

# Financial Section and Company Information

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Starting from fiscal 2019 year under review, the Company's fiscal year-end date changed from the end of March to the end of February. Thus, fiscal 2019 covers the 11-month period from 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 consolidated companies also changed the fiscal-year ends of their accounting periods from the end of March to the end of February. As a result, Fiscal 2019 (April 1, 2019 – February 29, 2020) comprises 11 months. The fiscal year-end date of AEON Bank, Ltd. remains unchanged at the end of March; however, the figures incorporated into the consolidated financial results for fiscal 2019 (April 1, 2019 – February 29, 2020) are for the 11-month period.

In the Global Business, there are no changes in the fiscal periods of 2019 and 2018, and both figures are for respective 12-month periods.

# 11-Year Summary

Former AEON Credit Service Co., Ltd. (current AEON Financial Service Co., Ltd.)	2010	2011	2012 <sup>1</sup>
<b>Consolidated cardholders</b> (millions)			
Total	28.07	29.76	31.85
Domestic	20.00	21.01	22.24

## For the year (millions of yen)

Operating revenues	169,191	169,853	205,972
Operating expenses	148,473	145,572	172,892
Operating income	20,717	24,280	33,080
Ordinary income	20,823	24,268	33,367
Profit attributable to owners of parent	9,540	8,988	13,616

## Per share information (yen)

Book value per share	1,015.17	1,012.52	1,235.28
Earnings per share	60.83	57.30	88.12
Diluted earnings per share	—	57.30	78.25

## At year-end (millions of yen)

Operating loans	293,427	255,704	421,196
Operating loans including securitized receivables	434,735	488,549	518,908
Accounts receivable—installment	384,261	427,634	507,315
Accounts receivable—installment including securitized receivables	504,001	552,749	740,027
Total assets	901,578	907,658	2,534,208
Net assets	180,199	181,852	258,872

## Key indicators (%)

Operating income ratio	12.2	14.3	16.1
Equity ratio (domestic standard)	17.7	17.5	9.1
Return on assets	2.4	2.7	1.9
Return on equity	6.1	5.7	7.0

## Dividends

Dividend per share (yen)	40	45	50
Payout ratio (%)	65.8	78.5	56.9

AEON Financial Service Co., Ltd.*2	2013*3
<b>Consolidated cardholders</b> (millions)	
Total	33.90
Domestic	23.45

## For the year (millions of yen)

Operating revenue*5	286,070
Operating expenses*6	244,978
Operating profit*7	41,092
Profit attributable to owners of parent	20,743

## Per share information (yen)

Book value per share	1,316.00
Earnings per share	104.62
Diluted earnings per share	99.49

## At year-end (millions of yen)

Operating loans	1,276,741
Operating loans including securitized receivables	1,531,376
Accounts receivable—installment	957,403
Accounts receivable—installment including securitized receivables	1,085,969
Total assets	3,163,117
Net assets	307,291

## Key indicators (%)

Operating profit ratio*8	14.4
Equity ratio (domestic standard)	8.9
Return on assets	1.4
Return on equity	8.2

## Dividends

Dividends per share (yen)	60
Payout ratio (%)	57.4

- 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 to March 31, 2013.  
2. The consolidated amounts from the fiscal year ended March 31, 2014 onward include the results of AEON Bank, Ltd. and its one subsidiary, as AEON Bank, Ltd. became a wholly-owned subsidiary of the Company through a share exchange as of January 1, 2013.  
3. On April 1, 2013, AEON Financial Service Co., Ltd. ("the Company") became a bank holding company. Accordingly, the Company has prepared the consolidated financial statements from the fiscal year ended March 31, 2014 onward in accordance with the Ordinance for Enforcement of the Banking Act (Ordinance of the Ministry of Finance No. 10 of 1982), which prescribes classifications of assets and liabilities and revenues and expenses for banking institutions.

AEON Financial Service Co., Ltd.*2	2014	2015	2016	2017	2018	2019 <sup>4</sup>	2020 (FY)
<b>Consolidated cardholders</b> (millions)							
Total	35.67	37.22	38.94	40.64	42.69	45.27	<b>46.13</b>
Domestic	24.64	25.88	26.92	27.75	28.40	28.89	<b>29.45</b>

#### For the year (millions of yen)

Operating revenue* <sup>5</sup>	329,046	359,651	375,166	407,970	439,001	457,280	<b>487,309</b>
Operating expenses* <sup>6</sup>	275,965	300,270	313,559	342,223	368,830	392,209	<b>446,657</b>
Operating profit* <sup>7</sup>	53,080	59,380	61,606	65,746	70,171	65,070	<b>40,651</b>
Profit attributable to owners of parent	30,491	35,785	39,454	38,677	39,408	34,149	<b>17,693</b>

#### Per share information (yen)

Book value per share	1,377.56	1,465.31	1,604.79	1,714.92	1,764.05	1,823.05	<b>1,860.08</b>
Earnings per share	152.55	180.09	189.75	179.29	182.64	158.25	<b>81.99</b>
Diluted earnings per share	152.04	180.00	183.96	170.02	173.20	154.15	<b>81.97</b>

#### At year-end (millions of yen)

Operating loans	1,474,236	1,673,997	1,864,904	2,271,666	2,429,740	2,535,358	<b>2,781,296</b>
Operating loans including securitized receivables	1,873,598	2,364,444	2,757,434	3,326,572	3,757,628	4,153,294	<b>4,507,680</b>
Accounts receivable—installment	1,038,221	1,022,387	1,182,193	1,294,632	1,453,160	1,543,135	<b>1,521,149</b>
Accounts receivable—installment including securitized receivables	1,185,191	1,314,385	1,523,981	1,779,143	1,970,668	2,125,629	<b>2,076,439</b>
Total assets	3,589,495	3,745,546	4,187,263	4,852,844	5,342,228	5,781,370	<b>6,123,721</b>
Net assets	324,948	340,886	401,170	437,782	448,705	459,075	<b>474,667</b>

#### Key indicators (%)

Operating profit ratio* <sup>8</sup>	16.1	16.5	16.4	16.1	16.0	14.2	<b>8.3</b>
Equity ratio (domestic standard)	8.1	7.4	8.5	8.3	7.3	6.8	<b>6.6</b>
Return on assets	1.6	1.6	1.6	1.5	1.4	1.2	<b>0.7</b>
Return on equity	11.2	12.7	12.4	10.8	10.5	8.8	<b>4.5</b>

#### Dividends

Dividends per share (yen)	60	66	68	68	68	68	<b>34</b>
Payout ratio (%)	39.3	36.6	35.8	37.9	37.2	43.0	<b>41.5</b>

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.

5. Ordinary revenue is used from fiscal 2013 to fiscal 2018.

6. Ordinary expenses is used from fiscal 2013 to fiscal 2018.

7. Ordinary profit is used from fiscal 2013 to fiscal 2018.

8. Ordinary profit ratio is used from fiscal 2013 to fiscal 2018.

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

## Summary of Fiscal 2020 Results

Due to the COVID-19 pandemic, the business environment surrounding AEON Financial Service during the consolidated fiscal year under review was marked by periods of forced closure and stay-at-home directives, which included states of emergency and restrictions on activities in several of the countries and regions where the Company operates. Economic activity gradually resumed from the middle of 2020, and business activities continued to go forward alongside the implementation of anti-epidemic measures. However, the end of 2020 saw a resurgence in the number of infections in some countries and regions, which led to a re-tightening of restrictions on activities that had been relaxed. Although economic activity was expected to resume with the rollout of vaccinations, starting with medical personnel across countries of operation beginning around February 2021, COVID-19 remains an unresolved factor, is not yet under control given the time required to vaccinate populations nationwide and the emergence of mutant strains.

Amid such a business environment, the Company worked to continue its business activities as much as possible under thorough anti-epidemic measures in accordance with the AEON COVID-19 Disease Control Protocol, which was established in June 2020 and partially revised in November 2020 as a disease control standard for protecting the safety and security of customers and employees. To respond to the profound effects the COVID-19 pandemic has had on the lives and behaviors of customers, the Company has accelerated efforts to transform its business model aimed at implementing digital transformation (DX), and improving operational efficiency of existing efforts to date, and creating new business opportunities. We also took steps to implement work style reforms for employees, and we have incorporated remote and satellite working to establish a system that can maintain business continuity, even amid the continuing impact of the COVID-19 pandemic.

In addition, the Company put forth several efforts to increase the number of new customers. In addition to efforts to provide

highly convenient payment methods and to enhance screening and marketing methods, these efforts involved taking advantage of the strengths used to build its unique customer base, namely its partnerships with AEON Group retailers that handle daily necessities such as food and other essentials and major first-rate companies working in e-commerce channels, public transportation, and other industries.

Consolidated operating revenue increased 6.6% year on year, to ¥487.3 billion. The impact of the COVID-19 pandemic led to subdued consumer spending, which caused a decrease in card transaction volume and a resulting drop in fee earnings compared with the previous fiscal year. There was also a decline in demand for funds for cash advances and loans due to government measures to support citizens' livelihoods, such as repayment deferrals and benefits payments by local authorities in each country of operation. However, consolidated operating revenue increased after incorporating the profit and loss statements of AEON Allianz Life Insurance Co., Ltd. (hereinafter "AALI"), which became a subsidiary in fiscal 2020, as part of consolidated results for the second quarter of the fiscal year under review. Consolidated operating profit decreased 37.5% year on year, to ¥40.6 billion, while ordinary profit decreased 38.8%, to ¥40.2 billion. The decline in operating profit was due to both an increase in reserves for doubtful accounts, after increasing the provision of allowance for doubtful accounts in the first quarter of the fiscal year under review, and an increase in provision for losses on interest repayments. Regarding extraordinary losses, the Company recorded a ¥436 million infectious disease related cost for epidemic countermeasures. In addition, in the third quarter of the fiscal year under review, AEON Credit Service (M) Berhad in Malaysia agreed to settle RM96 million of additional taxation, which had been in dispute with the local tax authorities since November 2017, for RM10 million. As a result of these factors, profit attributable to owners of parent decreased 48.2% year on year, to ¥17.6 billion.

## Consolidated Operating Results

(Millions of Yen)

	Fiscal 2016	Fiscal 2017	Fiscal 2018	Fiscal 2019	Fiscal 2020
Operating revenue* <sup>1</sup>	375,166	407,970	439,001	457,280	<b>487,309</b>
Operating profit* <sup>2</sup>	61,606	65,746	70,171	65,070	<b>40,651</b>
Profit attributable to owners of parent	39,454	38,677	39,408	34,149	<b>17,693</b>

\*<sup>1</sup> Ordinary revenue is used from fiscal 2016–fiscal 2018.

\*<sup>2</sup> Ordinary profit is used from fiscal 2016–fiscal 2018.

## Segment Results (Fiscal 2020)

(Millions of Yen)

	Domestic Business Total*			Global Business Total*				Total
		Retail	Solutions		China Area	Mekong Area	Malay Area	
Operating revenue	350,969	230,251	182,718	137,131	15,567	73,883	47,680	487,309
Operating expenses	329,324	225,603	166,103	117,700	11,022	63,176	43,501	446,657
Operating profit	21,645	4,648	16,615	19,430	4,545	10,706	4,178	40,651

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

## Consolidated Transaction Volume

(Millions of Yen)

	Fiscal 2016	Fiscal 2017	Fiscal 2018	Fiscal 2019	Fiscal 2020
Credit card purchase contracts	4,711,676	5,191,707	5,618,378	5,669,677	<b>5,908,393</b>
Domestic	4,515,763	4,955,492	5,358,216	5,378,384	<b>5,676,809</b>
Global	195,913	236,215	260,161	291,292	<b>231,582</b>
Hire purchase contracts	315,497	334,790	346,550	351,099	<b>300,704</b>
Cash advances	475,851	508,336	540,997	515,070	<b>378,375</b>

- Transaction volume for credit card purchase contracts increased 4.2% year on year due to actions taken to respond to customers staying at home due to COVID-19, which included entering into tie-ups with international e-commerce sites and efforts to encourage card memberships at AEON Group supermarkets and electronics retailers in Japan.
- Transaction volume of hire purchase contracts decreased 14.4% year on year due to automobile and motorcycle dealers

suspending business and stricter screening standards and other requirements internationally.

- Transaction volume for cash advances decreased 26.5% year on year due to a decrease in demand for funds stemming from a drop in consumer spending combined with benefits payments in Japan and overseas.

## Operating Revenue\*1

(Millions of Yen)

	Fiscal 2016	Fiscal 2017	Fiscal 2018
Ordinary revenue	375,166	407,970	439,001
Interest revenue	140,240	156,161	171,243
Fees and commissions	194,641	213,390	227,014
Other operating revenue	28,621	27,125	29,233
Other ordinary revenue	11,663	11,292	11,510

(Millions of Yen)

	Fiscal 2019	Fiscal 2020
Total operating revenue	457,280	<b>487,309</b>
Credit card purchase contracts	125,700	<b>128,701</b>
Hire purchase contracts	41,914	<b>42,573</b>
Financing revenue	149,815	<b>136,913</b>
Gain on bad debts recovered	9,604	<b>9,450</b>
Financial revenue	30,088	<b>32,941</b>
Insurance revenue	—	<b>51,665</b>
Fees and commissions	59,565	<b>60,384</b>
Other	40,591	<b>24,679</b>

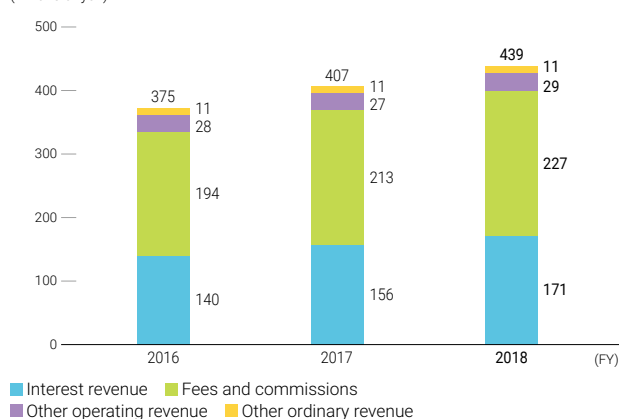
\*1. Ordinary revenue is used from fiscal 2016 to fiscal 2018.

\*2. Items displayed have been changed due to an organizational change that took place in fiscal 2019.

