



Planting Seeds of Growth
We are AEON

Annual Report 2021

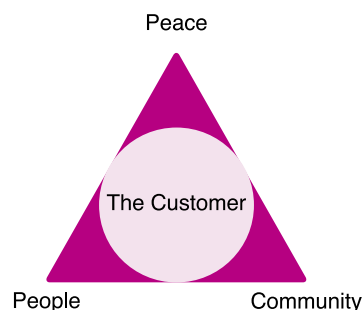
For the year ended February 28, 2021



AEON Financial Service

Philosophy and Policy

AEON Basic Principles



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

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

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

Aeon Basic Principles are the following:

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

Management Philosophy

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

Basic Policies

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

Editorial Policy

AEON Financial Service publishes the Annual Report to provide shareholders, investors, and other stakeholders with information on its initiatives to generate sustainable growth in corporate value. The report includes financial information, as well as non-financial information on environmental, social, governance (ESG) and other issues. The objectives of the annual report are to help readers understand our ideals and maintain an ongoing dialogue with them. In addition, our website, corporate video, and other media disclose information so that readers can deepen their understanding of the Company.

Scope of Report

Organization: AEON Financial Service Co., Ltd. and its consolidated subsidiaries

Period: Fiscal 2020 (March 1, 2020 - February 28, 2021) (Some information is more recent)

Guidelines Referenced

International Integrated Reporting Framework, International Integrated Reporting Council (IIRC) (December 2013)

Sustainability Reporting Guidelines, Global Reporting Initiative

Forward-Looking Notes

Note to Reader

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

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

The performance, etc. to be performed may fluctuate due to these various factors.

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Website Guidance

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

Corporate Information

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



Shareholder and Investor Information

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



Sustainability Information

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



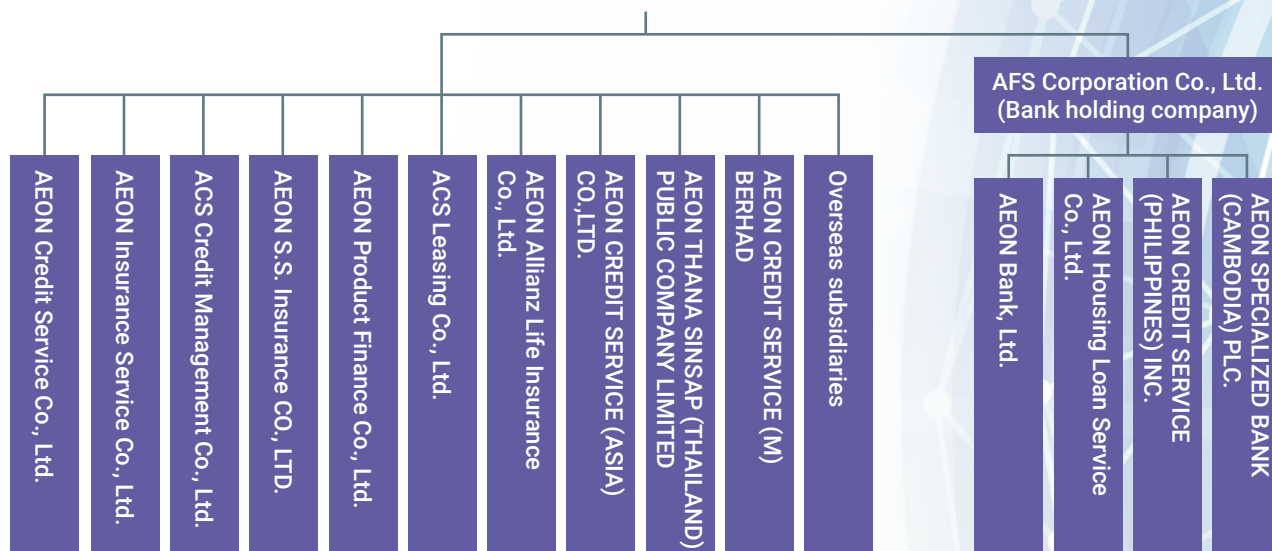
About AEON Financial Service

Who We Are

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



AEON Financial Service Co., Ltd.



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



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



For an overview of the AFS Group, please refer to AFS at a Glance on page. 20.

History

In 1980, our predecessor, Nihon Credit Service Co., Ltd., was established as a company that issued proprietary JUSCO credit cards to customers of JUSCO Co., Ltd. (currently AEON Co., Ltd.). Since then, we have made use of the AEON Group's sales network to expand business as a comprehensive financial group that focuses on credit cards to provide banking, insurance, and other financial services. Through such efforts, we have continued to grow while providing new value to customers and keeping our eyes trained on the changing times and operating environment.

1995

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

1996

Shares listed on the Second Section of the Tokyo Stock Exchange

1996

Established ACS Credit Service (M) Sdn. Bhd. (currently AEON Credit Service (M) Berhad) in Malaysia

2000

Began issuing the AEON Card



2001

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

2003

Began issuing the AEON Gold Card, the industry's first credit card with no annual fee



HISTORY

1980

Began issuing the JUSCO Card



1981

Established Nihon Credit Service Co., Ltd.

1987

Opened Hong Kong branch, beginning overseas operations in Asia

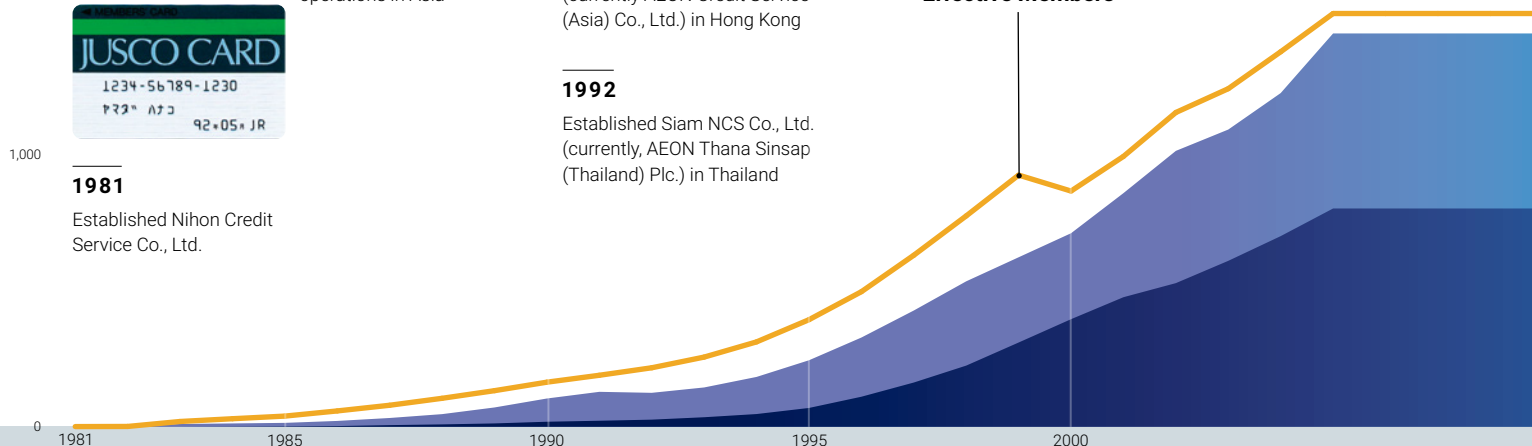
1990

Established Nihon Credit Service (Asia) Co., Ltd. (currently AEON Credit Service (Asia) Co., Ltd.) in Hong Kong

1992

Established Siam NCS Co., Ltd. (currently, AEON Thana Sinsap (Thailand) Plc.) in Thailand

Number of Consolidated Effective Members



PROVIDING VALUE

1981-

Launching the card shopping business

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



RELATED SOCIAL MOVEMENTS

The proliferation of credit cards

1987-

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

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



The bubble economy and contraction of the Japanese market

2007

Shares of AEON Credit Service (M) Berhad listed on the Malaysian stock exchange

2007

Began operations of AEON Bank, Ltd.



2009

Began issuing AEON Card Select, a single card that functions as a credit card, cash card, and e-money

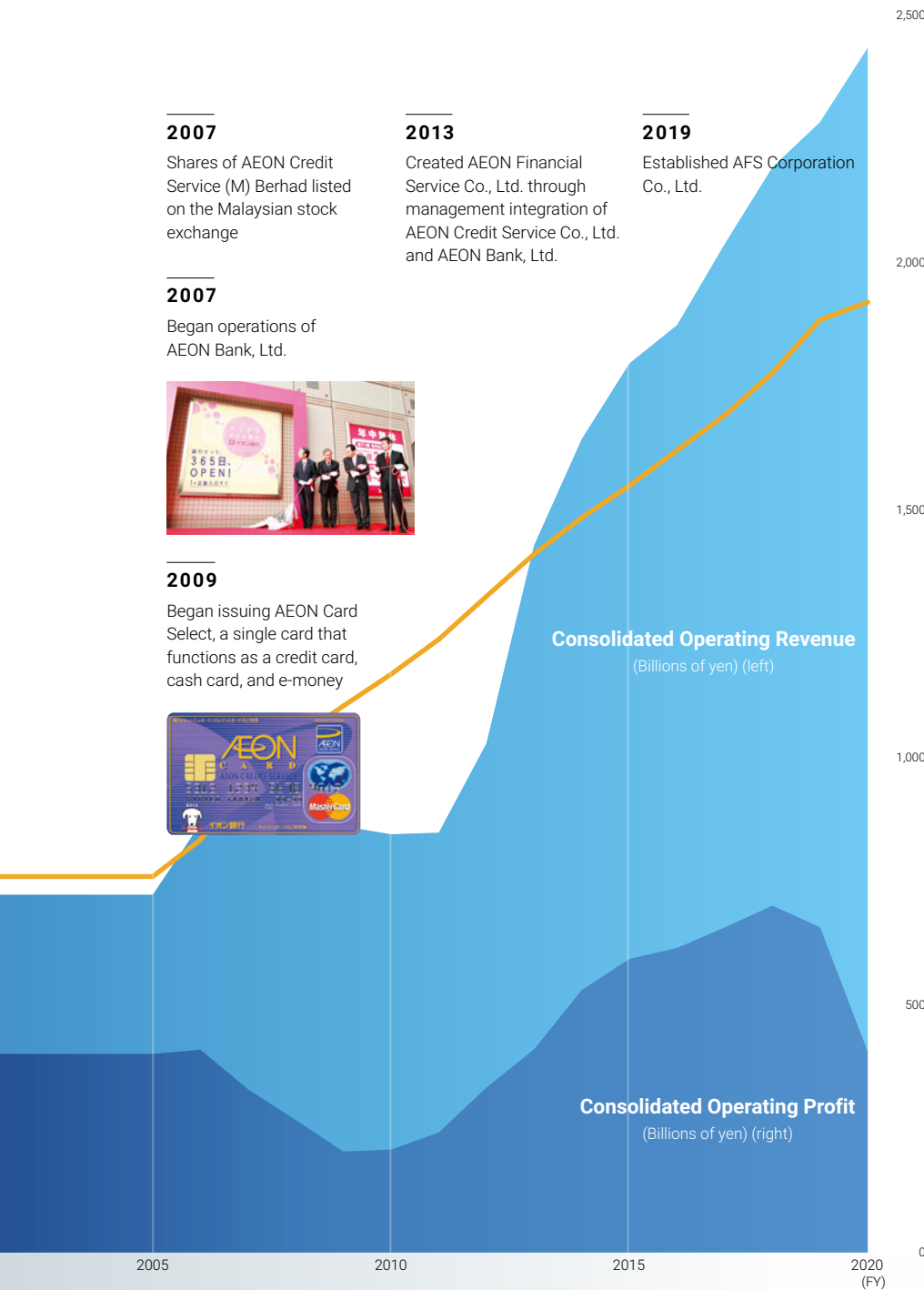


2013

Created AEON Financial Service Co., Ltd. through management integration of AEON Credit Service Co., Ltd. and AEON Bank, Ltd.

2019

Established AFS Corporation Co., Ltd.



