

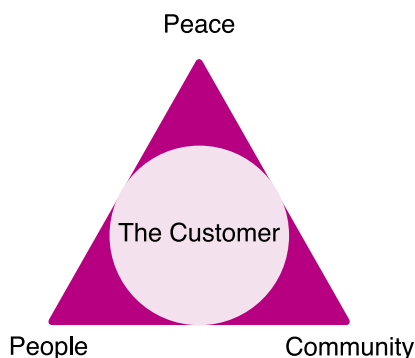
# BRINGING MORE TO CUSTOMERS' DAILY LIVES

## Annual Report 2020

For the year ended February 29, 2020

# Philosophy and Policy

## 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.

## Management Philosophy

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

## Basic Policies

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

### Editorial Policy

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

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

### Forward-Looking Notes

Note to Reader In this report AEON Financial Service is also referred to as “AFS.”

All of the matters related to our future management strategy, sales policy, business forecast, etc. described in this integrated report are assumed and calculated based on the information we have at the moment. It contains various uncertainties such as economic trends, competition in the industry, market demand, exchange rates, risks related to tax systems and various systems, etc. Therefore, it will actually be announced in the future. The performance, etc. to be performed may fluctuate due to these various factors.

### Scope of Report

- Organization: AEON Financial Service Co., Ltd. and its consolidated subsidiaries
- Period: Fiscal 2019 (April 1, 2019 – February 29, 2020) (Some information is more recent)

### Guidelines Referenced

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

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Website guidance

<https://www.aeonfinancial.co.jp/en/>

Corporate Information

<https://www.aeonfinancial.co.jp/en/corp/>



Shareholder and Investor Information

<https://www.aeonfinancial.co.jp/en/ir/>



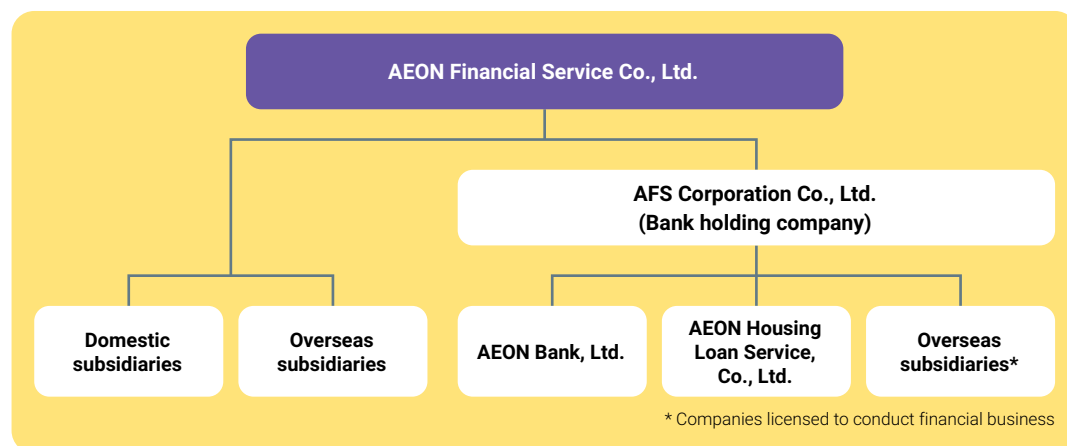
CSR Information

<https://www.aeonfinancial.co.jp/en/activity/>



# About AEON Financial Service

AEON Financial Service Co., Ltd. is a comprehensive financial group with roots in the retail sector and is responsible for the AEON Group's wide-ranging financial businesses, with 32 local subsidiaries and one equity method affiliate spanning 11 countries and regions in Asia, including Japan.



The AEON Group is a corporate group consisting of seven businesses that support customers' daily lives under the pure holding company, AEON Co., Ltd.



\* The Financial Services Business includes 33 Group companies of the AEON Financial Service Group, in addition to AEON Reit Management Co., Ltd. and FeliCa Pocket Marketing Inc.

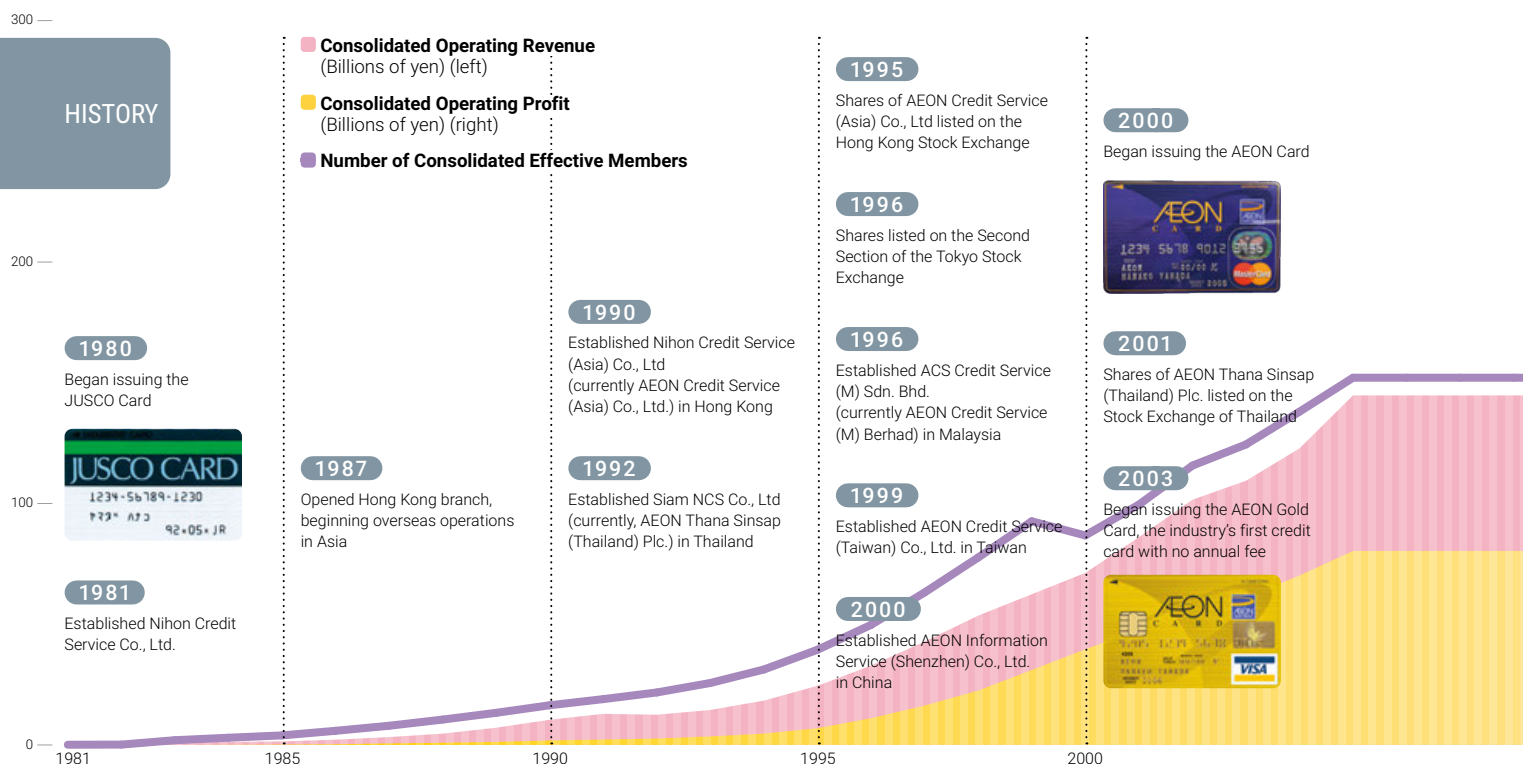


For an overview of the AFS Group, please refer to "AFS at a Glance" on p. 18.

# Growth Trajectory

In 1980 our predecessor, Nihon Credit Service Co., Ltd., was established as a company that issued proprietary JUSCO credit cards to customers of JUSCO Co., Ltd. (currently AEON Co., Ltd.). Since then, we have made use of the AEON Group's sales network to expand business as a comprehensive financial group that focuses on credit cards to provide banking, insurance, and other financial services. We have also engaged in active expansion into other Asian countries since 1987, with shares listed on stock exchanges in Hong Kong, Thailand, and Malaysia. Through these actions and others, we have continued to grow while providing new value to our customers and keeping our eyes trained on the changing times and environment.

## HISTORY



## PROVIDING VALUE

1981~



### Launching the card shopping business

We have expanded our card shopping business in collaboration with AEON Group retailers. We have made efforts to increase our range of services, which include issuing cards that do not require signatures for food purchases, and combined postal savings cards.

1987~



### Providing financial services for convenient and enriching lifestyles in Japan and other Asian countries

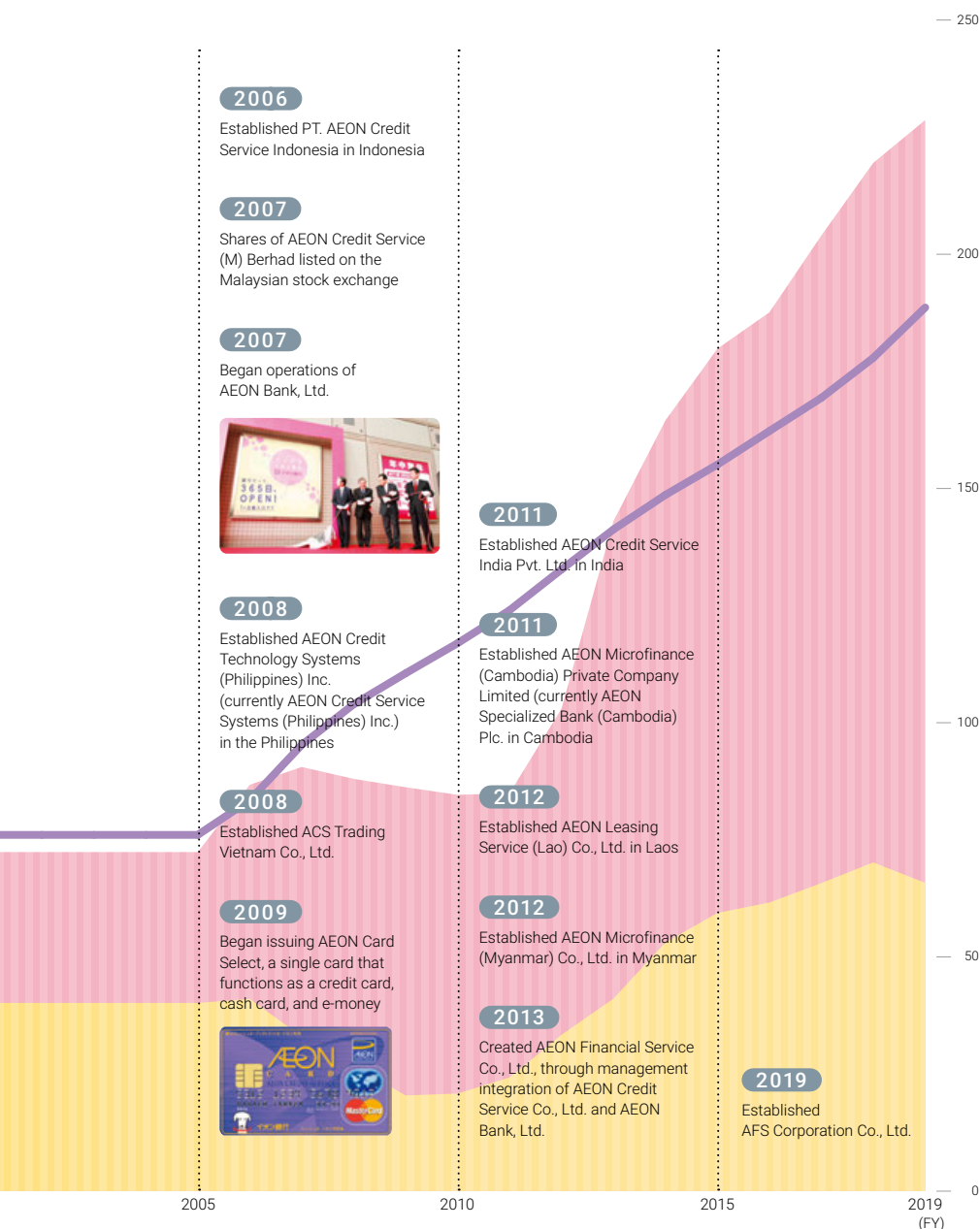
We have developed our financial service businesses not only in Japan, but various other Asian countries as well. Starting in Hong Kong, which already had AEON Group retail stores in operation, we then expanded into Thailand and Malaysia. Since then, we have continued our active push for expansion overseas in pursuit of new markets.

## RELATED SOCIAL MOVEMENTS

### The proliferation of credit cards

### The bubble economy and contraction of the Japanese market





## FISCAL 2019 RESULTS

### Transaction Volume

¥8,970.3 billion

### Consolidated Operating Revenue

¥457.2 billion

### Consolidated Operating Profit

¥65.0 billion

### Proportion of Operating Profit from Global Business

Approx. 45%

### Cardholders

45.27 million cardholders

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.

## 2007~

### Offering total support suitable for customers' lifestyles and life stages

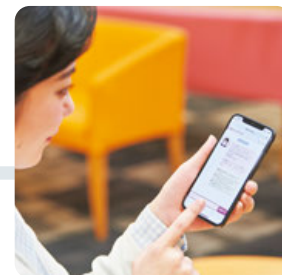
From day-to-day credit payments to savings and deposits, insurance, and asset formation, we have been focused on supporting customers' financial needs at each stage of life to make sure they lead as enriching a life as possible.



## 2019~

### Evolving from comprehensive financial services to comprehensive life services by transitioning to a business company to provide flexible responses to changes in difficult times

The Company underwent a change in organizational structure and transitioned from a bank holding company to a business company. Through actions that include entering the life insurance business, we are putting forth new forms of enrichment that are not restricted by the traditional financial framework.



Diversification of lifestyles and ease of restrictions

Changes in the financial industry due to entering different businesses

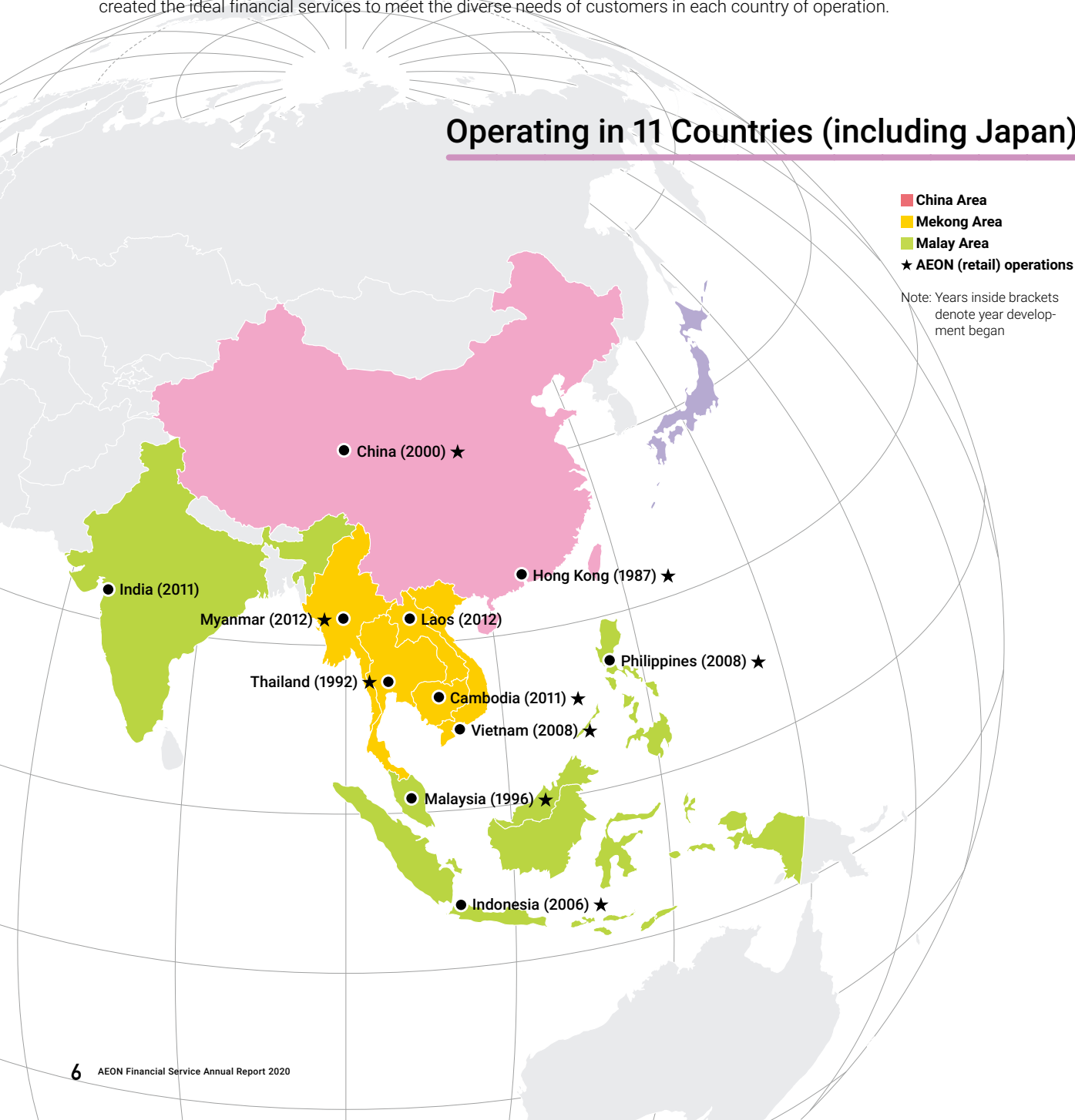
# Our Strengths

We continue to grow and provide our unique value by making full use of the strengths we have cultivated since our founding in 1980 to the present day, including a store network in Japan and other Asian countries belonging to the AEON Group, Japan's largest retail group with consolidated operating revenue of over ¥8 trillion.

## Active Overseas Development

In 1987, we began business development in Asia by opening our first overseas base in our Hong Kong. Since then, we have created the ideal financial services to meet the diverse needs of customers in each country of operation.

### Operating in 11 Countries (including Japan)





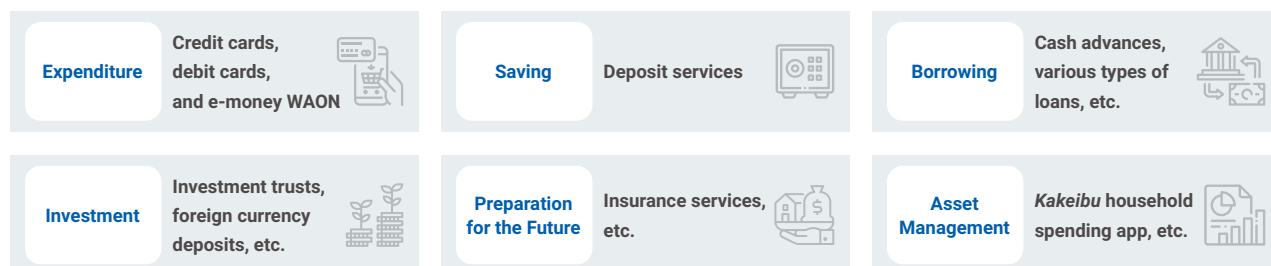
## Digital × Real

We have combined the strength of our brick-and-mortar stores and ATMs located in AEON shopping centers and other locations across Japan with the digitalization of our increasingly in-demand services in order to meet customer needs from a multi-faceted series of contact points.



## Comprehensive Financial Services for Any Lifestyle

Money exists to be spent, saved, borrowed—the list goes on. One of the true strengths of a comprehensive financial group with its roots in the retail sector is that we have a close connection with customers' varying lifestyles during the different stages of their lives, and can therefore provide fine-tuned support. We will continue to produce value unique to the Company by taking the various products and services handled by the AEON Group and linking them with finance.



# Value Creation Process

We provide a series of comprehensive services tailored toward our customers' diverse lifestyles and day-to-day lives while making use of the management resources and strengths cultivated as a company committed to lifestyle support.

## External Environment and Social Issues Affecting the Company

### External Environment

- Japan's declining birthrate and aging population
- Economic growth in Asian countries
- Proliferation of smart devices
- Further development of IT technology
- Diversification of lifestyle needs
- Shift toward cashless payments

### Social Issues

#### Overseas

- High proportion of low-income groups
- Unstable employment opportunities
- Inadequate accessibility to financial services
- Incomplete payment infrastructure

#### Domestic

- Labor shortages
- Growing social disparity
- COVID-19 countermeasures

## Capital Usage

### AEON Brand Strength



Group employees —  
**Approx. 580,000**

Stores —  
**19,094**

Ranking in the domestic  
retail industry —  
**No. 1**

### Network

Countries served —  
**11**

Sales offices —  
**658**

### Financial Capital

Consolidated total assets —  
**¥5,781.3 billion**

Consolidated equity —  
**¥393.4 billion**

### Human Capital

Employees —  
**19,873**  
(Ratio of global Group employees: 76%)

### Customer Base

Cardholders —  
**45.27 million**

## Company Strengths

**Active Overseas  
Development**

**Digital x Real**

**Comprehensive  
Financial Services  
for Any Lifestyle**

(As of February 29, 2020)

## Management Base

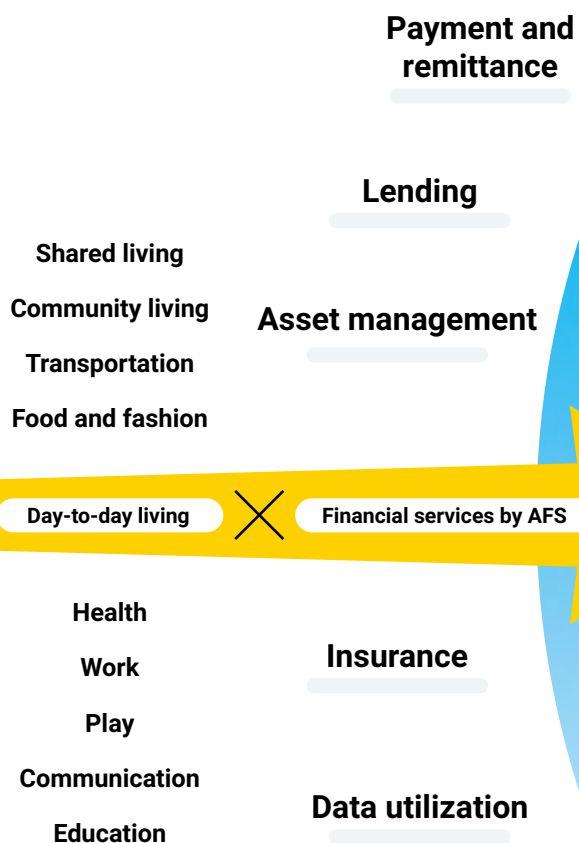
Basic CSR Policy

Human Resources Strategy

Corporate Governance

Internal Control System

## Management Philosophy and Basic Policies



# OUR VALUE

As a company committed to lifestyle support, we provide comprehensive services that customers need—beyond finance.





**Kenji Fujita**

President and CEO

**By transforming from a financial services company into a comprehensive services company, we will achieve greater social development and further growth for the Company.**

I was elected as President and CEO of AEON Financial Service Co., Ltd. in May 2020. Upon joining AEON Co., Ltd. (formerly Jusco Co., Ltd) in 1992, I was put in charge of store development and management in the retail business. From 2012, I was involved in the Company's financial business, and now, as President of the holding company that represents the financial business, I am determined to pursue management aimed at business expansion and further growth.

## Experience and Values Gained from Overseas Assignments

Since joining the Company, I have spent the greater part of my career abroad, with over 20 years in Malaysia and Hong Kong, involved in the development and management of shopping centers, the establishment of local subsidiaries, and the support of all overseas subsidiaries, among other duties. From June 2019 to the moment I was elected President of the Company, I served as President of AEON Thana Sinsap (Thailand) Plc., a local subsidiary based in Thailand.

I learned much through these overseas assignments, but the most important thing I learned was to respect the locals and their culture, society, and customs, and to show my gratitude for being allowed to conduct our business in their space as a foreign affiliate.

Another lesson learned overseas was that for an organization, diversity equals strength. In Malaysia, the longest post over my career, people of many races and languages coexist together. Organizations that push for diversity are highly adaptable to changing conditions and, what is more, is that time after time they will find that by bringing together a variety of people with different cultures and ways of thinking, they are able to notice things that might have gone unchecked, develop new ideas, and take on new challenges.

As a manager, I will take advantage of my experience, both in terms of having worked in an environment different from Japan in various respects, such as culture, society, customers, laws, and regulations, and having taken on a wide range of duties, to drive further internationalization of the Company and to transform the business with an eye on the next generation.

## Our Response to COVID-19

The global economy has been greatly affected by the spread of COVID-19. Consumption has plummeted, in part due to commercial facilities closing as a result of states of emergency and lockdown announcements in Japan and overseas. This in turn has had a major impact on our business.