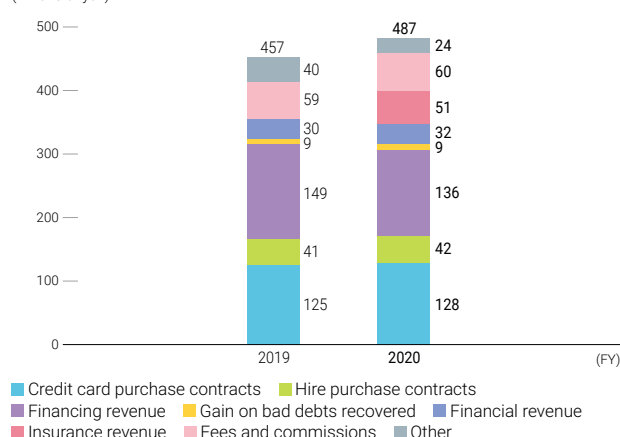
- Operating revenue increased 6.6% year on year as a result of incorporating revenue in Japan from AALI, which became a consolidated subsidiary during the fiscal year under review, and greater revenue from interest payments and commissions in keeping with a higher number of housing loans and e-money transactions.
- Revenue from credit card purchase contracts increased 2.4% year on year due to an increase in transaction volume in domestic card shopping.

- Revenue from hire purchase contracts increased 1.6% year on year due to steady transaction volume in Japan, despite automobile and motorcycle dealers suspending business and stricter screening standards and other requirements centered on Malaysia.
- Financial revenue increased 9.5% year on year due to a steady increase in domestic housing loans.
- Revenue from fees and commissions increased 1.4% year on year due to a greater volume of WAON e-money transactions centered on AEON Group supermarkets, which saw strong sales.

(Billions of yen)



(Billions of yen)



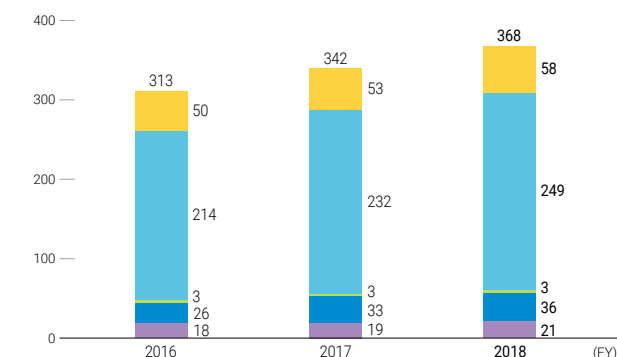
**Operating Expenses\*1**

(Millions of Yen)

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

- Operating expenses increased 13.9% year on year as a result of incorporating expenses in Japan from AALI, which became a consolidated subsidiary during the fiscal year under review, and an increase in bad debt allowance.
- Financial expenses decreased 5.9% year on year due to lower interest rates for AEON Bank deposits, which led to lower funding yields in Japan, and a decrease in interest-bearing debt overseas.
- Selling, general and administrative expenses increased 1.1% year on year. This increase was due to raising the allowance for doubtful accounts ahead of schedule in Japan and

(Billions of yen)



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

**Operating Profit and Profit Attributable to Owners of Parent**

(Millions of Yen)

	Fiscal 2016	Fiscal 2017	Fiscal 2018	Fiscal 2019	Fiscal 2020
Operating profit*1	61,606	65,746	70,171	65,070	<b>40,651</b>
Operating profit ratio*2	16.4%	16.1%	16.0%	14.2%	<b>8.3%</b>
Income before income taxes	59,665	66,571	69,178	64,530	<b>39,305</b>
Total income taxes	12,065	17,697	17,998	19,535	<b>13,196</b>
Profit	47,599	48,873	51,180	44,994	<b>26,108</b>
Profit attributable to non-controlling interests	8,145	10,196	11,771	10,844	<b>8,415</b>
Profit attributable to owners of parent	39,454	38,677	39,408	34,149	<b>17,693</b>

\*1 Ordinary profit is used from fiscal 2016–fiscal 2018.  
 \*2 Ordinary profit ratio is used from fiscal 2016–fiscal 2018.

- Operating profit decreased 37.5% year on year due to a drop in consumer spending and reduced demand for funds as a result of COVID-19, lower income from interest and commissions

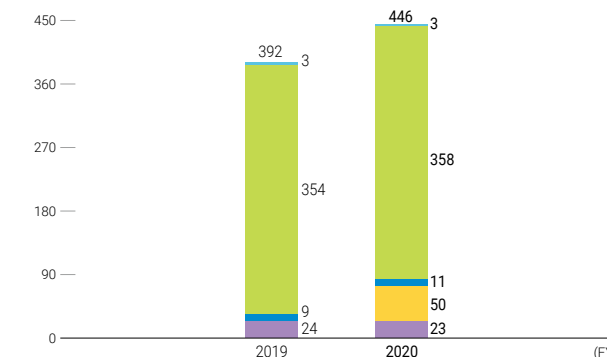
(Millions of Yen)

	Fiscal 2019*2	Fiscal 2020*2
Total operating expenses	392,209	<b>446,657</b>
Financial expenses	24,473	<b>23,030</b>
Insurance expenses	–	<b>50,404</b>
Fees and commissions payments	9,004	<b>11,161</b>
Selling, general and administrative expenses	354,977	<b>358,689</b>
Other	3,753	<b>3,372</b>

\*1 Ordinary expenses is used from fiscal 2016–fiscal 2018.  
 \*2 Changes have been made to figures to compensate for an organizational change that took place in fiscal 2019.

overseas, as well as to higher personnel, administrative, and equipment expenses related to incorporating the full-scale sales activities of AALI in Japan, and was despite a pullback in sales activities in Japan and overseas; lower personnel, administrative, and equipment costs from reduced shipping expenses in line with the shift toward providing usage information online for major affiliated credit cards in Japan; and decreases in the numbers of branches and ATMs internationally, stemming from the digitalization of services and the shift toward cashless payment methods.

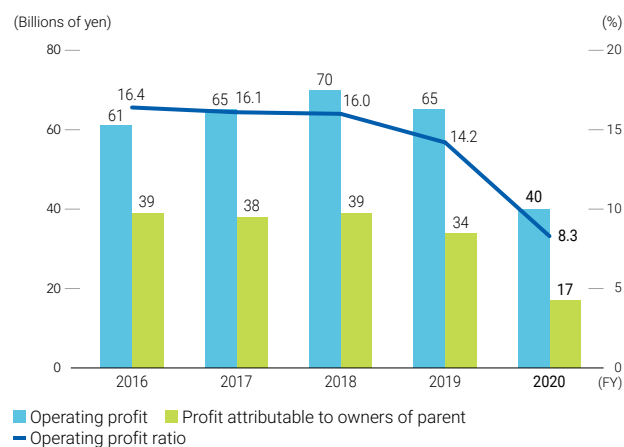
(Billions of yen)



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

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 48.2% 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 pandemic-related expenses associated with infection prevention countermeasures, and venue cancellation fees for canceled events. Overseas, profit attributable to non-controlling interests decreased due to lower profit from the stagnant profit growth of the Group's three subsidiaries listed on overseas stock exchanges.



## Finance Receivables\*1

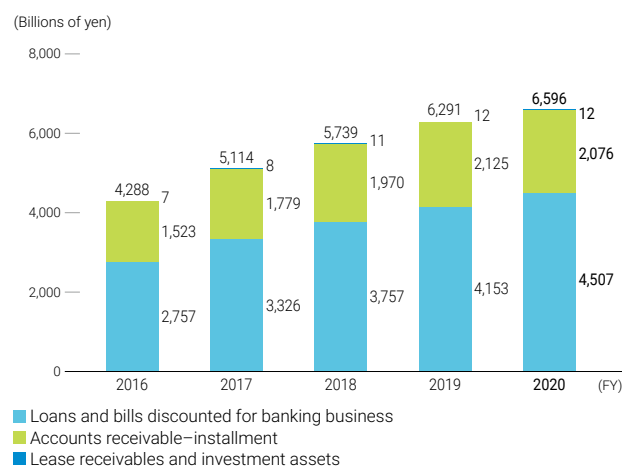
(Millions of Yen)

	March 31, 2017	March 31, 2018	March 31, 2019	February 29, 2020	February 28, 2021
Finance receivables	4,288,519	5,114,222	5,739,721	6,291,706	<b>6,596,405</b>
Loans and bills discounted for banking business	2,757,434	3,326,572	3,757,628	4,153,294	<b>4,507,680</b>
Accounts receivable—installment	1,523,981	1,779,143	1,970,668	2,125,629	<b>2,076,439</b>
Lease receivables and investment assets	7,103	8,506	11,425	12,782	<b>12,284</b>

\*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 ¥354.3 billion year on year as a result of an increase in domestic housing loan transactions.
- Accounts receivable—installment decreased ¥49.1 billion, despite an increase in the balance of installment sales receivables in Thailand and Japan, due to a drop in card shopping in Japan and overseas and a drop in the balance of installment sales receivables in Myanmar.

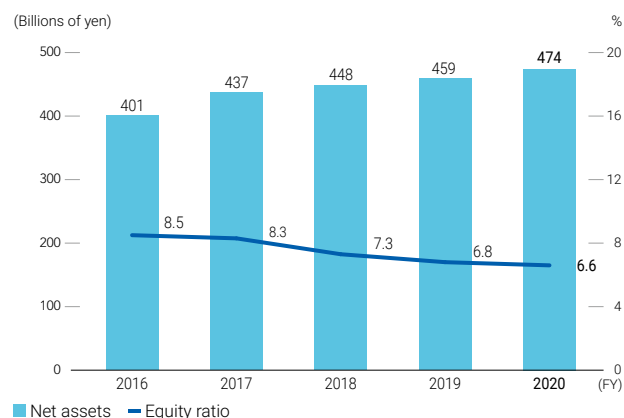


## Net Assets and Equity Ratio

(Millions of Yen)

	March 31, 2017	March 31, 2018	March 31, 2019	February 29, 2020	February 28, 2021
Net assets	401,170	437,782	448,705	459,075	<b>474,667</b>
Equity ratio	8.5%	8.3%	7.3%	6.8%	<b>6.6%</b>

- Net assets increased ¥15.5 billion year on year due to the negative impact of cash dividends and other factors being offset by the recording of profit attributable to owners of parent.



# Five-Year Performance Summary

AEON Financial Service Co., Ltd. and Subsidiaries

Year Ended February 28, 2021, Year Ended February 29, 2020 and Years Ended March 31, 2019 through 2017

	Millions of Yen			Thousands of U.S. Dollars <sup>(*)</sup>
	2021 <sup>(*)</sup>	2020 <sup>(*)</sup>	2019 <sup>(*)</sup>	2021
<b>For the Year:</b>				
Total operating revenue	¥487,309	¥457,280	¥438,441	\$4,586,876
Total operating expenses	446,658	392,210	368,420	4,204,236
Income before income taxes	39,305	64,530	69,178	369,968
Profit attributable to owners of parent	17,694	34,150	39,408	166,544
<b>Per Share Data:</b>				
Net assets	¥1,860.08	¥1,823.05	¥1,764.05	\$17.51
Basic net income	81.99	158.25	182.64	0.77
Diluted net income	81.97	154.15	173.20	0.77
<b>At Year-End:</b>				
Finance receivables—net of allowance for credit losses	¥2,175,612	¥2,292,210	¥2,197,819	\$20,478,273
Loans in banking business—net of allowance for credit losses	1,993,575	1,672,020	1,582,322	18,764,829
Property and equipment	39,152	45,303	39,205	368,526
Total assets	6,123,722	5,781,371	5,254,080	57,640,453
Total liabilities	5,649,054	5,322,296	4,805,375	53,172,569
Total net assets	474,668	459,075	448,705	4,467,884
<b>Ratios:</b>				
Equity ratio	6.6%	6.8%	7.2%	
Return on assets	0.3	0.6	0.8	
Return on equity	4.5	8.8	10.5	

	Millions of Yen	
	2018 <sup>(*)</sup>	2017 <sup>(*)</sup>
<b>For the Year:</b>		
Total income	¥409,426	¥375,272
Total expenses	342,854	315,606
Income before income taxes	66,572	59,666
Net income attributable to owners of parent	38,678	39,454
<b>Per Share Data:</b>		
Net assets	¥1,714.92	¥1,604.79
Basic net income	179.29	189.75
Diluted net income	170.02	183.96
<b>At Year-End:</b>		
Loans and bills discounted—net of allowance for credit losses	¥2,238,952	¥1,836,903
Installment sales receivables—net of allowance for credit losses	1,268,584	1,159,839
Property and equipment	36,978	38,230
Total assets	4,852,844	4,187,264
Total liabilities	4,415,062	3,786,094
Total net assets	437,782	401,170
<b>Ratios:</b>		
Equity ratio	7.6%	8.3%
Return on assets	0.9	1.0
Return on equity	10.8	12.4

(\*) 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 ¥106.24 to U.S.\$1.00, the exchange rate as at February 28, 2021. 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 consolidated financial statements for the fiscal years ended March 31, 2018 and 2017 have been prepared 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 years ended February 28, 2021 and 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 28, 2021 and Year Ended February 29, 2020

## RESULTS OF OPERATIONS

	Millions of Yen			
	2021	2020	Amount Change	Percentage Change
<b>Operating Revenues:</b>				
Credit card purchase contracts	¥ 128,701	¥ 125,700	¥ 3,001	2.4%
Hire purchase contracts	42,573	41,915	658	1.6
Loan contracts	136,913	149,815	(12,902)	(8.6)
Financial revenue	32,942	30,088	2,854	9.5
Insurance revenue	51,665	-	51,665	100.0
Fees and commissions	60,384	59,566	818	1.4
Gain on bad debts recovered	9,451	9,604	(153)	(1.6)
Other operating revenues	24,680	40,592	(15,912)	(39.2)
Total operating revenues	487,309	457,280	30,029	6.6
<b>Operating Expenses:</b>				
Financial expenses	(23,030)	(24,473)	1,443	(5.9)
Insurance expenses	(50,404)	-	(50,404)	100.0
Fees and commissions payments	(11,162)	(9,005)	(2,157)	24.0
Selling, general and administrative expenses	(284,664)	(289,649)	4,985	(1.7)
Provision for possible credit losses and write-off of bad debts	(74,026)	(65,329)	(8,697)	13.3
Other operating expenses	(3,372)	(3,754)	382	(10.2)
Total operating expenses	(446,658)	(392,210)	(54,448)	13.9
<b>Operating Profit</b>	<b>¥40,651</b>	<b>¥65,070</b>	<b>¥(24,419)</b>	<b>(37.5)%</b>

### Consolidated Financial Summary

In the business environment surrounding AEON Financial Service Co., Ltd. (hereinafter "the Company") and its subsidiaries (collectively, "the Group") for the fiscal year ended February 28, 2021, declarations of state of emergency and activity restrictions were issued in many countries and regions where the Group operates, due to the coronavirus disease 2019 ("COVID-19") pandemic from the beginning of the current fiscal year. The Group was forced to suspend business operations for a certain period of time. From the middle of 2020, economic activities gradually resumed, and the Group continued to run its business activities in parallel while taking epidemic prevention measures. At the end of 2020, however, the number of COVID-19 infections increased again in some countries and regions, and measures were taken to tighten the once-eased activity restrictions. From around February 2021, vaccinations have started sequentially from medical professionals and others in each country and region, and it is expected that economic activities will resume. However, because it will take time for the entire population to be vaccinated for COVID-19, and the infections of COVID-19 variants are expanding, the prospect of the end of COVID-19 is still uncertain.