FISCAL 2020 RESULTS

Transaction Volume

¥ **9,586.9** billion

Consolidated Operating Revenue

¥ **487.3** billion

Consolidated Operating Profit

¥ **40.6** billion

Cardholders

46.13 million
cardholders

2007–

Offering total support suitable for customers' lifestyles and life stages

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



Diversification of lifestyles and ease of restrictions

2019–

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

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



Changes in the financial industry due to entering different businesses

Our Strengths

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

Overseas Expansion

Active Overseas Development

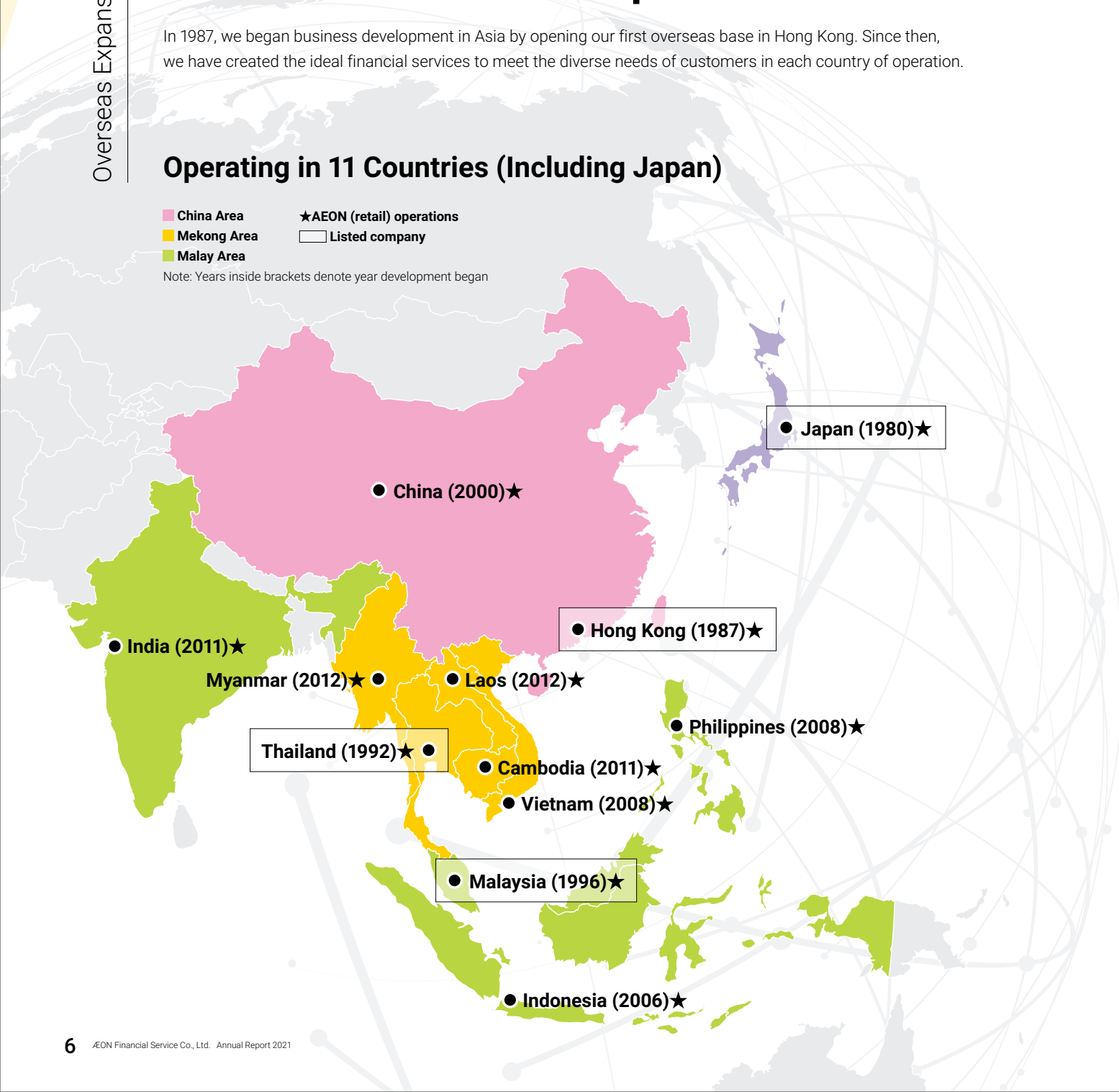
In 1987, we began business development in Asia by opening our first overseas base in Hong Kong. Since then, we have created the ideal financial services to meet the diverse needs of customers in each country of operation.

Operating in 11 Countries (Including Japan)

China Area
Mekong Area
Malay Area

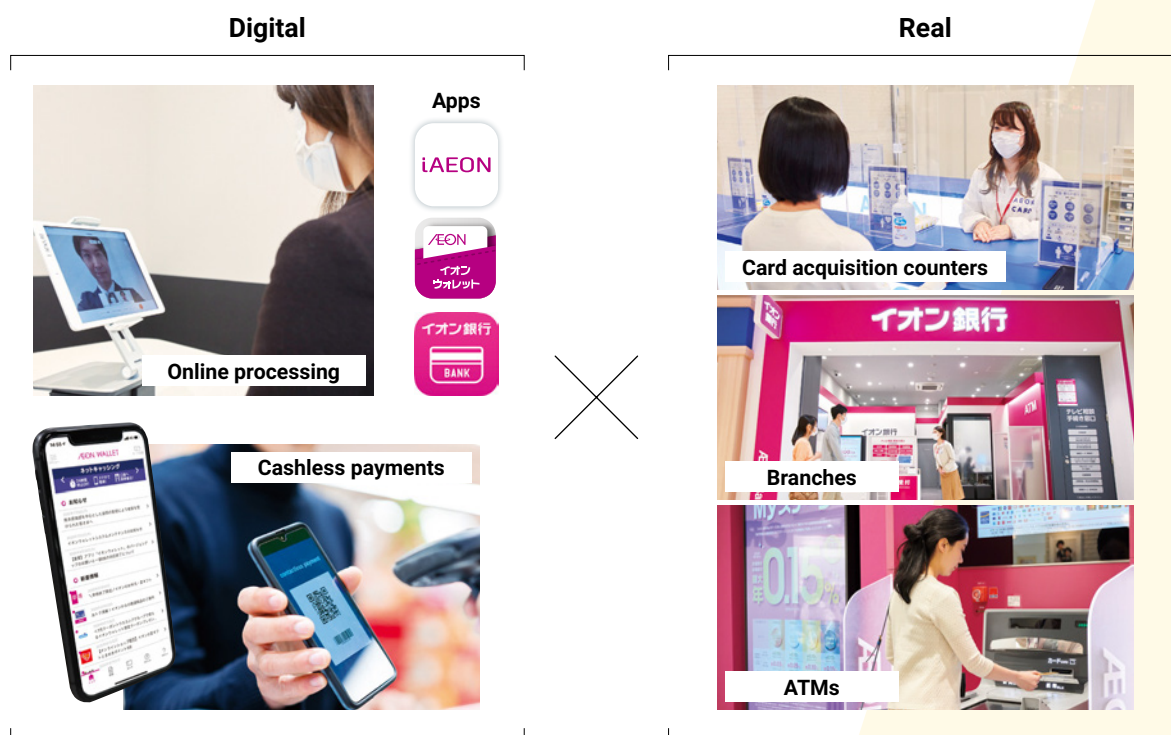
★AEON (retail) operations
◻ Listed company

Note: Years inside brackets denote year development began



The Fusion of Digital and Real

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



Comprehensive Financial Services for Any Lifestyle

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

Expenditure  <p>Credit cards, debit cards, and WAON electronic money</p>	Saving  <p>Deposit services</p>	Borrowing  <p>Cash advances, various types of loans, etc.</p>
Investment  <p>Investment trusts, foreign currency deposits, etc.</p>	Preparation for the Future  <p>Insurance services, etc.</p>	Asset Management  <p>AEON WALLET, bankbook app, etc.</p>

Value Creation Process

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

External Environment and Social Issues Affecting the Company

External Environment

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

Social Issues

Overseas

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

Domestic

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

Capital Usage

AEON Brand Strength



Group employees

Approx. **570,000**

Stores

19,288

Ranking in the domestic retail industry

No.1

Network

Countries served

11

Sales offices

636

Financial Capital

Consolidated total assets

¥6,123.7 billion

Consolidated equity

¥401.4 billion

Human Capital

Employees

17,611

(Ratio of global Group employees: 73%)

Customer Base

Cardholders

46.13 million

(As of February 28, 2021)

Company Strengths

Active Overseas Development

The Fusion of Digital and Real

Comprehensive Financial Services for Any Lifestyle

Management Base

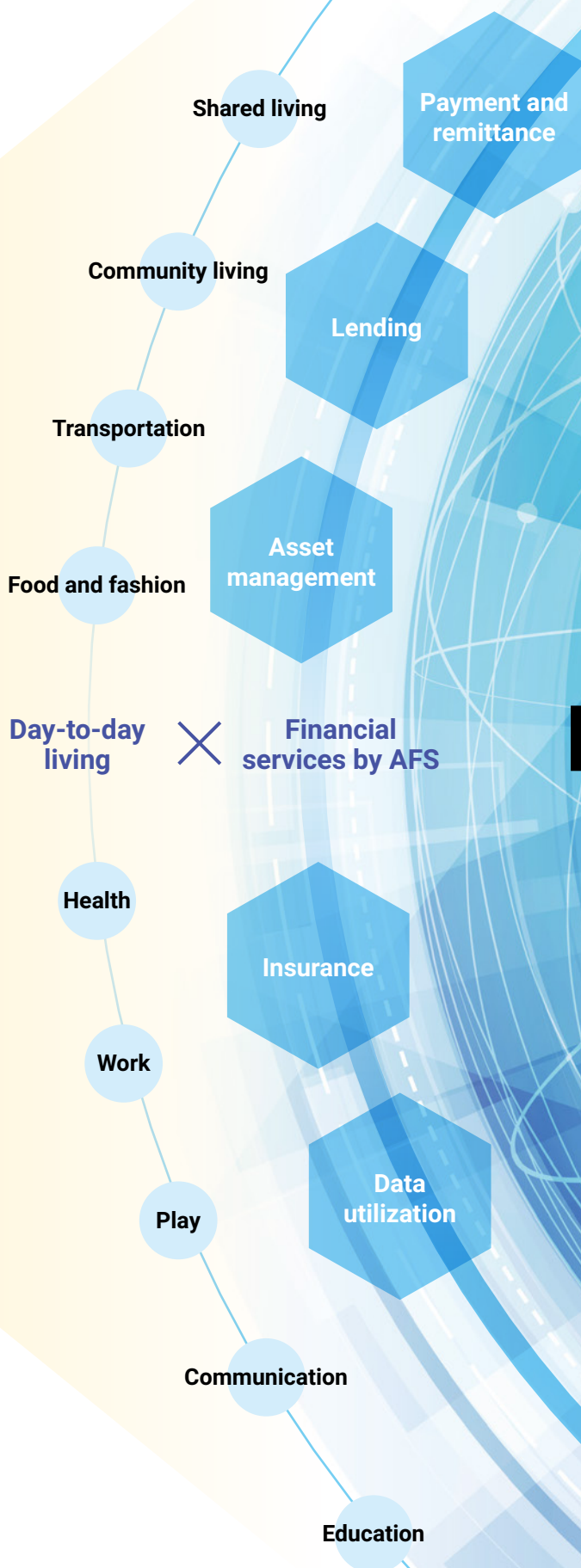
Basic CSR Policy

Human Resource Strategy

Corporate Governance

Internal Control System

Management Philosophy and Basic Policies



OUR VALUE

Beyond Finance

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

The Medium-Term Management Plan

Background to Formulating the Medium-Term Management Plan

The business environment surrounding the AFS Group has gone through drastic change. In Japan, the competitive environment and competitors themselves have changed with the promotion of cashless payment and the influx in financial markets of new players and platforms from other industries, such as telecommunications.

In Asia, a region that has seen exceptional economic growth, needs are changing as customers' standards of living rise and smartphones are becoming more widespread at a remarkable rate. If we are to remain the financial service

provider of choice amid conditions such as these, we must introduce digital technology without delay.

Against that backdrop, the Group has formulated a medium-term management plan, covering the period from fiscal 2021 to 2025, that puts customers first to create a business model that can provide optimal financial services to customers when they need them. We have positioned the period of this plan as our "second founding," rooted in "value chain transformation and new network creation."

Our Aspirations for the Medium-Term Management Plan

Current Group Conditions

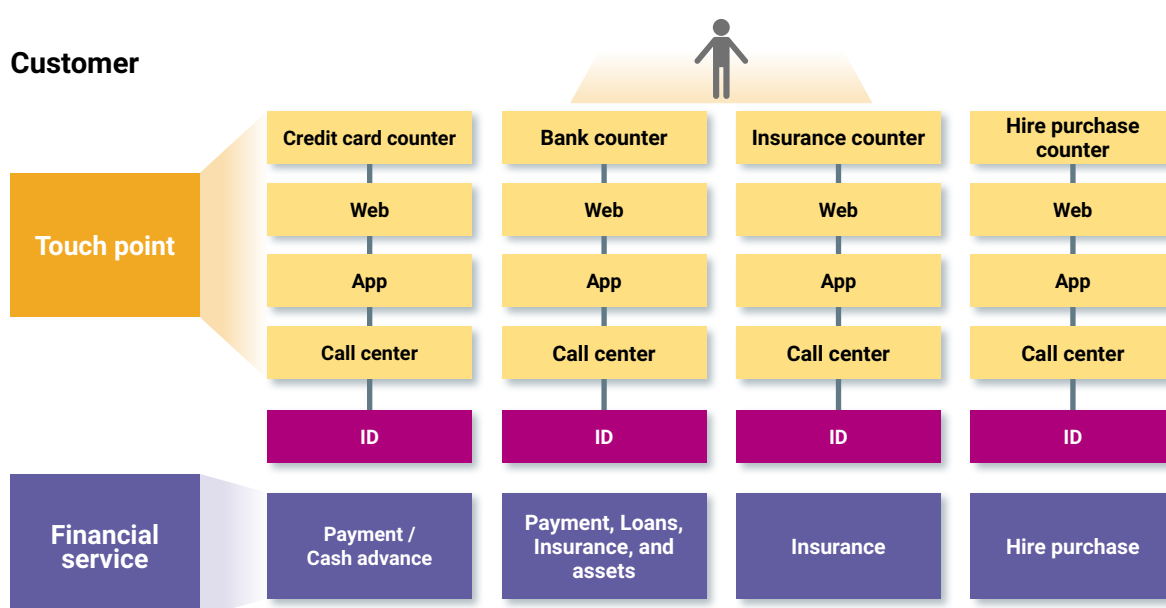
To date, customers have considered their financial needs on their own, approached the Group through its sales channels, and made use of its services. In addition, each Group company has sought to maximize profits by providing optimal services for individual customers based on the Group's independent and autonomous management policy.