After evaluating our efforts, we believe that we have taken appropriate infection prevention measures, which have included working to establish a safe and secure sales system for customers and prompt implementation of remote work for employees. At the same time, however, some issues did arise. I cannot say that we can put together an immediate response to digitalization, our customers' new ways of living, and the changes in consumer behavior.

While no one knows how long this disease will continue to spread, we as a company must adapt quickly to these new conditions and fight to survive. We cannot establish our business without the cooperation of our stakeholders. In that sense, it is also important that we show our ability to address social demands and prove our value as a company.



## Accelerate Digital Shifts and Turn Changes in the Environment into Opportunities for Growth

The spread of COVID-19 has set off major changes in people's lifestyles and behaviors. As far as this concerns our business going forward, I see these changes as strong positives. One of these positives is the rapid progress of digitalization that has occurred. Due to self-quarantine practices, people have digitalized their lifestyle and consumer habits and moved them online. As a result, we are seeing an explosion in Japan's cashless payment market, which was previously slow-growing compared to the rest of the world. Our main battlefield is currently the off-line market, and although the transaction volume online varies from country to country, it is generally less than 10%. We believe that this proportion will have to grow as the online market expands and that the ratio of online to off-line transactions will be even in the next five years. To that end, we will further accelerate our efforts to bring services online and support cashless payments.

This is also the perfect opportunity to bring customer contact points and our internal back-office processes online. There are several types of credit card-related procedures that are typically done online in Japan, but are still done through analog methods overseas. Conversely, there are countries that, like Japan, require something similar to a personal seal or signature for signing loan agreements. By digitalizing processes that have been analog up to this point in time, we will be able to provide more convenient and agreeable products and services to customers and improve operational efficiency and productivity in our internal back-office operations as well.

Before this can take place, it is expected that companies in the financial industry that fail to offer online services will be weeded out in favor of new entrants from other industries. This trend will only accelerate as 5G services become available in each country, enabling seamlessly connected infrastructure. I personally have a strong sense of foreboding that we will not be able to remain competitive in the coming world unless we digitalize all of the operations, products, and services that are currently processed off-line.

In the future, we will initiate a digital shift in the value chains of each of the Group's businesses, in addition to digitalizing existing operations, and transform the products and services we offer to customers anew. While we must act in accordance with the laws and regulations of each country, we believe that we must complete this shift within the next one to two years, and will be strong and resolute in our efforts to promote measures accordingly.





## Transformation from Financial Services to Comprehensive Services

We have put forth a declaration to “transform from a financial services company to a comprehensive services company” as management’s future course of action. This does not mean ending our existing financial businesses. Rather, it means building a wide-ranging business portfolio and combining financial services with a variety of non-financial life services in order to evolve into a company that can address the various needs of its customers.

For example, overseas, access to transportation plays an important role in obtaining a certain level of income in countries and regions where social infrastructure is not sufficiently developed. We provide financial services upon purchase of modes of transport and support businesses that provide these modes of transport, and in doing so our financial services are tied to products and services that match customers’ income and life stages. We are developing several overseas businesses that create their own business opportunities by incorporating financial services in this regard. Going forward, we will build a wide-ranging business portfolio in Japan and overseas to create services that are essential to the daily lives of our customers.

As part of this effort, we have entered the domestic insurance business. In 2019 we transitioned from a bank holding company to a business operating company, which allowed us to enter into various businesses without being subject to restrictions on the scope of operations under the Banking Act. Taking advantage of this situation, we acquired Allianz Life Insurance Japan Ltd., a Japanese subsidiary of the Germany-based Allianz Group, and made it a subsidiary of the AEON Financial Service Group in March 2020. One example for future business involves combining the AEON Group’s health and wellness business with our insurance business to provide new products and services to customers. Though it will take some time for the insurance business to contribute to business results, we intend to expand the business overseas as well.

In addition, we are taking a trial and error approach toward creating new business opportunities. However, we are not limited to utilizing the management resources of the AEON Financial Service Group—we are, in fact, utilizing the management resources of the entire AEON Group, so that we can provide services that meet the financial needs that arise in terms of retail, shopping malls, or any of their other businesses. Over the medium term, we will combine various businesses and services created in collaboration with the AEON Group and external partners to build a business portfolio that allows us to provide comprehensive services.

## Overseas Development—Advantages and Issues

We operate in 11 countries and regions in Asia, including Japan, with a wide-ranging portfolio, both in terms of region and business. One major strength in our corner is that Asia, which serves as one of our pillars of growth, is expected to see further financial development in the future. This means that we have a particularly wide variety of approaches available to us from the perspective of combining financial services with life services, the strategy I mentioned previously.

With each country’s market having its own characteristics and regulations, one does not simply enter them without spending time and effort. It has become increasingly difficult to engage in cross-border development, particularly under circumstances such as the current COVID-19 pandemic. Therefore, the fact that we have made developments in Asian markets ahead of other companies will be a great advantage as we pursue further growth going forward. We aim to leverage this advantage to cultivate businesses in each country and region where we currently operate and expand business into other countries and regions.

On the other hand, there are naturally issues we must address as we develop overseas. We are currently focused on development in China and the ASEAN region, but with the different regulations and business models for each country, we need to establish a basic IT infrastructure to properly manage our overseas companies

while expanding business. What I have also gathered, both from my own experience working overseas and from our response to COVID-19, is that we need to transfer authority to local subsidiaries while lending our support to ensure that these companies can operate autonomously. Given that it is the local employees in each country who have the best understanding of the situation, customers, and society, it does not necessarily make sense for the Japanese head office to control everything. Also, because financial institutions will naturally have rules to comply with proper governance, I believe it necessary that we cultivate autonomous organizations with managerial human resources capable of acting based on their own judgment while keeping these rules and governance a priority.

## Financial Services That Help Resolve Social Issues

Various social issues exist in the countries and regions of Asia in which we operate. Unstable employment opportunities, and a high proportion of low-income earners are just some examples of serious social issues. In fact, approximately 70% of our customers are unbanked and unable to receive credit from banks.

As previously mentioned, we help customers facing these issues with finding employment opportunities through financial services that are tied to acquiring transport. Once they are mobile, they are then able to work in remote factories, farms, or elsewhere. When a person can work and earn money, their standard of living goes up. If a person gets married and has a child, they will likely want that child to have a better education. In Malaysia, approximately 30% of motorcycle registrations are purchased through our financial services. Compared to before the service started, the current motorcycle market in Malaysia has doubled in size. We take pride in helping create employment opportunities and improving living standards for our customers.

In Japan, COVID-19 may cause a rise in the number of people who would like to leave the city and move to the suburbs or the countryside to work remotely. If that happens, lifestyles will change, requiring cars for transportation and more online shopping.

We intend to further enrich the lives of customers by utilizing financial services to support them according to their life stages and situations. As an integrated, retail-based financial business, we believe that it is our role to provide credit as a tool to address the SDGs and diversifying social needs and to help with the development of customers' lives and the societies in which they live them.

## A Return to Our Management Philosophy

Our management philosophy is "to support customers' lifestyles and enable each individual to maximize future opportunities through effective use of credit." What this means on one hand is providing financial services as if they are life services—capturing the needs of each customer while also considering their lifestyle and future. On the other hand, it also means accepting the trust given us by the customer to help them generate financial credit. This involves not only providing credit to customers but also providing the means to make necessary payments for various life situations and enabling the use of other services that require credit to be utilized.

Our reason for being is to serve as a company that helps improve customers' lives as a comprehensive financial business of the AEON Group. To achieve further growth, we will return to our management philosophy anew, consider what value we can provide to society, and take the managerial steps to achieve our vision.

I would like to ask all of our stakeholders for their continued support going forward.



**We will give financial support to businesses as they transform amid the “new normal.”**

### Hideki Wakabayashi

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

#### Building a Financial Structure in Keeping with Our Changing Business Model

Amid highly uncertain conditions brought about by the spread of COVID-19, business model reform is an urgent matter for business continuity. In light of the lifestyle changes expected to set in as the pandemic extends into the long term—the “new normal”—we will reform our financial structure, placing

the highest priority on both putting forth safe and secure products and services and hiring a steady stream of employees, while also constructing IT systems and digital platforms capable of responding to the changing environment.

#### Funding and Financial Health

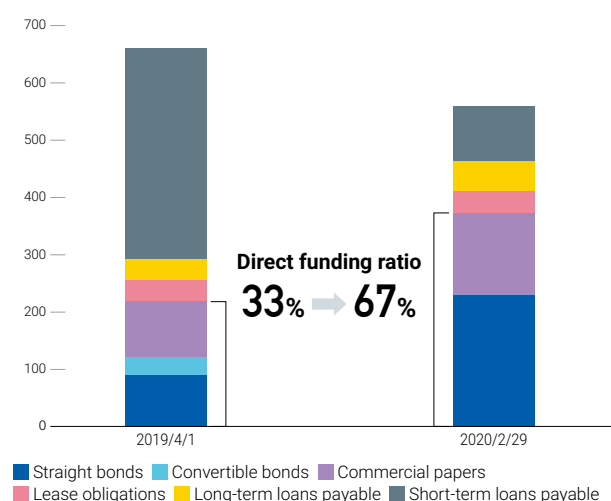
From a financial perspective, the Company is focused on ensuring on-hand liquidity and financial stability by centralizing the funding of subsidiaries through loans from the parent company (AEON Group), extending funding periods, and diversifying funding methods. Domestic companies will shift to direct funding by increasing their direct long-term funding from the parent company by ¥140.0 billion, making use of the Company's creditworthiness. Free space for indirect funding will be allocated to overseas subsidiaries in preparation for future expansion.

The greatest challenge we face in fiscal 2020 is responding to the shift toward the “new normal.” A digital shift in operations to support work, products, and services is important in this regard. Our business is in need of a major transformation, and for that to occur, we must visualize the current situation in order to get a handle of any problem points and make the appropriate investments toward solving them. Our aim is to maintain a sustainable financial structure that will support those investments while always keeping the well-being of our business in mind.

Since fiscal 2019, we have been working to streamline Groupwide funding and to diversify funding methods by consolidating funding of domestic Group companies into the Company. As a result, the ratio of direct funding has

#### Interest-Bearing Debt (Domestic)

(Billions of yen)



increased and we have been able to realize a shift to low-interest, long-term funding. In particular, in fiscal 2019 we issued ¥180.0 billion in corporate bonds. Regarding the use of funds, we allocate capital with consideration for the balance

## Major Financial Indicators

(Billions of yen)

	Fiscal 2015	Fiscal 2016	Fiscal 2017	Fiscal 2018	Fiscal 2019
Operating revenue*1	359.7	375.2	408.0	439.0	457.3
Year-on-year increase/decrease	109.3%	104.3%	108.7%	107.6%	104.3%
Operating profit*2	59.4	61.6	65.7	70.2	65.1
Year-on-year increase/decrease	111.9%	103.7%	106.7%	106.8%	92.7%

\*1 Ordinary revenue from fiscal 2015–fiscal 2018.

\*2 Ordinary profit from fiscal 2015–fiscal 2018.

between appropriate capital and risk assets for domestic and overseas subsidiaries through purchasing of subordinate beneficiary rights issued by domestic subordinates, and acquiring subordinate loans from overseas subsidiaries in addition to intercompany loans and increased capital funding from the parent company to our subsidiaries. Specifically, intercompany loans for fiscal 2019 amounted to ¥199.7 billion and capital increases to overseas subsidiaries amounted to

¥7.0 billion. We funded our subsidiaries through a variety of methods. In addition to purchasing AEON Bank's mortgage loan subordinate beneficiary rights to a total of ¥40.0 billion, AEON Specialized Bank (Cambodia) Plc. received a subordinate loan of \$4.0 million USD (approximately ¥0.44 billion), while AEON Credit Service (M) Berhad issued subordinate bonds (Islamic bonds, wakala sukuk) amounting to RM100.0 million (approx. ¥2.6 billion).

## IT Systems and Digitalization Investments and Capital Efficiency

One of the items highlighted in our previous medium-term strategy (2017–2019) was an investment plan totaling ¥100.0 billion devoted to IT systems and digitalization. This investment plan is separated into three policies.

- 1) Investment toward innovation in products and services to promote strategies common across the AEON Group, the Asia shift, urban shift, senior shift, and digital shift
- 2) Investment toward streamlining credit screening and collection
- 3) Investment toward improving labor productivity

We have set the ratio of bad debt allowance to operating income and ratio of personnel expenses (labor share ratio) to operating income as KPIs for verifying the effectiveness of an investment. We have reached our initial targets in the

Domestic Business by going paperless and promoting system infrastructure development. In the Global Business we carried out our plan by focusing on systemizing credit screening and collection in Asian countries utilizing online and mobile solutions and by improving our labor share ratio. However, the uncertainty of the economic outlook coupled with a change in the recording method for allowance of doubtful accounts resulted in the ratio of bad debt allowance to operating income exceeding planned levels.

As a result, the total amount invested in IT systems and digitalization was ¥103.0 billion over three years. While we were able to steadily promote IT and digitalization, there were issues that arose as we made these efforts that we are still working to resolve.

## IT Systems and Digitalization Investment Results

(Billions of yen)

	Fiscal 2017	Fiscal 2018	Fiscal 2019	Total	Planned
Investment results	35.3	34.4	33.3	103.0	100.0
Domestic	26.0	28.0	28.1	82.1	70.0
Global	9.3	6.5	5.1	20.9	30.0

## Investment KPIs

	Fiscal 2017	Fiscal 2018	Fiscal 2019	Planned
Ratio of bad debt allowance to operating revenue	7.1%	7.5%	6.9%	7.0%
Ratio of personnel expenses to operating revenue	24.1%	22.9%	28.5%	22.0%
Domestic	16.4%	15.6%	14.9%	15.0%
Global	14.8%	14.7%	14.3%	14.0%

## Adjusting to the Effects of COVID-19

Furthermore, we must respond to major changes in the lifestyles and behavior patterns of customers that have emerged due to the spread of COVID-19 and accelerate our digitalization and systemization efforts, but in terms of pursuing business growth and mitigating the effects of the pandemic. We must also make major changes to the products and services we offer customers. We need to make a fundamental

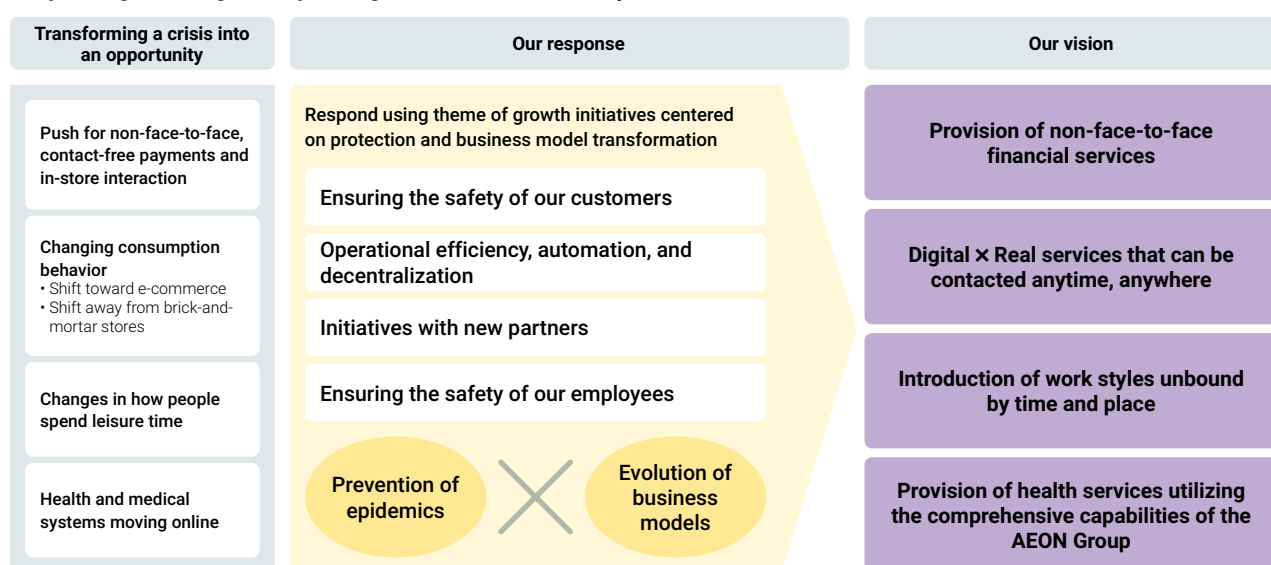
reassessment of the special benefits we offer with credit cards, our insurance products, what comprises the ideal bank branch, and other aspects of our business, and then re-verify whether they are truly in line with what customers need. Moreover, to meet individual customer needs in a prompt manner, not only for sales but for credit screening as well, we will move past the conventional face-to-face approach and

utilize automated confirmation and AI to increase efficiency while using digital technology to facilitate person-to-person interaction. In terms of both work efficiency and mitigating the impact of the pandemic, we need to make a significant shift in our existing concept of work styles and introduce work-from-home and remote working options. In that same vein, we need to consolidate call centers and other center-based operations as well as head office functions. To us, these circumstances have presented a challenging opportunity to bring about great change and we intend to carry out

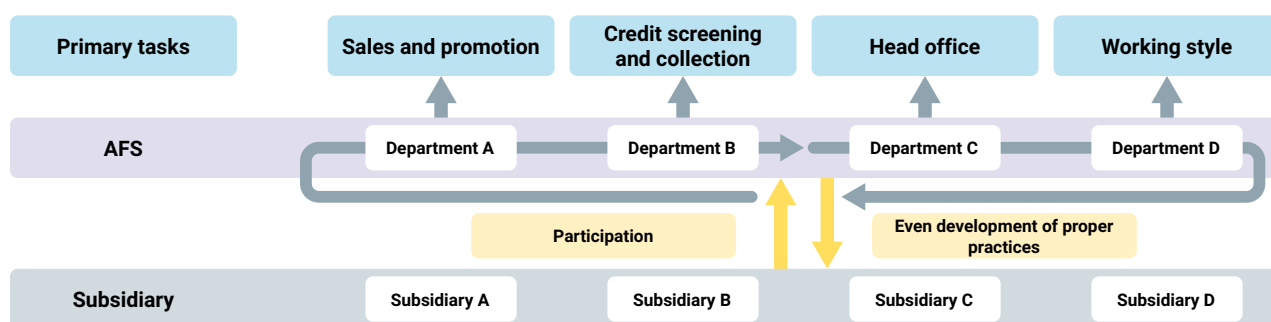
the necessary investments in vital fields to do so. To achieve early stage results, we are working as a task force to determine how the Group should respond as a whole, and have made these efforts an urgent priority.

In addition, we will complement this business model, especially in the Global Business, by promoting M&A investment to achieve further growth and by accelerating our response to external conditions. We also aim for long-term profit growth, with an ROE of 15% as the target value for our desired capital efficiency.

### Responding to Changes in Operating Environment Caused by COVID-19



### Take on Challenges and Realize Change by Creating a Cross-Functional Task Force



### Policy for Shareholder Returns

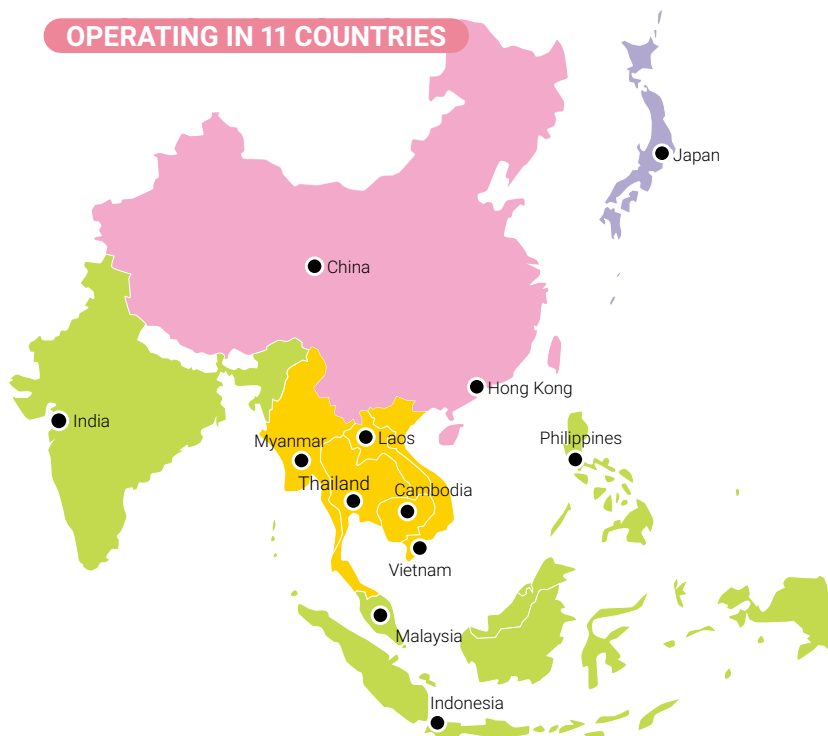
We consider shareholder returns to be an important part of management policy and distribute profits to shareholders appropriately. In the past, our policy has been to maintain a payout ratio of 30%–40%, but based on the particularly harsh outlook of fiscal 2020 results, we have set our annual dividend at ¥23.0 per share. This includes an interim dividend of ¥11.0 per share.

The Group is working as a whole to tackle issues in a swift manner, while staying aware our conventional payout standards, and we will continue to utilize our internal reserves to carry out investing and asset improvements in order to raise corporate competitiveness.

# AFS at a Glance

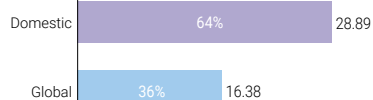
(As of February 29, 2020)

## OPERATING IN 11 COUNTRIES



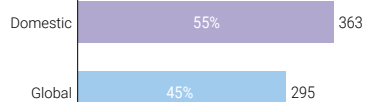
### Cardholders

**45.27 million**



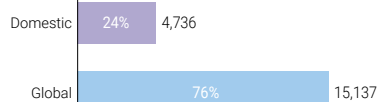
### Sales offices

**658**



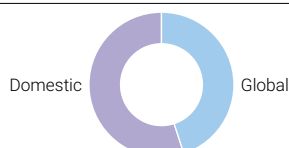
### Employees

**19,873**



### Operating profit ratio

**Domestic 55%**  
**Global 45%**



## Domestic Business

### Core Operating Company

**AEON Credit Service Co., Ltd.**



**AEON Bank, Ltd.**



## Global Business

### Core Operating Company

**AEON Credit Service (Asia) Co., Ltd.**



### Core Operating Company

**AEON Thana Sinsap (Thailand) Plc.**



### Core Operating Company

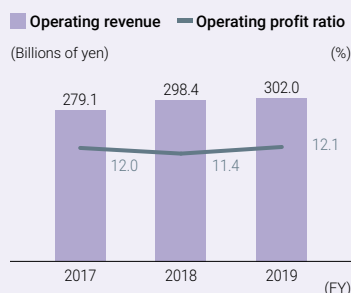
**AEON Credit Service (M) Berhad**





AEON Credit Service promotes data marketing in cooperation with the AEON Group's retail businesses and provides convenient and affordable benefits, earning it the largest number of cardholders in Japan. Amid an increasingly cashless society, they are a one-stop provider of more user friendly and economical payment services such as credit and e-money.

In addition to its sales network of over 140 branches across Japan, AEON Bank is always working to develop new services, having made the leap into digitalization, with options such as apps, and AI chat to ensure that customers can use their services anytime, anywhere, and at their convenience.



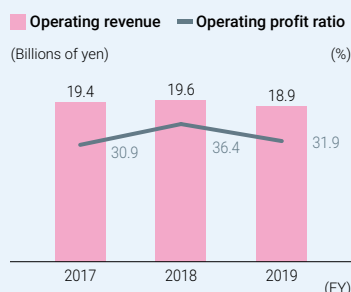
#### MAJOR OPERATING COMPANIES

- AEON Financial Service Co., Ltd.
- AEON Credit Service Co., Ltd.
- AEON Bank, Ltd.
- AFS Corporation Co., Ltd.\*
- AEON Insurance Service Co., Ltd.
- AEON Product Finance Co., Ltd.
- AEON Housing Loan Service Co., Ltd.
- AEON S.S. Insurance Co., Ltd.
- ACS Credit Management Co., Ltd.
- ACS Leasing Co., Ltd.

\* Bank holding company

Note: In fiscal 2017 and fiscal 2018 ordinary revenue and ordinary profit ratio were used as measures.

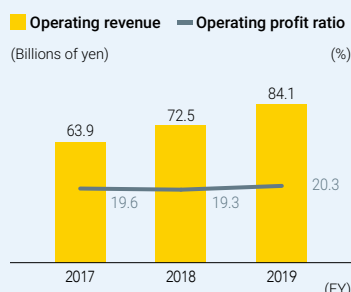
In Hong Kong, our operations are focused primarily on the credit card business, issuing cards in cooperation with AEON Group retail stores and other partner companies. In 1995, we were listed on the Hong Kong Stock Exchange, and since then have been working to increase the number of cardholders and transaction volumes made through sales promotions, while promoting digitalization that makes use of mobile services and technology. In addition, we are developing a personal loan business and an insurance agency business.



