,863	4.57
The Master Trust Bank of Japan, Ltd. (Trust Account)	7,189	3.33
Japan Trustee Services Bank, Ltd. (Trust Account)	6,660	3.09
State Street Bank and Trust Company 505001	5,546	2.57
JPMorgan Chase Bank, N.A. 385632	2,720	1.26
Japan Trustee Services Bank, Ltd. (Trust Account 9)	2,702	1.25
Maxvalu Nishinohon Co., Ltd.	2,646	1.23
Japan Trustee Services Bank, Ltd. (Trust Account 5)	2,447	1.13
State Street Bank and Trust Company 505103	2,338	1.08

Note: In addition to the above, the Company holds 208,000 shares of treasury stock.

Share Price and Tokyo Stock Price Index (TOPIX)



■ Share price — TOPIX at end of month

Note: The stock price of AEON Financial Service and TOPIX are indexed with the closing price in April 2015 as 100.

	Fiscal 2015	Fiscal 2016	Fiscal 2017	Fiscal 2018	Fiscal 2019
Market capitalization (Billions of yen)	553.8	472.8	551.3	508.0	330.7
High (Yen)	3,620	2,790	2,914	2,785	2,329
Low (Yen)	2,091	1,689	2,067	1,849	1,493

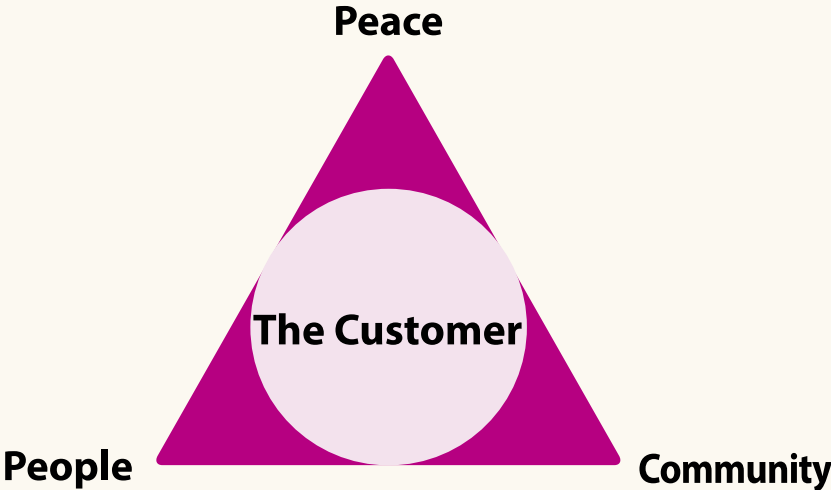
Note: Market capitalization is calculated by multiplying the closing price of the stock price at the end of the fiscal year by the total number of shares issued at the end of the fiscal year.

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.