Customer Approach to Date: Sales of Financial Products



Our Business Model to Date

Customer



Policy of Medium-Term Management Plan

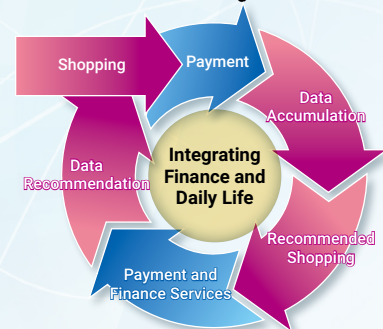
Our Second Founding— Value Chain Transformation and New Network Creation

Build a living area (marketplace) by connecting the services of the AEON Group and its partners with financial services such as payment and point systems

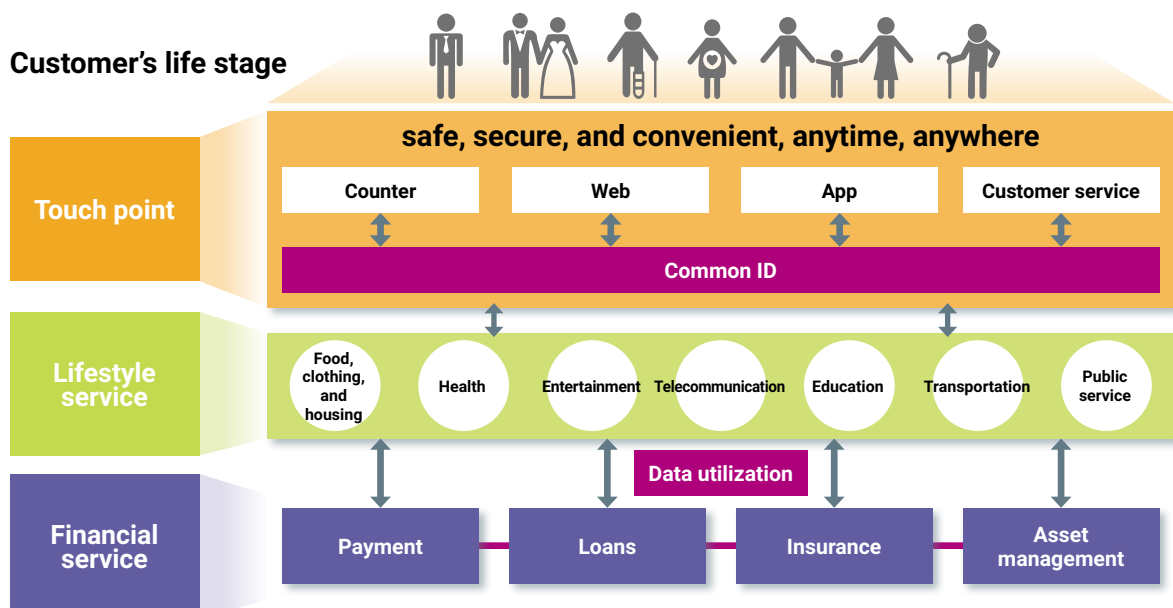
Our Vision for the Group

Going forward, we will anticipate customers' new financial needs and provide personalized services. We have an overwhelming advantage in this endeavor in the form of data and expertise accumulated from our in-person stores and other customer contact points in Japan and overseas. We will put this data to full use to build a platform that balances the digital and the real and to provide services that are "safe, secure, and convenient, anytime, anywhere."

Customer Approach Going Forward:
Provision of Financial Services when Customers Need Something Done



Our Business Model Going Forward



Main initiatives

Domestic Business



1

Creating Infrastructure for the Construction of AEON Living Area

One of the growth strategies of the AEON Group is to create AEON Living Areas and to combine the comprehensive capabilities of each Group company to enrich the lives of customers through the seamless provision of products, services, and living infrastructure rooted in the local community. The AFS Group plays a role in creating infrastructure that connects these AEON Living Areas with financial services. As part of these efforts, the AEON Group is collaborating with us to provide payment methods that can be used “safely, securely, and conveniently, anytime, anywhere,” while also working on “Group-based cashless promotion,” which positions our payment services, such as AEON Cards as the main payment methods. Furthermore, we will analyze the service usage information accumulated through these initiatives and leverage the sales base of each Group company to establish a system that can provide personalized services to individual customers in a timely manner, through both digital and analog methods. In doing so, we will achieve dramatic increases in both the volume of transactions and the number of card-holders and will expand cross-sales to each of the Group’s businesses, which include health promotion insurance and other insurance-related businesses.

2

Fulfillment of the Living Infrastructure Needs of Local Customers

We are working to support local governments with local currencies and regional gift certificate issuance projects and to meet needs related to health, telecommunications, and other essential daily life matters. These efforts will provide local customers with a wide range of opportunities to use the services available at AEON Living Areas, helping them realize enriching lifestyles where they can receive services that are “safe, secure, and convenient, anytime, anywhere.”

3

Increase of Risk and Cost Control Capabilities

In addition to enhancing credit and receivables management through scoring that utilizes AI, we will work to expand our base of customers that provide financial services. Furthermore, we will review both real and digital customer contact points related to financial services and provide flexible services according to customer needs, such as one-stop and online customer services and unmanned stores. We will also review head office functions that support the implementation of priority measures under our current medium-term management plan, optimize resource allocation throughout the Group, and improve the accuracy of our risk and cost control capabilities.

Global Business



1

Implementing Digital Financial Inclusion in each Country

Digital financial inclusion is a priority measure for governments in Asian countries where we are developing Group business. Therefore, we are working to increase convenience for our customers with efforts toward early offerings of apps and digital products, in addition to digitalizing existing services. Similar to our efforts in Japan, we will also draw on our networks of AEON Group companies and business partners to build AEON Living Areas in these Asian countries.

2

Expansion of Business, Products Offered, and Expansion Areas

In leading developing countries such as Thailand and Malaysia, where there are growing numbers of high-income earners, we will expand our lineup—from the financial products centered on installment payments and loans that we have offered up to now to insurance products and asset management services—as a response to the diversification and sophistication of our customers. Furthermore, we will make concerted efforts to expand our portfolio by diversifying our business through connections with leading partners. Moreover, in developing countries such as Vietnam that are in a newer stage of growth, we will pool our business expansion expertise to expand services that can enrich the lives of our customers.

3

Area Strategy Planning that Responds to the Differences in Needs between Cities and Regions

We will look closely at each country and area in which we operate and identify customer needs, demographics, and the differing impacts of the COVID-19 pandemic in respective cities and industries and provide optimal services in an optimal manner, tailored to the characteristics of the individual country and area.

Enhancing Our Business Foundation in Japan and Overseas

Common issues in promoting these efforts in both our domestic and international business activities include the establishment of governance systems related to IT and systems, the development of human resources, such as management and IT specialists, and the establishment of business models that prioritize sustainability. To achieve sustainable growth, in addition to our efforts in Japan and overseas, we also need to take steps to adopt a long-term, ESG-based perspective and incorporate solutions to

environmental and social issues on a global scale as part of our management strategy. We then need to put those solutions into practice. From this standpoint, we will use financial services as a means to tackle the various issues facing local communities that come with climate change, poverty, and declining birthrates and aging populations while working to expand our business. In doing so, we will reinforce the effectiveness of our medium-term management plan.

We will take the greatly changing landscape as an opportunity to transform our value chain, making even greater strides forward.

Fiscal 2020—Every Anticipated Change in a Single Year

The spread of COVID-19 in fiscal 2020 caused a significant transformation in customer needs and behavioral patterns. As a result, other changes—ones that we had anticipated happening several years down the line—also occurred within this same year. Specifically, self-quarantining and stay-at-home measures prompted a whirlwind transition toward digital technology and online activities. The payments sector, one of our main businesses, also saw a rapid shift toward cashless payment.

This shift could be seen in our banking and insurance businesses, both of which are part of our Domestic Business, where we expanded services such as our online reservation systems for branch visits and our video consultation and processing desks. We also introduced remote services for these businesses. Additionally, COVID-19 has created the need for avoiding close contact. In response, we increased the number of credit cards issued with touch payment functions. In our Global Business, the demand in each country of operation for online capabilities prompted us to develop and provide appropriate products and to digitalize our services. We are also taking steps to improve business surrounding receivables. These steps include using AI, both to refine credit screening and build a debt collection system for each of these countries, which will reduce the ratio of delinquent receivables.

These are some of the ways we have ramped up our previous Groupwide effort toward digital transformation (DX), but while we have worked to keep ahead of changing customer behaviors with these measures, there may still be areas where they have fallen short in addressing the longer-than-expected spread of COVID-19 and changing customer lifestyles.

Transformation of Our Value Chain Anew and Advancement of our AFS Ecosystem

Changes in the external environment are not just limited to changes in the lives of our customers. As the AEON Group's comprehensive financial business, we are committed to providing financial services to customers, particularly those who shop at AEON Group retail stores, and maximizing profits. However, the competitive environment around the financial

industry is changing. What was once a competition of company versus company is now one of platform versus platform, meaning we must pursue a business model that uses the entire AEON Group as its platform. If we cannot do this, there is a real danger that we may not be able to survive.

When you step back and look at a value chain that provides financial products, you realize that we are past the age when you could build a complete value chain with a single company. Up to this point, we have endeavored to build an "AFS ecosystem," aimed at being the most familiar of its kind in Asia. This ecosystem was to have a value chain centered on AFS's own businesses, but going forward, we need to build a platform that goes beyond our financial products, services, and customer base. From that perspective, we must transform our value chain anew and advance our existing AFS ecosystem.

The Medium-Term Management Plan—Our "Second Founding"

For a value chain to address the future business environment in the way I have mentioned, it needs to have some involvement in the stages prior to when a financial need appears, and there needs to be a way to understand what kinds of products and services are required to address this need. Therefore, instead of passively waiting for customers to come to us for products and services as we have done in the past, we will take more of a market-in approach and utilize a complex business model created with the AEON Group and our business partners to approach customers.

We will also make online-merge-offline (OMO) the post-COVID-19 norm. As part of this effort, we aim to provide financial services that offer a seamless online and offline experience. To accomplish this, it is important that we work with stakeholders that provide upstream services while creating a horizontally integrated network.

Consequently, the basic policy of our current medium-term management plan is "value chain transformation and new network creation." Under this policy we are setting out to create a more complex value chain and build a marketplace. In other words, we are treating this plan as our "second founding."



Kenji Fujita

President and CEO

Utilization of the Group's Strengths to Create a Financial Infrastructure for AEON Living Areas

In the Domestic Business, we will draw from the aforementioned basic policy to create the most convenient and affordable financial infrastructure possible for AEON Living Areas. This means providing the most convenient and affordable payment methods and connecting all the products and services offered by AEON Group companies. With these efforts, we will make the AEON Group go cashless.

Up until now, it cannot be said that we at AFS have fully taken advantage of the AEON Group's resources, nor can it be said that the AEON Group has taken full advantage of the resources AFS has as a financial business. The AEON Group's strength lies in its physical contact points across Japan. This is an advantage that other platforms do not have. We will

provide new cashless services at AEON Living Areas to maximize the resources of the AEON Group.

As a first step, we changed the type of points that can be earned from using AEON Cards to WAON points, starting from September 11, 2021. In the same month, AEON also introduced iAEON, AEON's all-in-one app. We have been working to develop this app as a platform, enabling functions such as code payments.

We have another challenge on our hands, namely expanding our insurance business through cross-selling in AEON Living Areas. To meet the needs of the customers who frequent AEON Living Areas, we will conduct proxy sales of products for other life insurance and non-life insurance companies. With the addition of AEON Allianz Life Insurance Co., Ltd. to the AFS Group in fiscal 2020, we will also provide

group creditor insurance developed by that company as well as products we are planning for the future, such as insurance centered on promoting health. Regarding the last type of insurance, we plan to differentiate ourselves from the competition by appealing to the increasing health consciousness of customers through app development and other means.

In addition, we will deepen our ties with stakeholders such as AEON Group companies, external partners, and local public organizations in order to reach a wide range of customers outside of AEON Living Areas. Traditionally, the AEON Group has collaborated with local governments in Japan and overseas to make various efforts as part of the local community and is recognized as a local lifeline in the event of an emergency. Expanding on these efforts when times are calm and deepening our relationships with these local governments can help create an AEON Living Area. To this end, we have started businesses that involve issuing local currencies and gift certificates produced by local governments. I believe that helping these local governments grow and being mindful of our existence as a corporate group rooted in these areas will help AFS grow as well. Therefore, we will continue working actively to deepen our ties with local governments and communities.

The Global Business—Operating in Countries with Huge Potential for Growth

In the Global Business we will promote initiatives that expand our business, products, and areas of development. We have established a foundation for the Global Business in Thailand, Malaysia, and Hong Kong, and the local subsidiaries in each

country and region are listed and have grown to the point where they can generate stable profits. In these countries and regions, customers previously demanded payments for living expenses and durable consumer goods, but this has shifted to demand for saving and preparing for the future in forms such as insurance products and asset management. I believe that there is room for dramatic growth by expanding our portfolio of financial products to reflect these changing needs. In addition, Vietnam, Indonesia, Cambodia, and the Philippines are in their early stages of growth and, therefore, have high potential for economic growth. We expect our business to expand in these areas. Our focus will be on a business model that takes advantage of the growth in each area by getting a grasp of their respective financial needs and then applying our cultivated know-how and experience to meet these needs while also investing resources toward expansion.