#### MAJOR OPERATING COMPANIES

- AEON Financial Service (Hong Kong) Co., Ltd.
- AEON Credit Service (Asia) Co., Ltd.
- AEON Insurance Brokers (HK) Limited
- AEON Information Service (Shenzhen) Co., Ltd.
- AEON Micro Finance (Tianjin) Co., Ltd.
- AEON Micro Finance (Shenzhen) Co., Ltd.

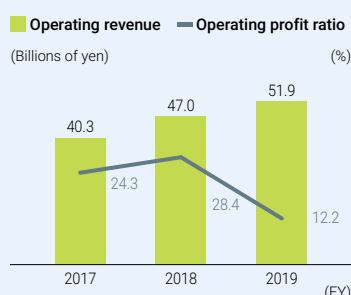
In Thailand, our second base of expansion after Hong Kong, we have approximately 3.3 million cardholders with co-branded cards issued with partner companies. In 2001, we were listed on the Stock Exchange of Thailand and now have brand power as one of Thailand's leading non-banks. Furthermore, we are leveraging our expertise accumulated in the credit business to make active expansion into the insurance agency and service businesses.



#### MAJOR OPERATING COMPANIES

- AEON Thana Sinsap (Thailand) Plc.
- AEON Insurance Service (Thailand) Co., Ltd.
- ACS Capital Corporation Ltd.
- ACS Servicing (Thailand) Co., Ltd.
- ACS Trading Vietnam Co., Ltd.
- AEON Specialized Bank (Cambodia) Plc.
- AEON Micro Finance (Myanmar) Co., Ltd.
- AEON Leasing Service (Lao) Company Limited

In Malaysia, we are working to increase the number of cardholders by developing affiliated credit card merchants and acquiring cardholders during store openings by partner companies. We are expanding business areas in the installment finance business to include those such as auto and motorcycle loans in cooperation with affiliated merchants and manufacturers. In addition, we are promoting ID integration with local AEON Group retailers and making use of it to provide a variety of services.



#### MAJOR OPERATING COMPANIES

- AEON Credit Service (M) Berhad
- PT. AEON Credit Service Indonesia
- AEON Credit Service Systems (Philippines) Inc.
- AEON Credit Service (Philippines) Inc.
- AEON Credit Service India Private Limited

Note: In fiscal 2017 and fiscal 2018 ordinary revenue and ordinary profit ratio were used as measures.

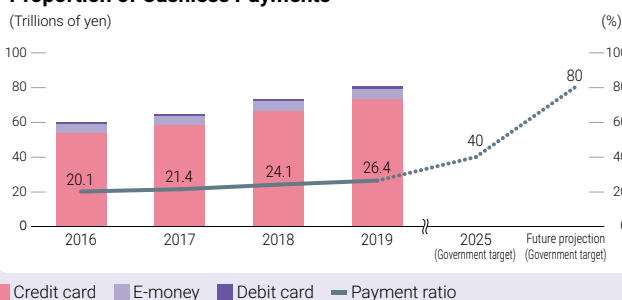
# Domestic Business

## BUSINESS STRATEGY

We aim to grow our customer base further by expanding our product lineup in response to changing demographics and consumer behavior and using digitalization to improve the convenience of our services while also leveraging our strengths as one of the largest retail groups in Japan.

## MARKET ENVIRONMENT

### Proportion of Cashless Payments



\* Source: Created by the Company, based on Cashless Roadmap 2019, produced by the Commission for Promotion of Cashless Settlement

### Forecasted Conditions

- Accelerating shift toward cashless payments, pushed by government-led and private promotional measures.
- Labor shortage caused by the declining birthrate and aging population and the concentration of populations in urban areas
- Changing lifestyles and behavior patterns prompted by COVID-19.

## PRIMARY SERVICES AND SALES NETWORKS

### Main Services

#### Credit card shopping

Annual transaction volume

**Approx. ¥5,380 billion**

#### Credit card cash advances

Annual transaction volume

**Approx. ¥380 billion**

#### E-money

Annual transaction volume

**Approx. ¥1,880 billion**

#### Installment finance

Annual transaction volume

**Approx. ¥220 billion**

#### AEON Bank housing loans

Receivables at end of period  
(before securitization)

**Approx. ¥1,990 billion**

#### AEON Bank ordinary and time deposits

Deposits at end of period

**Approx. ¥3,790 billion**

### AEON Bank's Network in Japan

#### Branches

**141**

#### ATMs

**6,197**

\* Figures as of March 31, 2020

#### Tohoku

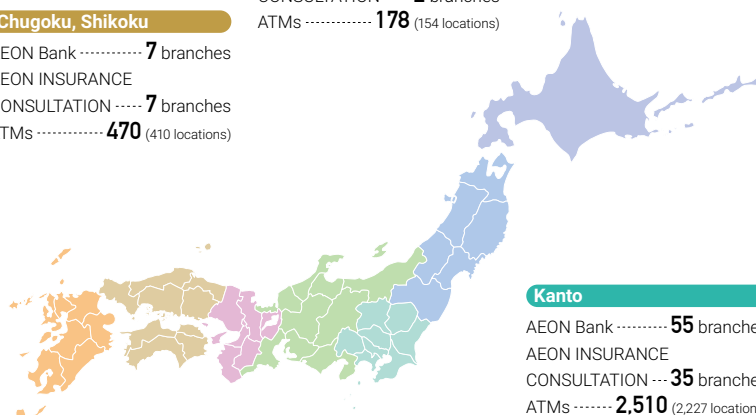
AEON Bank ..... 8 branches  
ATMS ..... 496 (455 locations)

#### Hokkaido

AEON Bank ..... 6 branches  
AEON INSURANCE  
CONSULTATION ..... 2 branches  
ATMS ..... 178 (154 locations)

#### Chugoku, Shikoku

AEON Bank ..... 7 branches  
AEON INSURANCE  
CONSULTATION ..... 7 branches  
ATMS ..... 470 (410 locations)



#### Kanto

AEON Bank ..... 55 branches  
AEON INSURANCE  
CONSULTATION ..... 35 branches  
ATMS ..... 2,510 (2,227 locations)

#### Kyushu, Okinawa

AEON Bank ..... 11 branches  
AEON INSURANCE  
CONSULTATION ..... 14 branches  
ATMS ..... 515 (455 locations)

#### Kansai

AEON Bank ..... 22 branches  
AEON INSURANCE  
CONSULTATION ..... 26 branches  
ATMS ..... 809 (455 locations)

#### Chubu

AEON Bank ..... 32 branches  
AEON INSURANCE  
CONSULTATION ..... 21 branches  
ATMS ..... 1,219 (1,002 locations)

Note: Transaction amounts in each category reflect figures for the 11 months of the current consolidated fiscal year (April 1, 2019 to February 29, 2020).

## INITIATIVES IN FISCAL 2019

### Strengthened Customer Base, Emphasizing Young People and Those in Urban Areas

Domestically, we focused efforts to strengthen our customer base on young people in urban areas. In addition, we enhanced our efforts to increase card usage by implementing promotional measures.

In fiscal 2019 we issued an AEON Card with a Toy Story design and a Keyakizaka46 AEON Card in addition to an AEON Bank CASH+DEBIT Card with a Disney design to attract new, young cardholders and families alike.

To expand our customer base in urban areas, we also issued the Maruetsu Card and the Sumitomo Realty & Development Shopping City AEON Card.

Moreover, we implemented a "New Life Enrollment Campaign" and an "Up to 20% Cash Back Campaign" as sales promotions targeting people 25 and under. These campaigns managed to increase the number of cardholders in their 20s and 30s.



The Maruetsu Card



The Sumitomo Realty & Development Shopping City AEON Card



Keyakizaka46 AEON Card



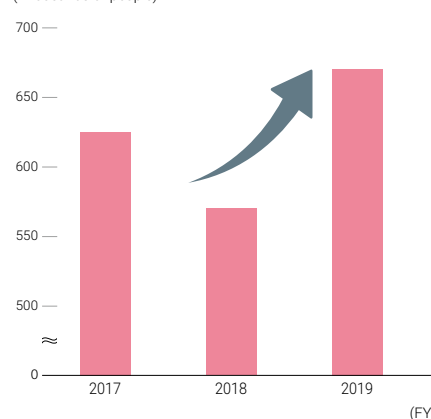
AEON Card with a Toy Story design



AEON Bank CASH+DEBIT Card with a Disney design

### New Cardholders in Their 20s and 30s

(Thousands of people)



### Opened First Urban-Type Branch in the Kinki Region

In December 2019, AEON Bank opened an Osaka Umeda branch, its first urban-type branch in the Kinki region. The branch offers a convenient, customer-friendly environment, with an online reservation system that allows people working at locations nearby to effectively utilize their breaks or other moments of free time to take advantage of the branch's services, which include consultations on mortgage contracts and asset management services.



### Introduced the Proprietary Asset Management Solutions Tool "Port Navi" at All Branches

In asset management services, AEON Bank introduced "Port Navi," its proprietary asset management solutions tool. In addition to investment trusts, this tool provides more than 60 types of model portfolios, including foreign currency, to allow customers to make optimal proposals closely suited to their asset management needs and future designs.

### Recipient of Good Design Award 2019

In recognition of its efforts to improve its Digital Channel User Interface, AEON Bank became a recipient of a Good Design Award, sponsored by the Japan Institute of Design Promotion, in 2019.

Understanding the characteristics of our users, we released a specialized service design that links household finances and day-to-day ATM withdrawals via a unified user interface that integrates our various financial management apps with our ATM interface. The service design received the award particularly for its incorporation of physical contact points such as branches and ATMs as well as mobile apps.



**GOOD DESIGN AWARD 2019**

イオン銀行 デジタルチャネルUI



### Expanding Online Support for Services by Promoting Digitalization

We are making use of digital tools for smartphones and other devices in an effort to increase convenience for customers and expand the customer base and transaction volume for the Group.

#### Card Application Function and Immediate Issuance Service Added to AEON WALLET Smartphone App

In May 2019, AEON WALLET, the official smartphone application for the AEON card, added an immediate issuance service allowing users to be issued a credit card after going through a screening that takes as little as five minutes. This feature enables paperless applications and immediate payments.\*

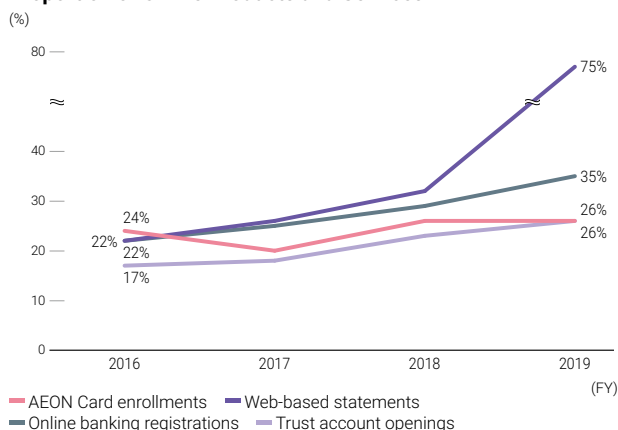
\* Must be linked to an ID account.



#### Proportion of Web-Based AEON Card Statements Rose Significantly

Thanks to the development of smartphone apps and campaigns to promote online applications, there has been a significant rise in the proportion of web-based statements and registrations for online banking. By digitalizing our service platforms, we have improved convenience and productivity.

#### Proportion of Online Products and Services (%)



## Topics

### AFS Enters the Insurance Business as Allianz Life Insurance Japan Ltd. Becomes a Subsidiary

In March 2020, AEON Financial Service acquired majority ownership of Allianz Life Insurance Japan Ltd. (Allianz Life Japan),\*1 a Japanese subsidiary under the Germany-based Allianz Group umbrella, taking shares through a third-party allotment.

Allianz Life Japan is a life insurance company with over 20,000 existing insurance policies (as of the end of March 2019).

By entering the life insurance business, we expect to help customers to engage in health promotion activities against non-disease or to adopt preventative measures by interlinking our business with the goods, activities, and services provided by AEON Group companies and making health improvement proposals in a collaborative effort.

Going forward, we intend to develop the life insurance business as one of the core businesses of the Group, utilizing our new strategy while protecting existing policyholders.\*2

\*1 Allianz Life Japan has been suspended from handling new contracts since January 2012.

\*2 The Company does not plan to change the terms and conditions of policyholders' insurance contracts as a result of this change in ownership.



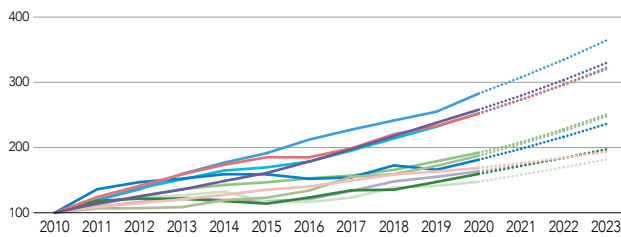
# Global Business

## BUSINESS STRATEGY

In addition to deepening our collaborative ties with the AEON Group in each region, we aim to strengthen our connections with external companies to expand our economic areas and improve financial accessibility by mobilizing service provision channels.

## MARKET ENVIRONMENT

### Overseas GDP



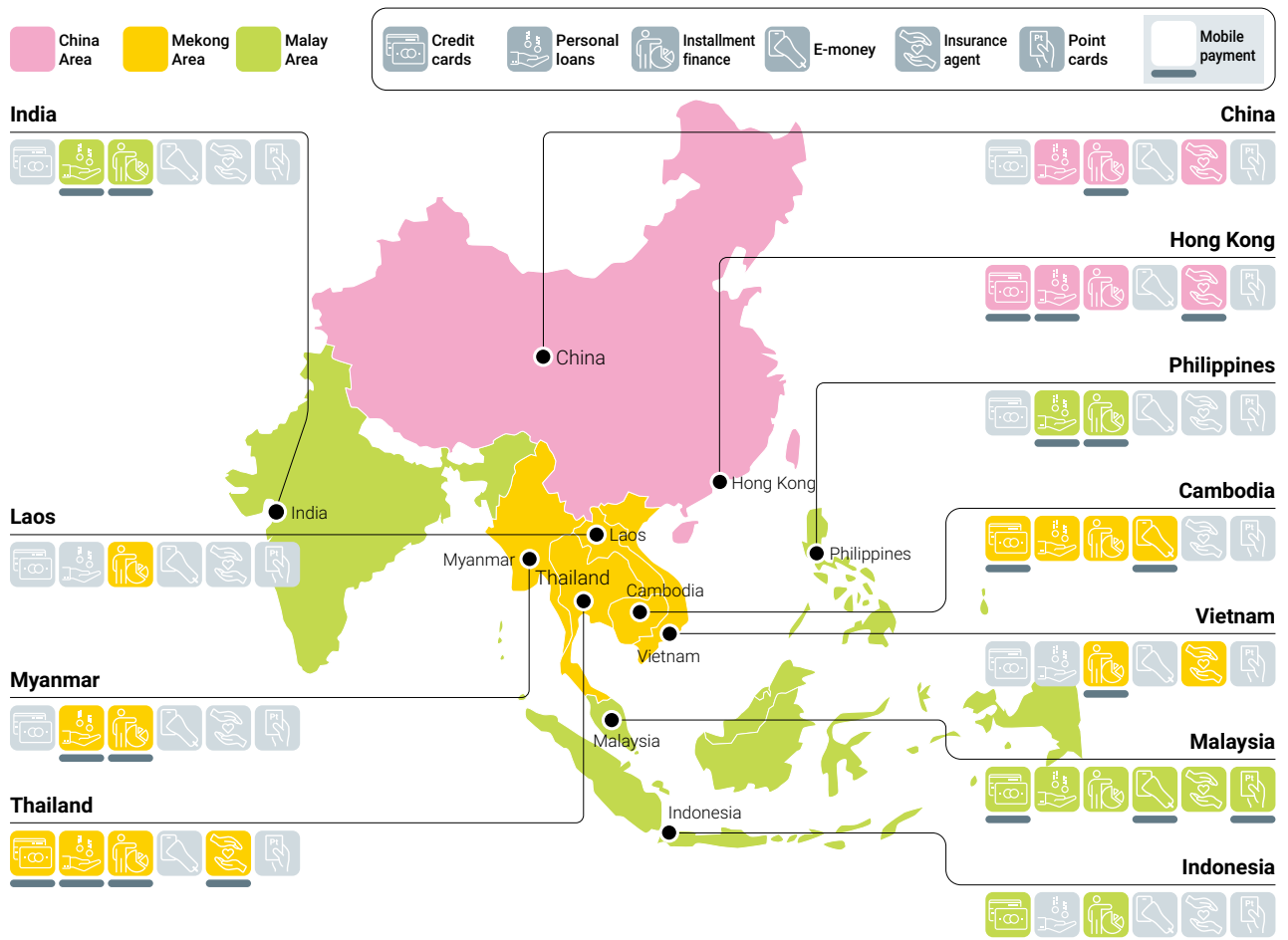
Legend: Cambodia, China, Hong Kong, India, Indonesia, Laos, Malaysia, Myanmar, Philippines, Thailand, Vietnam.

Notes: 1. GDP for 2010 is quantified as 100 for this graph.  
2. Source: International Monetary Fund (IMF).  
3. Values for 2010–2019 refer to results, whereas values for 2020–2023 refer to projections.

### Notable Conditions

- Growing population in Southeast Asia and growth and spread of middle class
- Growing number of internet users due to popularization of smartphones
- Companies in technology and other fields outside of finance providing financial services

## BUSINESS OPERATIONS BY COUNTRY





## BUSINESS OVERVIEW

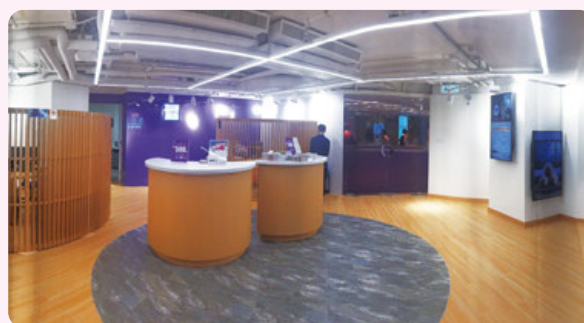
Utilizing the expertise that we have accumulated in Japan, we established our first overseas location in Hong Kong in 1987. Since then, we have expanded operations and established three subsidiaries in the China, Mekong, and Malay areas, listed on stock exchanges in Hong Kong, Thailand, and Malaysia respectively. We provide a variety of financial services through local AEON Group retail businesses and other

parts of our affiliated store network that include installment finance, personal loans, and credit cards, tailored to the regulatory conditions and growth stage of each country. In fiscal 2019, we worked to expand our customer base by utilizing smartphones and other digital tools and to improve the efficiency and refinement of operations in sales, screening, and collection.

### China Area (Hong Kong, China)

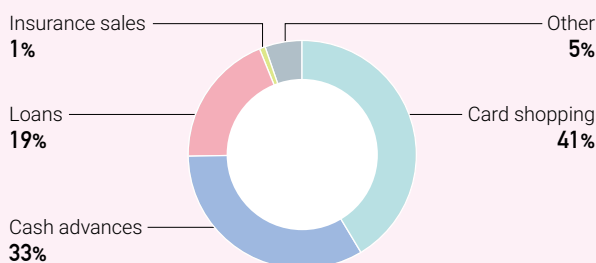
In 1987, we opened a branch in Hong Kong, establishing our first overseas base. In 1990, we established Nihon Credit Service (Asia) Co., Ltd., which has since become AEON Credit Service (Asia) Co., Ltd. Since the 1980s AEON retail stores have led the way in progress, issuing member cards at AEON locations and eventually issuing credit cards in 1988, opening the door for a variety of financial services. In 1995, shares of AEON Credit Service (Asia) were listed on the Hong Kong Stock Exchange.

In fiscal 2019, AEON opened its central branch in Lan Kwai Fong in the Central District of Hong Kong as its third flagship store. AEON is working to attract a wide range of customers to our stores and spread Japanese brands by holding Japanese product exhibitions at the location. Moreover, they increased transaction volume for card shopping with usage promotions that included invitational events for the Rugby World Cup 2019, a joint promotion with an international brand. In the loan business, they promoted digitalized member services with actions that included the launch of completely online, same-day loans via mobile app, covering the process from application and credit screening to the transfer of money to the user's account.



Hong Kong's central branch

#### Revenue Ratio in China Area by Product



Note: "Other" includes recovery and selling off of bad debt.

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

Following Hong Kong, the Mekong Area became our second overseas base, with the establishment of Siam NCS Co., Ltd., currently AEON Thana Sinsap (Thailand) Plc., in Thailand. In 2001, shares of AEON Thana Sinsap (Thailand) Plc. were listed on the Stock Exchange of Thailand and business has grown steadily since.

In fiscal 2019, they ramped up their usage promotions, which included the launch of year-round card usage benefits at cafes frequented by young people and other restaurants, leading to a steady rise in card transaction volume. In September, they managed to capture a health-conscious customer base by issuing the Tokyo Olympic Card (VISA Olympic-themed card issued by AEON).



Kiosk-type stores in Thailand



In addition, they optimized sales networks and improved investment returns by expanding the development of kiosk-type stores that can be opened with less space and lower setup costs, and by developing movable card recruitment booths.

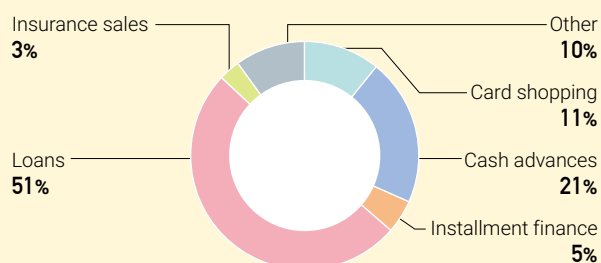
AEON Microfinance (Cambodia) Private Company Limited, currently AEON Specialized Bank (Cambodia) Plc., was established in Cambodia in 2011 and operates businesses including installment finance, unsecured loans, and credit cards. The company also offers a variety of payment methods, including an electronic prepaid money service in Cambodian riel, launched in fiscal 2018.

In Myanmar, local microfinance provider AEON Microfinance (Myanmar) Co., Ltd., opened its first branch in an AEON Orange hypermarket (the combination of a supermarket and department store) operated by the AEON Group in a move to expand its customer base. The branch is situated next to the sales floor for large home appliances with a counter accessible from the home appliances section, where they process installment sales and handle customer inquiries in an effort to increase transaction volume.



AEON Orange Thanlyin branch in Myanmar

#### Revenue Ratio in Mekong Area by Product



Note: "Other" includes recovery and selling off of bad debt.

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

Malaysia became our third Asian base of operations outside of Japan after establishing ACS Credit Service (M) Sdn. Bhd., currently AEON Credit Service (M) Berhad, in 1996. After being listed on the Bursa Malaysia stock exchange, it has gone on to engage in cardholder acquisition at local AEON Group retail stores and joint planning for initiatives with business partners, increasing cardholders and transaction volume in the process.

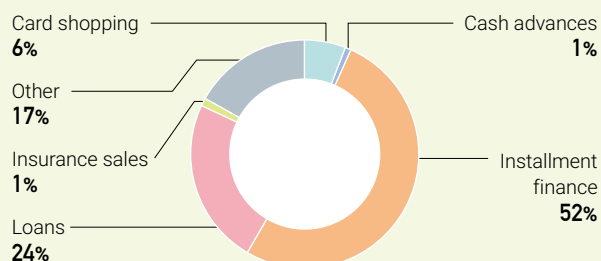
In fiscal 2019, the company made further efforts to pursue greater shared membership among local AEON Group retailers and promoted the use of the AEON Wallet smartphone app, which is equipped with both electronic money and point card functions in order to leverage the AEON Group's brand strength toward developing and expanding its customer base through both retail and financial channels.

In installment finance, the company promoted loans for high-priced Japanese vehicles and medium-large sized motorcycles in order to acquire a superior customer base of middle- to high-class earners, which led to greater transaction volume. Moreover, loans for small motorbikes saw steady growth, with our market share increasing to approximately 30% as a result of tie-ups with affiliated merchants and manufacturers.



Malaysian version of AEON Wallet

#### Revenue Ratio in Mekong Area by Product



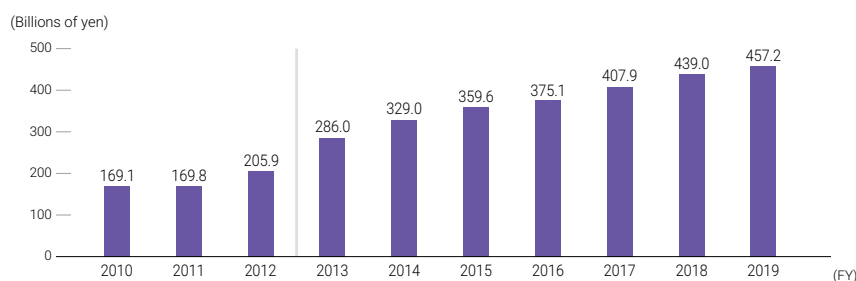
Note: "Other" includes recovery and selling off of bad debt.