Under these circumstances, the Group continued its business activities as much as possible under the thorough epidemic prevention measures in accordance with AEON COVID-19 Disease Control Protocol, which was established in June (and partially revised in November) 2020 and set out epidemic prevention measures to protect the safety and security of customers and employees of the AEON Group. In order to respond to changes in customers' lifestyles and behaviors due to the impact of COVID-19, the Group accelerated its efforts on digital transformation ("DX"), improving business efficiency, and business model reforms to create new profit opportunities. In addition, the Group reformed the work styles of employees through remote and satellite working arrangements and established a system to secure business continuity during the COVID-19 crisis.

In addition, the Group utilized its unique customer base, which has strength through alliances with excellent major companies such as AEON Group retailers that sell foods and daily necessities, EC channels, and the public transportations, provided highly convenient payment methods and worked on sophistication of credit reviews and diversification of marketing methods to expand the new customer base.

For the fiscal year ended February 28, 2021, consumption activities were restricted due to the impact of COVID-19, resulting in a decrease in the transaction volume of credit card purchases. Fees and commissions income fell as compared with the previous year due to factors such as declines in demand for cash advances and loans, resulting from the national life support measures by local authorities such as repayment graces and payment of benefits. On the other hand, the Group included the statement of income of AEON Allianz Life Insurance Co., Ltd. in the consolidated statement of income from the six-month period ended August 31, 2020. AEON Allianz Life Insurance Co., Ltd. became a subsidiary of the Company on March 31, 2020, and the consolidated operating revenue increased by 6.6% to ¥487,309 million (\$4,586,876 thousand), as compared to the corresponding period ended February 29, 2020. Consolidated operating income decreased by 37.5% to ¥40,651 million (\$382,640 thousand) as compared to the corresponding period ended February 29, 2020, due to an increase in provision for credit losses in anticipation for future increase in bad debts in Japan and overseas for the first half of the current fiscal year and an increase in provision for loss on refund of interest received.

In the previous fiscal year, the Group changed its fiscal year end from March 31 to the last day of February. As a result, the fiscal year ended February 28, 2021 (12 months, from March 1, 2020 to February 28, 2021) is compared with the fiscal year ended February 29, 2020 (11 months, from April 1, 2019 to February 29, 2020).

## FINANCE RECEIVABLES AND LOANS IN BANKING BUSINESS

Millions of Yen

	2021	2020	Amount Change	Percentage Change
Installment sales receivables:				
Credit card purchase contracts	¥ 911,769	¥ 966,315	¥ (54,546)	(5.6)%
Hire purchase contracts	609,381	576,821	32,560	5.6
Subtotal	1,521,150	1,543,136	(21,986)	(1.4)
Operating loan receivables	782,916	860,573	(77,657)	(9.0)
Allowance for credit losses	(128,454)	(111,499)	(16,955)	15.2
Total finance receivables	¥2,175,612	¥2,292,210	¥(116,598)	(5.1)%

Millions of Yen

	2021	2020	Amount Change	Percentage Change
Loans and bills discounted	¥1,998,380	¥1,674,786	¥323,594	19.3%
Allowance for credit losses	(4,805)	(2,766)	(2,039)	73.7
Total loans in banking business	¥1,993,575	¥1,672,020	¥321,555	19.2%

## Cash Flows

Net cash provided by operating activities for the fiscal year ended February 28, 2021 decreased by ¥289,936 million (\$2,729,062 thousand) to ¥62,282 million (\$586,241 thousand) compared with the fiscal year ended February 29, 2020, due to an increase in loans in banking business resulting from an expansion of transaction volume of housing loans and redemptions of commercial papers.

Net cash used in investing activities for the fiscal year ended February 28, 2021 decreased by ¥82,882 million (\$780,136 thousand), to ¥94,557 million (\$890,035 thousand), compared with the fiscal year ended February 29, 2020, due to increases in proceeds from sales and redemption of securities.

Net cash used in financing activities for the fiscal year ended February 28, 2021 decreased by ¥74,687 million (\$703,000 thousand), to ¥14,354 million (\$135,111 thousand) compared to the fiscal year ended February 29, 2020, due to redemptions of subordinated bonds and convertible bonds during the previous fiscal year.

As a result of the above, the balance of cash and cash equivalents as at February 28, 2021 decreased by ¥46,669 million (\$439,282 thousand), to ¥666,738 million (\$6,275,774 thousand), as compared with that as at February 29, 2020.

## BUSINESS PERFORMANCE BY REPORTABLE SEGMENT

## Total Assets and Operating Profit by Reportable Segment

Millions of Yen

	2021	2020	Amount Change	Percentage Change
Total Assets:				
Retail	¥4,682,930	¥4,341,972	¥340,958	7.9%
Solutions	947,027	902,765	44,262	4.9
China Area	71,262	82,247	(10,985)	(13.4)
Mekong Area	310,371	324,622	(14,251)	(4.4)
Malay Area	279,741	293,102	(13,361)	(4.6)
Reconciliations	(167,609)	(163,337)	(4,272)	2.6
Total assets	¥6,123,722	¥5,781,371	¥342,351	5.9%
Operating Revenues <sup>(*)</sup> :				
Retail	¥ 230,251	¥ 186,434	¥ 43,817	23.5%
Solutions	182,719	181,686	1,033	0.6
China Area	15,568	18,910	(3,342)	(17.7)
Mekong Area	73,883	84,121	(10,238)	(12.2)
Malay Area	47,680	51,916	(4,236)	(8.2)
Reconciliations	(62,792)	(65,787)	2,995	(4.6)
Total operating revenues	¥ 487,309	¥457,280	¥ 30,029	6.6%
Segment Profits:				
Retail	¥4,648	¥ 15,011	¥ (10,363)	(69.0)%
Solutions	16,615	23,668	(7,053)	(29.8)
China Area	4,546	5,934	(1,388)	(23.4)
Mekong Area	10,706	17,061	(6,355)	(37.2)
Malay Area	4,178	6,316	(2,138)	(33.9)
Reconciliations	(42)	(2,920)	2,878	(98.6)
Total segment profit	¥ 40,651	¥ 65,070	¥ (24,419)	(37.5)%

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

# Consolidated Balance Sheets

AEON Financial Service Co., Ltd. and Subsidiaries  
February 28, 2021 and February 29, 2020

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2021
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents (Note 15)	¥ 666,738	¥ 713,407	\$ 6,275,774
Deposits with banks (Notes 5 and 15)	39,001	49,485	367,106
Call loans (Note 15)	30,842	53,773	290,302
Finance receivables—net of allowance for credit losses (Notes 4, 5, 15 and 17)	2,175,612	2,292,210	20,478,273
Lease receivables and investment assets (Note 14)	12,285	12,782	115,630
Loans in banking business—net of allowance for credit losses (Notes 4, 15, 17 and 21)	1,993,575	1,672,020	18,764,829
Securities in banking business (Notes 3, 5 and 15)	519,024	447,229	4,885,391
Securities in insurance business (Notes 3 and 15)	70,262	—	661,348
Monetary claims bought (Notes 3 and 15)	30,801	14,824	289,918
Money held in trust (Notes 3 and 15)	92,567	50,309	871,301
Other current assets (Note 15)	184,103	177,832	1,732,902
Total current assets	5,814,810	5,483,871	54,732,774
<b>Property and equipment:</b>			
Structures	23,777	23,617	223,800
Equipment	84,468	82,130	795,071
Construction in progress	233	152	2,189
Other property and equipment	354	604	3,336
Total	108,832	106,503	1,024,396
Accumulated depreciation	(69,680)	(61,200)	(655,870)
Net property and equipment (Note 22)	39,152	45,303	368,526
<b>Investments and other assets:</b>			
Investment securities (Notes 3 and 15)	12,425	13,068	116,947
Deferred tax assets (Note 12)	44,289	39,141	416,880
Guarantee money deposits (Note 5)	56,115	55,974	528,192
Goodwill (Note 22)	16,785	18,379	157,990
Software	100,250	85,417	943,616
Other assets	39,896	40,218	375,528
Total investments and other assets	269,760	252,197	2,539,153
Total assets	¥6,123,722	¥5,781,371	\$57,640,453
<b>LIABILITIES AND NET ASSETS</b>			
<b>Current liabilities:</b>			
Accounts payable (Note 15)	¥ 321,042	¥ 305,859	\$ 3,021,850
Deposits in banking business (Note 15)	4,018,666	3,790,241	37,826,299
Short-term borrowings (Notes 5, 6 and 15)	216,468	139,386	2,037,541
Commercial paper (Notes 6 and 15)	85,000	160,151	800,075
Current portion of long-term borrowings (Notes 6 and 15)	62,159	106,652	585,083
Current portion of bonds (Notes 6 and 15)	23,013	45,254	216,610
Allowance for point program	20,685	20,713	194,703
Other current liabilities (Note 6)	141,827	125,363	1,334,966
Total current liabilities	4,888,860	4,693,619	46,017,127
<b>Non-current liabilities:</b>			
Reserve for insurance policy liabilities	86,639	—	815,505
Bonds (Notes 6 and 15)	282,722	252,853	2,661,159
Long-term borrowings (Notes 5, 6 and 15)	337,026	316,006	3,172,309
Deferred tax liabilities (Note 12)	1,519	3,627	14,297
Allowance for loss on refund of interest received	5,706	4,965	53,712
Other liabilities (Notes 6 and 7)	46,582	51,226	438,460
Total non-current liabilities	760,194	628,677	7,155,442
Total liabilities	5,649,054	5,322,296	53,172,569
Commitments and contingent liabilities (Notes 14, 16 and 17)			
<b>Net Assets (Notes 8 and 9):</b>			
Common stock—authorized, 540,000,000 shares; issued, 216,010,128 shares in 2021 and 216,010,128 shares in 2020	45,698	45,698	430,141
Capital surplus	120,145	120,360	1,130,886
Stock acquisition rights—262 rights in 2021 and 552 rights in 2020	44	82	411
Retained earnings	237,385	230,508	2,234,423
Treasury stock—at cost, 179,553 shares in 2021 and 208,452 shares in 2020	(461)	(535)	(4,331)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities (Note 3)	3,284	2,913	30,910
Deferred loss on derivatives under hedge accounting	(3,902)	(4,469)	(36,733)
Foreign currency translation adjustments	(335)	(467)	(3,150)
Accumulated adjustments for retirement benefits (Note 7)	(353)	(591)	(3,323)
Total	401,505	393,499	3,779,234
Non-controlling interests	73,163	65,576	688,650
Net Assets	474,668	459,075	4,467,884
Total liabilities and net assets	¥6,123,722	¥5,781,371	\$57,640,453

See notes to consolidated financial statements.

# Consolidated Statements of Income

AEON Financial Service Co., Ltd. and Subsidiaries  
Years Ended February 28, 2021 and February 29, 2020

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2021
<b>Operating revenue:</b>			
Credit card purchase contracts	¥ 128,701	¥ 125,700	\$ 1,211,418
Hire purchase contracts	42,573	41,915	400,728
Financing revenue	136,913	149,815	1,288,718
Financial revenue:			
Interest on loans in banking business	22,405	19,013	210,891
Interest and dividends on securities in banking business	4,650	4,618	43,769
Interest on call loans	277	975	2,604
Interest income	672	586	6,325
Other financial revenue	4,938	4,896	46,482
Total financial revenue	32,942	30,088	310,071
Insurance revenue:			
Reversal of policy reserve	40,667	—	382,787
Other insurance revenue	10,998	—	103,520
Total insurance revenue	51,665	—	486,307
Fees and commissions	60,384	59,566	568,377
Gain on bad debts recovered	9,451	9,604	88,958
Other operating revenue	24,680	40,592	232,299
Total operating revenue (Note 22)	487,309	457,280	4,586,876
<b>Operating expenses:</b>			
Financial costs:			
Interest expenses	(18,437)	(18,687)	(173,546)
Interest on deposits in banking business	(2,322)	(3,210)	(21,853)
Other financial costs	(2,271)	(2,576)	(21,376)
Total financial costs	(23,030)	(24,473)	(216,775)
Insurance costs:			
Insurance claims	(50,331)	—	(473,752)
Other insurance costs	(73)	—	(686)
Total insurance costs	(50,404)	—	(474,438)
Fees and commissions payments	(11,162)	(9,005)	(105,059)
Selling, general and administrative expenses (Note 10)	(284,664)	(289,649)	(2,679,442)
Provision for credit losses and write-off of bad debts	(74,026)	(65,329)	(696,782)
Other operating expenses	(3,372)	(3,754)	(31,740)
Total operating expenses	(446,658)	(392,210)	(4,204,236)
Operating income	40,651	65,070	382,640
<b>Non-operating revenues (expenses):</b>			
Dividends profit	246	206	2,316
Loss on disposal of non-current assets (Note 11)	(709)	(682)	(6,674)
Impairment loss (Note 22)	(144)	(304)	(1,357)
Other non-operating revenue (expenses)—net (Note 11)	(739)	240	(6,957)
Total non-operating expenses	(1,346)	(540)	(12,672)
Income before income taxes	39,305	64,530	369,968
<b>Income taxes (Note 12):</b>			
Current	(21,316)	(22,677)	(200,646)
Deferred	8,120	3,141	76,431
Total income taxes	(13,196)	(19,536)	(124,215)
Profit	26,109	44,994	245,753
<b>Profit attributable to non-controlling interests</b>	(8,415)	(10,844)	(79,209)
<b>Profit attributable to owners of parent</b>	¥ 17,694	¥ 34,150	\$ 166,544

See notes to consolidated financial statements.