Digital financial inclusion is another important measure for each of these countries. While the rate of progress varies depending on the country, customers are moving beyond computers to embrace smartphones as their digital environment. As part of this rapid change, there have been several breakthroughs, and unicorn companies aiming to create platforms are utilizing digital technology to create new social infrastructure. Southeast Asia has shown remarkable development in this regard. When I was assigned to work in Malaysia, I bore witness to the rapid spread of ride-sharing apps and the rapid growth of the companies that make these apps.

These unicorn companies aiming to create platforms are creating new financial systems one after another by providing apps that link their services with financial services. While this is an area with huge potential for market growth, app development is not a big business in and of itself. What is important is cross-selling in combination with a variety of services. We are developing an app that brings together financial products such as banking services, credit cards, and insurance and makes it possible to complete all related procedures via smartphone. Instead of focusing on our services alone, we want to build a network with companies that provide a variety of services in each country and region and cultivate this network into an app that will be able to provide these services seamlessly.

Balancing of Concentrated and Decentralized Authority with Emphasis on Independent Operations in Each Country

Our medium-term management plan stipulates a 60:40 operating profit ratio between the Global Business and Domestic Business, and in fiscal 2021 we appointed directors with abundant overseas work experience and knowledge. Since global standards currently demand a higher level of corporate governance and sustainability, we would like to facilitate



speedy decision-making in these areas. With international standards being applied to the Tokyo Stock Exchange's governance standards, we will take steps to comply with both international and domestic standards. At the same time, we will use our management capabilities to the fullest to conduct monitoring as a pure holding company and to distribute management resources, improve organizational strength, and reorganize our portfolio as an operating holding company.

We will also ensure that Groupwide management functions effectively while stressing the independence of each region. The benefit of an overseas subsidiary becoming a listed company is that it increases local recognition and corporate value while increasing the autonomy of management. I believe that the listing of these companies has great significance to the AFS Group as a whole for raising funds and acquiring talented human resources. Regarding the parent-child listing of AEON Financial Service Co., Ltd. and AEON Co., Ltd., we will navigate the differences between the retail and finance industries to conduct business with a sense of responsibility to our shareholders and will enhance governance in a way that ensures our own independence.

In fiscal 2021, we have worked to increase the sophistication of our governance system. In recent years, events that AFS cannot control, such as natural disasters and the COVID-19 pandemic, have been on the rise. To build a corporate structure that can mount a flexible response to unforeseen circumstances, we have acquired ISO 22301 certification and conduct regular training. Risks that are particularly relevant to the AFS Group range widely, from the risk of leaking customer information, to IT risks, to country-specific risks. Because of this, we conduct risk management to ascertain the business risks that need to be addressed in order to ensure medium- to long-term corporate growth.

Sustainability Management from a Long-Term Perspective

In recent years, smartphones have become a vital commodity. Not only are they a means of communication, but in the Asian countries where we operate, they are an essential item for earning a higher income. I believe that providing financial services linked to smartphone purchases will not only contribute toward the lives of customers but will also allow us to contribute toward social development through our business activities. Looking at things from a long-term perspective, we will need to clarify the environmental and social issues facing stakeholders who make use of AEON Living Areas and work to resolve them. One kind of value we can provide to resolve these issues is in our financial services that make use of our customers' trust. Take the countries and regions where we operate as an example. There are a variety of social issues in these places, but one common to all of them is an

underdeveloped social infrastructure. Obtaining a form of mobility is essential for reaching a certain level of income in these countries and regions. Providing mobility has a strong significance socially, and when I was assigned to work in Malaysia, my focus was on financial services connected to this very thing. About 30% of registered motorcycles in Malaysia were purchased using these financial services, helping create employment opportunities and improving the standard of living for our customers. In the future, we will look to countries where insurance has a low penetration rate and there is no access to basic insurance services and work to alleviate their concerns regarding money and health and provide insurance within their reach. These and other efforts are examples of the financial services we want to propose and provide in order to help customers of AEON Living Areas lead richer lives. To support these efforts, we will promote sustainability management that resolves a variety of social issues while leading to the sustainability of the Company.

I believe that we can demonstrate our synergies even further by working with the entire AEON Group to deal with climate change. We are also making efforts to reduce carbon output through our financial services, one of which involves the AEON Card Select card, a card issued by AEON Bank, Ltd. that is a combined cash card and credit card with e-money functions. We are making the switch to recycled materials for the plastic used in these cards. As another initiative, we will work with external housing companies and car dealerships to provide loan packages that combine loans for constructing carbon-neutral housing and for electric vehicles.

The Active Participation of Employees— A Vital Part of Building a Marketplace

In our marketplace, we will anticipate customers' financial needs and provide personalized services. To make this a reality, we need employees to think about where a customer's anxieties, skepticism, and dissatisfaction lie, and how to put these to rest. For this reason, we expect to take an active part in business and management, as opposed to relying on a top-down structure.

Fiscal 2020 was a year of reflection, as existing businesses failed to achieve stable growth amid major changes in the environment. At the same time it also brought to light issues that management needs to tackle in order to spur innovation and creativity. From fiscal 2021 onward we will execute our medium-term management plan to create a new value chain while addressing the changing landscape. In addition, we will pursue businesses aimed at solving social issues faced by stakeholders, such as changes in customer value systems in a post COVID-19 society, and aim to increase corporate value. I ask for your continued support as we move forward with these efforts.

CFO Message

We aim to build a financial base that will help raise corporate competitiveness.

Tomoyuki Mitsufuji

Director and Senior Executive Officer
Group Corporate Management,
Group Risk Management



Our Financial Policy and Funding

2021 marked the 40th year since the founding of AEON Financial Service. The business areas where we operate in Japan expand with each passing year while becoming increasingly complex at the same time. Our business structure is centered in banking and similar asset-related businesses, but loan periods differ for each country and product, as do the dips and swells for funding demand. This has made securing funds in a manner tailored to each case an issue. As a parent company to 32 subsidiaries in Japan and overseas, we employ a system in which we secure funds all at once and then loan to these subsidiaries while properly monitoring each of their funding demands. We utilize a variety of methods to raise these funds that include bank deposits and loans, bond issuance, and securitization of receivables while keeping a close eye on the market environment in the process.

We have also worked to reform our business portfolio by expanding our sources of fee-based revenue that does not depend on assets. This process has involved enhancing insurance sales and other asset management businesses that take advantage of investment trusts and agencies as well as strategic investments, such as investing in the development of apps that will promote cross-selling to Group businesses. The COVID-19 pandemic has also created the need to provide services that avoid face-to-face interaction and contact. To facilitate this shift, we continue to make investments in digital transformation (DX).

Results and Financial Standing for Fiscal 2020

Consolidated operating revenue increased 6.6% from the previous fiscal year, to ¥487.3 billion, while consolidated operating profit was down 37.5%, to ¥40.6 billion. During the state of emergency, there was a significant decrease in demand for leisure and other activities as well as a decline in

revenue from lending centered on cash advances. However, operating revenue still increased, thanks to the inclusion of revenue from AEON Allianz Life Insurance Co., Ltd. (hereinafter "AALI"), which joined the Group in March 2020, and greater fee-based revenue from a rise in the number of WAON e-money transactions, stemming from the strong sales at AEON Group supermarkets. On the other hand, operating profit decreased after an increase in provision of allowance for doubtful accounts in the first quarter and the subsequent increase in reserves for doubtful accounts.

This allowance was calculated after applying IFRS No. 9 "Financial Instruments" to our Global Business, assessing whether there is an increase or decrease in receivables within the scope of this allowance, checking for occurrences of delinquency or bad debt, and making predictions for future bad debt based on the outlook for financial indicators. In fiscal 2020, we increased our allowance for doubtful accounts considerably after factoring in the economic environment, which worsened as a result of COVID-19. However, the situation surrounding bad debt and delinquency improved toward the end of the fiscal year as a result of more elaborate credit screening and stronger debt collection in Hong Kong, Thailand, and Malaysia, all of which are major areas of operation. As consumption and funding demands recover, we intend to increase the amount of finance receivables while maintaining their quality. In fiscal 2021, vaccine rollouts began in each country of operation. Economic activities are expected to pick up again and we expect loan revenue to recover in kind. This will be the key to reaching our target figures.

The Financial Strategy of Our Medium-Term Management Plan

Fiscal 2021 is the first year of our medium-term management plan, which covers the period from fiscal 2021 to fiscal 2025.

Under this plan, we intend to leverage value chain transformation and new network creation to build an eco-system, or marketplace, that connects the services of the AEON Group and its partners with financial services such as payment and point systems. We have highlighted the period from fiscal 2021 to fiscal 2022 as one for making key investments. As a first step, we are establishing the infrastructure to develop apps to acquire customer IDs and to enhance our direct insurance business operated by AALI. Acquisition of customer IDs involves integrating one of the strengths of the AEON Group, its network of stores with multiple formats, with digital technology. Therefore, we have begun investment and platform development toward creating a single ID for AEON Card cardholders, of which there are 29 million, that can be used across the AEON Group's various services. We plan to interlink and make use of the data possessed by various parts of the AEON Group to offer customers who frequent AEON Group stores financial products that combine financial and life services.

In what is called the "era of the 100-year life," there is also a growing interest in extending one's healthy life expectancy. To support this interest, our insurance business will put our sales and direct insurance capabilities on full display. In addition, we are also developing an app dedicated to insurance that promotes health. With these and other efforts, this business will provide services that help customers in their pursuit of

better health. Insurance services and products related to promoting health are especially compatible with the rest of the AEON Group, giving the Group the chance to demonstrate its strengths, namely its sales channels, products, and data collection, to enable cross-sales that will provide new value as an entire group to customers. When it comes to regions or fields where our business model is not compatible with the Group's initiatives, we always have the option of working with our external partners or conducting M&As.

Policy for Shareholder Returns

We consider shareholder returns to be an important part of management policy. Our basic policy is to increase corporate competitiveness by distributing profits to shareholders in an appropriate fashion while also maintaining internal reserves aimed at expanding business and increasing productivity. Our goal is to maintain a standard payout ratio of 30% to 40%. In fiscal 2020, COVID-19 led to diluted earnings per share (EPS) falling to ¥81.97 and to a dividend payout of ¥34.0 per share, an all-time low for the Company. This made it clear that raising profitability and improving EPS were important issues to confront in fiscal 2021.

In fiscal 2021, we will embark on our effort toward value chain transformation and new network creation, while also giving back to shareholders, and by balancing both, we aim to increase our corporate competitiveness.

Major Financial Indicators

	Fiscal 2016	Fiscal 2017	Fiscal 2018	Fiscal 2019	Fiscal 2020	(Billions of yen) Fiscal 2025
Operating revenue* ¹	375.1	407.9	439.0	457.2	487.3	760.0
Year-on-year increase/decrease	104%	109%	108%	104%	107%	—
Operating profit* ²	61.6	65.7	70.1	65.0	40.6	100.0
Year-on-year increase/decrease	104%	107%	107%	93%	62%	—

*¹ Ordinary revenue from fiscal 2016–fiscal 2018.

*² Ordinary profit from fiscal 2016–fiscal 2018.

IT Systems and Digitalization Investment Results

	Previous mid-term plan period				Fiscal 2020	(Billions of yen) Medium-term plan period Fiscal 2021–2025
	Fiscal 2017	Fiscal 2018	Fiscal 2019	Total		
Consolidated	35.3	34.4	33.3	103.0	39.8	210.0
Domestic	26.0	28.0	28.1	82.1	34.3	—
Global	9.3	6.5	5.1	20.9	5.4	—

KPIs

	Fiscal 2016	Fiscal 2017	Fiscal 2018	Fiscal 2019	Fiscal 2020	Fiscal 2025
Ratio of bad debt allowance to operating revenue						
Domestic	73%	74%	74%	74%	65%	65%
Global	52%	53%	52%	52%	52%	46%
Ratio of personnel expenses to operating revenue						
Domestic	18%	17%	16%	16%	15%	9%
Global	16%	16%	16%	15%	14%	10%

* From Fiscal 2016 to Fiscal 2018, the cost ratio is as a percentage of ordinary income. Operating expenses include selling, general and administrative expenses and financial expenses.

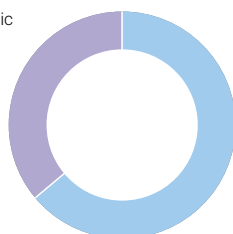
AFS at a Glance

Cardholders

46.13 million

Domestic

36%



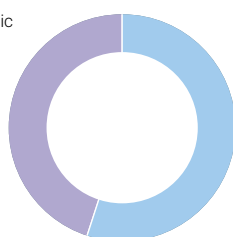
Global
64%

Sales Offices

658

Domestic

45%



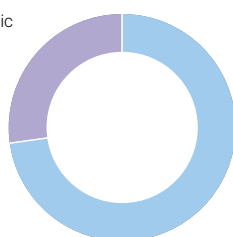
Global
55%

Employees

17,611

Domestic

27%

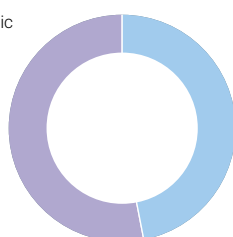


Global
73%

Operating Profit Ratio

Domestic

53%



Global
47%

Domestic Business

The Domestic Business is classified into two segments: Retail, which provides services targeting individuals, and Solutions, which provides services targeting corporations.