# Financial Highlights

## OVERVIEW OF FISCAL 2019

- Consolidated operating revenue increased 4.3% year on year, to a record high of ¥457.2 billion, due to steady expansion in businesses including card shopping and cash advances in Japan and overseas.
- Consolidated operating profit decreased 7.1% year on year, to ¥65.0 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 consolidated adjustments at AEON Financial Service in the previous fiscal year and affected some regional subsidiaries, ultimately resulting in an increase in the provision of allowance for doubtful accounts primarily in Thailand, Malaysia, and Hong Kong by requiring the calculation of provision of allowance for doubtful accounts to include normal loans in addition to delinquent loans. Furthermore, improper accounting was discovered in a local subsidiary in the Philippines.
- Profit attributable to owners of parent decreased 13.3% year on year, to ¥34.1 billion.

### Consolidated Operating Revenue

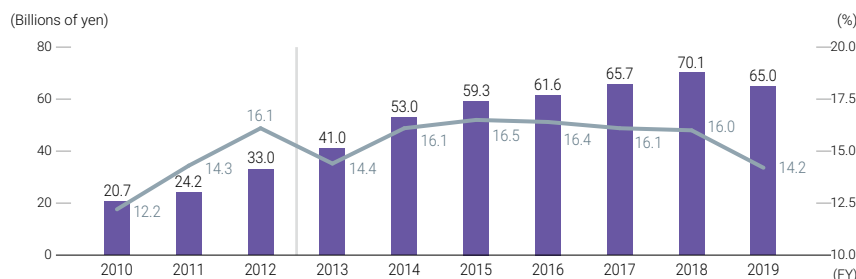


Note: Ordinary revenue is used from fiscal 2013–fiscal 2018

#### Consolidated Operating Revenue

Fiscal 2019 **¥457.2 billion**  
YoY **+4.3%** ↑

### Consolidated Operating Profit and Consolidated Operating Profit Ratio



■ Consolidated operating profit — Consolidated operating profit ratio

Note: Ordinary profit is used from fiscal 2013–fiscal 2018

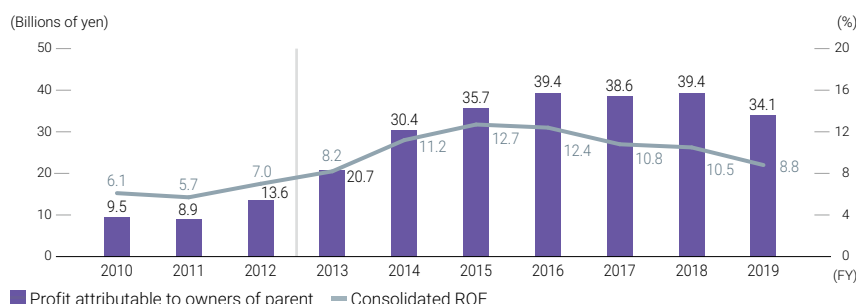
#### Consolidated Operating Profit

Fiscal 2019 **¥65.0 billion**  
YoY **-7.1%** ↓

#### Consolidated Operating Profit Ratio

Fiscal 2019 **14.2%**  
YoY **-1.7 pt**

### Profit Attributable to Owners of Parent and Consolidated ROE



■ Profit attributable to owners of parent — Consolidated ROE

#### Profit Attributable to Owners of Parent

Fiscal 2019 **¥34.1 billion**  
YoY **-13.3%** ↓

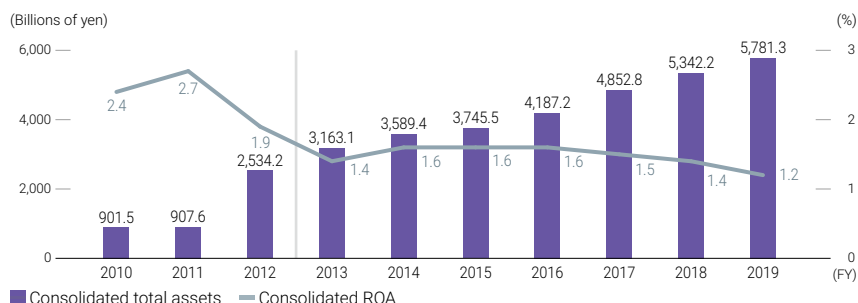
#### Consolidated ROE

Fiscal 2019 **8.8%**  
YoY **-1.7 pt**

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

2. On April 1, 2013, the Company became a bank holding company. Accordingly, the Company has prepared the consolidated financial statements from fiscal 2013 onward in accordance with the Ordinance for Enforcement of the Banking Act (Ordinance of the Ministry of Finance No. 10 of 1982), which prescribes classifications of assets and liabilities, and income and expenses for banking institutions.

### Consolidated Total Assets and Consolidated ROA



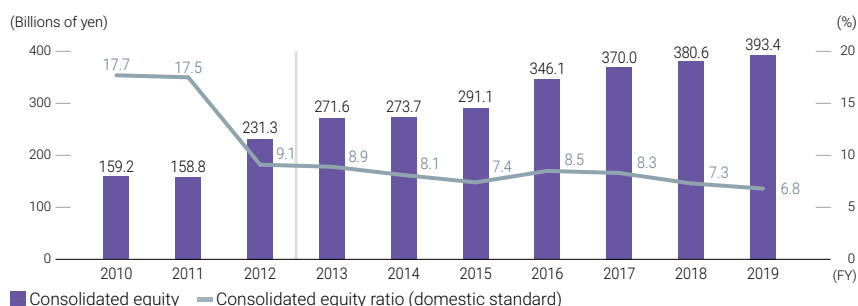
#### Consolidated Total Assets

Fiscal 2019 **¥5,781.3 billion**  
YoY **+¥527.2 billion** ↑

#### Consolidated ROA

Fiscal 2019 **1.2%**  
YoY **-0.2 pt**

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



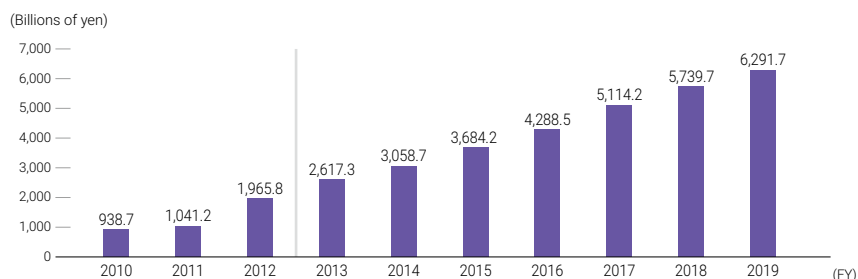
#### Consolidated Equity

Fiscal 2019 **¥393.4 billion**  
YoY **+¥12.7 billion** ↑

#### Consolidated Equity Ratio (Domestic Standard)

Fiscal 2019 **6.8%**  
YoY **-0.4 pt**

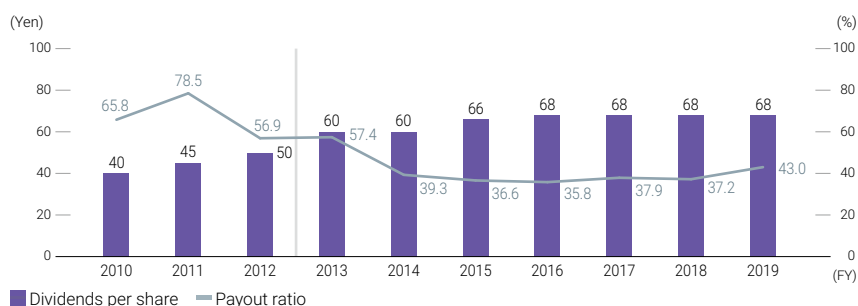
### Consolidated Finance Receivables (Before Securitization)



#### Consolidated Finance Receivables (Before Securitization)

Fiscal 2019 **¥6,291.7 billion**  
YoY **+¥551.9 billion** ↑

### Dividends per Share and Payout Ratio



#### Dividends per Share

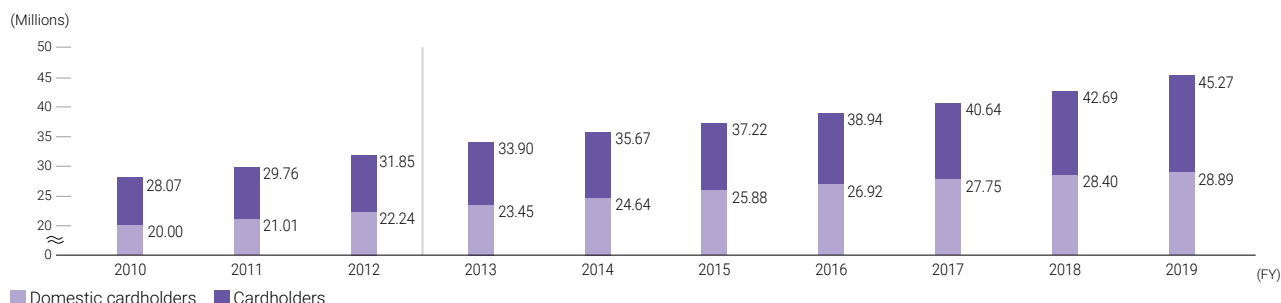
Fiscal 2019 **¥68**  
YoY **—**

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

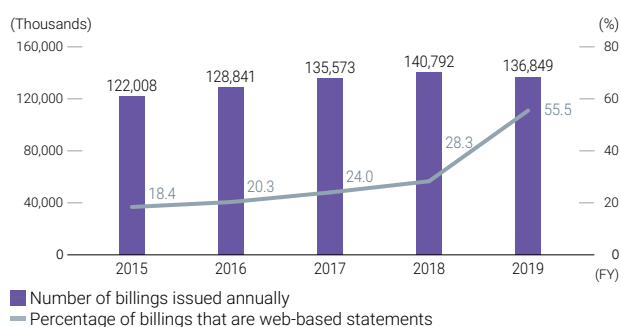
- The consolidated amounts for fiscal 2012 cover a period of 13 months and 11 days from February 21, 2012 through March 31, 2013.
- Figures for fiscal 2019 are for the 11-month period from April 1, 2019 to February 29, 2020 due to a change in the accounting period.

# Non-Financial Highlights

## Cardholders



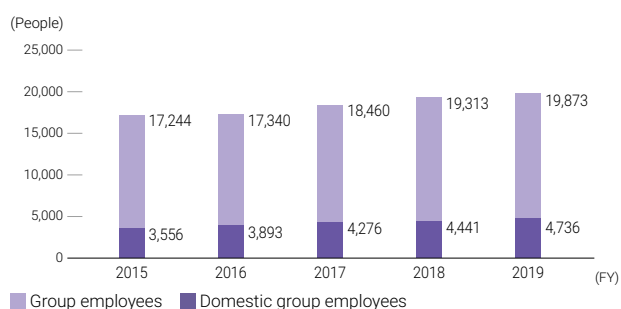
## Number of Billings Issued Annually and Percentage of Web-Based Statements



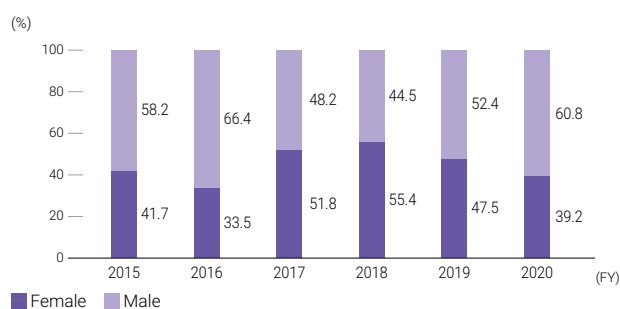
## AEON Bank Deposit Balance and Number of Bank Accounts



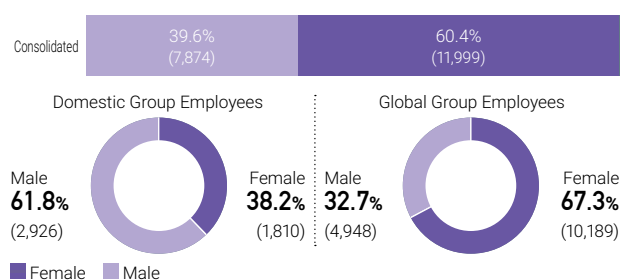
## Group Employees



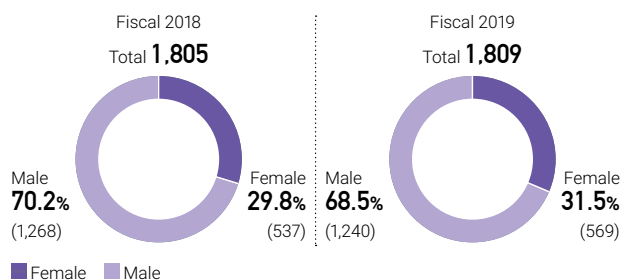
## New Graduate Hires in Japan by Gender



## Employees by Gender (Fiscal 2019)



## Managers by Gender



- Notes: 1. The consolidated amounts from fiscal 2013 onward include the results of AEON Bank, Ltd. and its one subsidiary, as AEON Bank, Ltd. became a wholly-owned subsidiary of the Company through a share exchange as of January 1, 2013.
2. On April 1, 2013, the Company became a bank holding company. Accordingly, the Company has prepared the consolidated financial statements from fiscal 2013 onward in accordance with the Ordinance for Enforcement of the Banking Act (Ordinance of the Ministry of Finance No. 10 of 1982), which prescribes classifications of assets and liabilities, and revenues and expenses for banking institutions.
3. The consolidated amounts for fiscal 2012 cover a period of 13 months and 11 days from February 21, 2012 through March 31, 2013.
4. Figures for fiscal 2019 are for the 11-month period from April 1, 2019 to February 29, 2020 due to a change in the accounting period.

# CSR Topics

	Implementation Date / Period	Initiatives
<b>Domestic</b>	<b>Major Domestic Companies</b>	
	April 1, 2019–May 26, 2019	Raised funds to support school construction in Myanmar
	April 2019–September 2019	Participated in disaster volunteering tour for Project Aeon Joining Heart
	May 25, 2019	Participated in tree planting in town of Minamifurano, Hokkaido Prefecture
	June 2, 2019	Participated in countrywide tree planting festival
	June 15, 2019–September 1, 2019	Donated to "24-Hour Television: Love Saves the Earth" charity program
	July 5, 2019–July 19, 2020	Participated in project to provide sandbags to disaster-stricken areas
	August 2019–September 2019	Supported Fukushima Kids Morimori Project
	September 2019	Dispatched mobile ATMs to respond to damages from power outages in Chiba Prefecture
	September 12, 2019–September 16, 2019	Participated in tree planting in Bidor, Malaysia
	September 14, 2019–October 15, 2019	Raised funds to support AEON UNICEF Safe Water Campaign
	October 5, 2019	Volunteered in town of Shichigahama, Miyagi Prefecture for Project Aeon Joining Heart and held donation ceremony
	October 5, 2019–October 6, 2019	Volunteered for AEON future co-creation program Kesennuma Oshima Tsubaki Fruit Harvest
	October 13, 2019–November 17, 2019	Raised funds for emergency support in wake of damage from Reiwa 1 East Japan Typhoon (Typhoon Hagibis)
	October 19, 2019	Held third volunteer cotton harvest
	November 1, 2019–February 29, 2020	Donated to support Shuri Castle
	December 2, 2019–December 15, 2019	Raised funds for people in Asia with disabilities
	February 8, 2020–March 8, 2020	Raised funds to support people in manufacturing with disabilities
	Year-round	Participated in Clean & Green Campaign activities
	Year-round	Held financial literacy lectures
	Year-round	Took donations to assist with recovery efforts for Great East Japan Earthquake
	Year-round	Took donations for the C.W. Nicol Afan Woodland Trust
	Year-round	Took donations to support UNHCR, the UN Refugee Agency
<b>China Area</b>	<b>Hong Kong: AEON Credit Service (Asia) Co., Ltd.</b>	
	April 8, 2019	Joined 2019 Lingnan University's award ceremony as scholarship donor
	May 6, 2019	Awarded scholarships to students at Hong Kong University of Science and Technology
	August 28, 2019	Joined appointment ceremony of UNICEF HK's Young Envoy Programme 2019 as sponsor
<b>Mekong Area</b>	<b>Thailand: AEON Thana Sinsap (Thailand) Plc.</b>	
	April 1, 2019–September 30, 2019	Held blood donation drive
	April 19, 2019	Donated PM 2.5 anti-pollution masks to support victims of air pollution in Chiang Mai Province of northern Thailand
	April 27, 2019	Provided support for Little Hands Can Help project
	April 30, 2019–May 10, 2019	Sponsored AEON Education Tour 2019
	July 11, 2019	Granted scholarships to support children in Luuk Rieang Group (The Association of Children and Youth for the Peace in the Southernmost Provinces of Thailand)
	August 27, 2019	Participated in tree planting program at schools in Chiang Mai Province
	October 27, 2019	Held the 3rd AEON Mini Marathon
	November 9, 2019	Participated in tree planting in Chiang Mai National Park
	November 14, 2019	Participated in clean-up activities at Ubon Ratchathani schools
	November 27, 2019	Held AEON Scholarship Granting Ceremony
	January 10, 2020–February 29, 2020	Held blood donation drive
<b>Malay Area</b>	<b>Malaysia: AEON Credit Service (M) Berhad</b>	
	March 19, 2019	Assisted with Malaysia AEON Foundation's efforts to support victims of 2019 Kim Kim River toxic pollution incident in Johor, Malaysia
	April 4, 2019	Provided support for fire victims in state of Sarawak, East Malaysia
	May 16, 2019	Assisted with Malaysia AEON Foundation's efforts to support underprivileged children for Hari Raya celebrations
	June 16, 2019	Sponsored Malaysia AEON Foundation's AEON Charity Run & Ride 2019 event
	July 20, 2019	Held local cleanup activities around East Coast branch area
	September 14, 2019	Held tree planting activities for AEON Malaysia's 35th anniversary
	October 20, 2019	Donated to orphanage near North branch office
	November 10, 2019	Participated in tree planting in East Malaysia
	January 17, 2020	Assisted Malaysia AEON Foundation with Chinese New Year CSR activities



# Human Resources Strategy

## BASIC POLICY

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



## Health and Productivity Management

To remain in constant pursuit of customer satisfaction and ensure sustainable business growth, the AEON Financial Group promotes health and productivity management, believing that it is important that each and every employee be full of vitality and of sound body and mind

### Establishment of Medical Support Centers

We engage in health and productivity management with the two goals listed below. In 2019, we appointed corporate occupational health physicians and nurses at our medical support centers as part of our efforts to ensure that these goals are fulfilled.

- Enhance preventative and support measures based on health checkup results
- Realize our mental health promotion plan\* (maintaining and improving mental health)

\* Formulated in accordance with the "Guidelines for Improving and Maintaining Workers' Minds and Bodies" released by the Ministry of Health, Labour and Welfare

### Implementation of Healthcare Training

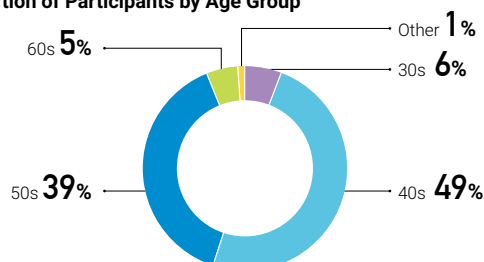
In fiscal 2019, we made efforts to improve mental healthcare based on our mental health promotion plan, formulated as part of health and productivity management. As the second part of these efforts, we conducted mental healthcare training for line managers. This training was aimed at managers and supervisors and involved learning about mental healthcare and how to catch changes in their subordinates at an early stage, how to respond, and how they can create a workplace environment that is good for the body and mind.



Care training for line managers

Number of training sessions:	11
Locations:	Tokyo, Chiba, Osaka, Fukuoka
Number of participants:	158

#### Proportion of Participants by Age Group



### Implementation of Morale Surveys

We conduct annual morale surveys targeting every employee as a measure to improve working environments. The survey takes the form of a five-stage questionnaire regarding the Company's vision and its spread, communication, and other matters. Content-wise, employees answer questions related to their satisfaction with their workplace environment and their motivation. Survey results and improvement measures are shared internally.

#### Survey Contents

##### Odd-numbered years

Survey, common to the entire AEON Group, aimed at confirming the company's position, strengths, and weaknesses.



##### Even-numbered years

AFS-specific survey aimed at investigating the causes of items identified as issues.

### Promotion of a Variety of Work Styles

We have established a variety of choices about work location, work hours, and prescribed duties, with five employee categories\* based on their differences. Each employee category is essentially a choice of work style, and we evaluate and promote employees fairly according to their individual work.

\* Global employees, regional employees, area employees, local employees, and flex employees

## Topics

AEON Financial Service Co., Ltd., along with AEON Credit Service Co., Ltd., AEON Bank, Ltd., AEON Insurance Service Co., Ltd., AEON Product Finance Co., Ltd., AEON Housing Loan Service Co., Ltd., and AEON S.S. Insurance Co., Ltd. received certification under the 2020\* Certified Health & Productivity Management Outstanding Organizations Recognition Program. Of these seven Group companies, AEON Financial Service Co., Ltd. and AEON Credit Service Co., Ltd. were also recognized as White 500 organizations, bringing the total number of certifications to nine.



\* Out of the 2,328 companies that applied for the certification, the top 500 were designated as White 500 organizations.





## Talent Placement and Development

We believe it is important to have a working environment where each and every employee is able to work with vitality while maintaining high aspirations and a feeling of self-fulfillment.

Under this belief, we promote self-development and open-call training to ensure that each and every employee is able to design their own career.

In addition, supervisors and senior-level staff in each workplace are actively involved in on-the-job training and provide "in-workplace training" to help employees acquire knowledge of their duties in addition to providing opportunities for employees to gain knowledge and experience of duties across the entire Group. In doing so, we are able to develop professional human resources who can put forth financial services that will meet customer needs. At the core of our human resources development system is self-development, where employees learn with a forward-looking attitude.

### Examples of Training System

- ▶ Joint training on compliance and other themes related to internal control for executives in Japan and overseas
- ▶ Various courses on how to play an active role as managers or specialist personnel
- ▶ Overseas inspection seminars and overseas dispatch training system

### Compliance Training

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

In fiscal 2019, compliance training was conducted in Japan and Hong Kong, with 177 attendees.



Compliance training

### AFS Group's Common HR System

As a Group that provides comprehensive financial services, we actively share talent and exchange personnel among Group companies. We facilitate smooth mobility across Group companies with an HR system common across Group companies in Japan, including recognition of qualifications, personnel evaluation, compensation systems, and an employee infrastructure that ensures that employees receive fair treatment no matter which Group company they are assigned to.

We will further promote optimal talent placement, exchange, and development to enhance our core strength—our ability to provide comprehensive financial services that match our customers' lifestyles.

### Global Talent Development

We have established an overseas dispatch training system to develop executive management candidates at each Group company to enhance business overseas. We issue an open call to employees and select young candidates with global sensibilities, an understanding of diversity, and desire to take on challenges, who receive practical training at overseas and domestic subsidiaries, which prepares them to be executive management candidates down the line.



## Diversity

To better provide products and services that match our customers' perspectives, we are working to create a system in which every individual is respected and a wide variety of personnel can flourish. To this end, we are working to build a corporate culture and workplace environment where a diverse range of human resources have the chance to make active contributions to the Company and are encouraged to engage in free and open discussion. In that spirit, we accept people with diverse manners of thinking and opinions, regardless of their gender, age, and nationality.

### Ratio of Female Employees at the Group

	As of August 31, 2017	As of August 31, 2019
Domestic	10.5% (81/771)	14.5% (127/877)
Overseas	45.1% (385/853)	48.0% (454/946)
Total	28.7% (466/1,624)	31.9% (581/1,823)

Note: Values in parentheses show comparative numbers (number of female employees/total employees)

### Employment Rate for People with Disabilities (as of February 29, 2020)

**2.43%\***

\* Total across eight Group companies (legal requirement is 2.2%).



We operate a Peace Farm that utilizes an agricultural scheme that enables people with disabilities to work with peace of mind.

## Efforts Related to SDGs

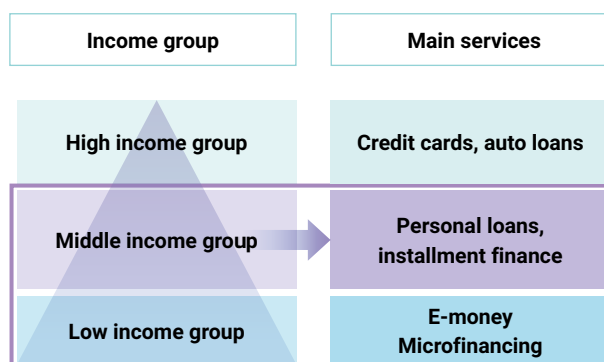
Since our founding in 1981, we have worked closely with customers to help them enrich their lives through work centered in installment payments for items that are difficult to pay for in cash, credit card payments that open the door to post-payment options, and the hire purchase business.