# Consolidated Statements of Comprehensive Income

AEON Financial Service Co., Ltd. and Subsidiaries

Year Ended February 28, 2021 and Year Ended February 29, 2020

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2021
Profit	¥26,109	¥44,994	\$245,753
Other comprehensive income (loss) (Note 18):			
Unrealized gain (loss) on available-for-sale securities	243	(2,953)	2,288
Deferred gain (loss) on derivatives under hedge accounting	1,079	(4,838)	10,156
Foreign currency translation adjustments	106	(3,235)	997
Adjustments for retirement benefits	238	90	2,242
Total other comprehensive income (loss)	1,666	(10,936)	15,683
Comprehensive income:	¥27,775	¥34,058	\$261,436
Total comprehensive income attributable to:			
Owners of parent	¥19,002	¥27,268	\$178,856
Non-controlling interests	8,773	6,790	82,580

See notes to consolidated financial statements.

# Consolidated Statements of Changes in Equity

AEON Financial Service Co., Ltd. and Subsidiaries  
Year Ended February 28, 2021 and February 29, 2020

	Thousands	Millions of Yen											
		Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income				Total	Non-Controlling Interests	Net Assets
							Unrealized Gain on Available-for-Sale Securities	Deferred Loss on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Accumulated Adjustments for Retirement Benefits			
<b>Balance, April 1, 2019</b>	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	(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)
<b>Balance, February 29, 2020</b>	215,802	¥45,698	¥120,360	¥82	¥230,508	¥(535)	¥2,913	¥(4,469)	¥(467)	¥(591)	¥393,499	¥65,576	¥459,075
Profit attributable to owners of the parent					17,694						17,694		17,694
Cash dividends, ¥50 per share					(10,790)						(10,790)		(10,790)
Purchase of treasury stock	(1)					(1)					(1)		(1)
Disposal of treasury stock	29				(27)	75					48		48
Change in the parent's ownership interest arising from transactions with non-controlling interests			(215)								(215)	215	
Net change in the year				(38)			371	567	132	238	1,270	7,372	8,642
<b>Balance, February 28, 2021</b>	215,830	¥45,698	¥120,145	¥44	¥237,385	¥(461)	¥3,284	¥(3,902)	¥(335)	¥(353)	¥401,505	¥73,163	¥474,668

	Thousands	Thousands of U.S. Dollars (Note 1)											
		Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income				Total	Non-Controlling Interests	Net Assets
							Unrealized Gain on Available-for-Sale Securities	Deferred Loss on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Accumulated Adjustments for Retirement Benefits			
<b>Balance, February 29, 2020</b>	215,802	\$430,141	\$1,132,909	\$772	\$2,169,693	\$(5,030)	\$27,417	\$(42,063)	\$(4,397)	\$(5,566)	\$3,703,876	\$617,243	\$4,321,119
Profit attributable to owners of the parent					166,544						166,544		166,544
Cash dividends, \$0.47 per share					(101,565)						(101,565)		(101,565)
Purchase of treasury stock	(1)					(1)					(1)		(1)
Disposal of treasury stock	29				(249)	700					451		451
Change in the parent's ownership interest arising from transactions with non-controlling interests			(2,023)								(2,023)	2,023	
Net change in the year				(361)			3,493	5,330	1,247	2,243	11,952	69,384	81,336
<b>Balance, February 28, 2021</b>	215,830	\$430,141	\$1,130,886	\$411	\$2,234,423	\$(4,331)	\$30,910	\$(36,733)	\$(3,150)	\$(3,323)	\$3,779,234	\$688,650	\$4,467,884

See notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

AEON Financial Service Co., Ltd. and Subsidiaries

Year Ended February 28, 2021 and Year Ended February 29, 2020

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2021
<b>OPERATING ACTIVITIES:</b>			
Income before income taxes	¥ 39,305	¥ 64,530	\$ 369,968
Adjustments for:			
Income taxes—paid	(21,890)	(29,605)	(206,041)
Income taxes—refund	3,125	1,853	29,418
Depreciation and amortization	29,580	25,756	278,422
Amortization of goodwill	1,872	1,682	17,618
Allowance for credit losses	18,496	12,791	174,097
Allowance for point program	(28)	3,170	(266)
Allowance for loss on refund of interest received	741	788	6,978
Financial revenue	(32,942)	(30,088)	(310,071)
Financial expenses	23,030	24,473	216,775
Dividends income	(246)	(206)	(2,316)
Net loss on disposal of non-current assets	701	669	6,596
<b>Changes in assets and liabilities:</b>			
Net decrease (increase) in finance receivables	100,821	(117,575)	948,997
Net increase in loans in banking business	(323,594)	(89,796)	(3,045,875)
Net decrease (increase) in lease receivables and investment assets	498	(1,357)	4,685
Net increase in deposits in banking business	228,425	321,106	2,150,085
Net increase (decrease) in accounts payable	12,801	(21,344)	120,494
Net increase in borrowed money	59,746	23,253	562,363
Net decrease (increase) in deposits with banks	10,686	(33,138)	100,582
Net decrease (increase) in call loans and others	6,954	(24,784)	65,460
Net (decrease) increase in commercial paper	(74,824)	57,953	(704,289)
Net increase in bonds	6,354	195,270	59,804
Net decrease in reserve for insurance policy liabilities	(40,667)	—	(382,787)
Financial revenue received	33,393	29,070	314,314
Financial costs paid	(23,719)	(25,292)	(223,260)
Other—net	3,664	(36,961)	34,490
Net cash provided by operating activities	62,282	352,218	586,241
<b>INVESTING ACTIVITIES:</b>			
Purchases of securities	(589,889)	(495,665)	(5,552,420)
Proceeds from sales of securities	189,861	128,892	1,787,096
Proceeds from redemption of securities	368,592	248,980	3,469,431
Purchases of money held in trust	(44,045)	(30,900)	(414,579)
Proceeds from collection of money held in trust	7,224	2,997	67,995
Purchases of property and equipment	(4,908)	(5,516)	(46,201)
Proceeds from sale of property and equipment	8	25	78
Purchases of intangible assets	(30,996)	(26,252)	(291,756)
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation (Note 13)	9,596	—	90,321
Net cash used in investing activities	(94,557)	(177,439)	(890,035)
<b>FINANCING ACTIVITIES:</b>			
Redemption of convertible bonds with stock acquisition rights	—	(29,945)	—
Redemption of subordinated bonds	—	(40,000)	—
Dividends paid to the Company's shareholders	(10,790)	(14,674)	(101,565)
Repayments to non-controlling shareholders	(26)	—	(241)
Dividends paid to non-controlling shareholders	(3,536)	(4,422)	(33,284)
Purchase of treasury stock	(1)	(1)	(1)
Proceeds from disposal of treasury stock	1	1	1
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(2)	—	(21)
Net cash used in financing activities	(14,354)	(89,041)	(135,111)
<b>FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS</b>	(40)	(260)	(377)
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	(46,669)	85,478	(439,282)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	713,407	627,929	6,715,056
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	¥ 666,738	¥ 713,407	\$ 6,275,774

See notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

Year Ended February 28, 2021 and Year Ended February 29, 2020

## 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 2020 consolidated financial statements to conform to the classifications used in 2021.

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 ¥106.24 to \$1, the exchange rate at

February 28, 2021. 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.

At the General Meeting of Shareholders held on June 25, 2019, the Company resolved to amend a part of its Articles of Incorporation and changed its fiscal year end from March 31 to the last day of February. As a result, the previous 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 28, 2021 include the accounts of the Company and its 32 subsidiaries and one affiliate company.

During the current fiscal year, AEON Allianz Life Insurance Co., Ltd. (the company name was changed from Allianz Life Insurance Japan Ltd. on May 1, 2020) has been included in the scope of consolidation due to acquisition of shares.

Horizon Master Trust (AEON 2006-1) 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.

For the year ended February 28, 2021, the Company acquired AEON Allianz Life Insurance Co., Ltd. through share acquisition and included it in the scope of consolidation (see Note 19).

**(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 Credit Losses—**The allowance for 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 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, October 8, 2020), 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 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 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 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: trading securities, which are held for the purpose of earning capital gains in the near term, are reported at fair value, and the related unrealized gains and losses are included in profit or loss. 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) Bond Issuance Costs**—Bond issuance costs as at February 28, 2021 and February 29, 2020, which have been deferred and included in other assets, were ¥781 million (\$7,349 thousand) and ¥779 million, respectively. These costs are amortized by the interest method through the maturity of the bonds.

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

**(m) Policy reserves**—Policy reserves, which account for the majority of reserves for insurance policy liabilities, are provided in accordance with Article 116 of the Insurance Business Act. Insurance premium reserves are calculated as follows:

- (i) For contracts which are subject to the standard policy reserve requirements, the premium reserves are calculated using the method stipulated by the Commissioner of Financial Services Agency (Ministry of Finance Notification No. 48 in 1996).
- (ii) For contracts which are not subject to the standard policy reserve requirements, the premium reserves are calculated using the net level premium method.

**(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 to 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.

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

exchange rates as at each balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income to the extent that they are not hedged by forward exchange contracts.

**(v) Foreign Currency Financial Statements**—The balance sheet accounts of the foreign subsidiaries are translated into Japanese yen at the current exchange rate as at each balance sheet date, except for equity, which is translated at the historical rate. 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.

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

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows:

(i) 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.

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

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

**(y) Accounting Changes and Error Corrections**—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.

From the current fiscal year, “Software” is separately presented, which was included in “Other assets” in “Investments and other assets” in the previous fiscal year, in the consolidated balance sheets to enhance clarity of the consolidated financial statements. Certain reclassifications have been made to the prior year’s consolidated financial statements to reflect this change in presentation of financial statements.

As a result, out of an amount of ¥90,555 million, which was presented in “Other assets” in “Investments and other assets” in the consolidated balance sheet for the previous fiscal year, an amount of ¥85,417 million has been reclassified into “Software,” and the remaining ¥5,138 million is still included in “Other assets.”

**(z) 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 31, 2020)
- Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 26, 2021)

- Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, March 31, 2020)

**(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.

**(iii) Accounting standard for disclosure of accounting estimates**

- Accounting Standard for Disclosure of Accounting Estimates (ASBJ Statement No. 31, March 31, 2020)

**(1) Overview**

In 2003, the IASB issued International Accounting Standards ("IAS") 1 "Presentation of Financial Statements." Paragraph 125 of IAS 1 requires entities to disclose "sources of estimation uncertainty." The ASBJ was requested to consider requiring those disclosures in the notes to the consolidated financial statements under Japanese GAAP as highly useful information for users of financial statements. As a result, the ASBJ developed and issued the Accounting Standard for Disclosure of Accounting Estimates.

The basic policy of the ASBJ in developing this accounting standard is to set the disclosure principles (the "disclosure purposes"), rather than expand individual notes. The entities shall determine the specific contents of disclosures in light of the disclosure purposes. This accounting standard was developed with reference to the requirements of Paragraph 125 of IAS 1.

**(2) Effective date**

The Group plans to apply this accounting standard at the end of the fiscal year ending February 28, 2022.

**(iv) Accounting standard for accounting policy disclosures, accounting changes and error corrections**

- Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections (ASBJ Statement No. 24, March 31, 2020)

**(1) Overview**

In response to the recommendation to consider enhancing disclosures in the notes on "the accounting principles and procedures adopted where the provisions of the relevant Accounting Standards, etc. are not clear," the ASBJ made necessary revisions and issued the Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections.

In enhancing the disclosures on "the accounting principles and procedures adopted where the provisions of the relevant Accounting Standards, etc. are not clear," the provisions of the Explanatory Notes to the Corporate Accounting Principles (Note 1-2) will continue to be applied so as not to affect the past practice where the provisions of the relevant Accounting Standards, etc. are clear.

**(2) Effective date**

The Group plans to apply this accounting standard at the end of the fiscal year ending February 28, 2022.

**(aa) Additional Information**

(Accounting estimates on the impact of COVID-19)

The Group believed the impact of COVID-19 would significantly decrease by the end of the current fiscal year. The Group also believed that the impact on receivables subject to repayment graces would continue for certain geographies through the second quarter of the following fiscal year. The Group determined their allowance for credit losses based on these current facts and assumptions.

At the end of the current fiscal year, however, the Group assumed that it would take longer than expected to ease the impact at the end of the third quarter, due to the collection status of the receivables subject to repayment graces. Based on this assumption, the Group expected an increase in future credit risk for the receivables subject to repayment graces in certain countries and included the expectation in the estimate of the allowance for credit losses.

The amount recognized is the best estimate at present. However, there is a high degree of uncertainty in the assumptions used for the estimate, and the allowance for credit losses may increase or decrease in the subsequent quarterly and annual consolidated financial statements if the status of COVID-19 pandemic and its impact on the economic environment change.

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

#### (a) Trading securities

Unrealized gain on trading securities held as at February 28, 2021 was ¥1,928 million (\$18,151 thousand).

There were no trading securities held as at February 29, 2020.

#### (b) Securities other than trading securities

Securities other than trading securities in banking business and insurance business, monetary claims bought and investment securities as at February 28, 2021 and February 29, 2020 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Marketable equity securities	¥ 6,567	¥ 6,134	\$ 61,815
Marketable debt securities:			
Government bonds	27,581	1,069	259,606
Municipal bonds	400	400	3,767
Corporate bonds	121,507	195,701	1,143,701
Total marketable debt securities	149,488	197,170	1,407,074
Other securities			
Foreign securities	112,224	49,567	1,056,326
Other <sup>(*)</sup>	322,579	222,249	3,036,323
Total other securities	434,803	271,816	4,092,649
Total	¥590,858	¥475,120	\$5,561,538

(\*) Includes investments in an associated company of ¥248 million (\$2,334 thousand) and ¥211 million as at February 28, 2021 and February 29, 2020, respectively.

The carrying amounts, aggregate fair values, costs and unrealized gains (losses) of available-for-sale securities in banking business and insurance business, monetary claims bought and investment securities as at February 28, 2021 and February 29, 2020 consisted of the following:

	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
<b>February 28, 2021</b>				
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 2,079	¥4,494	¥ (6)	¥ 6,567
Debt securities	150,357	60	(929)	149,488
Other securities	425,948	6,195	(3,197)	428,946
February 29, 2020				
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 2,094	¥4,064	¥ (24)	¥ 6,134
Debt securities	195,932	1,238	—	197,170
Other securities	264,396	3,747	(3,260)	264,883

	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
<b>February 28, 2021</b>				
Securities classified as:				
Available-for-sale:				
Equity securities	\$ 19,574	\$42,296	\$ (55)	\$ 61,815
Debt securities	1,415,253	568	(8,747)	1,407,074
Other securities	4,009,302	58,313	(30,097)	4,037,518

Available-for-sale securities whose fair values are deemed to be difficult to determine as at February 28, 2021 and February 29, 2020 are disclosed in Note 15.