Retail

Core Operating Company

AEON Bank, Ltd.



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

Solutions

Core Operating Company

AEON Credit Service Co., Ltd.

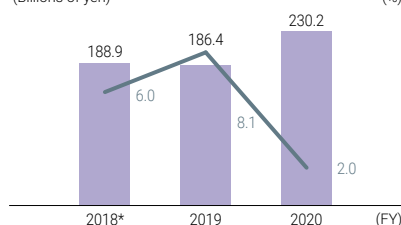


AEON Credit Service promotes data marketing in cooperation with the AEON Group's retail businesses and provides convenient and affordable benefits, earning it the largest number of cardholders in Japan. Amid an increasingly cashless society, they are a one-stop provider of more user friendly and economical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

Operating revenue — Operating profit ratio

(Billions of yen)

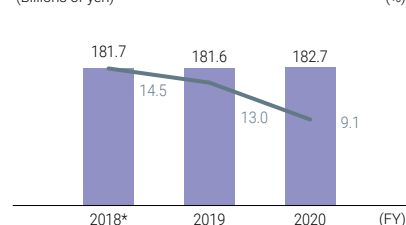
(%)



Operating revenue — Operating profit ratio

(Billions of yen)

(%)



MAJOR OPERATING COMPANIES

- AEON Bank, Ltd.
- AEON Insurance Service Co., Ltd.
- AEON S.S. Insurance Co., Ltd.
- AEON Allianz Life Insurance Co., Ltd.

MAJOR OPERATING COMPANIES

- AEON Credit Service Co., Ltd.
- AFS Corporation Co., Ltd.
- AEON Product Finance Co., Ltd.
- AEON Housing Loan Service Co., Ltd.
- ACS Credit Management Co., Ltd.
- ACS Leasing Co., Ltd.

* In fiscal 2018 ordinary revenue and ordinary profit ratio are used.

Global Business

On the global stage, we are promoting strategies and business, centered on our listed companies in the China, Mekong, and Malay areas, in accordance with the particular characteristics of each area.

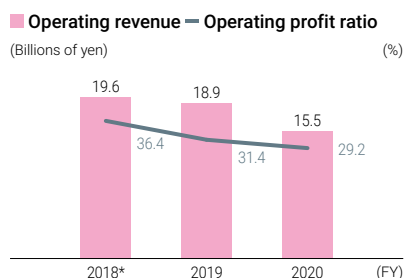
China Area

Core Operating Company

AEON CREDIT SERVICE (ASIA) CO., LTD.



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



MAJOR OPERATING COMPANIES

- AEON Financial Service Hong Kong Co., Ltd.
- AEON CREDIT SERVICE, ASIA, CO., LTD.
- AEON INSURANCE BROKERS (HK) LIMITED
- AEON INFORMATION SERVICE (SHENZHEN) CO., LTD.
- AEON MICRO FINANCE (TIANJIN) CO., LTD.
- AEON MICRO FINANCE (SHENZHEN) CO., LTD.

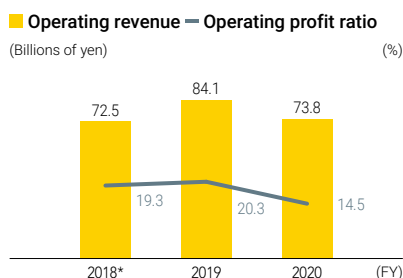
Mekong Area

Core Operating Company

AEON THANA SINSAP (THAILAND) PUBLIC COMPANY LIMITED



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



MAJOR OPERATING COMPANIES

- AEON THANA SINSAP (THAILAND) PUBLIC COMPANY LIMITED
- AEON Insurance Service (Thailand) Co., Ltd.
- ACS CAPITAL CORPORATION LTD.
- ACS SERVICING (THAILAND) CO., LTD.
- ACS TRADING VIETNAM CO., LTD.
- AEON SPECIALIZED BANK (CAMBODIA) PLC.
- AEON MICROFINANCE (MYANMAR) CO., LTD.
- AEON LEASING Service (LAO) COMPANY LIMITED

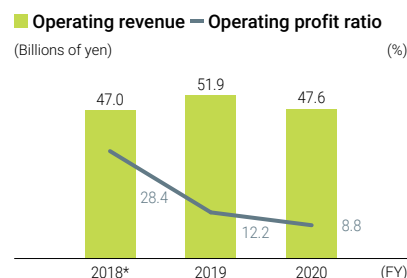
Malay Area

Core Operating Company

AEON CREDIT SERVICE (M) BERHAD



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



MAJOR OPERATING COMPANIES

- AEON CREDIT SERVICE (M) BERHAD
- PT. AEON CREDIT SERVICE INDONESIA
- AEON CREDIT SERVICE SYSTEMS (PHILIPPINES) INC.
- AEON CREDIT SERVICE (PHILIPPINES) INC.
- AEON CREDIT SERVICE INDIA PRIVATE LIMITED

Domestic Business

Business Strategy

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

Primary Services AND Sales Networks

Main Services

Credit card shopping

Annual transaction volume

Approx. **¥5,670** billion

Credit card cash advances

Annual transaction volume

Approx. **¥300** billion

E-money

Annual transaction volume

Approx. **¥2,250** billion

Installment finance

Annual transaction volume

Approx. **¥210** billion

AEON Bank housing loans

Receivables at end of period
(before securitization)

Approx. **¥2,800** billion

AEON Bank ordinary and time deposits

Deposits at end of period

Approx. **¥4,020** billion

AEON Bank's Network in Japan

Branches

142

AEON INSURANCE CONSULTATION

117 branches

ATMs

6,337

Tohoku

AEON INSURANCE CONSULTATION ... **8** branches
AEON Bank **10** branches
ATMs **495** (455 locations)

Hokkaido

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

Chugoku, Shikoku

AEON INSURANCE CONSULTATION ... **7** branches
AEON Bank **7** branches
ATMs **460** (410 locations)

Kyushu, Okinawa

AEON INSURANCE CONSULTATION ... **11** branches
AEON Bank **14** branches
ATMs **527** (455 locations)

Kansai

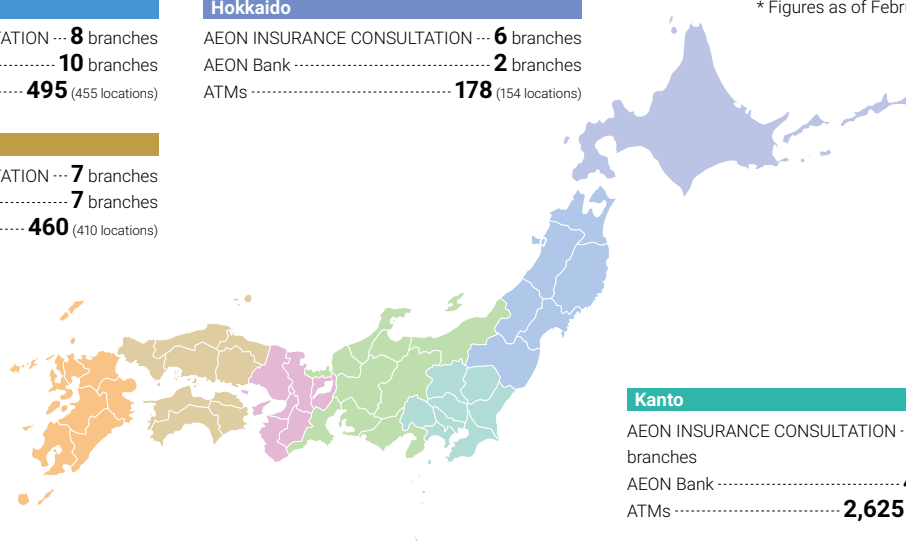
AEON INSURANCE CONSULTATION ... **21** branches
AEON Bank **21** branches
ATMs **813** (455 locations)

Kanto

AEON INSURANCE CONSULTATION **56** branches
AEON Bank **40** branches
ATMs **2,625** (2,227 locations)

Chubu

AEON INSURANCE CONSULTATION **33** branches
AEON Bank **23** branches
ATMs **1,239** (1,002 locations)



* Figures as of February 28, 2021

Note: Transaction amounts in each category reflect figures for the consolidated fiscal year under review (March 1, 2020 to February 28, 2021).

Initiatives in Fiscal 2020

■ Response to Changing Customer Lifestyles and Behavior

In the Domestic Business, we are ramping up our digitalization efforts as a response to changing customer lifestyles and behavior. At our branches, we offer a branch visit reservation service, which allows customers to make online appointments in advance and receive wait-free guidance on arrival, and video consultation and processing desks, where customers can conduct a variety of procedures by video-phone. We have also expanded our remote services, such as online consultations where customers can use their PCs or smartphones to talk directly with the person in charge of a branch. This service can be accessed from home or any other place our customers find convenient. In addition, we have set up antiviral processing for branch equipment and individual booths to give customers peace of mind when visiting our locations.

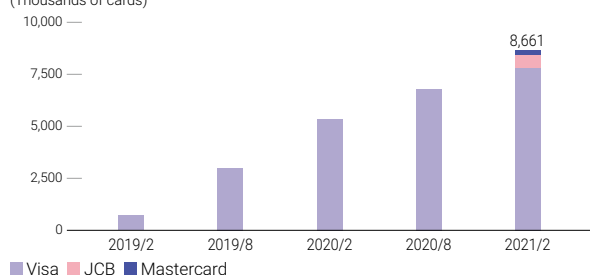


■ Promotion of Cashless Systems

To celebrate the 20 years since issuing the first AEON Card, we launched the AEON Card 20th Anniversary Campaign, worth a total of ¥200 million in Tokimeki Point presents, as well as a registration campaign for flat-rate digital movie and music streaming services. We also made concerted efforts to enhance our customer base, issuing new cards—the Sumitomo Real Estate Shopping City AEON Card and the Sakurazaka 46 AEON Card—to appeal to urban residents and younger demographics. In addition, we began adding touch payment functions to our AEON Mastercard and JCB cards from October 2020, complementing our VISA cards, which we have been issuing with this function since fiscal 2018.

Number of Cards Issued with Contactless Payment Functionality

(Thousands of cards)



■ Introduction of eKYC (Online Identity Verification)

Starting from October 2020, AEON Bank has begun utilizing eKYC online identity verification to process online applications for cash cards and AEON Bank CASH+DEBIT Cards. Verification using photos taken with a smartphone increases security by, for example, helping prevent third-party spoofing attacks. In addition, this process takes out the step of mailing documents, making internet banking and foreign currency transactions possible as early as a day after application, thereby increasing convenience for customers.



Image of verification method

■ Enhanced Asset Management Services

In asset management services, in October 2020, AEON Bank began handling jointly managed money trusts, which are money trust products backed by the bank's housing loan receivables for individual customers. In addition to providing new options for customers' asset management, the new service has led to the diversification of financing methods.

■ Response to Customer Demand for Health Promotion

AEON Allianz Life Insurance Co., Ltd., which became a subsidiary on March 31, 2020, began providing group creditor insurance for AEON Product Finance Co., Ltd. in March 2021 and for AEON Bank housing loans in May 2021. In addition to promoting collaboration among Group companies, we are also preparing to provide health promotion insurance to respond to customer demand related to pre-symptomatic illness, disease prevention, and health promotion. Such initiatives are part of efforts the AEON Group is making to demonstrate its strengths, such as its sales channels, products, and data management, and to conduct Groupwide cross-sales that provide new value to its customers.





TOPIC

Building AEON Living Areas

Changes to Our Point System

As of September 11, 2021, we shifted our system for earning AEON Card points from the Tokimeki Point system to the WAON POINT system. With the change to the WAON POINT system, points gained by using AEON Cards align to the same points earned by making cash or WAON e-money

payments at AEON Group stores. By utilizing the same point system as the AEON Group, using points will become even more convenient for users, and we will promote the points as easy to collect, easy to use, and easy to understand.

Before Changing Point Systems		After Changing Point Systems	
Payment by credit or debit	 Tokimeki Point	Payment by credit or debit	
Payment with WAON e-money*1	 WAON POINT	Payment with WAON e-money*1	
Payment with cash (when presenting a point card)	 WAON POINT	Payment with cash (when presenting a point card)	

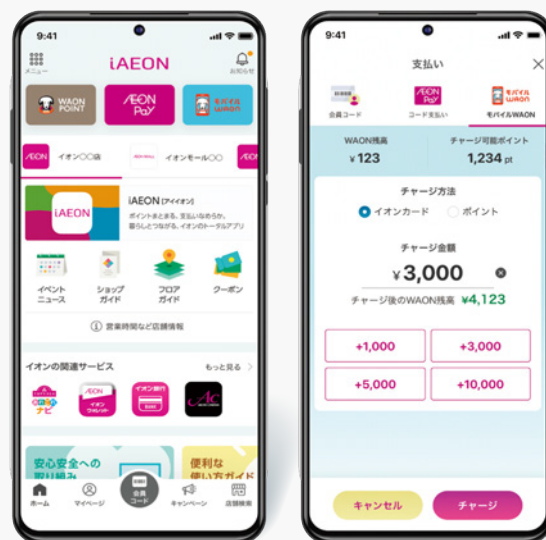
Note: Points are credited according to the following timing based on payment type

- ◆ Payment by credit or debit: 25th of every month
- ◆ Payment with WAON e-money or cash (when presenting a point card): upon payment

*1 WAON points are accumulated when paying with WAON e-money at WAON POINT non-affiliated merchants and some WAON POINT affiliated merchants.

iAEON, AEON's All-In-One App

In September 2021, AEON launched iAEON, its all-in-one app. This app is intended to be a common point of contact for the entire AEON Group, providing customers with convenient and highly satisfying services while also offering a seamless integrated experience between its in-person stores and digital technology. Users of the iAEON app can use, send, exchange, and check the balance of their WAON points. Moreover, it is possible to add up points within the app. Users can present their membership code at the store cash register and use the app to collect points or pay with points. Furthermore, users can register their credit and debit cards with an AEON mark in the app, allowing them to make payments during checkout at any AEON Group store in Japan using AEON Pay, a simple method of code payment where users present a barcode on their smartphone. The introduction of these services will further enhance the appeal of AEON Cards and further promote the shift toward cashless payments. One of the growth strategies of the AEON Group is to create AEON Living Areas that combine the comprehensive capabilities of each AEON Group company to seamlessly provide products, services, and living infrastructure rooted in the local community. The AFS Group plays a role in creating infrastructure that connects these AEON Living Areas with financial services, and we will work to integrate these services with an array of lifestyle-based services.