Staying true to our management philosophy to “support customers’ lifestyles and enable each individual to maximize future opportunities through effective use of credit,” we have made efforts to address customer needs in local areas, both in Japan and in countries throughout Asia, since the 1980s, as one of the first Japanese financial institutions to begin operations in these Asian countries.

We have found a wellspring of value in providing the unbanked class of people, who are unable to open bank accounts, with credit, loans for higher education, proposals for insurance, and other means to improve their living standards.

Business activities such as these align with the Sustainable Development Goals (SDGs) adopted by the United Nations in 2015. We will continue providing financial services as a means to contribute toward developing a more prosperous society.

### Main Services by Income Group



## Helping Customers Lead Richer Lives Through Financial Services

### Myanmar



### Helping Improve Customers’ Standard of Living with Microfinancing

AEON Microfinance (Myanmar) Co., Ltd. started a microfinancing business in Yangon, Myanmar’s largest city, in June 2013. Since then, we have worked to support and improve the lives of the people in the country, drawing from the belief that businesses we develop as part of the AEON Group must be rooted in the lives of our customers.

Foreign investment in Myanmar has increased in recent years, and companies have been seeking employees of a certain level of education, meaning there is a growing interest in practical vocational training. However, since minimum wage is roughly ¥350, which is fairly low, banks typically require collateral for loans. Therefore, we launched Myanmar’s first unsecured education loan service. These education loans have helped customers improve their lives by providing funds for computer schools, language schools, business schools, and others, as have our efforts to provide support to customers according to their current stage in life and their lifestyles. Adding to this, we also provide personal and purpose loans for daily necessities and living funds.

As we utilize microfinancing to help support and improve people’s lives, we are mindful of the fact that we receive support from our customers. Going forward, we will continue to contribute to the people of Myanmar by expanding our sales areas, expanding our products and services, and creating opportunities for many people to make use of financial services.

AEON Microfinance (Myanmar) Co., Ltd.

**Naomi Mikuni**, Managing Director





## Laos

## Helping Close the Material Wealth Gap with Hire Purchases

In November 2013, AEON Leasing Service (Lao) Co., Ltd. started a hire purchase business in Vientiane, the capital city of Laos.

As of the end of May 2020, the hire purchase business has partnered with 270 affiliated merchants to develop products that are closely tied to daily life, from smartphones to air conditioners, TVs, refrigerators, and other home appliances to motorcycles. We continue to provide superior services that include issuing member cards to customers with good usage and payment history and smooth screening, with excellent terms and conditions during subsequent use. In addition, we are the first company in the industry to offer bike hire purchases packaged with non-life insurance, serving as an agent for a local insurance company and offering customers peace of mind. For insurance premiums, we have opted for installment payments instead of lump-sum payments, since the lower payment burden makes it easier to become insured. As a result, awareness of insurance is on the rise. In the coming future, we intend to sell insurance for minor injuries in order to provide our customers with peace of mind in case of an accident. While there is a large gap in material wealth depending on the city, we believe we can play a role in closing this gap through financial services.

AEON Leasing Service (Lao) Co., Ltd

**Kunio Kawamura**, President



## Solving Social Issues Alongside Local Governments

## Cambodia

### Providing a Variety of Payment Methods

AEON Specialized Bank (Cambodia) Plc. began installment payment and unsecured loan services in Cambodia in October 2011. We started a credit card business in 2015 and proposed financial services to enrich Cambodian customers' daily lives.

While the U.S. dollar is widely recognized in the country, the National Bank of Cambodia has been promoting the use of riel, the local currency, as financial policy. In 2018, we introduced the smartphone application "Riel Pay," equipped with QR code payment and remittance functions, and started providing riel-denominated electronic money (prepaid) services. In addition to helping with the government's work to circulate the national currency, these actions also serve to eliminate the inconvenience of carrying cash in a country where cash payments account for the majority of transactions and also promote safety. Going forward, we will improve the convenience of payment methods and enrich people's lives.



# Environment and Social Contribution Activities

**As a member of the AEON Group, we aim to work together with our customers and stakeholders to resolve environmental and social issues and realize a sustainable society.**

## BASIC CSR POLICY

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

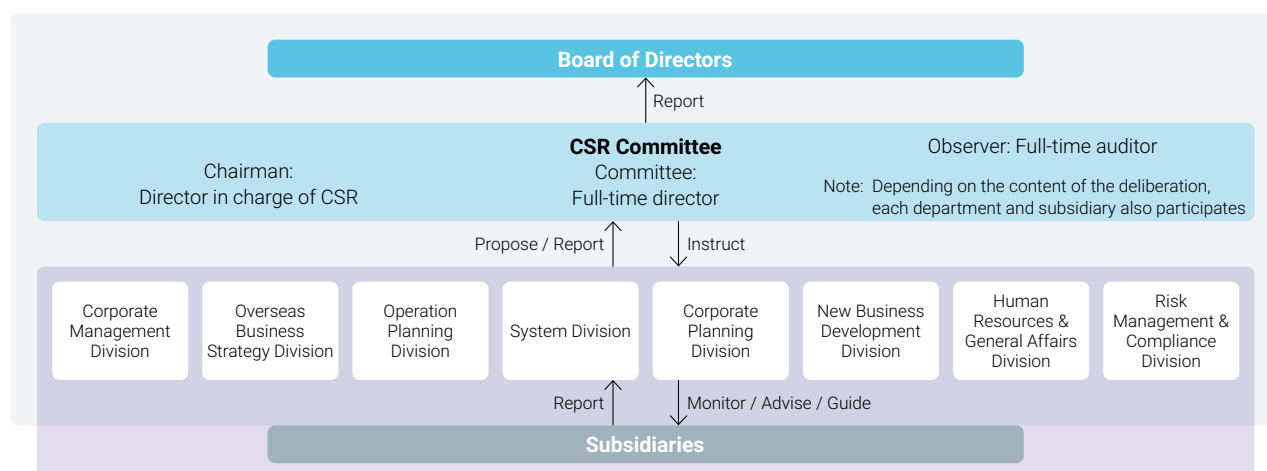
### Priority Areas for CSR

- Pursue customer-oriented financial services
- Contribute to local communities
- Realize a sustainable environment and society
- Enhance corporate governance

## SYSTEM FOR PROMOTING CSR

AEON Financial Service has established a CSR Committee, chaired by the Director in charge of CSR, which discusses and make decisions on matters regarding CSR such as environmental conservation and community contribution. The committee convenes once a quarter to discuss major issues related to CSR and the results of initiatives, and the chairman reports the contents of these discussions to the Board of Directors.

The presidents of the three core subsidiaries, AEON Credit Service Co., Ltd., AFS Corporation Co., Ltd., and AEON Bank, Ltd., participate in these meetings as observers to ensure that these companies promote CSR activities, unified under the AEON Financial Service Group banner.



## Financial and Economic Education

### Financial Literacy

Based on factors such as the SDGs (Sustainable Development Goals), the Company is focusing on activities for realizing a sustainable society, particularly financial education.

The Company, in collaboration with AEON Credit Service Co., Ltd., will continue to nurture responsible credit card-holders through the implementation of financial education (money-related topics, including credit cards) aimed at high school students. AEON Bank, Ltd. is implementing financial literacy education aimed at university students as well.

In fiscal 2019, 116 lectures were given to a total of 5,344 university students at 25 universities. Additionally, as part of AEON Co., Ltd.’s global internship business, Japanese university students were provided with the opportunity to learn about financial literacy and local cultures through work experience at our subsidiaries in Malaysia and Vietnam.



## Environmental Conservation

### Tree Planting

Every year, our employees actively participate in tree planting activities organized by the AEON Environmental Foundation. Led by our directors, we planted trees together with our clients in the town of Minamifurano, Hokkaido Prefecture in May 2019 and overseas in the town of Bidor, Malaysia in September 2019. Including these events, the foundation planted around 50,000 trees in fiscal 2019.

Additionally, since 2008, the AEON Thailand Foundation, a local subsidiary of the AEON Group, has been planting trees in various parts of Thailand for the purpose of forest protection. In August 2019, we collaborated with elementary schools to plant trees in the Chiang Mai National Park in the northern region of Thailand.



### Web-Based Statements (Environmental Declaration)

The Company is promoting the switchover to web-based statements where users can check their transaction history on the internet or the smartphone app AEON WALLET. Due to this action, we were able to reduce our CO<sub>2</sub> emissions by 500g\* per envelope and reduce our overall CO<sub>2</sub> emissions for fiscal 2019 by 50,000 tons.

\* Based on the Ministry of the Environment's Eco-Action Point model project's "Examples of Calculation Methods for Reducing the Effects of CO<sub>2</sub>."

### ISO 14001 Certification

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

## Social Contribution

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

Since fiscal 2017, we have been volunteering to harvest cotton as part of land rehabilitation efforts in Iwaki, Fukushima Prefecture in cooperation with "The People," an NPO. This project aims to restore Fukushima Prefecture's agricultural industry and create employment opportunities for the community by cultivating and commercializing cotton that has a high salt tolerance. This cotton is grown on the agricultural land used for rice cultivation, which was damaged by the tsunami following the Great East Japan Earthquake. AEON Group will continue to support recovery activities in the Tohoku Region.



### Community Contribution Overseas

Group companies also actively contribute to the regions they serve and promote community-based management in each area.

In Hong Kong, the local subsidiary, AEON Credit Service (Asia) Co., Ltd., contributes to its community in various ways, such as environmental conservation, education, and cultural exchange. In fiscal 2019, they donated an annual total of HK\$11.9 million (around ¥165.0 million) to scholarships for

seven universities in China (including Hong Kong) and financial assistance for the UNICEF Young Envoys Programme to support university students who will be responsible for the future of the local community.

AEON Thana Sinsap (Thailand) Plc. held a charity bowling event to support the Ramathibodi Foundation, which is engaged in cancer treatment and hepatocyte and genetic research. We also donated essential supplies to facilities for seniors and to elementary and junior high schools through the Thai Red Cross Society. AEON Credit Service (M) Berhad continues to raise funds for children with disabilities.

### Donations and Fundraising for the AEON 1% Club Foundation

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





## Messages from Outside Directors

### Diversity and Inclusion Are Indispensable to Achieving Business Innovation

Yoshimi Nakajima



One of the AFS Group's greatest strengths is that it actively develops business in Japan and other countries in Asia with an unwavering commitment to its management philosophy, "to support customers' lifestyles and enable each individual to maximize future opportunities through effective use of credit." The Group's presence in each of its Asian countries of operation is relatively new, and I can expect business to expand, given the Group's stance of taking on new challenges.

In addition to each business digging roots downward, the Group is working to expand its business scale and operations laterally as well. As one would expect, the key factor in this challenge going forward is people. It is important to find the right personnel, put them in the right place, and make good use of them. Diversity in the form of inclusion—bringing in this diverse set of people and utilizing them—is important for a company.

Inclusion adds a variety of perspectives to a company, which can then expect to see further business innovation. More than just utilizing a variety of personnel, an absolute must for the Group to raise corporate value is creating conditions where everyone has the chance to take part in various

types of work and has their wide-ranging experience, abilities, and ways of thinking recognized and utilized.

Working styles are now seeing a drastic change. From my point of view as an outside director, the Group is utilizing various opportunities to actively promote measures to respond to this change. Such measures include implementing human resource-related measures and systems to facilitate business plans and establishing frameworks that adopt a broad-based view on corporate culture, in addition to offering support and instruction and holding discussions to help employees gain experience.

COVID-19 has dramatically changed the way we live. This situation very much reaffirms the AEON Group as an essential corporate group to the infrastructure that supports people's lives. The AFS Group, meanwhile, plays an important role in terms of financial services. The ideal situation for investors would be for AEON Financial Service to continue into the next 5, 10, or 100 years as a corporate group that is sought after by people. For this to come to fruition, I would like to see the Group pay attention to the accelerating changes in the external environment and face them as opportunities.



Kotaro Yamazawa

### Making of an Active Push for "Offensive Governance" in Addition to "Defensive Governance"

AEON Financial Service Group is extremely serious about addressing the Corporate Governance Code and has already achieved full compliance.

Given that the Board of Directors spends a sufficient amount of time engaged in active discussions, the belief is that the Board maintains an adequate level of effectiveness. Furthermore, the increase in the number of independent outside directors with varied backgrounds enables a deeper examination of issues from a wider perspective than ever before, and this greater weight is reflected in the Board's decision-making. Furthermore, the introduction of the executive officer system has clarified business execution responsibilities, allowing the Board to carry out more effective supervision.

That being said, there are some issues going forward. It is becoming increasingly important for the Group to both incorporate more diversity into the Board and to ensure that each member thereof possesses abilities, knowledge, and experience that match the Group's strategies. I also believe that close examination of agenda items—with more items being delegated to the executive department—and more efficient

explanations of agenda items are issues from the perspective of giving more weight to discussions regarding various strategies.

More than anything, what makes AFS different from other financial institutions is its ability to leverage AEON's brand power, customer base, store network, and other advantages to develop a variety of financial businesses in Japan and overseas and to create synergies with the AEON Group. As of late, more and more subsidiaries are delisting; however, AFS has established an appropriate governance system centered on outside directors and outside corporate auditors to protect the interests of minority shareholders from being harmed by measures of the parent company, confirming the rationality, independence, and effectiveness of AFS as a listed company.

Finally, one must recognize the important responsibilities outside directors have, not only in defensive governance but in offensive governance as well. I would like to encourage swift and flexible action based on the recent changes in the environment and will do my utmost to ensure that AFS becomes the number one retail financial services company in Asia.



## Group Growth through Appropriate Risk-Taking in a Changing Business Environment

Tatsuya Sakuma



As a member of the AEON Group, Japan's largest distribution group, AFS is responsible for retail finance, and therefore it has a stable customer base and the life infrastructure industry in its DNA.

Together with AEON, AFS entered rapidly growing Asian countries at an early stage, meaning that it already has an established business foundation in these overseas locations, which are seeing major growth. Moreover, the Global Business already accounts for about half of operating profit. These competitive advantages constitute two significant strengths.

As for its governance system, independent outside directors account for one-third of the Board of Directors and outside auditors account for one-third of corporate auditors on the Board of Corporate Auditors, with each body being lively in expressing their opinions at their respective meetings. Within the executive officer department, AFS has also established the Management Policy Committee and the Internal Control Committee, and deliberations are conducted carefully in order to enhance governance both in terms of its systems and its operations. The same can generally be said about Group companies, but there are some challenges to overcome when

it comes to Group governance. For the Group to continue its future development, it must take some calculated risks in the Global Business while also expanding its lines of business and addressing digital transformation and other changes in the Business environment. Up to this point, whenever the Group commenced business operations in a given country, it would launch a select few businesses and achieve growth by applying the business model that enabled it to achieve great success in Japan. Times have changed, however, and there are now certain countries where the ecosystem of local Group retail businesses is more advanced than that in Japan. In a situation where the business environment has changed drastically and there are many competitors, AFS as a parent company needs to look at its subsidiaries in terms of strategy and business management and establish a personnel system, administrative functions, and mechanisms that will support these subsidiaries, while also harmonizing Group governance and still respecting each Group company's ability to operate its business with autonomy. As an outside director, I would like to help improve Group governance through appropriate risk-taking.



Takashi Nagasaka

## Spreading of the Group's Management Philosophy among Employees and Realization of Governance with Strong "Awareness"

I was appointed to the Board of Directors as an independent outside director in May 2020. As a member of the AEON Group, which is the largest distribution group in Japan, AFS has a stable customer base and a reputation of having a good balance of overseas and domestic business. While the comprehensive financial business is currently feeling the temporary effects of COVID-19, it is definitely a growth area, and we can expect further development in the medium to long term. However, there are many new players from different industries entering the business domains of the Group, which is already rife with competition, so the Group must step up its game by accelerating its digital transformation initiatives.

As a certified public accountant, I have been involved with companies of various sizes and in various industries, and I have seen many successful and unsuccessful cases. A fact that cannot be overlooked is that there has been a trend in corporate scandals emerging in recent years, a fact not limited to AFS. In particular, there are many cases in which these scandals occur in overseas subsidiaries that are physically separated from the rest of the Group.

The Group's overseas subsidiaries have autonomy—a sort of "accelerator"—and that is a positive. However, some control by the parent company—a "brake," if you will—is necessary, and this balance is important. While this is mainly a problem of internal control, a subsidiary's governance and organizational culture can have a strong effect as well. In order to prevent scandals as a company, it is essential to create a "system," but since an organizational culture often plays a role, the employees' "awareness" is what is most important.

When it comes to governance, it is not enough to just have a system in place—there needs to be constant awareness of any problems and efforts needs to be made to improve the system, or else it will deteriorate. As an outside director, I would like to help spread the Group's management philosophy—"to support customers' lifestyles and enable each individual to maximize future opportunities through effective use of credit"—and create "awareness" through an open workplace and, by doing so, improve governance and assist the Group as it takes its next leap forward.

# Our Management Team

(As of June 1, 2020)

## Directors

### Masaki Suzuki

Representative Director and Chairman



1978 Joined Ministry of Finance  
2002 Appointed Director of Banks Division I of Supervisory Bureau of Financial Services Agency  
2007 Appointed Deputy Vice Minister for Policy Planning and Coordination of Minister's Secretariat of Ministry of Finance  
2014 Appointed Vice-Minister of the Environment of Ministry of the Environment  
2015 Appointed Advisor of the Company  
Appointed Advisor of AEON Co., Ltd.  
Appointed Chairman and Representative Director of AEON Bank, Ltd.  
2016 Appointed Representative Director and Chairman of the Company  
Appointed Chairman and Director of AEON Bank, Ltd. (current position)  
Appointed Director of AEON Credit Service Co., Ltd. (current position)  
2017 Appointed Executive Officer in charge of General Finance Business of AEON Co., Ltd. president and CEO  
2019 Appointed Representative Director and Chairman of the AFS Corporation Co., Ltd.  
Appointed Chairman of the Company  
2020 Appointed Director of AFS Corporation Co., Ltd. (current position)  
Appointed Representative Director and Chairman of the Company (current position)

#### Reasons for Appointment

Masaki Suzuki has successively held key positions at the Ministry of Finance and the Ministry of the Environment. With his professional knowledge and experience cultivated through such a career, he has contributed to strengthening the efficacy of the decision-making and supervisory functions of the Board of Directors.

#### Committees

- Board of Directors
- Management Policy Committee
- Internal Control Committee
- CSR Committee
- Nomination and Compensation Committee

#### Attendance at Board of Directors Meetings

100% (17/17 times)

### Kenji Fujita

President and CEO



1992 Joined Jusco Co., Ltd. (currently, AEON Co., Ltd.)  
1997 Jaya Jusco Stores Sdn. Bhd. (currently, AEON Co. (M) Bhd.)  
2004 Appointed Head of Managing Director Office and Deputy Division Head of SC Development of AEON Co. (M) Bhd.  
2005 Appointed Division Head of SC Business Development of AEON Co. (M) Bhd.  
2007 Talent Development Department of AEON Co., Ltd.  
2009 Appointed Head of Corporate Management Division of AEON Stores (Hong Kong) Co., Ltd.  
2010 Appointed Director and Head of Corporate Management Division of AEON Stores (Hong Kong) Co., Ltd.  
2011 Executive Office of AEON Co., Ltd.  
2012 Appointed Head of Asia Business Division of AEON Credit Service Co., Ltd.  
2012 Appointed Director of AEON Credit Holdings (Hong Kong) Co., Ltd. (currently, AEON Financial Service (Hong Kong) Co., Ltd.)  
2013 Appointed Director of AEON Credit Service (M) Berhad  
2014 Appointed Managing Director of AEON Credit Service (M) Berhad  
2019 Appointed Chairman and Representative Director of ACS Servicing (Thailand) Co., Ltd.  
Appointed Managing Director of AEON Thana Sinsap (Thailand) Plc.  
Appointed Chairman and Representative Director of AEON Specialized Bank (Cambodia) Plc. (current position)  
2020 Appointed Director of AEON Credit Service Co., Ltd. (current position)  
Appointed President and CEO of the Company (current position)  
Appointed Director of AEON Thana Sinsap (Thailand) Plc. (current position)

#### Reasons for Appointment

Kenji Fujita has approximately 20 years of experience working overseas, during which he has successively held key positions, and has abundant management experience, particularly overseas, such as serving as Managing Director of our locally listed subsidiaries in Malaysia and Thailand. We believe he will to contribute to the business.

#### Committees

- Board of Directors
- Management Policy Committee
- Internal Control Committee
- CSR Committee
- Nomination and Compensation Committee
- Disclosure Committee

#### Attendance at Board of Directors Meetings

(Appointed May 2020)

### Hideki Wakabayashi

Director and Senior Managing Executive Officer



1980 Joined Japan Housing Finance Co., Ltd.  
1997 Joined Jusco Co., Ltd. (currently, AEON Co., Ltd.)  
2007 Appointed Corporate Auditor (External) of the Company  
2008 Appointed Vice President in charge of Group Finance of AEON Co., Ltd.  
2010 Appointed Managing Director and Head of Finance Division of the Company  
2011 Appointed Director, Managing Executive Officer, and Head of Finance Division of the Company  
2013 Appointed Director in charge of Corporate Management of the Company  
Appointed Director and Senior Managing Executive Officer of AEON Credit Service Co., Ltd.  
2014 Appointed Director of AEON Credit Service Co., Ltd.  
Appointed Chairman and Representative Director of AEON Thana Sinsap (Thailand) Plc. (current position)  
2015 Appointed Senior Managing Director in charge of Corporate Management of the Company  
2017 Appointed Senior Managing Director in charge of Corporate Management and Head of Corporate Management Division of the Company  
2018 Appointed Director of AEON Insurance Service Co., Ltd. (current position)  
2019 Appointed Director and Senior Managing Executive Officer in charge of Corporate Management and Head of Corporate Management Division of the Company (current position)

#### Reasons for Appointment

Hideki Wakabayashi has worked as head of the Corporate Management Department as well as the Finance and Accounting Department of the Company and operating companies and has abundant insight and experience and an extensive track record relating to management, finance, and accounting. The Company has determined that Mr. Wakabayashi is suitable for promoting business management and improving business efficacy in each Group company.

#### Committees

- Board of Directors
- Management Policy Committee
- Internal Control Committee
- CSR Committee
- Disclosure Committee

#### Attendance at Board of Directors Meetings

100% (17/17 times)

### Masaaki Mangetsu

Director and Managing Executive Officer



1981 Joined Jusco Co., Ltd. (currently, AEON Co., Ltd.)  
2013 Appointed COO of GMS Business of AEON (China) Co., Ltd.  
2014 Appointed Director of AEON Marketing Co., Ltd.  
2015 Appointed Head of Marketing Division of the Company  
Appointed Director of AEON Credit Service Co., Ltd.  
2016 Appointed Director in charge of Business Strategy and Head of Overseas Business Division of the Company  
2017 Appointed Managing Director in charge of Global Business and Head of Global Business Division of the Company  
Appointed Director and Chairman of AEON Credit Service (Asia) Co., Ltd. (current position)  
2019 Appointed Chairman of AEON Micro Finance (Shenzhen) Co., Ltd. (current position)  
Appointed Director and Managing Executive Officer in charge of Global Business Strategy and Head of Global Business Strategy Division of the Company  
Appointed Director of AEON Credit Service (Philippines) Inc.  
Appointed Director of AEON Credit Service (M) Berhad (current position)  
Appointed Director and Managing Executive Officer in charge of Overseas Business Strategy and Innovation Planning and Head of the Overseas Business Strategy Division and Head of Innovation Planning Division of the Company  
2020 Appointed Director and Managing Executive Officer in charge of Overseas Business Strategy and Operation Planning and Head of the Overseas Business Strategy Division and Head of Operation Planning Division (current position)

#### Reasons for Appointment

Masaaki Mangetsu has broad experience not only in the business marketing departments at our operating companies but also in holding key roles at overseas companies. Based on this experience, we believe he will formulate and promote future growth strategies for the Company.

#### Committees

- Board of Directors
- Management Policy Committee
- Internal Control Committee
- CSR Committee

#### Attendance at Board of Directors Meetings

100% (17/17 times)

## Tomoyuki Mitsufuji

Director and Senior Executive Officer



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

### Reasons for Appointment

Tomoyuki Mitsufuji has successively held key positions in the market departments, front-office operations such as those of corporate businesses, as well as credit and bank operations in the Group's banking business since its establishment. He also possesses abundant insight in the area of risk management as well as broad knowledge relating to the banking business. We believe these qualities will contribute toward thorough risk management at Group companies.