There was no impairment loss on securities for the years ended February 28, 2021 and February 29, 2020.

Money held in trust as at February 28, 2021 and February 29, 2020 consisted of the following:

	Millions of Yen	
	Consolidated Balance Sheet Amount	Unrealized Gains (Losses)
<b>February 28, 2021</b>		
Trading purposes	¥91,614	¥473
Other	953	—

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

	Thousands of U.S. Dollars	
	Consolidated Balance Sheet Amount	Unrealized Gains (Losses)
<b>February 28, 2021</b>		
Trading purposes	\$862,329	\$4,454
Other	8,972	—

Unrealized gain on available-for-sale securities on the consolidated balance sheets as at February 28, 2021 and February 29, 2020 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Unrealized gain before deferred tax on:			
Available-for-sale securities <sup>(*)</sup>	¥ 6,680	¥ 5,798	\$ 62,879
Deferred tax liabilities	(3,008)	(2,413)	(28,316)
Unrealized gain on available-for-sale securities (before adjustment)	3,672	3,385	34,563
Non-controlling interests	(388)	(472)	(3,653)
Unrealized gain on available-for-sale securities	¥ 3,284	¥ 2,913	\$ 30,910

(\*) 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 ¥64 million (\$601 thousand) and ¥32 million for the year ended February 28, 2021 and February 29, 2020, respectively.

#### 04 FINANCE RECEIVABLES AND LOANS IN BANKING BUSINESS

Finance receivables as at February 28, 2021 and February 29, 2020 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Installment sales receivables:			
Credit card purchase contracts	¥ 911,769	¥ 966,315	\$ 8,582,163
Hire purchase contracts	609,381	576,821	5,735,887
Subtotal	1,521,150	1,543,136	14,318,050
Operating loan receivables <sup>(*)</sup>	782,916	860,573	7,369,319
Allowance for credit losses	(128,454)	(111,499)	(1,209,096)
Total	¥2,175,612	¥2,292,210	\$20,478,273

(\*) Includes cash advances and personal loan receivables.

Loans in banking business as at February 28, 2021 and February 29, 2020 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Loans and bills discounted <sup>(*)</sup>	¥1,998,380	¥1,674,786	\$18,810,052
Allowance for credit losses	(4,805)	(2,766)	(45,223)
Total	¥1,993,575	¥1,672,020	\$18,764,829

(\*) 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 28, 2021 and February 29, 2020 were ¥36 million (\$341 thousand) and ¥77 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 were ¥7,002 million. There was no loan participation held as at February 28, 2021.

#### 05 PLEDGED ASSETS

Assets pledged as collateral as at February 28, 2021 and February 29, 2020 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Assets pledged as collateral:			
Deposits with banks	—	¥ 534	—
Finance receivables	¥ 5,229	26,564	\$ 49,215
Securities in banking business	33,306	24,437	313,501
Total	¥38,535	¥51,535	\$362,716
Liabilities corresponding to assets pledged as collateral:			
Short-term borrowings	¥30,000	¥20,000	\$282,379
Long-term borrowings (including current portion)	5,466	13,087	51,446
Total	¥35,466	¥33,087	\$333,825

In addition to the assets presented above, the following assets were pledged as collateral for exchange settlements and other transactions as at February 28, 2021 and February 29, 2020:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Guarantee money deposits (Initial margins deposited at central counterparty clearing houses)	¥50,000	¥50,000	\$470,633

#### 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 28, 2021 and February 29, 2020 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars	Average interest rate <sup>(*)</sup>	Due
	2021	2020	2021	2021	
Short-term borrowings	¥216,468	¥139,386	\$2,037,541	0.78%	
Commercial paper	85,000	160,151	800,075	0.03%	
Long-term borrowings (current portion)	62,159	106,652	585,083	3.07%	
Lease obligations (current portion)	11,946	12,586	112,447	1.78%	
Long-term borrowings (non-current portion)	337,026	316,006	3,172,309	3.43%	From March 2022 to November 2027
Lease obligations (non-current portion)	24,916	31,915	234,520	1.69%	From January 2022 to February 2031

(\*) 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 28, 2021 and February 29, 2020 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
<b>Issued by the Company:</b>			
Unsecured 0.572% pari passu Japanese yen notes due March 2021	¥ 10,000	¥ 10,000	\$ 94,127
Unsecured 0.402% pari passu Japanese yen notes due April 2020	—	20,000	—
Unsecured 0.552% pari passu Japanese yen notes due April 2022	10,000	10,000	94,127
Unsecured 0.23% pari passu Japanese yen notes due May 2022	30,000	30,000	282,379
Unsecured 0.35% pari passu Japanese yen notes due May 2024	30,000	30,000	282,379
Unsecured 0.19% pari passu Japanese yen notes due March 2023	25,000	25,000	235,316
Unsecured 0.3% pari passu Japanese yen notes due September 2024	25,000	25,000	235,316
Unsecured 0.38% pari passu Japanese yen notes due September 2026	20,000	20,000	188,253
Unsecured 0.22% pari passu Japanese yen notes due July 2023	30,000	30,000	282,380
Unsecured 0.3% pari passu Japanese yen notes due January 2025	20,000	20,000	188,253
Unsecured 0.29% pari passu Japanese yen notes due January 2023	10,000	—	94,127
Unsecured 0.38% pari passu Japanese yen notes due July 2025	5,000	—	47,063
Unsecured 0.29% pari passu Japanese yen notes due February 2024	20,000	—	188,253
Unsecured 0.36% pari passu Japanese yen notes due February 2026	15,000	—	141,190
<b>Issued by AEON Product Finance Co., Ltd.:</b>			
Unsecured 0.38% Japanese yen notes due April 2023	5,000	5,000	47,063
Unsecured 0.4% Japanese yen notes due October 2023	5,000	5,000	47,063
<b>Issued by AEON THANA SINSAP (THAILAND) PLC.:</b>			
Unsecured 2.709% Thai baht notes due March 2020	—	7,696	—
Unsecured 2.544% Thai baht notes due March 2020	—	1,649	—
Unsecured 1.047% Thai baht notes due August 2021	1,588	1,643	14,952
Unsecured 3.48% Thai baht notes due December 2021	3,509	3,457	33,025
Unsecured 0.917% Thai baht notes due December 2021	3,174	3,282	29,872
Unsecured 2.5% Thai baht notes due August 2020	—	692	—
Unsecured 2.5% Thai baht notes due September 2020	—	1,038	—
Unsecured 2.5% Thai baht notes due September 2020	—	346	—
Unsecured 2.37% Thai baht notes due December 2020	—	6,917	—
Unsecured 2.93% Thai baht notes due December 2022	3,508	3,457	33,020
Unsecured 2.96% Thai baht notes due November 2020	—	6,916	—
Unsecured 3.26% Thai baht notes due November 2021	2,807	2,766	26,421
Unsecured 2.27% Thai baht notes due November 2022	9,821	9,676	92,438
Unsecured 2.57% Thai baht notes due November 2024	3,506	3,455	33,004
<b>Issued by AEON CREDIT SERVICE (M) BERHAD:</b>			
Unsecured 3.8% senior Malaysia ringgit notes due February 2027	7,838	7,787	73,775
Unsecured 3.85% senior Malaysia ringgit notes due February 2028	5,225	5,192	49,181
Unsecured 3.95% subordinated Malaysia ringgit notes due March 2030	2,610	—	24,565
<b>Issued by AEON CREDIT SERVICE (PHILIPPINES) INC.:</b>			
Unsecured 7.299% Philippine peso notes due November 2021	1,935	1,925	18,213
Unsecured 7.695% Philippine peso notes due November 2023	214	213	2,014
<b>Total</b>	<b>¥305,735</b>	<b>¥298,107</b>	<b>\$2,877,769</b>

The annual maturities of long-term borrowings as at February 28, 2021 were as follows:

Years ended the last day of February	Millions of Yen	Thousands of U.S. Dollars
2022	¥ 62,159	\$ 585,083
2023	86,538	814,555
2024	100,214	943,277
2025	72,703	684,324
2026	37,680	354,671
2027 and thereafter	39,891	375,482
Total	¥399,185	\$3,757,392

The annual maturities of bonds as at February 28, 2021 were as follows:

Years ended the last day of February	Millions of Yen	Thousands of U.S. Dollars
2022	¥ 23,013	\$ 216,610
2023	63,329	596,090
2024	85,214	802,090
2025	78,506	738,953
2026	20,000	188,253
2027 and thereafter	35,673	335,773
Total	¥305,735	\$2,877,769

The annual maturities of lease obligations as at February 28, 2021 were as follows:

Years ended the last day of February	Millions of Yen	Thousands of U.S. Dollars
2022	¥11,946	\$112,447
2023	7,807	73,483
2024	5,989	56,378
2025	3,785	35,624
2026	2,622	24,675
2027 and thereafter	4,713	44,360
Total	¥36,862	\$346,967

## 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 28, 2021 and February 29, 2020 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Balance at beginning of year	¥6,669	¥6,178	\$62,774
Current service cost	625	557	5,884
Interest cost	36	51	341
Actuarial gains and losses	(193)	(11)	(1,822)
Benefits paid	(481)	(169)	(4,535)
Other	577	63	5,435
Balance at end of year	¥7,233	¥6,669	\$68,077

(b) The changes in plan assets for the years ended February 28, 2021 and February 29, 2020 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Balance at beginning of year	¥2,288	¥2,057	\$21,532
Expected return on plan assets	81	66	759
Actuarial gains and losses	22	(75)	211
Contributions from the employer	243	256	2,284
Benefits paid	(109)	(17)	(1,022)
Balance at end of year	¥2,525	¥2,287	\$23,764

(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 28, 2021 and February 29, 2020

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Funded defined benefit obligation	¥ 3,070	¥ 2,997	\$ 28,898
Plan assets	(2,525)	(2,287)	(23,764)
	545	710	5,134
Unfunded defined benefit obligation	4,163	3,672	39,179
Net liability arising from defined benefit obligation	¥ 4,708	¥ 4,382	\$ 44,313

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Liability for retirement benefits <sup>(*)</sup>	¥4,708	¥4,382	\$44,313
Net liability arising from defined benefit obligation	¥4,708	¥4,382	\$44,313

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

(d) The components of net periodic benefit costs for the years ended February 28, 2021 and February 29, 2020 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Service cost <sup>(*)</sup>	¥ 625	¥557	\$5,884
Interest cost	36	51	341
Expected return on plan assets	(81)	(66)	(759)
Recognized actuarial losses	297	356	2,796
Amortization of past service costs	—	19	—
Other	133	21	1,249
Net periodic benefit costs	¥1,010	¥938	\$9,511

(\*) 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 28, 2021 and February 29, 2020

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Actuarial gains and losses	¥(370)	¥(98)	\$(3,487)
Total	¥(370)	¥(98)	\$(3,487)

(f) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as at February 28, 2021 and February 29, 2020

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Unrecognized actuarial gains and losses	¥512	¥882	\$4,816
Total	¥512	¥882	\$4,816

(g) Plan assets

(i) Components of plan assets

Plan assets consisted of the following:

	2021	2020
Debt securities	41.9%	43.0%
Equity securities	29.3%	25.4%
Assets in the life insurer's general account	11.4%	12.1%
Other (*)	17.4%	19.5%
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 28, 2021 and February 29, 2020 were set forth as follows:

	2021 (*)	2020 (*)
Discount rate	0.8%	0.4%
Expected rate of return on plan assets	3.60%	3.12%

(\*) 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 28, 2021 and February 29, 2020 are ¥737 million (\$6,933 thousand) and ¥588 million, respectively.

The amounts of benefits paid under the advance payment plan for the years ended February 28, 2021 and February 29, 2020 are ¥97 million (\$917 thousand) and ¥92 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.

**09 STOCK-BASED COMPENSATION**

The stock options outstanding as at February 28, 2021 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
2021 Stock Option	6 directors	12,800 shares	July 21, 2020	¥ 1 \$0.01	From August 21, 2020 through August 20, 2035

The summary of stock option activity is as follows:

	2021 Stock Option	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
<b>Non-vested (Shares)</b>										
Outstanding at beginning of year										
Granted	12,800									
Expired										
Vested	12,800									
Outstanding at end of year										
<b>Vested (Shares)</b>										
Outstanding at beginning of year		5,400	5,400	7,200	6,300	4,500	3,600	5,000	3,500	1,500
Vested	12,800									
Exercised	7,400	2,700	2,700	5,400	2,700	2,700	1,400	2,000	2,000	
Expired										
Outstanding at end of year	5,400	2,700	2,700	1,800	3,600	1,800	2,200	3,000	1,500	1,500
Exercise price	¥1	¥1	¥1	¥1	¥1	¥1	¥1	¥1	¥1	¥1
	\$0.01	\$0.01	\$0.01	\$0.01	\$0.01	\$0.01	\$0.01	\$0.01	\$0.01	\$0.01
Average stock price upon exercise	¥919	¥1,375	¥1,375	¥1,333	¥970	¥970	¥970	¥970	¥970	
	\$8.65	\$12.94	\$12.94	\$12.55	\$9.13	\$9.13	\$9.13	\$9.13	\$9.13	
Fair value price at grant date	¥742	¥1,309	¥1,808	¥1,856	¥1,940	¥3,072	¥2,006	¥2,715	¥1,081	¥809
	\$6.98	\$12.32	\$17.02	\$17.47	\$18.26	\$28.92	\$18.88	\$25.56	\$10.18	\$7.61

The assumptions used to measure fair value of stock options vested during fiscal year 2021 were as follows:

	2021 Stock Option
Measurement method	Black-Scholes option-pricing model
Risk-free interest rate	(0.1080)%
Expected life of option grants	7.5 years
Expected volatility of underlying stock	35.99%
Estimated dividend	¥23 per share

## 10 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the years ended February 28, 2021 and February 29, 2020 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Salaries and allowances	¥ (67,187)	¥ (65,022)	\$ (632,408)
Advertising expenses	(53,325)	(65,339)	(501,929)
Provision for bonuses	(3,826)	(4,865)	(36,017)
Retirement benefit expenses	(1,845)	(1,618)	(17,361)
Provision for loss on refund of interest received	(4,337)	(3,155)	(40,827)
Provision for point program	28	(3,170)	266
Other	(154,172)	(146,480)	(1,451,166)
Total	¥(284,664)	¥(289,649)	\$(2,679,442)