Download the app here: 

Note: The iAEON app is required to use AEON Pay



Global Business

Business Strategy

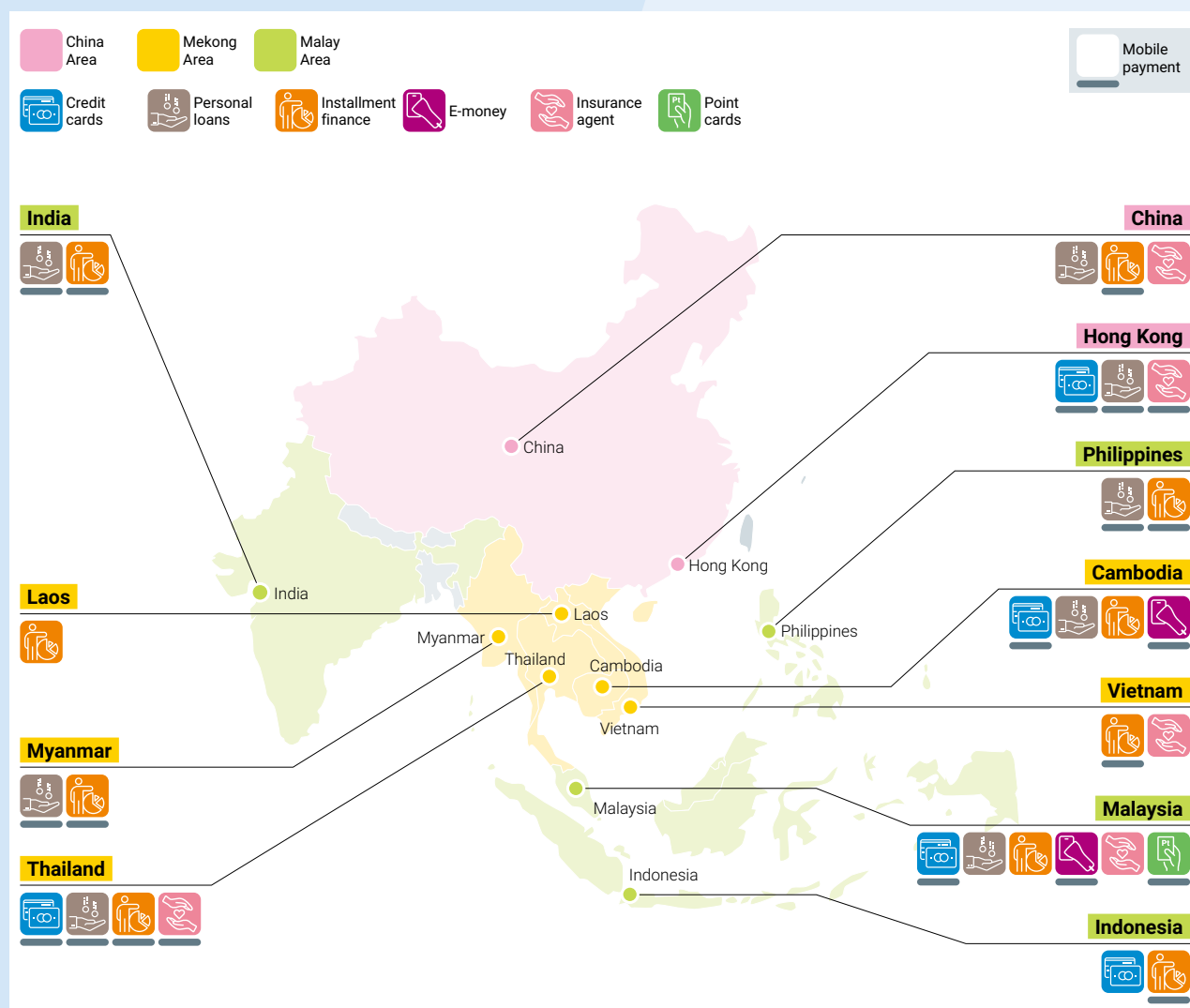
In addition to deepening our collaborative ties with the AEON Group in each region, we aim to strengthen our connections with external companies to expand our economic areas and improve financial accessibility by mobilizing service provision channels.

Business Environment

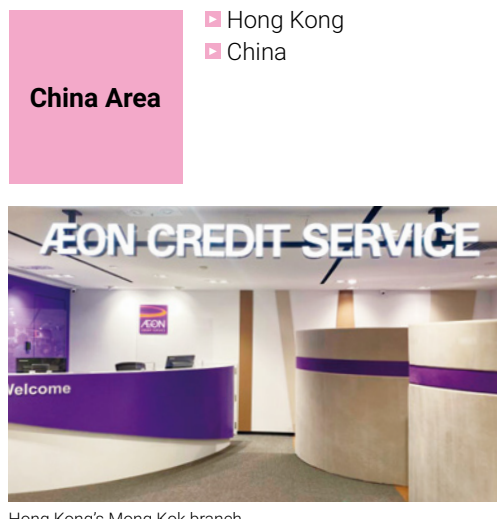
In 1987, we began business development in Asia by opening our first overseas base in Hong Kong. Since then, we have expanded business to three areas—the China Area, the Mekong Area, and the Malay Area—focused on our listed subsidiaries in Hong Kong, Thailand, and Malaysia. We provide a variety of financial services through local AEON Group retail business and other parts of our affiliated store network

that include installment finance, personal loans, and credit cards tailored to the regulatory conditions and growth stage of each country. In fiscal 2020, further efforts to promote digitalization allowed us to expand our customer base, and we also refined and enhanced our operations in sales, credit screening, and collection.

Business Operations by Country

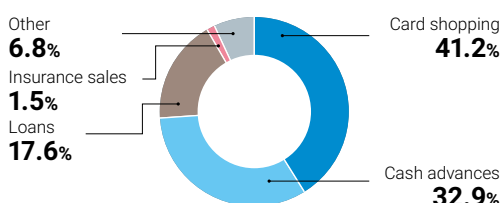


Initiatives in Fiscal 2020



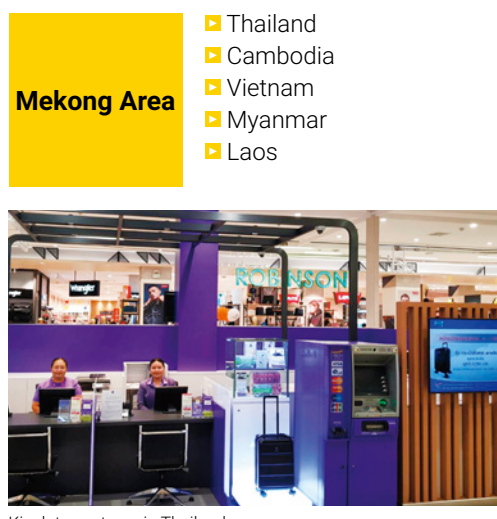
Hong Kong's Mong Kok branch

Revenue Ratio in China Area by Product



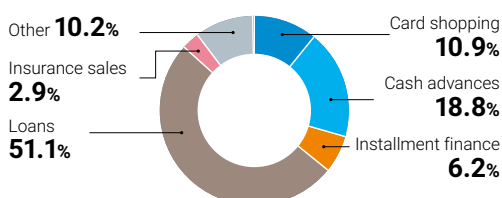
Note: "Other" includes recovery and selling off of bad debt.

In fiscal 2020, the AEON Group's retail business, AEON Stores (Hong Kong) Co., Ltd. (hereinafter "AEON Stores Hong Kong"), saw an increase in sales of food, daily necessities, and other everyday essentials due to increased time spent at home as a result of the COVID-19 pandemic. AEON Stores Hong Kong continued to record a strong volume of credit card transactions as well, thanks to its ongoing cash back campaign for customers, which is based on the amount of money spent on weekends, as well as its new Point Plus 10X Campaign, which takes place on the 10th of every month. In addition, we conducted cash back campaigns for the use of major e-commerce sites and other online channels. To expand transaction volume, we focused on improving screening accuracy by utilizing income forecasting models and external credit alert systems. In debt collection, the ratio of delinquent receivables to the amount outstanding of operating receivables decreased and the balance of receivables was sound as a result of monitoring high-risk receivables, conducting collection operations based on external credit scores, and taking other steps to control delinquency. We also promoted digitalization by launching the Bonus Point Pay service, which improves the service functionality of our smartphone apps by allowing users to redeem points collected from using their credit cards to pay card usage fees. Bonus Point Pay increases convenience for our customers and promotes contact-free services that do not require face-to-face interaction.



Kiosk-type stores in Thailand

Revenue Ratio in Mekong Area by Product



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

In fiscal 2020, we strengthened our partnerships with leading external companies, launching the premium card Big C World Mastercard, which is our second partner card with Thai retail giant Big C, and the AEON Rabbit Platinum Card, which is a card with IC ticket functionality and our first partner card with BTS Group Holdings, a Thai transportation giant that operates elevated railways in the Bangkok metropolitan area. These credit cards mainly target middle- and high-income customers living in city centers, and we aim to build a new customer base with high online shopping frequency by offering online payment discounts and other benefits. In addition to providing appropriate staffing during the COVID-19 outbreak, we also worked to expand our sales network and improve our return on investment, adding four kiosk-type stores as a means to control costs and save space. In Cambodia, local subsidiary AEON Specialized Bank (Cambodia) Plc. provides installment finance, unsecured loans, and credit card-related business at local AEON Group retail stores and other affiliated stores. In Laos, local subsidiary AEON Leasing Service (Lao) Co., Ltd., began handling auto loans, which are growing in demand.

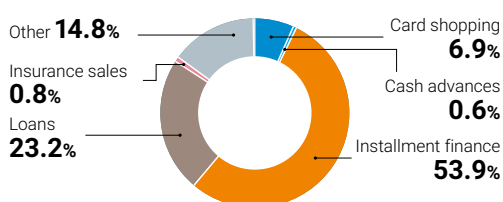
Malay Area

- Malaysia
- Indonesia
- India
- Philippines



Malaysian version of AEON Wallet

Revenue Ratio in Mekong Area by Product



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

In fiscal 2020, we promoted the automation of screening, which includes the introduction of eKYC identity verification for motorcycle loans and auto loans and at home appliance hire purchasing merchants. In Malaysia, where loans account for roughly 50% of installment payment amounts for motorcycle purchases, we relaxed screening standards to increase transaction volume, addressing the growing demand to purchase motorcycles as a means to ensure social distancing amid the COVID-19 pandemic. Furthermore, we were entrusted with acquiring credit card payments for AEON Co. (M) Bhd. (hereinafter "AEON Malaysia"), which handles the AEON Group's retail business in Malaysia, thus demonstrating the synergies and strengthening ties within the AEON Group. To improve the convenience of the payment app provided by AEON Credit Service (M) Berhad, we are introducing a function that allows customers to shop online using accumulated points in cooperation with AEON Malaysia's online shop, in addition to providing immediate e-money issuance and installing service functions for VIP customers. In Indonesia, local subsidiary PT. AEON Credit Service Indonesia launched the AEON Platinum Card in October 2020 for customers with a monthly income of Rp80,000 or higher, a demographic with a growing market share as income levels rise. To expand the card's customer base and increase transaction volume, PT. AEON INDONESIA, which is responsible for the AEON Group's retail business in Indonesia, has provided added benefits, such as waived membership fees at local AEON stores when certain conditions are met.

TOPIC

Creating a New Business Model with Digital Banking

In each of the Asian countries where we operate, rising household incomes and aging populations have led to growing demand for asset management products. However, the low percentage of people with a bank account and an inability to access financial services represent a large population of so-called unbanked people. On the other hand, digital financial inclusion has been a priority measure for each of these countries. While progress varies from country to country, customers are shifting to smartphones as their digital environment and companies are rapidly adopting digital methods. In Malaysia, the development of digital banks is on par with Japan and other developed nations due to governmental policies promoting financial inclusion and digitalization to address the unbanked population, coupled with expected growth in numbers of middle- and high-income earners. These factors create an environment that facilitates

participation in the digital banking business. Under these circumstances, we applied for a digital banking license in June 2021 with the goal of building a new business model that combines our existing nonbanking business with digital banking. Digital banks use apps as their main channel, and we believe that they have an advantage over conventional banks in terms of customer contact points, access, convenience, and AI-driven operations. In addition to our existing ability to meet needs related to using and borrowing money, by acquiring a digital banking license we will be able to meet needs related to saving and preparing in the form of new products, such as deposits, small-amount installments and lending, and insurance. With these possibilities at hand, we will seek out ways to meet the needs of a wide variety of customers, such as gig workers and high-income earners, as well as cross-sales with existing products.