### Committees

- Board of Directors
- Management Policy Committee
- Internal Control Committee
- CSR Committee
- Disclosure Committee

### Attendance at Board of Directors Meetings

93% (13/14 times)

## Kazuyoshi Suzuki

Director and Senior Executive Officer



1984 Joined The Sanwa Bank, Limited (currently, MUFG Bank, Ltd.)  
1990 Joined the Ministry of Foreign Affairs, working at the Embassy of Japan in Malaysia  
2005 Appointed Deputy Manager of Accounting Department of Lotte Co., Ltd.  
2010 Performance Management Department, Policy Division of Lotte Holdings Co., Ltd.  
2011 Planning Department of AEON Bank, Ltd.  
2012 Appointed Executive Officer and Head of Planning Department of AEON Bank, Ltd.  
2014 Appointed Director, Managing Executive Officer, Head of Corporate Planning Division, and Head of Planning Department of AEON Bank, Ltd.  
2015 Appointed Senior Managing Director of AEON Product Finance Co., Ltd.  
2017 Appointed Head of Corporate Planning Division of the Company  
Appointed Director of AEON Marketing Co., Ltd. (current position)  
Appointed Director in charge of Corporate Planning and Head of Corporate Planning Division of the Company  
2018 Appointed Director of AEON specialized Bank (Cambodia) Plc.  
2019 Appointed Senior Executive Officer in charge of Corporate Planning and Head of Corporate Planning Division of the Company  
Appointed Senior Executive Officer in charge of Corporate Planning and New Business Development, Head of Corporate Planning Division and Head of New Business Development Division of the Company  
2020 Appointed Director of Allianz Life Insurance Japan Ltd. (currently, AEON Allianz Life Insurance Co., Ltd.) (current position)  
Appointed Senior Executive Officer in charge of Corporate Planning, New Business Development and Human Resources & General Affairs, Head of Corporate Planning Division, Head of New Business Development Division and Head of Human Resources & General Affairs Division of the Company (current position)

### Reasons for Appointment

Kazuyoshi Suzuki has mainly served as head of key departments, including corporate planning departments, at operating companies and has a broad range of business experience in banks. With his abundant knowledge and experience relating to the Company's business and the operating companies, the Company has determined that Mr. Suzuki is suitable for enhancing the corporate value of the company.

### Committees

- Board of Directors
- Management Policy Committee
- Internal Control Committee
- CSR Committee
- Disclosure Committee

### Attendance at Board of Directors Meetings

(Appointed May 2020)

## Kazuo Ishizuka

Director and Senior Executive Officer



1984 Joined Nihon Credit Service Co., Ltd. (currently, the Company)  
2009 Appointed Director and Head of Information System Division of the Company  
2010 Appointed Head of System Department of AEON Bank, Ltd.  
Appointed Director and Executive Officer in charge of System Department of AEON Bank, Ltd.  
2014 Appointed Head of System Administrative Department of the Company  
2015 Appointed Executive Officer in charge of System of AEON Bank, Ltd.  
Appointed Director and Executive Officer in charge of System of AEON Bank, Ltd.  
2017 Appointed Director in charge of IT Digital, Head of System Division and Head of System Planning Department of the Company  
2018 Appointed Director of AEON Credit Service Systems (Philippines) Inc.  
2019 Appointed Director of AEON Bank, Ltd.  
Appointed Senior Executive Officer in charge of IT Digital, Head of System Division, and Head of System Planning Department of the Company  
Appointed President and Representative Director of AEON Credit Service Systems (Philippines) Inc. (current position)  
2020 Appointed Senior Executive Officer in charge of IT Digital, Head of System Division and Head of System Planning Department of the Company

### Reasons for Appointment

Kazuo Ishizuka has been a head of the System Department of the Company and operational companies and has abundant experience and an extensive track record. The Company expects that his high level of knowledge will play a sufficient role in decisions related to the execution of important operations and during supervision.

### Committees

- Board of Directors
- Management Policy Committee
- Internal Control Committee
- CSR Committee

### Attendance at Board of Directors Meetings

(Appointed May 2020)

## Hiroyuki Watanabe

Director



1982 Joined Isejin Jusco Co., Ltd. (currently, AEON Co., Ltd.)  
2006 Representative Director of AEON Financial Project Co., Ltd. (currently, AEON Bank, Ltd.)  
Appointed Director in charge of Human Resources, General Affairs and Public Relations of AEON Financial Project Co., Ltd.  
2008 Appointed Director, Managing Executive Officer in charge of Human Resources & General Affairs of AEON Bank, Ltd.  
2012 Appointed Director, Senior Managing Executive Officer, and Head of Corporate Management Division of AEON Bank, Ltd.  
Appointed Director of the Company  
2014 Appointed Director of the Company (current position)  
Appointed Representative Director and Senior Managing Executive Officer, Head of Sales Division of AEON Bank, Ltd.  
2015 Appointed President and Representative Director of AEON Bank, Ltd.  
2016 Appointed Director of AEON Credit Service Co., Ltd.  
2017 Appointed Director and Executive Vice President of the Company  
2018 Appointed Executive Officer of AEON Co., Ltd. (current position)  
Appointed Director of the Company (current position)  
Appointed Director of AEON Bank, Ltd.  
Appointed Director of ZAG ZAG Co., Ltd. (current position)  
2019 Appointed Director of AEON Integrated Business Service Co., Ltd. (current position)  
2020 Appointed Director of Abilities Jusco Co., Ltd. (current position)

### Reasons for Appointment

Hiroyuki Watanabe has been a head of the human resources department of operational companies for many years. He has successively held key positions in AEON Bank, Ltd., the Company's major subsidiary, including as CEO, and has abundant knowledge and experience in the Company's business. We believe he will contribute to enhancing the corporate value of the Company in the future.

### Committees

- Board of Directors

### Attendance at Board of Directors Meetings

76% (13/17 times)

## Yoshimi Nakajima

Director (Outside)



1980 Joined The Yasuda Trust & Banking Co., Ltd. (currently, Mizuho Trust & Banking Co., Ltd.)  
1997 Joined Citibank, N.A.  
Appointed Vice President of Personal Finance Division of Citibank, N.A.  
2000 Appointed Senior General Manager in charge of Marketing and Sales of SG Online Branch of Societe Generale Securities Ltd.  
2011 Appointed President of American Express International, Inc. (Singapore)  
2014 Appointed Senior Vice President in charge of Acquisition & Marketing of Personal Business Department of American Express International, Inc. (Japan)  
Appointed President and Representative Director of American Express Japan Co., Ltd. (current position)  
2017 Appointed Outside Director of the Company (current position)  
Outside Director of Yamaha Corporation (current position)  
2018 Appointed Outside Director of Japan Freight Railway Company (current position)  
Appointed External Director of ULVAC, Inc. (current position)

### (Significant concurrent positions)

Outside Director of Yamaha Corporation  
Outside Director of Japan Freight Railway Company  
External Director of ULVAC, Inc.

### Reasons for Appointment

Yoshimi Nakajima has deep insight into global perspectives and diversity, abundant experience in corporate management, and experience as a company president overseas. The Company expects that, by utilizing her personal network, know-how, and knowledge cultivated to date, she is capable of providing opinions and suggestions from various standpoints and perspectives on the Company's management of the AEON Group, which embraces a large number of overseas subsidiaries as a comprehensive financial business group

### Committees

- Board of Directors
- Nomination and Compensation Committee

### Attendance at Board of Directors Meetings

94% (16/17 times)

## Kotaro Yamazawa

Director (Outside)



1980 Joined Bank of Japan  
2006 Seconded to Osaka Securities Exchange Co., Ltd.  
2010 Appointed Director and Senior Executive Officer of Osaka Securities Exchange Co., Ltd.  
Appointed Senior Executive Officer of Japan Exchange Group, Inc. and Director and Senior Executive Officer of Osaka Securities Exchange Co., Ltd.  
2014 Appointed Senior Managing Executive Officer of Japan Exchange Group, Inc. and Director and Senior Managing Executive Officer of Osaka Securities Exchange Co., Ltd.  
2015 Appointed Director and Vice President of Osaka Exchange, Inc.  
2017 Appointed Advisor of Osaka Exchange, Inc.  
Appointed Corporate Auditor (External) of the Company  
Appointed Outside Director of Tokyo Commodity Exchange, Inc.  
Appointed Special Advisor of Glory Ltd. (current position)  
2018 Appointed Outside Auditor of WingArc1st Inc.  
2019 Appointed Outside Director of the Company (current position)  
Appointed Outside Director of WingArc 1st Inc. (current position)

### (Significant concurrent positions)

Special Advisor of Glory Ltd.  
Outside Director of WingArc1st Inc.

### Reasons for Appointment

Kotaro Yamazawa has knowledge of finance and accounting cultivated through his service at Bank of Japan and several stock exchanges, in addition to having a high level of insight into corporate governance. The Company has determined that he is capable of utilizing his extensive personal network in the financial industry to realize sustained enhancement of corporate value.

### Committees

- Board of Directors
- Nomination and Compensation Committee

### Attendance at Board of Directors Meetings

100% (14/14 times)

## Tatsuya Sakuma

Director (Outside)



1983 Worked as public prosecutor of Tokyo, Naha, and Niigata District Public Prosecutors Offices of Criminal Affairs Bureau of the Ministry of Justice, and as First Secretary of Embassy of Japan in the United States of America  
1999 Appointed as Chief of Investigations, Human Rights Bureau of the Ministry of Justice  
2003 Appointed as Chief of Public Security Division, Criminal Affairs Bureau of the Ministry of Justice  
2004 Appointed as Chief of Criminal Affairs Division, Criminal Affairs Bureau of the Ministry of Justice  
2005 Appointed Deputy Head of special investigation task force of the Tokyo District Public Prosecutors Office  
2007 Appointed Head of General Affairs Department of the Tokyo District Public Prosecutors Office  
2008 Appointed Head of special investigation task force of the Tokyo District Public Prosecutors Office  
2010 Appointed Chief Public Prosecutor of Otsu, Maebashi, and Chiba District Public Prosecutors Offices, Director of United Nations Asia and Far East Institute and Director-General of the Research and Training Institute of the Minister of Justice (retired in 2019)  
2019 Appointed Outside Director of bitFlyer, Inc.  
Appointed Outside Director of the Company (current position)  
Registered as an attorney-at-law (Dai-ichi Tokyo Bar Association)

### (Significant concurrent positions)

Attorney-at-law of Aoyama TS Law Office

### Reasons for Appointment

Tatsuya Sakuma has ample experience and insight relating to the legal profession gained from occupying successive key positions such as head of special investigation task force of the Tokyo District Public Prosecutors Office. The Company has determined that he is capable of providing assistance in strengthening its internal control system, centering on compliance.

### Committees

- Board of Directors
- Nomination and Compensation Committee

### Attendance at Board of Directors Meetings

100% (14/14 times)

## Takashi Nagasaka

Director (Outside)



1979 Joined Chuo Audit Corporation  
1981 Registered as a certified public accountant  
1990 Appointed Partner of Chuo Audit Corporation  
1998 Appointed Senior Partner of Chuo Audit Corporation  
2005 Appointed Head of Audit Division of ChuoAoyama Audit Corporation  
2007 Appointed Managing Director of Ernst & Young ShinNihon (currently, Ernst & Young ShinNihon LLC)  
2010 Appointed Senior Partner of Ernst & Young ShinNihon (currently, Ernst & Young ShinNihon LLC)  
2019 Appointed Representative of Takashi Nagasaka CPA Office (current position)  
Appointed Outside Director of Contec Co., Ltd. (current position)  
Appointed Outside Auditor of Tokushu Tokai Paper Co., Ltd. (current position)  
2020 Appointed Outside Director of Park24 Co., Ltd. (current position)  
Appointed Outside Director of the Company (current position)

### (Significant concurrent positions)

Representative of Takashi Nagasaka CPA Office  
Outside Director of Contec Co., Ltd.  
Outside Auditor of Tokushu Tokai Paper Co., Ltd.  
Outside Director of Park24 Co., Ltd.

### Reasons for Appointment

Takashi Nagasaka has practical experience as an accounting expert, accumulated through his career as a certified public accountant, in addition to extensive knowledge related to internal control. Accordingly, the Company hopes to seek his advice on strengthening corporate governance and enhancing corporate value.

### Committees

- Board of Directors
- Nomination and Compensation Committee

### Attendance at Board of Directors Meetings

(Appointed May 2020)



## Auditors

### Junichi Suzuki

Corporate Auditor (Outside)



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

**(Significant concurrent positions)**  
 Auditor of AEON Bank, Ltd.  
 Auditor of AFS Corporation Co., Ltd.

#### Reasons for Appointment

Given Junichi Suzuki's extensive experience at overseas subsidiaries of the AEON Group, we believe his oversight and effective advice will contribute to the proper and appropriate management of the Company.

#### Committees

• Board of Corporate Auditors

#### Attendance at Board of Directors Meetings

92% (12/13 times)

### Go Otani

Corporate Auditor (Outside)



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

#### Reasons for Appointment

Go Otani is well versed in internal control systems and corporate governance. Based on this abundant experience, the Company has determined that he will ensure the validity and appropriateness of the Company's management.

#### Committees

• Board of Corporate Auditors

#### Attendance at Board of Directors Meetings

100% (13/13 times)

### Yuko Yogo

Corporate Auditor (Outside)



1982 Joined Tokyo Branch of Morgan Bank (currently JPMorgan)  
 1993 Appointed Vice President of Global Market Department of JPMorgan Securities  
 1996 Appointed Japan Office Country Manager of Enterprise Attraction Bureau of Scottish Development International  
 2002 Appointed Vice President, General Manager of Administration Division and Manager of Internal Control of Tokyo Branch of TD Securities  
 2005 Appointed Head of Human Resources of ABN AMRO Securities  
 2008 Appointed Head of Human Resources of FIL Investments (Japan)  
 Limited Appointed Representative Executive Officer of FIL Holdings Limited (from 2008 to 2016)  
 2016 Appointed Executive Officer and Head of Human Resources of FIL Investments (Japan) Limited  
 2019 Appointed Auditor (External) of the Company (current position)

#### Reasons for Appointment

Yuko Yogo has been selected as an Outside Corporate Auditor to strengthen the Company's corporate governance system in light of the opinions and suggestions she can offer, based on her experience as a representative executive officer of a holding company, her deep insight and global perspective obtained from her long tenure as a manager responsible for internal control and personnel management at foreign-capital-affiliated financial institutions, and her social perspective.

#### Committees

• Board of Corporate Auditors

#### Attendance at Board of Directors Meetings

100% (10/10 times)

### Takeshi Miyazaki

Corporate Auditor



1993 Joined Jusco Co., Ltd. (currently, AEON Co., Ltd.)  
 2001 Secretary Office of Jusco Co., Ltd.  
 2009 My Basket Division of AEON Retail Co., Ltd.  
 2012 Appointed Head of Sales Department of My Basket Co., Ltd.  
 2013 Appointed Director and Head of Support Administration Department of My Basket Co., Ltd.  
 2015 Appointed Director and Head of Sales and Support Administrative Department of My Basket Co., Ltd.  
 2016 Appointed Director and Head of Human Resource Development Department of My Basket Co., Ltd.  
 2017 Appointed President and Representative Director of A-Colle Co., Ltd.  
 2018 Appointed President and Representative Director of AEON Co., Ltd.  
 2019 Appointed PT of Discount Stores Business of AEON Co., Ltd.  
 2020 Appointed in charge of Finance & Accounting and Head of Finance Department of AEON Co., Ltd. (current position)  
 Appointed Auditor of the Company (current position)

**(Significant concurrent positions)**  
 In charge of Finance & Accounting and Head of Finance Department of AEON Co., Ltd.

#### Reasons for Appointment

Takeshi Miyazaki has successively served as a director of subsidiaries of the AEON group. With his abundant insight and experience in corporate management, and due to his being in charge of finance & accounting at AEON Co., Ltd., the Company has determined that he will ensure the soundness and appropriateness of the Company's management.

#### Committees

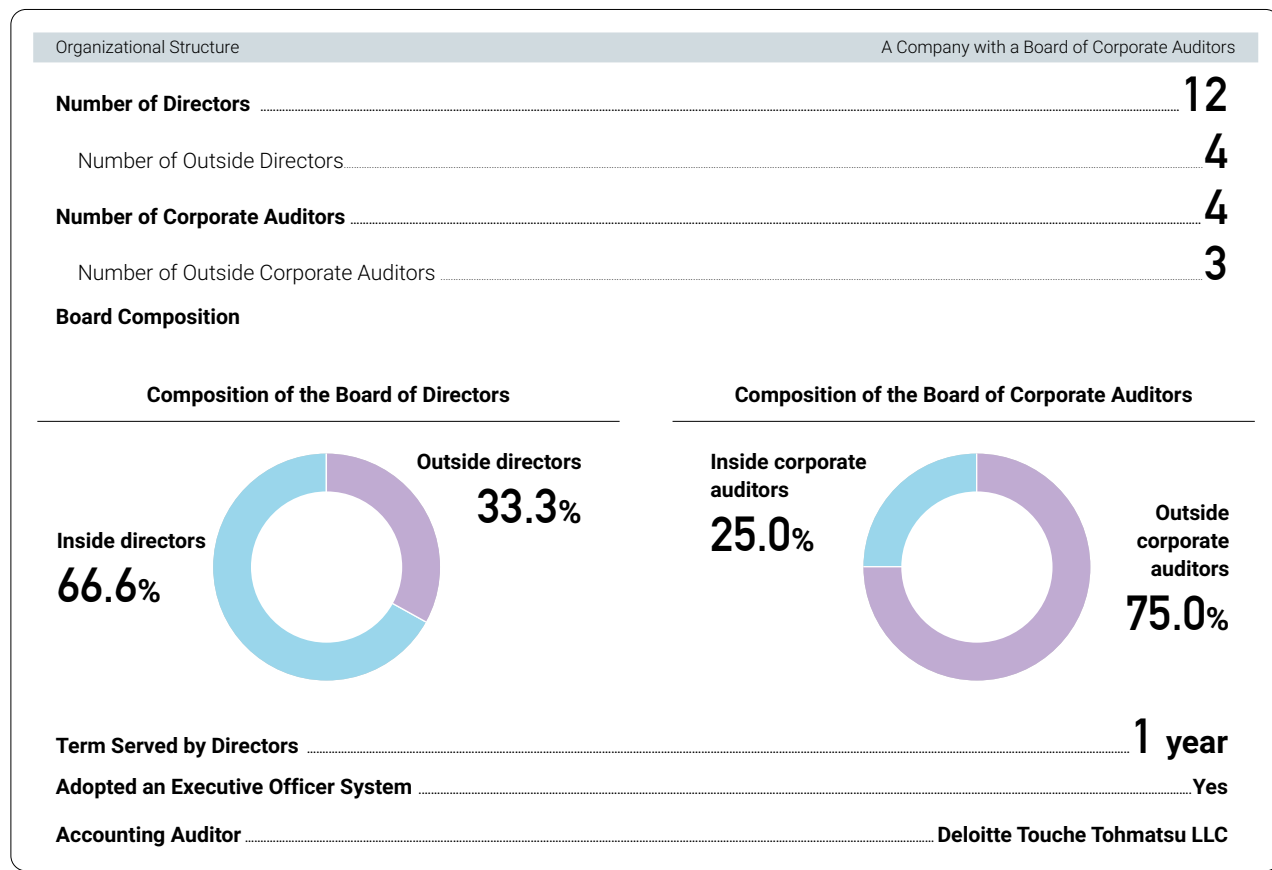
• Board of Corporate Auditors

#### Attendance at Board of Directors Meetings

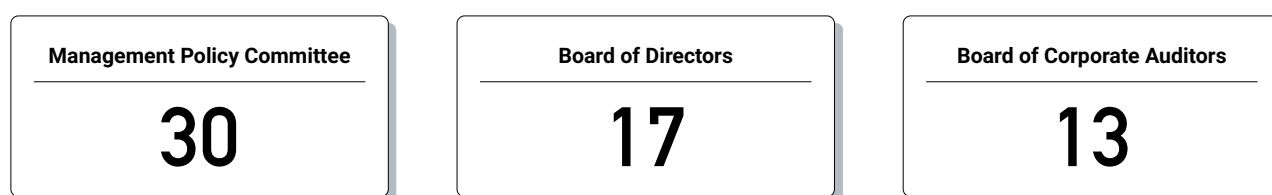
(Appointed May 2020)

# Corporate Governance

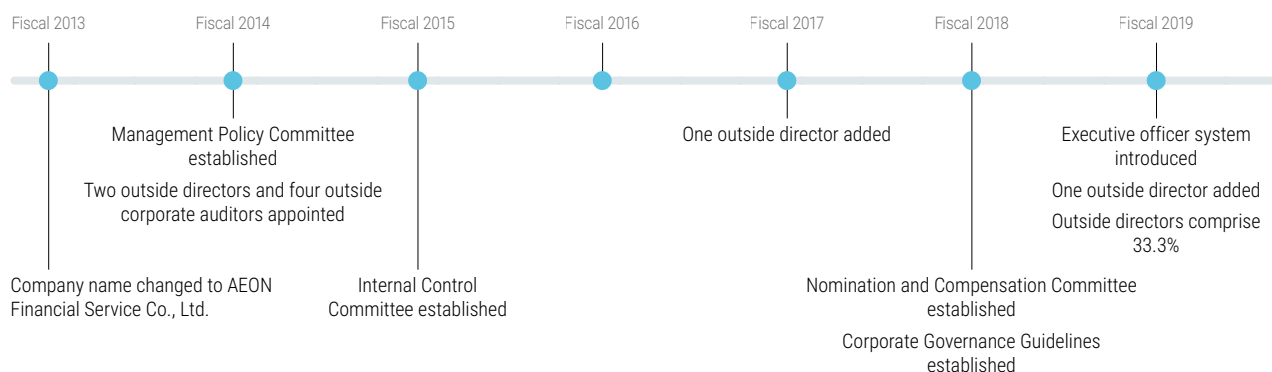
## CORPORATE GOVERNANCE CHART (AS OF JUNE 1, 2020)



## NUMBER OF MEETINGS OF THE MANAGEMENT POLICY COMMITTEE, BOARD OF DIRECTORS, AND BOARD OF CORPORATE AUDITORS (FISCAL 2019)



## CORPORATE GOVERNANCE TIMELINE





## BASIC PRINCIPLES OF CORPORATE GOVERNANCE

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

## OUR BASIC APPROACH TO CORPORATE GOVERNANCE

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

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

## CORPORATE GOVERNANCE STRUCTURE

The Company aims to further strengthen its management control and corporate governance. To this end, it has established the Management Policy Committee, Internal Control Committee, the CSR Committee, the Nomination and Compensation Committee, and the Disclosure Committee, in addition to the Board of Directors. The Management Policy Committee is an advisory body that discusses management decision-making executed on the President and CEO's authority. With the aim of realizing sustainable growth and increasing corporate value for the Group over the medium and long term, the Internal Control Committee comprehensively and expertly discusses and makes decisions on matters regarding the development of an internal control system within the scope entrusted by the Board of Directors and provides reports and opinions to the Board of Directors.

The Committee consists of the President and CEO as the presiding officer within the scope entrusted by the Board of Directors. The internal control system is ready to be operated and improved flexibly and, by conducting thorough consideration and deliberation of individual themes, provide necessary guidance and advice to the relevant parties, make resolutions

on matters entrusted by the Board of Directors, and provide reports and opinions to the Board of Directors. The CSR Committee was established for governance from a social perspective, to determine strategies and policies for CSR as a company, to indicate its CSR stance externally, and to guide each division of the Company and the Group companies with regard to CSR. The committee comprehensively and expertly discusses and reviews matters regarding CSR, provides necessary guidance and advice to relevant parties, and reports to the Board of Directors.

The Nomination and Compensation Committee, consulted by the Board of Directors, discusses and deliberates prospective director candidates and the compensation of directors.

The Disclosure Committee multidimensionally and comprehensively discusses and deliberates the disclosure materials to explain the company's financial results and status of the operating business.