## 11 NON-OPERATING REVENUES (EXPENSES)

Loss on disposal of non-current assets for the years ended February 28, 2021 and February 29, 2020 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Structures	¥ (55)	¥ (36)	\$ (522)
Equipment	(291)	(252)	(2,736)
Software	(363)	(393)	(3,416)
Other	—	(1)	—
Total	(709)	(682)	(6,674)

Other non-operating revenues (expenses)—net for the years ended February 28, 2021 and February 29, 2020 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Gain on investments in partnership	¥ 272	¥187	\$ 2,564
Impairment loss on investment securities	(670)	(2)	(6,307)
Other—net	(341)	55	(3,214)
Total	¥(739)	¥240	\$(6,957)

## 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 28, 2021

and February 29, 2020, respectively. The tax effects of significant temporary differences and tax loss carryforwards, which resulted in deferred tax assets and liabilities as at February 28, 2021 and February 29, 2020 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Deferred tax assets:			
Allowance for credit losses	¥28,478	¥22,337	\$268,054
Loans in banking business and finance receivables	136	117	1,284
Allowance for point program	6,910	6,562	65,041
Allowance for loss on refund of interest received	1,747	1,520	16,447
Accrued income	31	683	289
Property and equipment	835	700	7,864
Intangible assets	675	523	6,349
Liability for retirement benefits	1,220	1,214	11,485
Tax loss carryforwards	1,661	287	15,633
Unrealized loss on acquisition of subsidiaries	26	33	242
Other	13,465	10,051	126,744
Less valuation allowance	(6,863)	(3,730)	(64,602)
Total deferred tax assets	¥48,321	¥40,297	\$454,830
Deferred tax liabilities:			
Depreciation in consolidated foreign subsidiaries	¥455	¥529	\$4,282
Unrealized gain on available-for-sale securities	3,008	2,414	28,316
Unrealized gain on acquisition of subsidiaries	1,450	1,573	13,650
Other	638	267	5,999
Total deferred tax liabilities	¥5,551	¥4,783	\$52,247
Net deferred tax assets	¥42,770	¥35,514	\$402,583

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 28, 2021 and February 29, 2020 were as follows:

	2021	2020
Effective statutory tax rate	30.6%	30.6%
Per capita portion of inhabitants tax	0.9	0.3
Lower income tax rates applicable to income in certain foreign countries	(6.7)	(5.7)
Impact from elimination in consolidation	0.7	2.5
Tax loss carryforwards	0.1	(1.1)
Valuation allowance	7.6	3.0
Income taxes for prior periods	(1.8)	0.3
Other	2.2	0.4
Actual effective tax rate	33.6%	30.3%

### 13 SUPPLEMENTAL CASH FLOW INFORMATION

#### Purchase of newly consolidated subsidiaries

For the year ended February 28, 2021, the Company acquired AEON Allianz Life Insurance Co., Ltd. (herein, "AEON Allianz") through share acquisition and included it in the scope of consolidation. Assets and liabilities of AEON Allianz at the time of consolidation were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Current assets	¥135,676	\$1,277,072
Non-current assets	47	439
Goodwill	278	2,613
Current liabilities	(3,234)	(30,440)
Non-current liabilities	(127,552)	(1,200,598)
Non-controlling interests	(1,975)	(18,589)
Acquisition cost of shares of AEON Allianz	3,240	30,497
Cash and cash equivalents of AEON Allianz	(12,836)	(120,818)
Net proceeds from the acquisition of AEON Allianz	¥ 9,596	\$ 90,321

### 14 LEASES

(Lessee side)

The Group leases equipment, software, and other assets.

Total rental expenses for the years ended February 28, 2021 and February 29, 2020 were ¥15,030 million (\$141,473 thousand) and ¥13,249 million, respectively.

The minimum rental commitments under noncancelable operating leases as at February 28, 2021 and February 29, 2020 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Due within one year	¥ 998	¥1,447	\$ 9,392
Due after one year	844	1,262	7,949
Total	¥1,842	¥2,709	\$17,341



(Lessor side)

(a) Breakdown of lease receivables and investment assets

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Lease payments receivables	¥11,716	¥13,918	\$110,284
Estimated residual value	1,617	—	15,217
Unearned interest income	(1,048)	(1,136)	(9,868)
Lease receivables and investment assets	¥12,285	¥12,782	\$115,633

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

	Millions of Yen					
	2021					
	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Lease receivables and investment assets	¥2,483	¥2,260	¥2,003	¥1,576	¥1,115	¥2,279

	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

	Thousands of U.S. Dollars					
	2021					
	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Lease receivables and investment assets	\$23,370	\$21,274	\$18,858	\$14,835	\$10,499	\$21,448

## 15 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 28, 2021 was ¥14,500 million (\$136,481 thousand) (¥5,953 million, as at February 29, 2020).

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 28, 2021 and February 29, 2020 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

	2021		
	Carrying Amount	Fair Value	Difference
(1) Cash and cash equivalents	¥ 666,738	¥ 666,738	—
(2) Deposits with banks	39,001	39,001	—
(3) Call loans	30,842	30,842	—
(4) Finance receivables—net of allowance for credit losses	2,170,817	2,256,590	¥ 85,773
(5) Loans in banking business—net of allowance for credit losses	1,993,575	2,016,323	22,748
(6) Securities in banking business	519,024	519,024	—
(7) Securities in insurance business	70,262	70,262	—
(8) Monetary claims bought	30,801	30,801	—
(9) Money held in trust	92,567	92,567	—
(10) Foreign exchanges(*)	6,947	6,947	—
(11) Investment securities	6,567	6,567	—
Total	¥5,627,141	¥5,735,662	¥108,521
(12) Accounts payable	¥ 321,042	¥ 321,042	—
(13) Deposits in banking business	4,018,666	4,019,294	¥ 628
(14) Short-term borrowings	216,468	216,468	—
(15) Commercial paper	85,000	85,000	—
(16) Bonds (including current portion)	305,735	304,874	(861)
(17) Long-term borrowings (including current portion)	399,185	402,819	3,634
Total	¥5,346,096	¥5,349,497	¥ 3,401
(18) Derivative financial instruments (Note 16):			
Hedge accounting not applied	¥ (159)	¥ (159)	—
Hedge accounting applied	(18,780)	(18,780)	—
Total	¥ (18,939)	¥ (18,939)	—

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 credit losses	2,287,047	2,390,913	¥103,866
(5) Loans in banking business—net of allowance for credit losses	1,672,020	1,702,784	30,764
(6) Securities in banking business	447,229	447,229	—
(8) Monetary claims bought	14,824	14,824	—
(9) Money held in trust	50,309	50,309	—
(10) Foreign exchanges(*)	6,362	6,362	—
(11) Investment securities	6,134	6,134	—
Total	¥5,300,590	¥5,435,220	¥134,630
(12) Accounts payable	¥ 305,859	¥ 305,859	—
(13) Deposits in banking business	3,790,241	3,792,093	¥ 1,852
(14) Short-term borrowings	139,386	139,386	—
(15) Commercial paper	160,151	160,151	—
(16) 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 16):			
Hedge accounting not applied	¥ 5	¥ 5	—
Hedge accounting applied	(12,658)	(12,658)	—
Total	¥ (12,653)	¥ (12,653)	—

Thousands of U.S. Dollars

	2021		
	Carrying Amount	Fair Value	Difference
(1) Cash and cash equivalents	\$ 6,275,774	\$ 6,275,774	—
(2) Deposits with banks	367,106	367,106	—
(3) Call loans	290,302	290,302	—
(4) Finance receivables—net of allowance for credit losses	20,433,139	21,240,494	\$ 807,355
(5) Loans in banking business—net of allowance for credit losses	18,764,829	18,978,947	214,118
(6) Securities in banking business	4,885,391	4,885,391	—
(7) Securities in insurance business	661,348	661,348	—
(8) Monetary claims bought	289,918	289,918	—
(9) Money held in trust	871,301	871,301	—
(10) Foreign exchanges(*)	65,389	65,389	—
(11) Investment securities	61,815	61,815	—
Total	\$52,966,312	\$53,987,785	\$1,021,473
(12) Accounts payable	\$ 3,021,850	\$ 3,021,850	—
(13) Deposits in banking business	37,826,299	37,832,210	\$ 5,911
(14) Short-term borrowings	2,037,541	2,037,541	—
(15) Commercial paper	800,075	800,075	—
(16) Bonds (including current portion)	2,877,769	2,869,672	(8,097)
(17) Long-term borrowings (including current portion)	3,757,392	3,791,594	34,202
Total	\$50,320,926	\$50,352,942	\$ 32,016
(18) Derivative financial instruments (Note 16):			
Hedge accounting not applied	\$ (1,494)	\$ (1,494)	—
Hedge accounting applied	(176,772)	(176,772)	—
Total	\$ (178,266)	\$ (178,266)	—

(\*) 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 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 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 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, (7) Securities in insurance business and (11) 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.

## (8) 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.

(9) 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 credit losses” described above. The fair value of securities is determined by the same method as “(7) Securities in insurance business” described above.

(10) 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.

(12) 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.

(13) 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.

(14) 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.

(15) Commercial paper

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

(16) Bonds

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 16.

(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
	2021	2020	2021
Stock with no active market quotations	¥ 1,675	¥ 2,309	\$ 15,767
Trust beneficiary rights	4,795	5,163	45,134
Investments in limited partnerships	4,182	4,624	39,364
Total	¥10,652	¥12,096	\$100,265

## (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

	2021					
	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Due from banks	¥ 613,552					
Call loans	30,842					
Finance receivables <sup>(1)</sup>	1,370,619	¥251,762	¥191,791	¥131,629	¥ 66,343	¥ 212,951
Loans in banking business <sup>(2)</sup>	214,363	96,942	93,080	83,799	74,859	1,379,543
Securities in banking business and insurance business:						
Available-for-sale securities:						
Government bonds						28,000
Municipal bonds		200	200			
Corporate bonds	41,300	800		3,000	3,600	73,333
Foreign securities	48,000	1,647	3,448	11,677	15,491	21,392
Total	89,300	2,647	3,648	14,677	19,091	122,725
Monetary claims bought	6,200					24,572
Money held in trust	11,495	9,410	8,388	7,450	6,550	44,136
Total	¥2,336,371	¥360,761	¥296,907	¥237,555	¥166,843	¥1,783,927

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>(1)</sup>	1,420,990	¥284,779	¥205,354	¥142,442	¥ 68,505	¥ 208,068
Loans in banking business <sup>(2)</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	¥1,430,789

Thousands of U.S. Dollars

	2021					
	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Due from banks	\$ 5,775,152					
Call loans	290,302					
Finance receivables <sup>(1)</sup>	12,901,163	\$2,369,748	\$1,805,263	\$1,238,977	\$ 624,463	\$ 2,004,432
Loans in banking business <sup>(2)</sup>	2,017,726	912,482	876,132	788,771	704,623	12,985,158
Securities in banking business and insurance business:						
Available-for-sale securities:						
Government bonds						263,554
Municipal bonds		1,883	1,883			
Corporate bonds	388,743	7,530		28,238	33,885	690,263
Foreign securities	451,807	15,501	32,455	109,910	145,814	201,353
Total	840,550	24,914	34,338	138,148	179,699	1,155,170
Monetary claims bought	58,358					231,289
Money held in trust	108,197	88,573	78,948	70,130	61,648	415,435
Total	\$21,991,448	\$3,395,717	\$2,794,681	\$2,236,026	\$1,570,433	\$16,791,484

(\*) Finance receivables for the years ended February 28, 2021 and February 29, 2020 exclude ¥78,971 million (\$743,323 thousand) and ¥73,570 million, respectively, which have no specific contractual maturity date due to late payments or being under negotiations.

(\*) Loans in banking business for the years ended February 28, 2021 and February 29, 2020 exclude loans of ¥6,520 million (\$61,366 thousand) and ¥4,702 million with no specific recoverable amounts, such as loans to borrowers classified as legal bankruptcy, substantial bankruptcy, or possible bankruptcy, and ¥49,274 million (\$463,796 thousand) and ¥54,876 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

	2021					
	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Deposits in banking business <sup>(*)</sup>	¥3,792,807	¥ 90,908	¥ 63,579	¥ 40,750	¥30,622	
Short-term borrowings	216,468					
Commercial paper	85,000					
Bonds	23,013	63,329	85,214	78,506	20,000	¥35,673
Long-term borrowings	62,159	86,538	100,214	72,703	37,680	39,891
Lease obligations	11,946	7,807	5,989	3,785	2,622	4,713
<b>Total</b>	<b>¥4,191,393</b>	<b>¥248,582</b>	<b>¥254,996</b>	<b>¥195,744</b>	<b>¥90,924</b>	<b>¥80,277</b>

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 <sup>(*)</sup>	¥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
<b>Total</b>	<b>¥4,065,086</b>	<b>¥196,702</b>	<b>¥179,577</b>	<b>¥178,276</b>	<b>¥175,425</b>	<b>¥59,978</b>

Thousands of U.S. Dollars

	2021					
	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Deposits in banking business <sup>(*)</sup>	\$35,700,367	\$ 855,685	\$ 598,444	\$ 383,568	\$288,235	
Short-term borrowings	2,037,541					
Commercial paper	800,075					
Bonds	216,610	596,090	802,090	738,953	188,253	\$335,773
Long-term borrowings	585,083	814,555	943,277	684,324	354,671	375,482
Lease obligations	112,447	73,483	56,378	35,624	24,675	44,360
<b>Total</b>	<b>\$39,452,123</b>	<b>\$2,339,813</b>	<b>\$2,400,189</b>	<b>\$1,842,469</b>	<b>\$855,834</b>	<b>\$755,615</b>

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

**16 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 28, 2021 and February 29, 2020 consisted of the following:

Millions of Yen			
			2021
	Contract Amount	Fair Value	Unrealized Gain/Loss
Currency swap contracts:			
Receive JPY/Pay HKD	¥ 4,115	¥ (159)	¥ (159)
Receive JPY/Pay THB	21,635	(1,752)	(1,752)
Receive USD/Pay HKD	5,313	(45)	(45)
Receive USD/Pay MYR	99,198	(7,383)	(7,383)
Receive USD/Pay THB	77,099	(8,008)	(8,008)
Interest rate swap contracts:			
Receive floating/Pay fixed	37,139	(1,433)	(1,433)

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)

Thousands of U.S. Dollars			
			2021
	Contract Amount	Fair Value	Unrealized Gain/Loss
Currency swap contracts:			
Receive JPY/Pay HKD	\$ 38,737	\$ (1,493)	\$ (1,493)
Receive JPY/Pay THB	203,642	(16,491)	(16,491)
Receive USD/Pay HKD	50,007	(421)	(421)
Receive USD/Pay MYR	933,716	(69,494)	(69,494)
Receive USD/Pay THB	725,709	(75,381)	(75,381)
Interest rate swap contracts:			
Receive floating/Pay fixed	349,572	(13,492)	(13,492)



Derivative financial instruments not qualifying for hedge accounting as at February 28, 2021 and February 29, 2020 consisted of the following:

Millions of Yen

	2021		
	Contract Amount	Fair Value	Unrealized Gain/Loss
Currency swap contracts:			
Receive JPY/Pay MYR	¥2,619	¥(160)	¥(160)
Currency forward contracts:			
Short position	1,363	2	2
Long position	358	(1)	(1)

Millions of Yen

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

Thousands of U.S. Dollars

	2021		
	Contract Amount	Fair Value	Unrealized Gain/Loss
Currency swap contracts:			
Receive JPY/Pay MYR	\$24,652	\$(1,502)	\$(1,502)
Currency forward contracts:			
Short position	12,827	16	16
Long position	3,368	(8)	(8)

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.