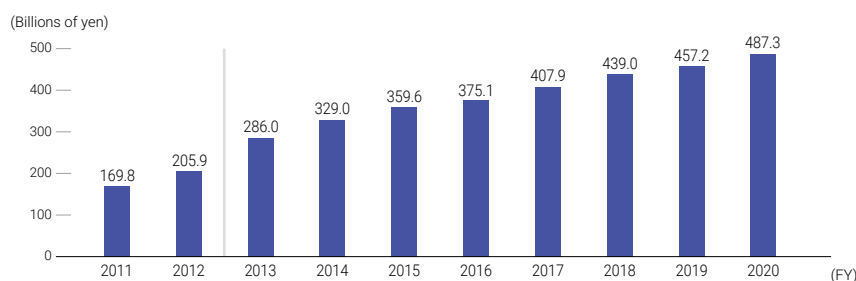
Customers	Digital Bank (New Company)				AEON Credit Service (M) Berhad	
High-income earners	Deposits	Small-amount installments	Small-amount lending	Small-amount insurance	Small-amount investments	E-money management (payment)
Middle-income earners						
Low-income earners						
Gig workers						
Unpaid groups (homemakers, pensioners, etc.)						
Students						
						Lending / Installment payments

Financial Highlights

Overview of Fiscal 2020

- Consolidated operating revenue increased 6.6% year on year, to ¥487.3 billion. Although the impact of the COVID-19 pandemic led to subdued consumer spending, consolidated operating revenue increased after incorporating the profit and loss statements of AEON Allianz Life Insurance Co., Ltd., which became a subsidiary in fiscal 2019, as part of the Company's 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. This decrease was due to an increase in reserves for doubtful accounts, after an increase in provision of allowance for doubtful accounts in the first quarter of the fiscal year.
- Profit attributable to owners of parent decreased 48.2% year on year, to ¥17.6 billion.

Consolidated Operating Revenue

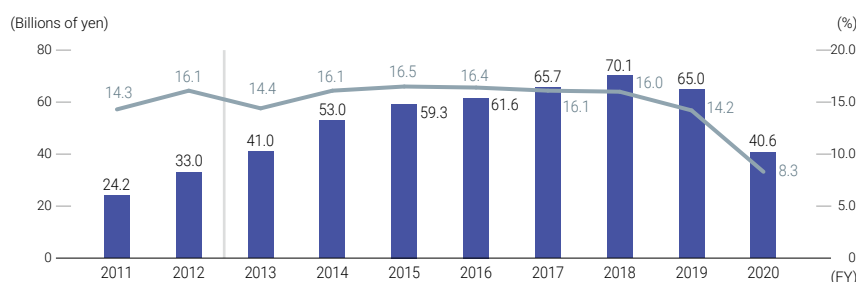


Note: Ordinary revenue is used from fiscal 2013–fiscal 2018

Consolidated Operating Revenue

Fiscal 2020 ¥487.3 billion
YoY +6.6% ↑

Consolidated Operating Profit and Consolidated Operating Profit Ratio



■ Consolidated operating profit — Consolidated operating profit ratio

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

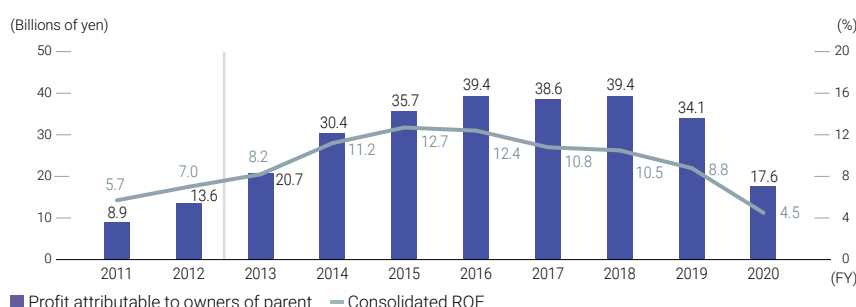
Consolidated Operating Profit

Fiscal 2020 ¥40.6 billion
YoY -37.5% ↓

Consolidated Operating Margin

Fiscal 2020 8.3%
YoY -5.9pt.

Profit Attributable to Owners of Parent and Consolidated ROE



■ Profit attributable to owners of parent — Consolidated ROE

Profit Attributable to Owners of Parent

Fiscal 2020 ¥17.6 billion
YoY -48.2% ↓

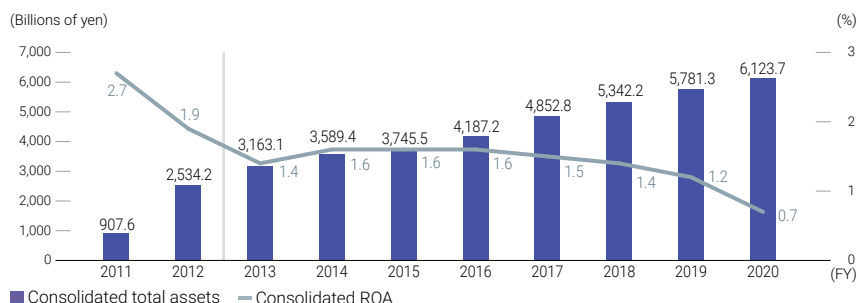
Consolidated ROE

Fiscal 2020 4.5%
YoY -4.3pt.

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

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

Consolidated Total Assets and Consolidated ROA



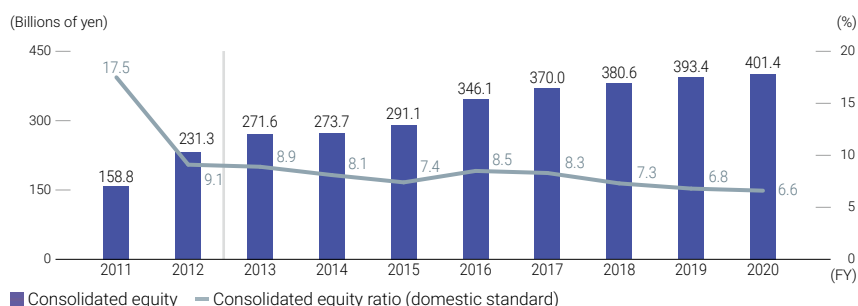
Consolidated Total Assets

Fiscal 2020 **¥6,123.7 billion**
YoY **+342.3 billion** ↑

Consolidated ROA

Fiscal 2020 **0.7%**
YoY **-0.5pt.**

Consolidated Equity and Consolidated Equity Ratio (Domestic Standard)



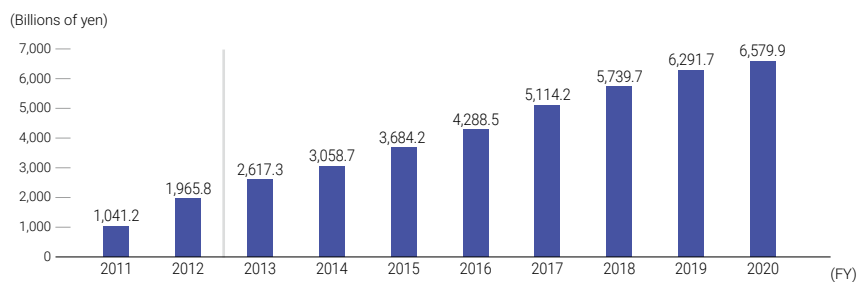
Consolidated Equity

Fiscal 2020 **¥401.4 billion**
YoY **+8.0 billion** ↑

Consolidated Equity Ratio (Domestic Standard)

Fiscal 2020 **6.6%**
YoY **-0.2pt.**

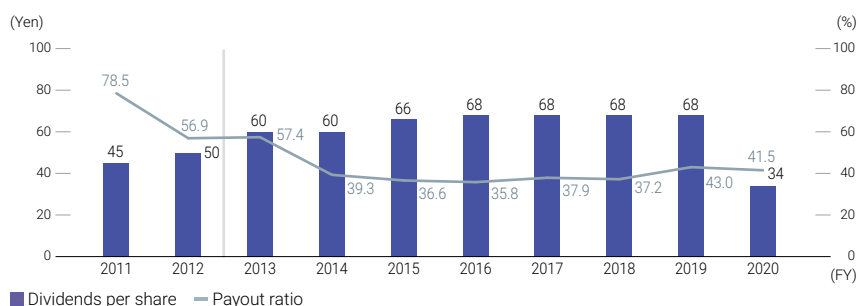
Consolidated Finance Receivables (Before Securitization)



Consolidated Finance Receivables (Before Securitization)

Fiscal 2020 **¥6,579.9 billion**
YoY **+288.2 billion** ↑

Dividends per Share and Payout Ratio



Dividends per Share

Fiscal 2020 **¥34**
Payout Ratio **41.5%**

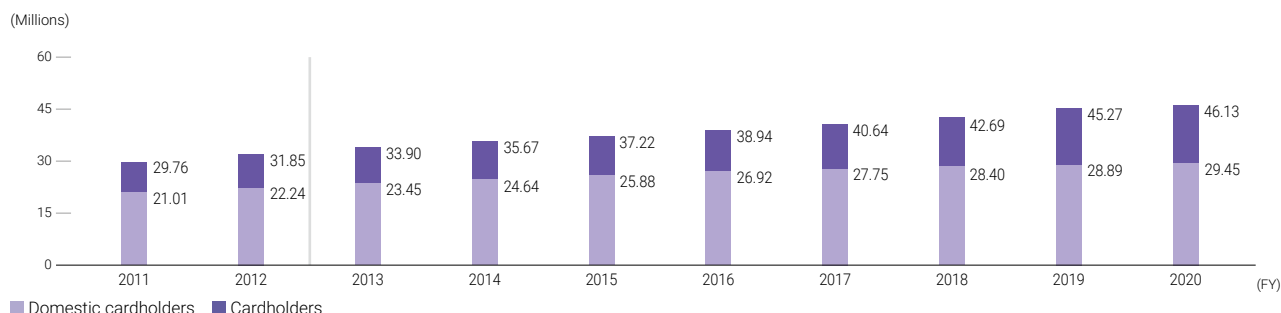
Note: Includes a dividend of ¥2.00 per share in fiscal 2016 to commemorate the 20th anniversary of the listing of AEON Financial Service.

3. The consolidated amounts for fiscal 2012 cover a period of 13 months and 11 days from February 21, 2012 to March 31, 2013.

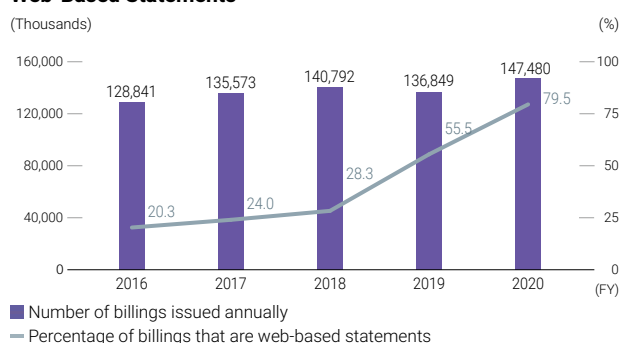
4. Figures for fiscal 2019 are for the 11-month period from April 1, 2019 to February 29, 2020 due to a change in the accounting period.

Non-Financial Highlights

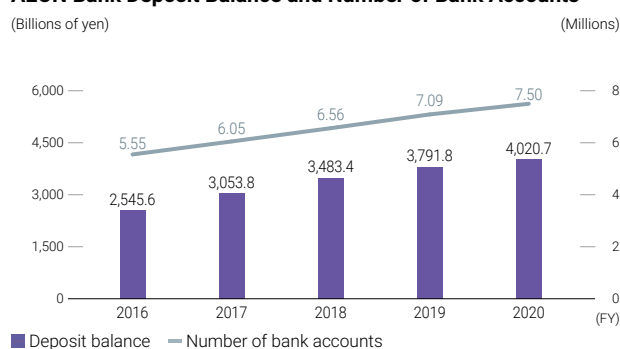
Cardholders



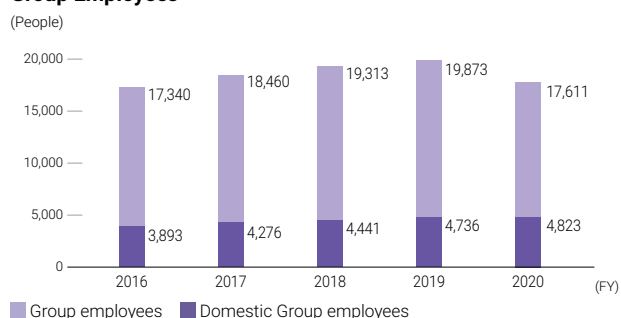
Number of Billings Issued Annually and Percentage of Web-Based Statements



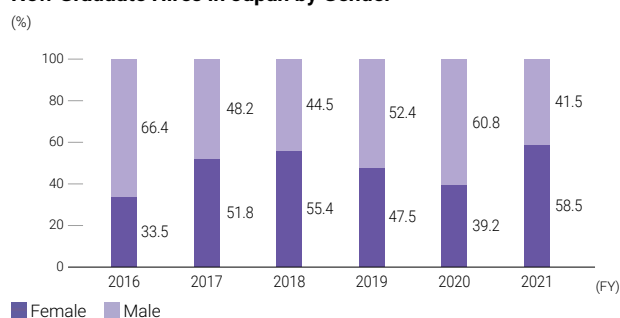
AEON Bank Deposit Balance and Number of Bank Accounts