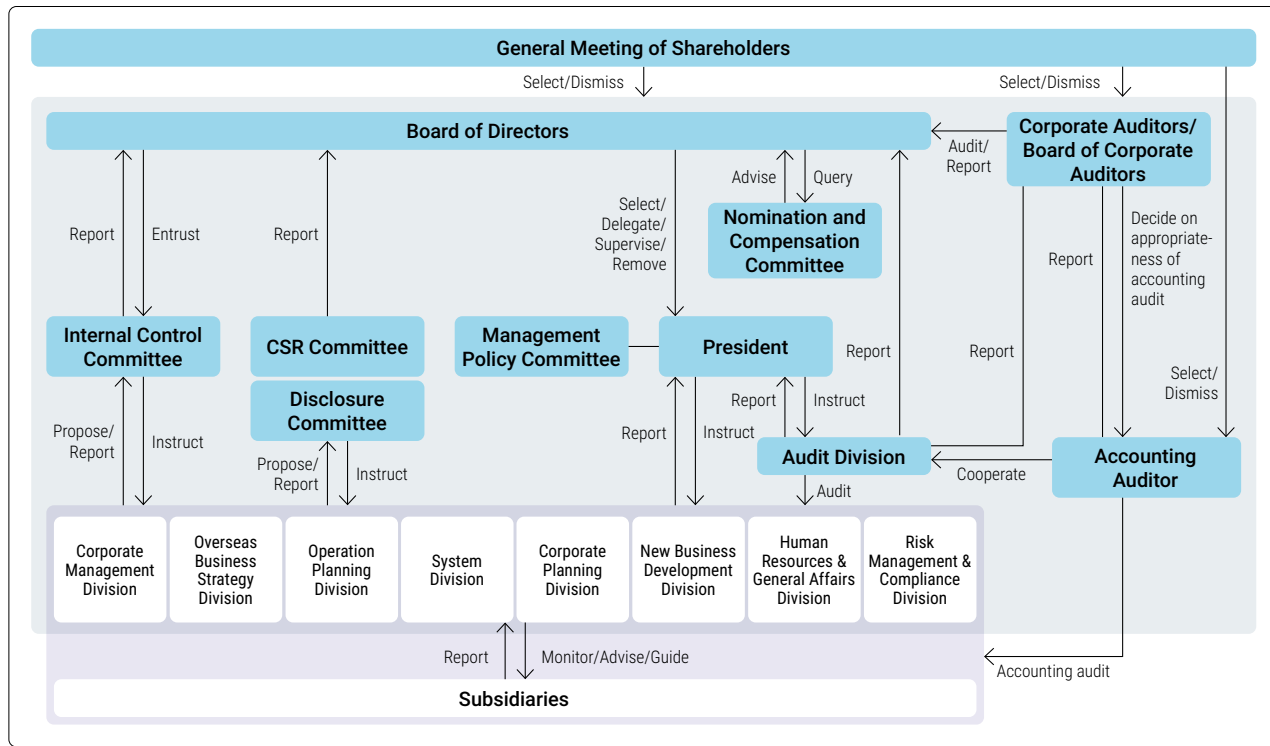
The Board of Directors consists of an appropriate number of people in order to emphasize mobility and enable prompt decision-making. Important matters related to the management of the Company and the Group are decided by

the Board of Directors after deliberation by the Management Policy Committee and the Internal Control Committee from the viewpoint of the effectiveness and efficiency of the business.

In addition, the Company is a company with the Board of

Corporate Auditors, and the Board of Corporate Auditors consists of three outside corporate auditors (including two independent directors) and one corporate auditor.

#### Corporate Governance (As of July 1, 2020)



#### INITIATIVES TO INCREASE THE EFFECTIVENESS OF THE BOARD OF DIRECTORS

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

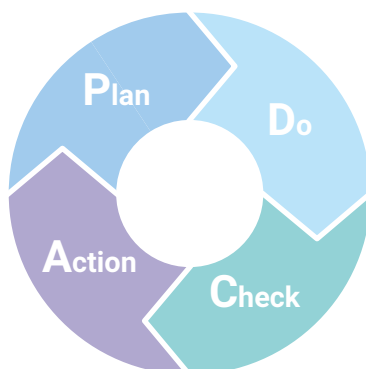
This initiative has supported corporate governance reforms that include enhancing the operation of the Board of

Directors in ways such as thoroughly explaining agenda items to participants prior to meetings and establishing the Nomination and Compensation Committee.

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

**1 Clarification of business processes and facts**

**4 Further investigation of issues**



**2 Progress of business and productivity improvement management**

**3 Innovation that integrates external expertise**

## POLICIES FOR COMPENSATION AMOUNT AND METHOD OF CALCULATION

### Officer Compensation (Fiscal 2019)

Classification	Total Compensation (millions of yen)	Total Compensation by Classification (millions of yen)				Number of Recipients
		Base Compensation	Stock Options	Performance-Linked Compensation	Retirement Benefits	
Directors (excluding outside directors)	261	158	19	81	2	11
Corporate Auditors (excluding outside corporate auditors)	—	—	—	—	—	—
Outside Officers	68	68	—	—	—	9

#### Notes:

- The above table includes compensation for five directors (including one outside director) who retired at the end of the conclusion of the Ordinary General Meeting of Shareholders held on June 25, 2019, one director who retired during the period, and one outside corporate auditor. Furthermore, the total amount of compensation and number of people includes Kotaro Yamazawa, who retired as an outside corporate auditor at the end of the above mentioned Ordinary General Meeting of Shareholders and assumed the position of outside director, and his compensation is divided into the time served as an outside corporate auditor and the time served as an outside director.
- The Company determines director compensation fairly and transparently to provide strong motivation for directors to properly execute management strategy and links it to business performance.
- Director compensation consists of base compensation, performance-linked compensation, and equity-linked compensation in the form of stock options.  
Base compensation is determined based on individual assessment within the standard amount for each position and is paid monthly. Base compensation for directors who concurrently serve at and receive compensation as officers of affiliated companies is handled on an individual basis.  
Performance-linked compensation is weighted at about 30% of total cash compensation (base compensation plus performance-linked compensation), with the weight increasing according to responsibilities. The payment for performance-linked compensation will be 100% of the standard amount when the targets set at the beginning of a given fiscal year are achieved and ranges from 0% to 200% based on performance and individual assessment for the relevant fiscal year.  
Performance-linked compensation consists of compensation linked to Company results and compensation for individual performance. Compensation linked to Company results is determined by comprehensively considering performance and applying a coefficient to the standard compensation for each position based on the ratio of actual to target consolidated or Company results.  
Compensation for individual performance is determined by applying a coefficient to the standard compensation of each position based on individual evaluation, the performance of the relevant business units, and the ratio of actual to target management goals achieved.  
Equity-linked compensation in the form of stock options aims to align stock price, performance, and compensation. Recipients share the benefits of stock price increases and the risk of stock price declines with shareholders. Stock acquisition rights are allocated as stock options that reflect business performance and serve to motivate and encourage recipients in consistently improving business performance and increasing corporate value. The number of stock acquisition rights allocated is determined by adjusting the standard number for each position according to performance in the relevant fiscal year.
- Outside directors receive only fixed compensation and are not subject to Company or individual performance evaluations.
- The 34th Ordinary General Meeting of Shareholders held on June 24, 2015 resolved to limit compensation for directors to a total of ¥550 million per year. Monetary compensation is limited to ¥400 million per year (including ¥50 million for outside directors) and equity-linked compensation is limited to ¥150 million per year as determined by the fair market value of the stock options.
- The Board of Directors resolved at a June 25, 2019 meeting to give the President and CEO the authority to determine the policy and calculation method for the compensation of Company officers, the scope of which includes monetary compensation for individual directors. Performance-linked compensation is determined in accordance with the ratio of actual to target Company and individual performance of the officer.

### Remuneration Type for Each Position of Director

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

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

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

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

## RISK MANAGEMENT

The Company employs a comprehensive approach in promoting risk management, working to evaluate the risks facing the Group in each risk category in the most consistent manner possible. This approach leads to a reliable and steady increase in corporate value.

As a structure to promote said risk management, the Company has established the Risk Management and Compliance Department to oversee risk management of the Group.

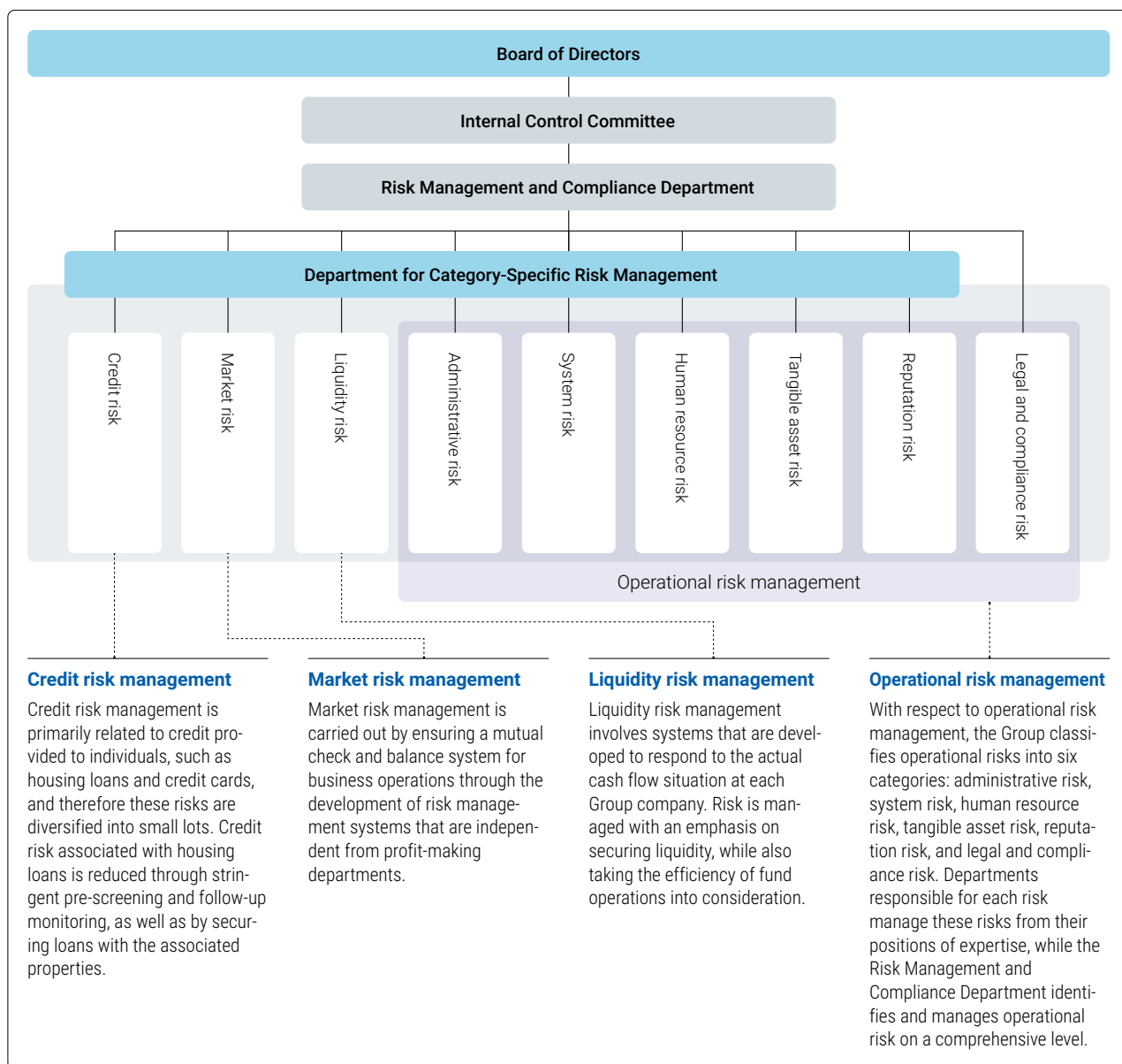
The Internal Control Committee comprehensively studies and deliberates on matters relating to overall risk management in the Group and refers important matters to the Board of Directors. In addition, we have established subcommittees related to internal control and conduct concrete examinations

regarding operational issues that focus on monitoring and risk control within the Group. These examinations entail understanding problems, analyzing root causes, and planning countermeasures. The examination results are then proposed and reported to the Internal Control Committee.

The role of the Board of Directors with respect to risk management is to regularly receive reports on the status of risk management, perform monitoring of risk management, and deliberate and decide on important fundamental matters relating thereto.

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

### Corporate Governance Structure



## BUSINESS CONTINUITY MANAGEMENT

As a member of the AEON Group, in December 2019 we revised our manual on business continuity management in preparation for natural disasters—such as earthquakes, floods, and typhoons—system troubles, pandemics, fires, and other various risks. The business continuity policy contained

within the business continuity management system, applicable to the Company as well as AEON Credit Service and AEON Bank, has been clarified, as have organizational and accountability structures. By following and revising this policy and these structures, we aim to ensure business continuity.

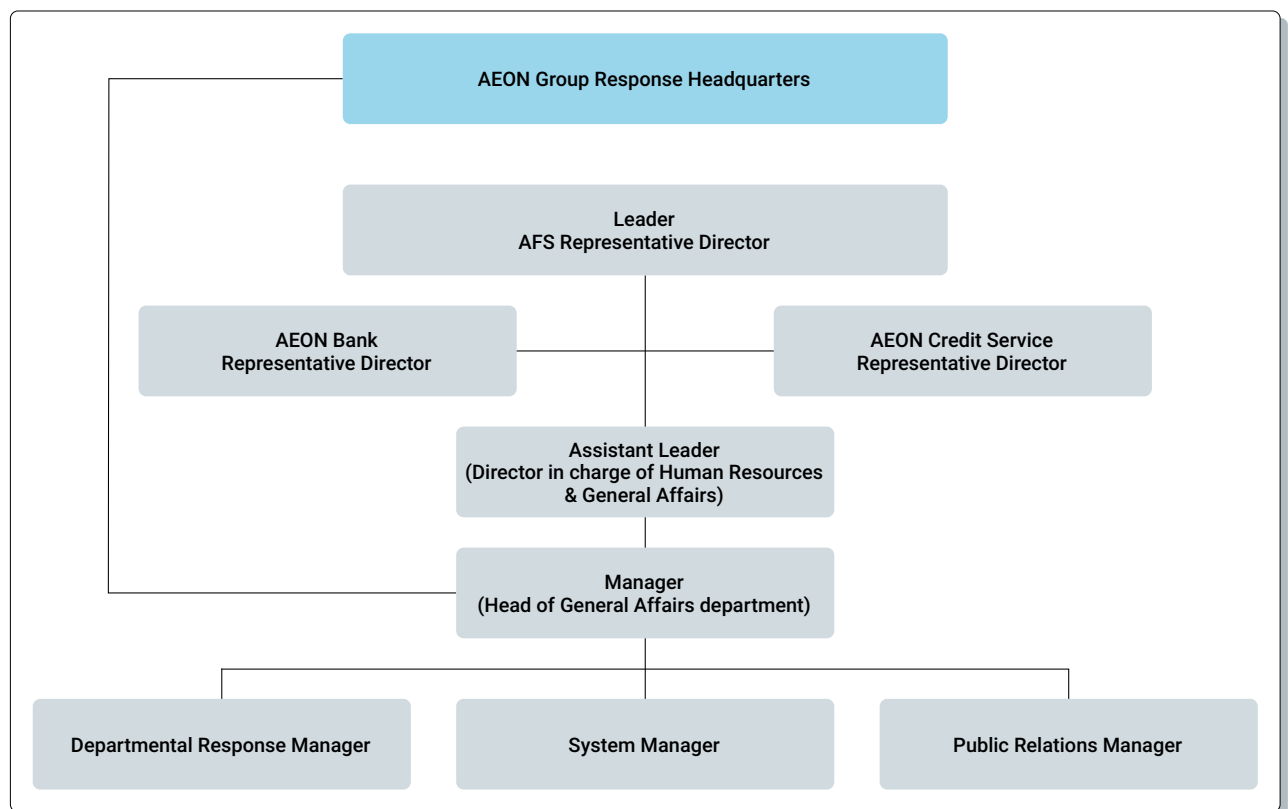
### Business Continuity Policy

The Group has a “business continuity management system” defined by AEON Co., Ltd. and a “business continuity management system” defined by AFS. We aim to continue the business of each AEON financial service company, such as its payment infrastructure.

1. We give top priority to ensuring the safety and security of our customers, employees, and their families.
2. In the event of a disaster, work to grasp the damage situation and implement countermeasures, and work to restore operations as soon as possible.
3. Aim for early restoration of payment and ATM functions that are particularly important as social infrastructure.

### Emergency Response Headquarters System

In the event of an emergency, the Group will set up a task force headed by the President and CEO and will work closely with related sections of the AEON Group to make appropriate and timely responses.



## Column

### Acquisition of ISO 22301 Certification for Business Continuity Management Systems

In March 2020, AFS acquired ISO 22301 certification, the international standard for business continuity management systems (BCMS). The certification, which was developed in 2012, is an international standard for BCMS for formulating measures to minimize the impact of various risks on business—such as system troubles and pandemics, as well as earthquakes, typhoons, and other natural disasters—and implementing an efficient and effective response.

Efforts to ensure business continuity in the event of a large-scale disaster are critical management issues for financial companies. As a part of the payment infrastructure, there are great expectations from the local communities and other stakeholders for the Company to make a prompt recovery in an emergency. Therefore, we have undertaken various efforts to maintain and improve our disaster response and business continuity capabilities.

These efforts fulfill the standard for business management continuity systems put forth under ISO 22301. Since this certification is applicable to AEON Financial Service Co., Ltd., AEON Credit Service Co., Ltd., and AEON Bank, Ltd., we are the first financial group that includes a bank to receive this certification.

The AEON Group continues to carry out annual large-scale natural disaster prevention drills in anticipation of a huge earthquake or tsunami to promote business continuity. We have accumulated knowledge concerning natural disaster countermeasures through active participation in these drills. In September 2019, Typhoon Faxai caused major power outages, particularly in Chiba Prefecture. However, when this rendered the dedicated ATMs at AEON Bank located in AEON Mall Kisarazu inoperable, mobile ATMs were dispatched to the location. In addition in response to the prolonged damage caused by the power outages, we dispatched mobile ATMs to Tateyama City, Chiba Prefecture, alongside AEON's mobile sales vehicles as part of visits to schools, two public halls, and fishing ports to provide services. Going forward, we will continue to take the initiative to promote business continuity, support people's lives even in times of emergency, and fulfill our social responsibility as a part of the financial infrastructure that serves the community.



Mobile ATM



ISO 22301 (business continuity) management system certification

#### Overview of Certification

Registered business	AEON Financial Service Co., Ltd.
Registration code	JQA-BC0042
Certification standards	ISO 22301: 2012/JISQ 22301: 2013 Issuing body: Japan Quality Assurance Association (JQA) Issuing body: ISMS Accreditation Center
Certification date	March 27, 2020
Scope of certification	(1) AEON Financial Service Co., Ltd. • Management and coordination of Group companies • Coordination of information with outside parties • Bank loans, procurement procedures for commercial papers, subsidiary loans, and bank repayments (2) AEON Credit Service Co., Ltd. a) Management of operational systems related to credit and call centers b) Management of call center operations (3) AEON Bank, Ltd. a) Current deposit payments and foreign currency payments with Bank of Japan b) Zengin System payments c) Housing loans and corporate loans, and purchase requests to Japan Housing Finance Agency d) Internet banking and system maintenance e) Work planning (cash payments during emergencies)



## COMPLIANCE SYSTEM

The AEON Code of Conduct has been established to provide guidance for appropriate judgments and actions in line with the social norms and corporate ethics upheld by the AEON Group. The Group, meanwhile, has established the AFS (AEON Financial Service) Group Policies on Compliance. Considering both these guidelines to be common standards of values, all officers and employees of the Group ensure compliance with these guidelines.

The Group has also formulated the Compliance Regulations and Compliance Manual to thoroughly inform all officers and employees about the laws and regulations that they must comply with, as well as specific points to watch out for, and how to respond should they discover any compliance violations. In addition, the Group holds compliance training at regular intervals and whenever necessary.

The Company, meanwhile, has established the Risk Management and Compliance Department as an entity charged with overseeing the compliance of the Group. It monitors the compliance status of respective Group companies and provides guidance and advice when necessary.

The Internal Control Committee performs monitoring of compliance inside the Group and examines the measures

carried out in response to compliance-related issues.

The Board of Directors receives reports and opinions relating to compliance in the Group from the Internal Control Committee and makes decisions on important matters relating to compliance.

The Group has formulated the Basic Policy for Handling Anti-Social Forces. This policy clearly informs officers and employees that relationships with anti-social forces are strictly forbidden. In addition, the Company and each Group company compile and analyze data about anti-social forces collected from both inside and outside the Group and report the status of management to the Company. The Company monitors the status of management of all Group companies regarding the exclusion of anti-social forces, in addition to providing instructions and guidance when necessary.

In addition, we regard money laundering and terrorist financing, which have been increasing internationally in recent years, as important management issues. In order to promote a proactive response in this regard, we are working to develop and operate management systems at each Group company based on our AFS Group Compliance Policy.

## WHISTLEBLOWING SYSTEM

Each Group company has a contact point for consultation to ensure the promotion of compliance and the integrity of the compliance system of the Group. In addition, all officers and employees are informed about the AEON Code of Conduct "110" hotline contact point and the outside hotline contact point for consultation. In addition to handling issues involving legal violations, while protecting the individual seeking a consultation, we are investigating the facts and devising

measures for making improvements or resolving issues to ensure the contact points for consultation protect the individual making the consultation and help Group companies to take corrective action.

In January 2020, we set up a dedicated contact point for reporting officer misconduct at each Group company. This action will further strengthen corporate governance for the AEON Group.

### AEON Bank Receives Whistleblowing System Certification

In order to detect and correct instances of fraud or rule violations at an early stage, AEON Bank has adopted the theme of "clear internal reporting" and is working to build an environment where the consultation process is both easy and has a low barrier. In November 2019, AEON Bank registered for the Whistleblowing Compliance Management System certification (a self-declaration of conformity) under the jurisdiction of the Japanese Consumer Affairs Agency, an action aimed at increasing the effectiveness of its whistleblowing system.



Whistleblowing  
Compliance  
Management  
System

## INTERNAL AUDITS

Based on the recognition that building an internal audit system is critical for developing an appropriate risk management structure, the Company has formulated an Internal Audit Basic Policy for the Group, which aims to ensure the effectiveness of internal audits. The Internal Audit division of the Company conducts internal audits of each division of the Company as well as supervises the Group's internal audit function. Specifically, the division verifies the appropriateness and effectiveness of each Group company's internal

management and internal audit structure by monitoring the status of internal audits and conducting direct audits as necessary. The division provides necessary opinions and guidance based on the results of these reviews. In addition, from the standpoint of ensuring the efficiency and effectiveness of audits, the Internal Audit Division exchanges opinions and information with the corporate auditors and accounting auditor regularly as well as on an as-needed basis.



## DIALOGUE WITH STAKEHOLDERS

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

### Status of Investor Relations Activities

Investor Relations Activities	Details	Explanation by Representative Directors	Actions (Fiscal 2019 Annual)
Preparation and publication of a disclosure policy	We prepare a disclosure policy and publicize basic policies, standards of information disclosure, methods of information disclosure, and announcements of the IR quiet period.	—	—
Company briefings for individual investors	We hold company briefing sessions for individual investors to showcase the Company and explain its performance.	Yes	In-person events: 3 (266 attendees) Online events: 2
Periodic briefings for analysts and institutional investors	Representative directors or the director in charge of corporate management periodically conduct briefings.	Yes	Dialogue counterparties: 221 companies
Periodic briefings for foreign investors	We publish English annual reports and an English version of the IR website. We translate various reporting materials into English and regularly hold meetings with overseas investors.	Yes	Dialogue counterparties: 51 companies
Availability of investor relations materials on the corporate website	We publish various materials, including audio versions of results briefings. We also publish monthly information.	—	Earnings release reports: Quarterly Other investor relations materials: As needed
Establishment of a department and person in charge of investor relations	An IR representative is assigned to the Corporate Planning Department, which is responsible for disclosure.	—	—
Overseas inspection tours for analysts of domestic securities companies and institutional investors	We give an overview of Global Business, local circumstances, and of the nature of business at local subsidiaries in Thailand and Malaysia, with visits to stores in Thailand and Malaysia.	—	Meetings: 1
Others	The President and CEO, director in charge of corporate management, and person in charge of investor relations conduct meetings with individual domestic and overseas investors and securities analysts.	Yes	Meetings: 121










### External Recognition of AEON Financial Service (As of June 30, 2020)

IR Websites	Awards and Accreditations
Nikko Investor Relations Co., Ltd.	 2019 All Japanese Listed Companies' Website Ranking Overall ranking: Best Sites
Gomez Consulting Co., Ltd., a subsidiary of Morningstar Japan K.K.	 Gomez IR Site Ranking 2019 Excellent Company: Silver Award

Indices	Awards and Accreditations
MSCI Japan ESG Select Leaders Index*	 Included for four consecutive years (ESG rating: AA/AAA-B)
SNAM Sustainability Index	 Included for nine consecutive years
JPX-Nikkei Index 400	 Included for seven consecutive years

Others	Awards and Accreditations
Nikkei Smart Work	 Overall assessment: 3.5 stars

### Investor Relations Information Disclosure

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

### Credit Rating Information (As of June 30, 2020)

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

Notes: 1. The MSCI Japan ESG Leaders Index is a free float-adjusted market capitalization index designed to represent the performance of companies that have high environmental, social, and governance (ESG) performance from within its parent index, the MSCI Japan IMI Top 700 Index, and targets coverage of 50% of the free float-adjusted market capitalization within each Global Industry Classification Standard® (GICS®) sector of the parent index.