**17 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
	2021	2020	2021
Total loan limits	<b>¥9,627,547</b>	¥9,445,832	<b>\$90,620,743</b>
Loan executed	<b>523,260</b>	600,393	<b>4,925,266</b>
Unexercised portion of loan commitments	<b>¥9,104,287</b>	¥8,845,439	<b>\$85,695,477</b>

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 28, 2021 and February 29, 2020 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Unutilized commitments	<b>¥24,696</b>	¥29,323	<b>\$232,459</b>
Of which: those expiring within one year	<b>4,471</b>	3,861	<b>42,085</b>

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.

AEON Bank, Ltd., a consolidated subsidiary of the Company, has entered into credit line contracts to enhance the liquidity of the joint-investment designated money trusts established by AEON Bank, Ltd. The amount of unutilized credit lines is ¥12,656 million (\$119,125 thousand), and the amount that may be utilized within one year is ¥4,277 million (\$40,255 thousand). These contracts are intended to avoid a temporary decline in the ability of the trusts to raise funds when they perform refinancing. In addition, AEON Bank, Ltd. has an option to execute loans and is not contractually committed to do so.

Contingent liabilities as at February 28, 2021 and February 29, 2020 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Guarantee obligation related to credit guarantee business for general customers operated by a consolidated subsidiary	<b>¥60,083</b>	¥72,231	<b>\$565,538</b>

## 18 OTHER COMPREHENSIVE INCOME

Reclassification adjustments to profit or loss and tax effects of other comprehensive income for the years ended February 28, 2021 and February 29, 2020 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Unrealized (loss) gain on available-for-sale securities:			
(Losses) gains arising during the year	¥ 431	¥ (2,602)	\$ 4,057
Reclassification adjustments to profit or loss	14	(1,526)	127
Amount before income tax effect	445	(4,128)	4,184
Income tax effect	(202)	1,175	(1,896)
Total	¥ 243	¥ (2,953)	\$ 2,288
Deferred (loss) gain on derivatives under hedge accounting:			
Losses arising during the year	¥ 2,575	¥ (4,353)	\$ 24,234
Reclassification adjustments to profit or loss	(1,244)	(1,844)	(11,705)
Amount before income tax effect	1,331	(6,197)	12,529
Income tax effect	(252)	1,359	(2,373)
Total	¥ 1,079	¥ (4,838)	\$ 10,156
Foreign currency translation adjustments:			
(Losses) gains arising during the year	¥ 106	¥ (3,331)	\$ 997
Reclassification adjustments to profit or loss		96	
Amount before income tax effect	106	(3,235)	997
Total	¥ 106	¥ (3,235)	\$ 997
Adjustments for retirement benefit:			
Losses arising during the year	¥ 248	¥ (64)	\$ 2,331
Reclassification adjustments to profit or loss	123	162	1,160
Amount before income tax effect	371	¥98	3,491
Income tax effect	(133)	(8)	(1,249)
Total	¥238	¥90	\$ 2,242
Total other comprehensive income	¥ 1,666	¥(10,936)	\$ 15,683

**19 BUSINESS COMBINATION**

Business combination through acquisition of shares

(i) Outline of the business combination

(1) Name of acquired company and its business outline

Name	Allianz Life Insurance Japan Ltd.
Type of business	Insurance

(2) Major reason for the business combination

Allianz Life Insurance Japan Ltd. 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, by 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.

(3) Date of business combination

March 31, 2020

(4) Legal form of business combination

Share acquisition in consideration for cash

(5) Name of the company after the combination

Allianz Life Insurance Japan Ltd.

The company name was changed to AEON Allianz Life Insurance Co., Ltd. on May 1, 2020.

(6) Ratio of voting rights acquired

60% as at March 31, 2020

(7) Basis for determining the acquirer

It is based on the fact that the Company acquired the shares in consideration for cash.

(ii) The period for which the operations of the acquired company are included in the consolidated financial statements

From April 1, 2020 to December 31, 2020

(iii) Acquisition cost of the acquired company and related details of each class of consolidation

	Millions of Yen	Thousands of U.S. Dollars
Consideration for acquisition— cash and cash equivalents	¥3,240	\$30,497
Acquisition cost	¥3,240	\$30,497

(iv) Major acquisition-related costs

Advisory fees and commissions ¥419 million (\$3,945 thousand)

(v) Amount of goodwill recognized, reasons for the goodwill recognized, and the method and period of amortization

(1) Amount of goodwill recognized

¥278 million (\$2,613 thousand)

(2) Reasons for the goodwill recognized

The goodwill was recognized because the acquisition cost exceeded the net amount allocated to assets acquired and liabilities assumed.

(3) Method and period of amortization

The goodwill is amortized on a straight-line basis over five years.

(vi) The assets acquired and the liabilities assumed at the acquisition date were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Current assets	¥135,676	\$1,277,072
Non-current assets	47	439
Total assets acquired	¥135,723	\$1,277,511
Current liabilities	¥ 3,234	\$ 30,440
Non-current liabilities	127,552	1,200,598
Total liabilities assumed	¥130,786	\$1,231,038

(vii) Effect on the consolidated statement of income for the year ended February 28, 2021 if this business combination had been completed as at March 1, 2020  
The description is omitted because the estimated amount of the effect was immaterial.

## 20 NET INCOME PER SHARE

Basic and diluted EPS for the years ended February 28, 2021 and February 29, 2020 were as follows:

	Net Income attributable to owners of the Parent		Weighted-Average Shares		EPS	
	Millions of Yen	Thousands of Shares	Yen	U.S. Dollar		
For the year ended February 28, 2021:						
Basic EPS						
Net income	<b>¥17,694</b>					
Net income available to common shareholders	<b>¥17,694</b>	<b>215,813</b>	<b>¥ 81.99</b>		<b>\$0.77</b>	
Effect of dilutive securities						
– Warrants of the Company		<b>39</b>				
– Convertible bonds with stock acquisition rights of the Company						
Diluted EPS						
– Net income for computation	<b>¥17,694</b>	<b>215,852</b>	<b>¥ 81.97</b>		<b>\$0.77</b>	
For the year ended February 29, 2020:						
Basic EPS						
Net income	¥34,150					
Net income available to common shareholders	¥34,150	215,793	¥158.25			
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			

## 21 RELATED PARTY TRANSACTIONS

There were no transactions between the Company and related parties for the years ended February 28, 2021 and February 29, 2020.

Transactions between the Company's consolidated subsidiaries and related parties for the years ended February 28, 2021 and February 29, 2020 were as follows:

(1) Transactions with a subsidiary of the parent company<sup>(\*)</sup> and the Company's other subsidiaries

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
AEON Retail Co., Ltd. (subsidiary of the parent company)			
Loans in banking business	<b>¥32,000</b>	¥34,000	<b>\$301,205</b>
Other assets	<b>47</b>	51	<b>446</b>
Lending of loans	<b>32,666</b>	31,525	<b>307,471</b>
Interest income	<b>294</b>	285	<b>2,768</b>

(\*) 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	2021	2021	2021	2021
Housing loans (Loans in banking business)			¥252	\$2,373

	Transaction amount	Balance at end
	Millions of Yen	Millions of Yen
Directors, executive officers and their close relatives of the Company and its subsidiaries	2020	2020
Housing loans (Loans in banking business)		¥222

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.

## 22 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.

From the year ended February 28, 2021, the statement of income of AEON Allianz Life Insurance Co., Ltd. has been included in the consolidated statement of income, and its operating results are presented in "Retail" segment. Accordingly, the Group has reviewed its management approach to enhance its business management. As a result, some consolidated subsidiaries previously included in "Solutions" segment have been reclassified to "Retail" segment.

The segment information for the year ended February 29, 2020 is restated based on the modified basis of classification.

### (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.

## (c) Information about operating revenues, profit (loss), assets, and other items for each reportable segment

Millions of Yen

	2021							
	Reportable Segment					Subtotal	Reconciliations <sup>(*)</sup>	Total
	Domestic		Global					
	Retail	Solutions	China Area	Mekong Area	Malay Area			
Operating revenues <sup>(1)</sup>								
Operating revenues from customers	¥ 226,946	¥123,570	¥15,564	¥ 73,826	¥ 47,680	¥ 487,586	¥ (277)	¥ 487,309
Intersegment revenue or transfers	3,305	59,149	4	57	—	62,515	(62,515)	—
Total operating revenues	230,251	182,719	15,568	73,883	47,680	550,101	(62,792)	487,309
Segment profit <sup>(*)</sup>	¥ 4,648	¥ 16,615	¥ 4,546	¥ 10,706	¥ 4,178	¥ 40,693	¥ (42)	¥ 40,651
Segment assets	¥4,682,930	¥947,027	¥71,262	¥310,371	¥279,741	¥6,291,331	¥(167,609)	¥6,123,722
Other items								
Depreciation and amortization	¥ 7,184	¥ 14,966	¥ 1,129	¥ 3,678	¥ 2,217	¥ 29,174	¥ 406	¥ 29,580
Amortization of goodwill	1,444	428	—	—	—	1,872	—	1,872
Financial costs	3,410	1,149	544	7,255	9,911	22,269	761	23,030
Provision for credit losses	2,613	24,645	1,165	26,272	16,787	71,482	(76)	71,406
Increases in tangible and intangible assets	7,492	26,473	1,093	1,931	1,847	38,836	671	39,507

Millions of Yen

	2020							
	Reportable Segment					Subtotal	Reconciliations <sup>(*)</sup>	Total
	Domestic		Global					
	Retail	Solutions	China Area	Mekong Area	Malay Area			
Operating revenues <sup>(1)</sup>								
Operating revenues from customers	¥ 183,120	¥119,587	¥18,903	¥ 84,079	¥ 51,916	¥ 457,605	¥ (325)	¥ 457,280
Intersegment revenue or transfers	3,314	62,099	7	42	—	65,462	(65,462)	—
Total operating revenues	186,434	181,686	18,910	84,121	51,916	523,067	(65,787)	457,280
Segment profit <sup>(*)</sup>	¥ 15,011	¥ 23,668	¥ 5,934	¥ 17,061	¥ 6,316	¥ 67,990	¥ (2,920)	¥ 65,070
Segment assets	¥4,341,972	¥902,765	¥82,247	¥324,622	¥293,102	¥5,944,708	¥(163,337)	¥5,781,371
Other items								
Depreciation and amortization	¥ 6,497	¥ 11,355	¥ 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 credit losses	277	20,539	1,283	24,623	15,912	62,634	99	62,733
Increases in tangible and intangible assets	6,252	22,141	1,808	5,608	3,182	38,991	805	39,796

Thousands of U.S. Dollars

	Reportable Segment					Subtotal	Reconciliations <sup>(*)2</sup>	Total
	Domestic		Global					
	Retail	Solutions	China Area	Mekong Area	Malay Area			
Operating revenues <sup>(*)1</sup>								
Operating revenues from customers	\$ 2,136,167	\$ 1,163,118	\$ 146,498	\$ 694,900	\$ 448,798	\$ 4,589,481	\$ (2,605)	\$ 4,586,876
Intersegment revenue or transfers	31,113	556,751	34	537	—	588,435	(588,435)	—
Total operating revenues	2,167,280	1,719,869	146,532	695,437	448,798	5,177,916	(591,040)	4,586,876
Segment profit <sup>(*)3</sup>	\$ 43,754	\$ 156,393	\$ 42,784	\$ 100,775	\$ 39,330	\$ 383,036	\$ (396)	\$ 382,640
Segment assets	\$44,078,784	\$8,914,034	\$670,761	\$2,921,417	\$2,633,107	\$59,218,103	\$(1,577,650)	\$57,640,453
Other items								
Depreciation and amortization	\$ 67,625	\$ 140,873	\$ 10,624	\$ 34,616	\$ 20,868	\$ 274,606	\$ 3,816	\$ 278,422
Amortization of goodwill	13,586	4,032	—	—	—	17,618	—	17,618
Financial costs	32,102	10,813	5,119	68,288	93,291	209,613	7,162	216,775
Provision for credit losses	24,592	231,978	10,968	247,292	158,009	672,839	(716)	672,123
Increases in tangible and intangible assets	70,524	249,177	10,289	18,173	17,388	365,551	6,318	371,869

(\*)1 For segment revenue, the Group uses operating revenues instead of sales, which are used by normal commercial companies.

(\*)2 Details of the reconciliations are as follows:

- (1) A reconciliation to operating revenues from customers of ¥(277) million (\$ (2,605) thousand) and ¥(325) million represent operating revenues of holding company and others included in consolidation unattributable to any reportable segment for the years ended February 28, 2021 and February 29, 2020, respectively.
- (2) A reconciliation to segment profit of ¥(42) million (\$ (396) thousand) and ¥ (2,920) 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 28, 2021 and February 29, 2020, respectively.
- (3) A reconciliation to segment assets of ¥(167,609) million (\$ (1,577,650) thousand) and ¥(163,337) 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 28, 2021 and February 29, 2020, respectively.

(\*)3 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>(\*)1(\*)2</sup>

Millions of Yen

2021				
Japan	Thailand	Malaysia	Other	Total
¥350,146	¥67,058	¥43,236	¥26,869	¥487,309

Millions of Yen

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

Thousands of U.S. Dollars

2021				
Japan	Thailand	Malaysia	Other	Total
\$3,295,802	\$631,194	\$406,964	\$252,916	\$4,586,876

(\*)1 For segment revenue, the Group uses operating revenues instead of sales, which are used by normal commercial companies.

(\*)2 Operating revenues are classified by country or region based on the location of the customers.



## (ii) Property and equipment

Millions of Yen

2021			
Japan	Thailand	Other	Total
¥29,679	¥4,354	¥5,119	¥39,152

Millions of Yen

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

Thousands of U.S. Dollars

2021			
Japan	Thailand	Other	Total
\$279,361	\$40,978	\$48,187	\$368,526

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

Millions of Yen

2021 <sup>(*)</sup>						
Domestic		Global				Total
Retail	Solutions	China Area	Mekong Area	Malay Area	Reconciliations	
¥144	—	—	—	—	—	¥144

Millions of Yen

2020 <sup>(*)</sup>						
Domestic		Global				Total
Retail	Solutions	China Area	Mekong Area	Malay Area	Reconciliations	
¥269	¥5	—	—	—	¥30	¥304

Thousands of U.S. Dollars

2021 <sup>(*)</sup>						
Domestic		Global				Total
Retail	Solutions	China Area	Mekong Area	Malay Area	Reconciliations	
\$1,357	—	—	—	—	—	\$1,357

(\*) These are impairment losses on non-current assets held by holding company and others that are not allocated to any reportable segments.

## (f) Information about goodwill by reportable segment

Millions of Yen

	2021					Total
	Domestic		Global			
	Retail	Solutions	China Area	Mekong Area	Malay Area	
Goodwill at February 28, 2021 <sup>(*)</sup>	¥15,422	¥1,363	—	—	—	¥16,785

Millions of Yen

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

Thousands of U.S. Dollars

	2021					Total
	Domestic		Global			
	Retail	Solutions	China Area	Mekong Area	Malay Area	
Goodwill at February 28, 2021 <sup>(*)</sup>	\$145,162	\$12,828	—	—	—	\$157,990

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

**23 SUBSEQUENT EVENTS****(a) Issuance of unsecured bonds**

On June 24, 2021, the Company issued unsecured bonds pursuant to the resolution at the Company's Board of Directors' meeting held on March 26, 2021. The key information of the unsecured bonds is summarized as follows:

(1) Name	16th Unsecured Bonds (with limited inter-bond pari passu clause)
(2) Total amount of issue	¥30 billion (\$282,380 thousand)
(3) Interest rate	0.27% per annum
(4) Issue price	100% of the principal amount of the bonds
(5) Issue date	June 24, 2021
(6) Maturity date	June 24, 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	June 24, 2021
(9) Use of proceeds	To be applied toward the partial repayment of borrowed money.

**(b) Change in point program**

From September 11, 2021, the Group will change the program for points to be awarded through the use of AEON Mark credit cards (AEON Cards), from "Tokimeki Points" to "WAON Points." The Group will further promote cashless transactions by improving the value and user-friendliness of AEON Cards and responding to the payment needs of customers in a detailed manner.

As a result of this change in the program, points to be awarded through the use of AEON Cards will be unified to WAON Points, which are earned based on the amounts paid in cash or "WAON" e-money at AEON Group stores.

The points earned can be used in units of one point for shopping, making it an "easier to use" points system for

customers. In addition, the benefits of doubling the basic points awarded at any time when using credit and debit cards at specified stores of AEON Group remain unchanged, making it an "easier to earn" points system for customers.

Through this change, AEON Group expects to enhance its sales promotion effects and increase the percentage of customers applying for the points.

The Group, therefore, expects the provision for point program to increase from the second quarter of the fiscal year ending February 28, 2022, while the amount is yet to be determined.



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## INDEPENDENT AUDITOR'S REPORT

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

### Opinion

We have audited the consolidated financial statements of AEON Financial Service Co., Ltd. and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as of February 28, 2021, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, all expressed in Japanese yen.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of February 28, 2021, and its consolidated financial performance and its consolidated 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.

### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Responsibilities of Management and Audit & Supervisory Board Members and the Audit & Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Member of  
Deloitte Touche Tohmatsu Limited

Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Group's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgment. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit & Supervisory Board members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit & Supervisory Board members and the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

**Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan**

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

*Deloitte Touche Tohmatsu LLC*

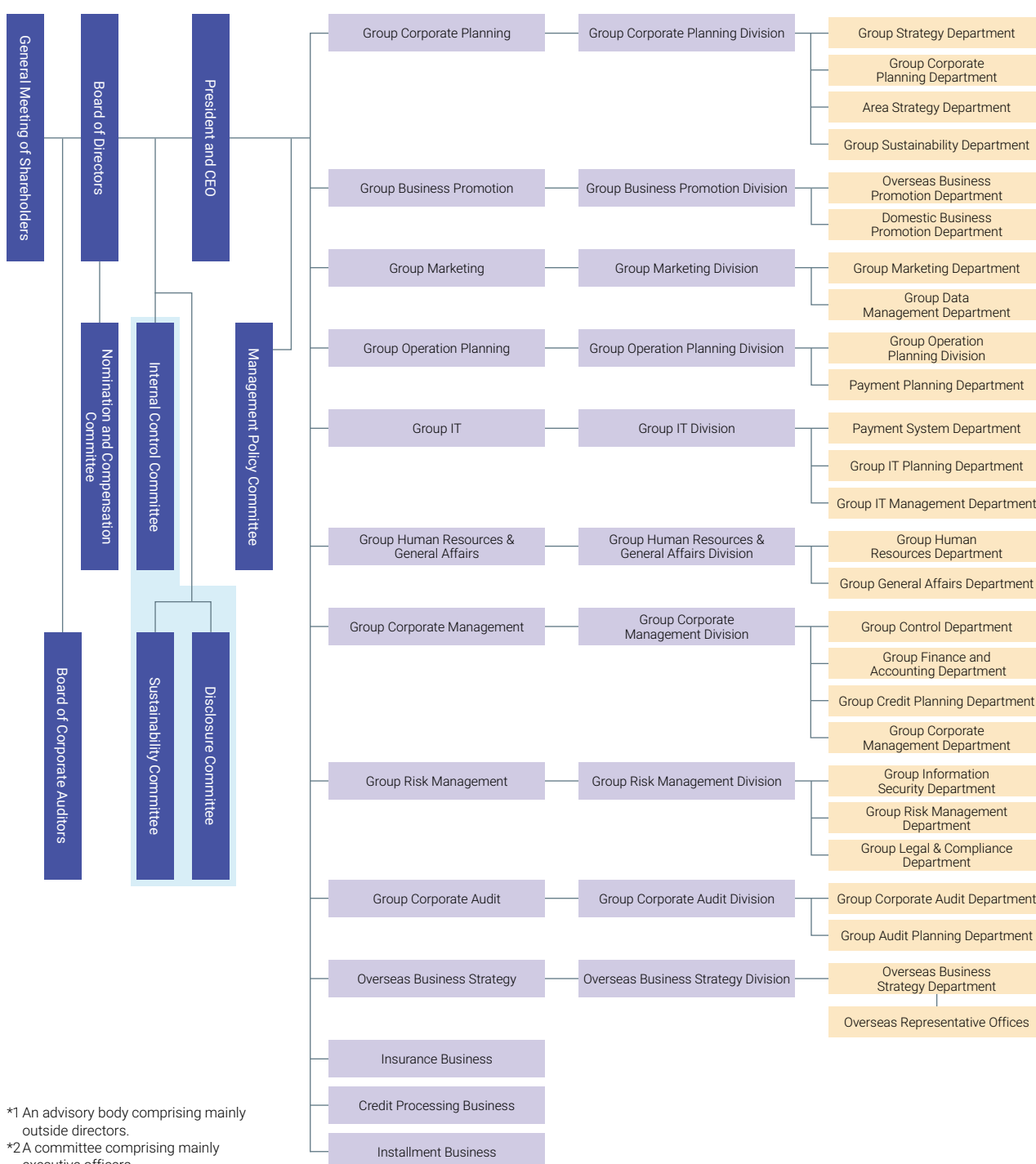
May 21, 2021  
(August 27, 2021 as to Note 23)

# 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 October 26, 2021)



\*1 An advisory body comprising mainly outside directors.  
\*2 A committee comprising mainly executive officers.

# 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 (1.8)	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)	2	–	Management fees, outsourcing fees	Subletting of office premises
AEON Insurance Service Co., Ltd.	Mihama-ku, Chiba	250	Retail	99.0	–	Loans of capital	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	3	Loans of capital	Management fees, outsourcing fees	Subletting of office premises
AEON Allianz Life Insurance Co., Ltd. <sup>4,5</sup>	Chiyoda-ku, Tokyo	17,199	Retail	60.0	–	–	–	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)	1	–	Management fees	–
AEON Credit Service (M) Berhad <sup>4,5,8</sup>	Malaysia	MYR 584 million	Malay Area	61.5	2	–	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 15 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)	–	–	Management fees	–
AEON Credit Service Systems (Philippines) Inc.	Philippines	PHP 650 million	Holding Company or Other	100.0	–	–	–	–
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 124 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)	–	–	–	–
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 3,500 million	Malay Area	99.1 (99.1)	–	–	–	–
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)	–	–	–	–
(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., AEON Allianz Life Insurance Co., Ltd., 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

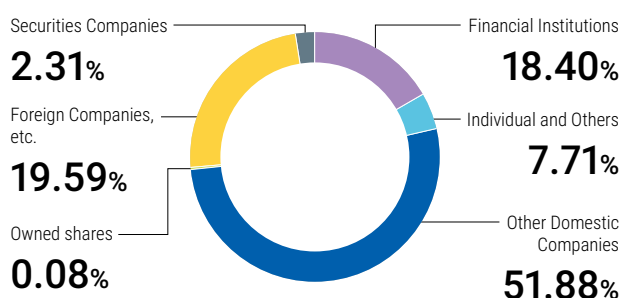
## Basic Share Information

(As of February 28, 2021)

Stock Listing	Tokyo Stock Exchange
Industry Sector	Other Financing Business
Securities Code	8570
Share Unit	100
Fiscal Year	March 1 to February 28 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	28,386

## Shareholding Ratio by Type of Shareholder

(As of February 28, 2021)



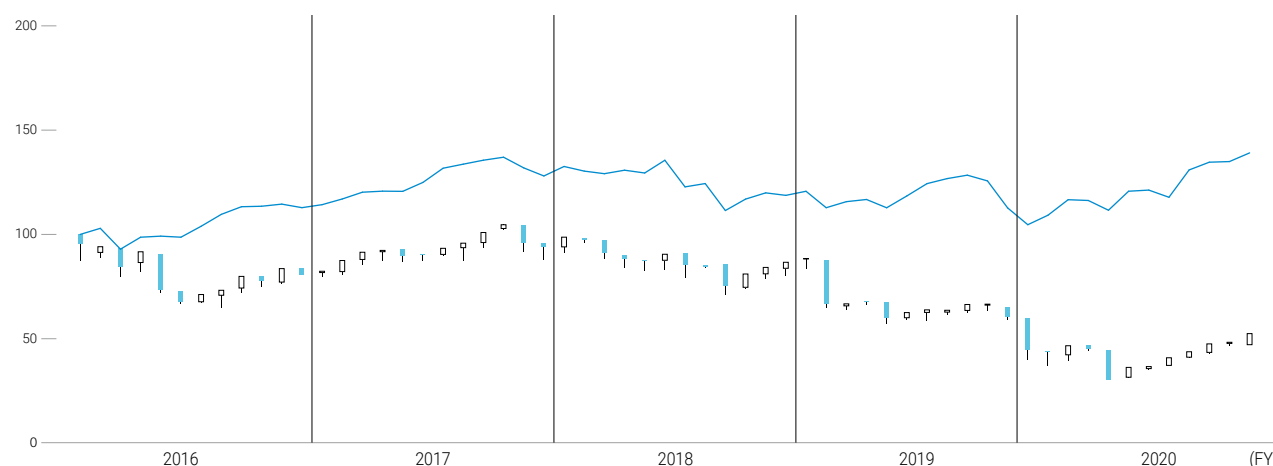
## Major Shareholders

(As of February 28, 2021)

Shareholder Name	Shares Held (Thousands)	Percentage of Total Shares Held (Excluding Treasury Stock) (%)
AEON Co., Ltd.	103,776	48.08
The Master Trust Bank of Japan, Ltd. (Trust Account)	10,493	4.86
Custody Bank of Japan, Ltd. (Trust Account)	5,989	2.77
Custody Bank of Japan, Ltd. (Trust Account 9)	5,180	2.40
STATE STREET BANK AND TRUST COMPANY 505223	4,620	2.14
STATE STREET BANK AND TRUST COMPANY 505103	3,176	1.47
Maxvalu Nishinohon Co., Ltd.	2,646	1.22
JP MORGAN CHASE BANK 385632	2,546	1.17
Custody Bank of Japan, Ltd. (Trust Account 5)	1,915	0.88
J.P. MORGAN BANK LUXEMBOURG S.A. 380578	1,872	0.86

Note: In addition to the above, the Company holds 179,000 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 2016 as 100.

	Fiscal 2016	Fiscal 2017	Fiscal 2018	Fiscal 2019	Fiscal 2020
Market capitalization (Billions of yen)	472.8	551.3	508.0	330.7	<b>294.6</b>
High (Yen)	2,790	2,914	2,785	2,329	<b>1,601</b>
Low (Yen)	1,689	2,067	1,849	1,493	<b>793</b>

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

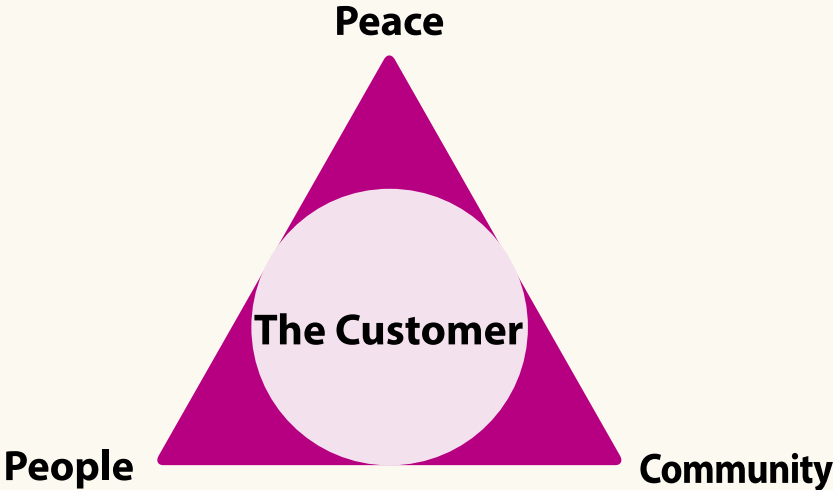


# About the AEON Group

## AEON Basic Principles



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



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

Aeon Basic Principles are the following:

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

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