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

# 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	2012 <sup>1</sup>
<b>Consolidated cardholders</b> (millions)				
Total	26.53	28.07	29.76	31.85
Domestic	19.05	20.00	21.01	22.24
<b>For the year</b> (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
<b>Per share information</b> (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
<b>At year-end</b> (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
<b>Key indicators</b> (%)				
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
<b>Dividends</b>				
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. <sup>2</sup>	2013 <sup>3</sup>	2014	2015	2016	2017	2018	2019 (FY)
<b>Consolidated cardholders</b> (millions)							
Total	33.90	35.67	37.22	38.94	40.64	42.69	<b>45.27</b>
Domestic	23.45	24.64	25.88	26.92	27.75	28.40	<b>28.89</b>
<b>For the year</b> (millions of yen)							
Operating income	286,070	329,046	359,651	375,166	407,970	439,001	<b>457,280</b>
Operating expenses	244,978	275,965	300,270	313,559	342,223	368,830	<b>392,209</b>
Ordinary profit	41,092	53,080	59,380	61,606	65,746	70,171	<b>65,070</b>
Profit attributable to owners of parent	20,743	30,491	35,785	39,454	38,677	39,408	<b>34,149</b>
<b>Per share information</b> (yen)							
Book value per share	1,316.00	1,377.56	1,465.31	1,604.79	1,714.92	1,764.05	<b>1,823.05</b>
Earnings per share	104.62	152.55	180.09	189.75	179.29	182.64	<b>158.25</b>
Diluted earnings per share	99.49	152.04	180.00	183.96	170.02	173.2	<b>154.15</b>
<b>At year-end</b> (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	<b>2,535,358</b>
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	<b>4,153,294</b>
Accounts receivable—installment	957,403	1,038,221	1,022,387	1,182,193	1,294,632	1,453,160	<b>1,543,135</b>
Accounts receivable—installment including securitized receivables	1,085,969	1,185,191	1,314,385	1,523,981	1,779,143	1,970,668	<b>2,125,629</b>
Total assets	3,163,117	3,589,495	3,745,546	4,187,263	4,852,844	5,342,228	<b>5,781,370</b>
Net assets	307,291	324,948	340,886	401,170	437,782	448,705	<b>459,075</b>
<b>Key indicators</b> (%)							
Ordinary profit ratio	14.4	16.1	16.5	16.4	16.1	16.0	<b>14.2</b>
Equity ratio (domestic standard)	8.9	8.1	7.4	8.5	8.3	7.3	<b>6.8</b>
Return on assets	1.4	1.6	1.6	1.6	1.5	1.4	<b>1.2</b>
Return on equity	8.2	11.2	12.7	12.4	10.8	10.5	<b>8.8</b>
<b>Dividends</b>							
Dividend per share (yen)	60	60	66	68	68	68	<b>68</b>
Payout ratio (%)	57.4	39.3	36.6	35.8	37.9	37.2	<b>43.0</b>

# 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* <sup>1</sup>	359,651	375,166	407,970	439,001	<b>457,280</b>
Operating profit* <sup>2</sup>	59,380	61,606	65,746	70,171	<b>65,070</b>
Profit attributable to owners of parent	35,785	39,454	38,677	39,408	<b>34,149</b>

\*1 Ordinary revenue from fiscal 2015–fiscal 2018.

\*2 Ordinary profit from fiscal 2015–fiscal 2018.

## Segment Results (Fiscal 2019)

(Millions of Yen)

Segment Results (Total 2017)								(Amount in P. 10)
	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	<b>5,669,677</b>
Domestic	4,104,792	4,515,763	4,955,492	5,358,216	<b>5,378,384</b>
Overseas	210,662	195,913	236,215	260,161	<b>291,292</b>
Hire purchase contracts	296,112	315,497	334,790	346,550	<b>351,099</b>
Cash advances	469,741	475,851	508,336	540,997	<b>515,070</b>



- 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\*<sup>1</sup>

(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)

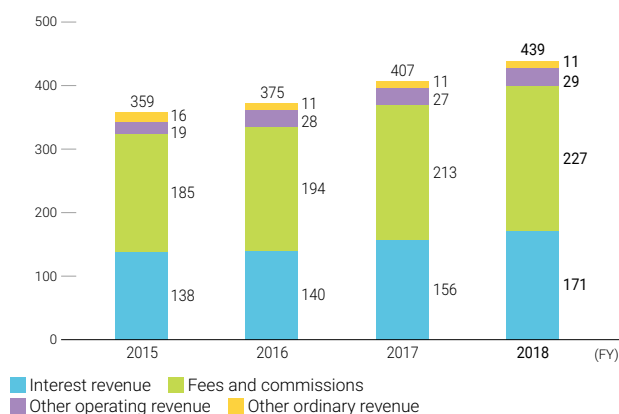
	Fiscal 2018* <sup>2</sup>	Fiscal 2019* <sup>2</sup>
Total operating revenue	438,441	<b>457,280</b>
Credit card purchase contracts	125,916	<b>125,700</b>
Hire purchase contracts	40,032	<b>41,914</b>
Financing revenue	146,365	<b>149,815</b>
Gain on bad debts recovered	7,604	<b>9,604</b>
Financial revenue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

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

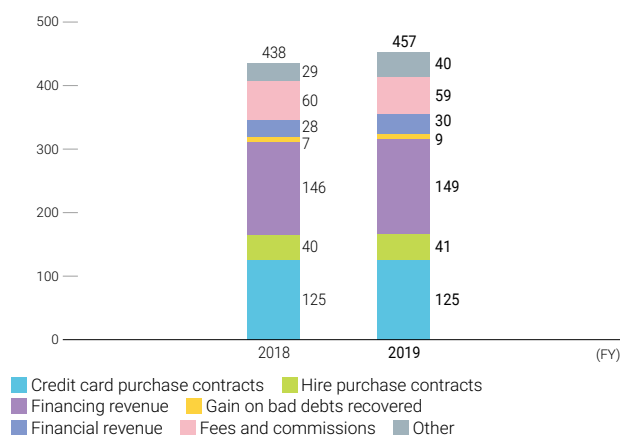
\*2 Changes have been made to figures to compensate for an organizational change that took place in fiscal 2019. These changes have been applied to figures displayed for 2018.

- 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)



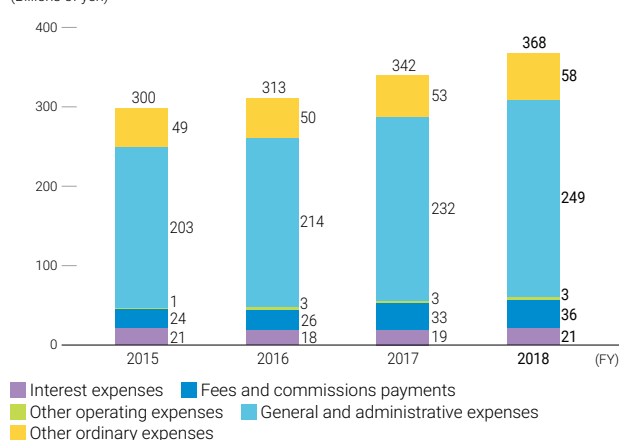
## Operating expenses\*1

(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

- 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

(Billions of yen)



Interest expenses Fees and commissions payments  
Other operating expenses General and administrative expenses  
Other ordinary expenses

(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

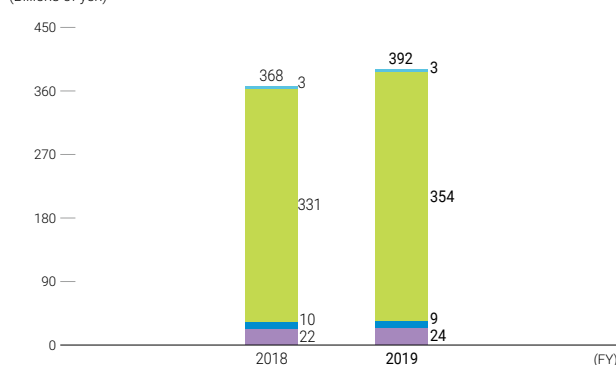
\*1 Ordinary expenses are used from fiscal 2015–fiscal 2018.

\*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.

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)



Financial expenses Fees and commissions payments  
Selling, general and administrative expenses Other

## Operating Profit and Profit Attributable to Owners of Parent

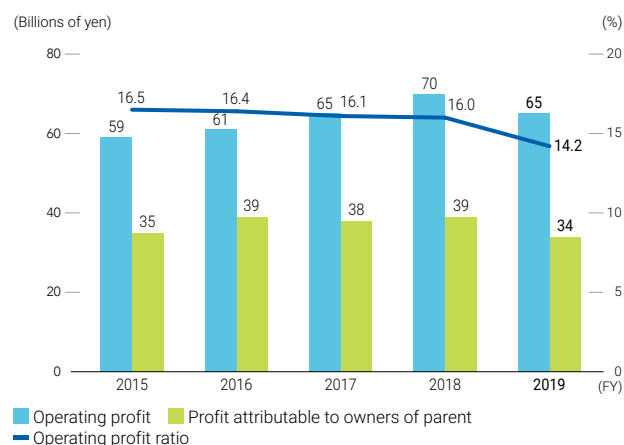
(Millions of Yen)

	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\*

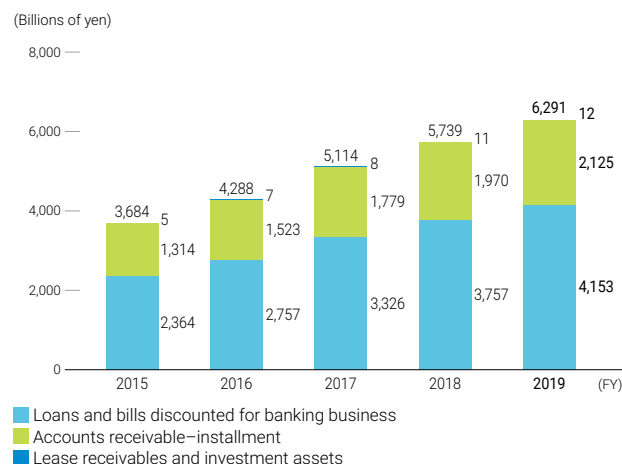
(Millions of Yen)

	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 <sup>(*)</sup>
	2020 <sup>(*)</sup>	2019 <sup>(*)</sup>	2020
<b>For the Year:</b>			
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 <sup>(*)</sup>
<b>Per Share Data:</b>			
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 <sup>(*)</sup>
<b>At Year-End:</b>			
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		
<b>Ratios:</b>			
Equity ratio	6.8%	7.2%	
Return on assets	0.6	0.8	
Return on equity	8.8	10.5	
	Millions of Yen		
	2018 <sup>(*)</sup>	2017 <sup>(*)</sup>	2016 <sup>(*)</sup>
<b>For the Year:</b>			
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		
<b>Per Share Data:</b>			
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		
<b>At Year-End:</b>			
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		
<b>Ratios:</b>			
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
<b>Operating Revenues:</b>				
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
<b>Operating Expenses:</b>				
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
<b>Operating Income</b>	¥ 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 <sup>(*)</sup> :				
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

Thousands of  
U.S. Dollars  
(Note 1)

	2020	2019	2020
<b>ASSETS</b>			
<b>Current assets:</b>			
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
<b>Property and equipment:</b>			
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
<b>Investments and other assets:</b>			
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
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities:</b>			
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
<b>Non-current liabilities:</b>			
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
<b>Equity (Notes 8 and 9):</b>			
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
<b>Operating revenues:</b>			
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
<b>Operating expenses:</b>			
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
<b>Non-operating revenues (expenses):</b>			
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 expenses	(540)	(843)	(4,934)
Income before income taxes	64,530	69,178	589,587
<b>Income taxes (Note 12):</b>			
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
<b>Net income attributable to non-controlling interests</b>	(10,844)	(11,772)	(99,084)
<b>Net income attributable to owners of the parent</b>	¥ 34,150	¥ 39,408	\$ 312,013
	Millions of Yen		U.S. Dollars
<b>PER SHARE OF COMMON STOCK (Note 19):</b>			
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	<b>¥ 44,994</b>	¥51,180	<b>\$411,097</b>
Other comprehensive income (Note 17):			
Unrealized (loss) gain on available-for-sale securities	<b>(2,953)</b>	2,339	<b>(26,983)</b>
Deferred (loss) gain on derivatives under hedge accounting	<b>(4,838)</b>	426	<b>(44,206)</b>
Foreign currency translation adjustments	<b>(3,235)</b>	1,463	<b>(29,552)</b>
Adjustments for retirement benefits	<b>90</b>	(24)	<b>821</b>
Total other comprehensive income	<b>(10,936)</b>	4,204	<b>(99,920)</b>
Comprehensive income:	<b>¥ 34,058</b>	¥55,384	<b>\$311,177</b>
Total comprehensive income attributable to:			
Owners of the parent	<b>¥ 27,268</b>	¥41,784	<b>\$249,137</b>
Non-controlling interests	<b>6,790</b>	13,600	<b>62,040</b>

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											
	Outstanding Number of Shares of Common Stock	Accumulated Other Comprehensive Income									Total	Non-controlling Interests	Total Equity
		Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock	Unrealized Gain on Available-for-sale Securities	Deferred Loss on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Accumulated adjustments for retirement benefits			
Balance, April 1, 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)												
	Outstanding Number of Shares of Common Stock	Accumulated Other Comprehensive Income										Total	Non-controlling Interests	Total Equity
		Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock	Unrealized Gain on Available-for-sale Securities	Deferred Loss on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Accumulated adjustments for retirement benefits				
Balance, March 31, 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
<b>OPERATING ACTIVITIES:</b>			
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
<b>Changes in assets and liabilities:</b>			
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
<b>INVESTING ACTIVITIES:</b>			
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)
<b>FINANCING ACTIVITIES:</b>			
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)
<b>FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS</b>	(260)	269	(2,374)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>85,478</b>	<b>5,331</b>	<b>780,978</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>627,929</b>	<b>622,598</b>	<b>5,737,136</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>¥ 713,407</b>	<b>¥ 627,929</b>	<b>\$ 6,518,114</b>

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 <sup>(*)</sup>	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
<b>February 29, 2020</b>				
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
<b>February 29, 2020</b>				
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:

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

	Consolidated Balance Sheet Amount	Millions of Yen Unrealized Gains (Losses)
<b>March 31, 2019</b>		
Trading purposes	¥22,406	

	Consolidated Balance Sheet Amount	Thousands of U.S. Dollars Unrealized Gains (Losses)
<b>February 29, 2020</b>		
Trading purposes	<b>\$459,652</b>	

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:

	2020	2019	Thousands of U.S. Dollars 2020
Unrealized gain before deferred tax on:			
Available-for-sale securities <sup>(*)</sup>	¥ 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:

	2020	2019	Thousands of U.S. Dollars 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 <sup>(*)</sup>	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 <sup>(*)</sup>	¥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 <sup>(*)</sup>	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 <sup>(*)</sup>	¥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 <sup>(*)</sup>	¥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 <sup>(*)</sup>	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 <sup>(*)</sup>	2019 <sup>(*)</sup>
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 (\$54,387 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 <sup>(*)</sup>	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 <sup>(*)</sup>	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 <sup>(*)</sup>	1,420,990	¥284,779	¥205,354	¥142,442	¥ 68,505	¥ 211,849
Loans in banking business <sup>(*)</sup>	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 <sup>(*)</sup>	1,376,974	¥263,875	¥218,262	¥140,721	¥ 65,808	¥ 172,629
Loans in banking business <sup>(*)</sup>	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 <sup>(*)</sup>	12,983,009	\$2,601,904	\$1,876,237	\$1,301,435	\$ 625,906	\$ 1,935,577
Loans in banking business <sup>(*)</sup>	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

(\*)1 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.

(\*)2 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	
			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 <sup>(*)</sup>	Total
	Domestic		Global					
	Retail	Solutions	China Area	Mekong Area	Malay Area			
Operating revenues <sup>(*)</sup>								
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 <sup>(*)</sup>	¥ 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 <sup>(*)</sup>	Total
	Domestic		Global					
	Retail	Solutions	China Area	Mekong Area	Malay Area			
Operating revenues <sup>(*)</sup>								
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 <sup>(*)</sup>	¥ 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 <sup>(*)</sup>	Total
	Domestic		Global					
	Retail	Solutions	China Area	Mekong Area	Malay Area			
Operating revenues <sup>(*)</sup>								
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 <sup>(*)</sup>	\$ 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 <sup>(\*)</sup>(<sup>(\*)</sup>)

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 <sup>(*)</sup>						
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 <sup>(*)</sup>						
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 <sup>(*)</sup>	¥ 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 <sup>(*)</sup>	¥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 <sup>(*)</sup>	\$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).<sup>\*1</sup> 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.<sup>\*2</sup>

<sup>\*1</sup>: Allianz Life Japan has suspended the new contracts since January 2012.

<sup>\*2</sup>: 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.

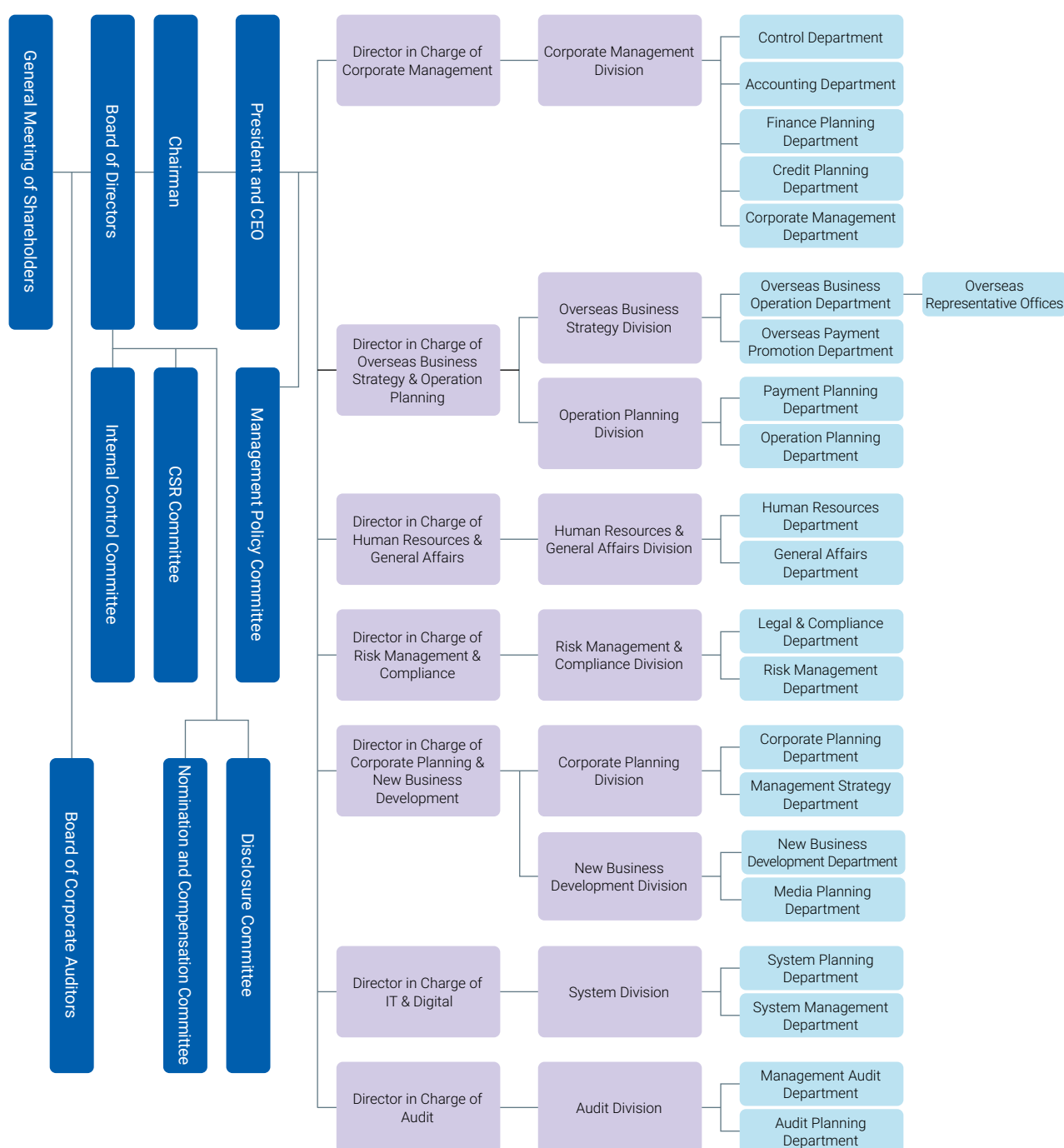
*Deloitte Touche Tohmatsu LLC*  
May 27, 2020  
(August 28, 2020 as to Note 22(c))

# 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 <sup>1</sup>	Voting Rights (%) <sup>2</sup>	Relationship to the Company			
					Concurrently Serving Officers	Financial Assistance	Business Transactions	Facility Leasing
(Parent) AEON Co., Ltd. <sup>3</sup>	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. <sup>4,5</sup>	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. <sup>4,5,8</sup>	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. <sup>6</sup>	Hong Kong	HKD 269 million	China Area	52.8 (52.8)	1	—	Management fees	—
AEON Thana Sinsap (Thailand) Plc. <sup>4,7</sup>	Thailand	THB 250 million	Mekong Area	54.3 (19.2)	2	—	Management fees	—
AEON Credit Service (M) Berhad <sup>4,5,8</sup>	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. <sup>5</sup>	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

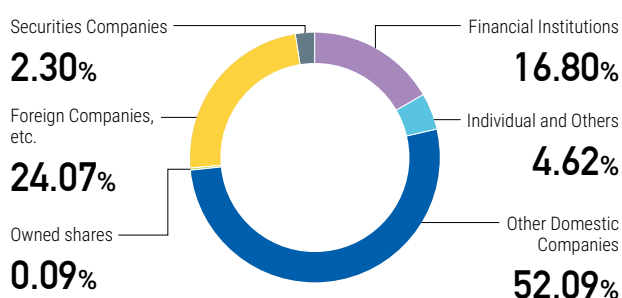
## Basic Share Information

(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)



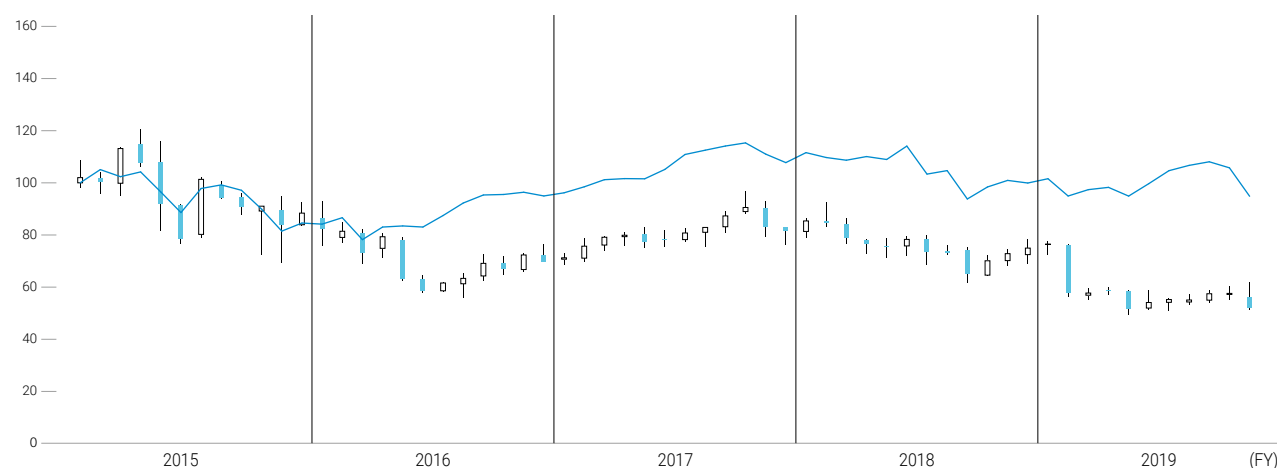
## Major Shareholders

(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.

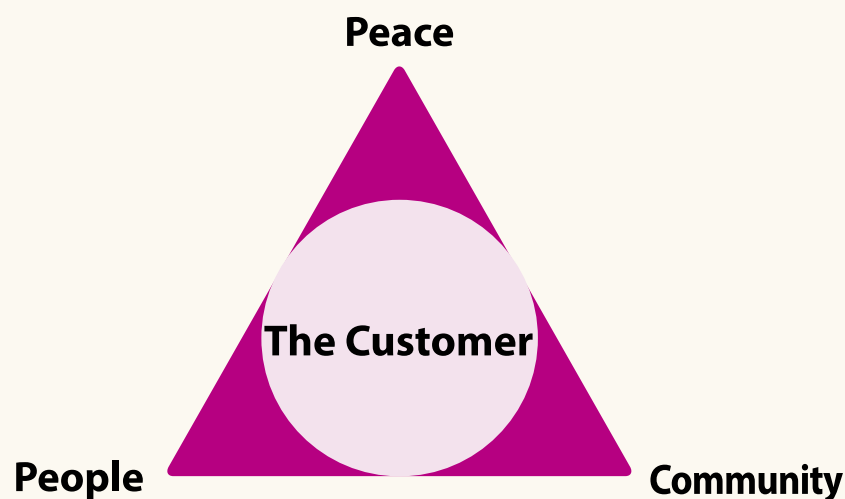
	Fiscal 2015	Fiscal 2016	Fiscal 2017	Fiscal 2018	Fiscal 2019
Market capitalization (Billions of yen)	553.8	472.8	551.3	508.0	330.7
High (Yen)	3,620	2,790	2,914	2,785	2,329
Low (Yen)	2,091	1,689	2,067	1,849	1,493

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.

### 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:

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

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



**AEON Financial Service**

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

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