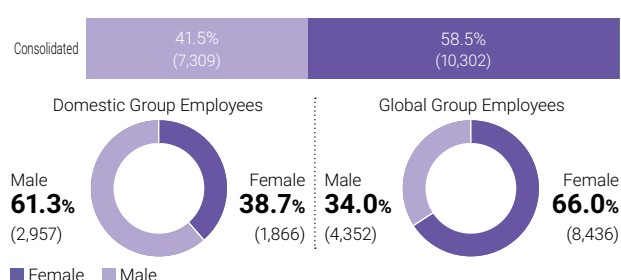
Group Employees



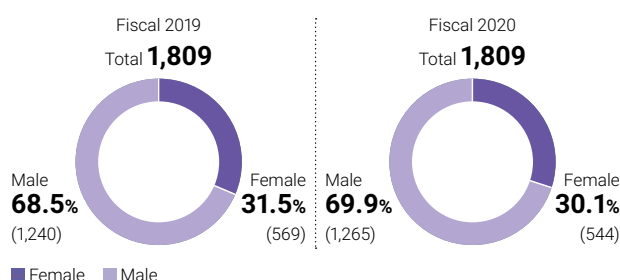
New Graduate Hires in Japan by Gender



Employees by Gender (Fiscal 2020)



Managers by Gender



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

Dialogue with Stakeholders




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

Status of Investor Relations Activities










Investor Relations Activities	Details	Explanation by Representative Directors	Actions (Fiscal 2020)
Preparation and publication of a disclosure policy	We prepare a disclosure policy and publicize basic policies, standards of information disclosure, methods of information disclosure, and announcements of IR moratorium periods.	—	—
Company briefings for individual investors	We hold company briefing sessions for individual investors to showcase the Company and explain its performance.	—	In-person events: 1 (142 attendees) Online events: 2
Periodic briefings for analysts and institutional investors	Representative directors or the director in charge of corporate management periodically conduct briefings.	Yes	Dialogue counterparties: 337 companies
Periodic briefings for foreign investors	We publish English annual reports and an English version of the IR website. We translate various reporting materials into English and regularly hold meetings with overseas investors.	Yes	Dialogue counterparties: 7 companies
Availability of investor relations materials on the corporate website	We publish various materials, including audio versions of results briefings. We also publish monthly information.	—	Earnings release reports: Quarterly Other investor relations materials: As needed
Establishment of a department and a person in charge of investor relations	An IR representative is assigned to the Corporate Planning Department, which is responsible for disclosure.	—	—
Others	The President and CEO, the director in charge of corporate management, and the person in charge of investor relations conduct meetings with individual domestic and overseas investors and securities analysts.	Yes	Meetings: 110

External Recognition of AEON Financial Service (As of June 30, 2021)

IR Websites	Awards and Accreditations
Nikko Investor Relations Co., Ltd.	 2020 All Japanese Listed Companies' Website Ranking Overall Ranking: Best Sites
Gomez Consulting Co., Ltd., a subsidiary of Morningstar Japan K.K.	 Gomez IR Site Ranking 2020 Excellent Company: Silver Award

Indices	Awards and Accreditations
MSCI Japan ESG Select Leaders Index*	 Included for five consecutive years (ESG rating: AA/AAA-B)
SOMPO Sustainability Index	 Included for 10 consecutive years
JPX-Nikkei Index 400	 Included for eight consecutive years

Investor Relations Information Disclosure

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

Credit Rating Information (As of June 30, 2021)

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

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

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

Helping Customers Lead Richer Lives through Financial Services

Yuro Kisaka

Director and Managing Executive Officer in charge of the Group Corporate Planning Division, Business Promotion Division, and Insurance Business



Daring to Launch a Credit Business in Asia

In 1987, AFS launched its global business in Hong Kong, later expanding into Thailand and Malaysia. Today, the Company operates in 11 countries and regions, including Japan. Our local subsidiaries in Hong Kong, Thailand, and Malaysia are listed companies with the patronage of many customers in each respective area. These subsidiaries have developed alongside the locals, serving as companies that support people's lives. We are also expanding business driven by a customer-first philosophy, working with local retail companies and the AEON Group retail business in each country to meet customer needs.

In recent times, governments of Asian countries have highlighted financial inclusion as an important national policy. Financial inclusion involves helping all people gain access to basic financial services, including those who have previously been denied this access due to poverty, discrimination, or other reasons, and have been thrust into financial instability as a result. I believe that when one looks back on the 35 years of work we have done in our overseas countries of operation, we have been working toward financial inclusion this whole time.

When the Company made its first foray into overseas business in Hong Kong, the starting salary for university graduates was roughly ¥40,000, whereas the cost of a Japanese-made television was ¥200,000. Despite the prohibitive price, people would come to the stores to look at the TVs as if they could buy them. Understanding that a credit business could help bridge the gap between income and desire was what led to the launch of this business in Asia.

Carrying Out Financial Inclusion Initiatives in Malaysia

We started business in Malaysia in 1997 by providing installment financing for home appliances and furniture. With the delays in establishing public transportation infrastructure in the country, there was also a growing concern among local customers in regard to acquiring a means of mobility. However, young people with unstable sources of income and high credit risk were unable to receive the financial services needed to acquire this mobility.

To ease their concerns, we began providing loans for motorcycles, the most practical form of transportation. Since then, we have been working to provide financial services that support our customers' daily lives. Now, our services in Malaysia have grown to the point that about 30% of new motorcycle registrations have been to customers who have used our services to make their purchase.



When customers move to the next stage of their lives, whether it is related to work, marriage, the birth of a child, or otherwise, it becomes necessary to upgrade from a motorcycle to a car. In addition, they have a new need for different payment methods, such as credit cards for high-priced shopping and e-money for shopping in small amounts. On top of this, they will need insurance products to secure their family's future. In short, customer needs are constantly changing. We have worked with local retailers to expand our lineup of financial services to meet these changing needs and lifestyles. Now, about 40% of customers in their 30s choose AFS when seeking their first financial services. We also provide access to e-money that takes advantage of mobile and digital technology and point systems that are integrated with retail shopping. These efforts increase convenience for customers while extending the range of our financial services and are a step further toward financial inclusion.

To ring in our 25th year of business in Malaysia, we are making active efforts to promote sustainability at our overseas bases. When the 927 companies listed on the Bursa Malaysia stock exchange were rated for their ESG initiatives for fiscal 2020, AEON Credit Service (M) Berhad was one of the top 200 companies selected for its active commitment. This comes in addition to positive evaluations from external parties.

Promoting Sustainability

Similar to our business in Malaysia, in Japan the Company has been evaluated highly for its work to resolve social issues through its business in Japan and the business carried out at its three listed subsidiaries overseas. Accordingly, the Company is one of the top 700 companies listed on the Japanese stock market by market capitalization and has been included in the MSCI Japan Select Leaders Index, which recognizes high ESG performance, for the fifth consecutive year.

That being said, I believe that if we can work as an entire Group, we can conduct new activities to resolve a variety of social issues and achieve growth that is even more sustainable than before. Therefore, as part of structural reforms, in September 2021 we established the Group Sustainability Division as a means to promote sustainability as a Groupwide effort. In addition, the CSR Committee was renamed the Sustainability Committee in order to emphasize its focus on enhancing sustainability efforts. The committee will discuss and look into the Group's sustainability policies, strategies, and issues in a comprehensive and expert manner.

Going forward, we will keep up our work in Asian countries of operation to conduct business that is in tune with the needs of local customers and achieve financial inclusion. At the same time, we will make vigorous efforts toward sustainability rooted in our Group companies in Japan and our three listed subsidiaries overseas.

Japan: MSCI Japan ESG Select Leaders Index

Included for the fifth consecutive year
(ESG rating: A/AAA-B)

Malaysia: FTSE4Good Bursa Malaysia Index

The FTSE4Good Bursa Malaysia Index comprises the top 200 companies based on their ESG rating out of the 927 companies listed on Bursa Malaysia, Malaysia's stock exchange. AEON Credit Service (M) Berhad has been included in this index, with high praise from the market.

2021 CONSTITUENT MSCI JAPAN ESG SELECT LEADERS INDEX



FTSE4Good

FTSE4Good Bursa Malaysia Index

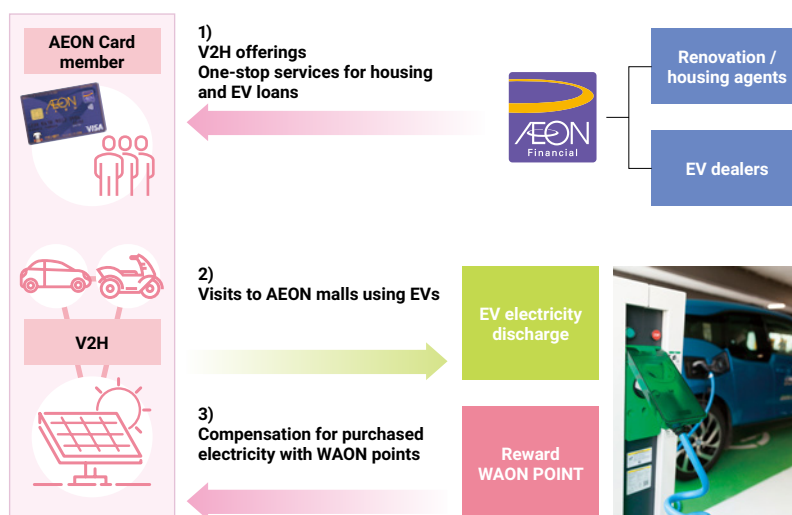
Decarbonization Initiatives

In 2018, AEON Co., Ltd. formulated Aeon Decarbonization Vision 2050. Based on this vision, the AEON Group is working to reduce the total greenhouse gas emissions from its stores to zero through energy conservation and the use of energy procured through renewable means. It has adopted a three-pronged approach, with efforts focused on stores, products and logistics, and working hand in hand with customers. As a member of the AEON Group, a corporate group rooted in enriching the lives of its customers, each and every one of us at AEON Financial Service is thinking and working alongside our customers to find ways to achieve this lofty goal through our day-to-day activities.

Support for Our Customers' Shift to a Carbon-Free Lifestyle

Thanks to alliances with housing-related companies and car dealerships, in September 2021 AEON Product Finance Co., Ltd. and AEON Bank, Ltd. began offering services targeting AEON Card cardholders in select areas who are considering installing vehicle-to-home (V2H) systems. With these services, such cardholders can apply to borrow funds for the construction of or renovations for zero-emissions housing and the purchase of electric vehicles (EV) at the same time. Financial services such as these will bring us closer to the goal of a carbon-neutral society.

Promotion of sustainability as an AEON Group



Environmentally Friendly Materials for AEON Card Select Cards

To aid in the realization of a carbon-neutral society, AEON Bank, Ltd. has embarked upon a new initiative regarding its AEON Card Select cards, switching to a new card that utilizes recycled PVC plastic, an environmentally friendly material. The materials used in these new cards come from waste or intermediary materials recovered from processors who handle PVC products. After recovery, these materials are crushed and processed. This shift will reduce the CO₂ emissions generated from the manufacturing process. Assuming a CO₂ reduction effect of up to 8.3 grams per card, this initiative can be expected to have a five-year reduction effect of 58.1 tons.*¹ To put this in perspective, a forest area approximately 1.4 times the size of the Tokyo Dome would be required to absorb the same amount of CO₂.^{*2} Our intention is to implement this shift to environmentally friendly materials with other newly issued AEON cards over time as one of our efforts to become carbon-free through business activities.

*¹ Estimated number of cards based on annual issuance results × Five-year period

*² Reference: Japan's Forestry Agency website



Promoting Web-Based Statements (Environmental Declaration)

The Company has made web-based statements a basic service that allows users to check their transaction history on their smartphone using the AEON WALLET app. Thanks to this service, we have been able to reduce CO₂ emissions by 500 grams* per envelope.

* Based on the Ministry of the Environment's "Examples of Calculation Methods for Reducing the Effects of CO₂ for Eco-Action Point Model Projects."

Environmental and Social Contributions

Tree Planting

AEON Credit Service Co., Ltd. participated in the Kimitsu AEON Forest Project* held in Chiba Prefecture, organized by the AEON Environmental Foundation and AEON Co., Ltd. In April 2021, the AEON Card Forest was established as part of the Kimitsu AEON Forest, at which we conduct forest cultivation activities throughout the year.



* At the Kimitsu AEON Forest, academic experts have established planting zones to ensure the forest can be experienced in a variety of ways. Over the next five years, 17 species of trees native to Chiba Prefecture—totaling 6,000 trees—will be planted, centered on the AEON Satoyama environmental conservation zone. This effort will cultivate the forest in a way that shows respect for the natural vegetation of the area. We also intend to create opportunities for elementary school students, junior high school students, and local volunteers to get in close with the forest and learn about the environment.

Monetary Support for COVID-19 Vaccinations and Donations to Healthcare Professionals

Together with AEON Co., Ltd., AEON Mall Co., Ltd., AEON Delight Co., Ltd., and the AEON 1% Club Foundation, AFS has provided monetary support to the governments in ASEAN countries (Malaysia, Vietnam, Indonesia, Thailand, and Cambodia) to encourage COVID-19 vaccinations. In total, ¥350 million has been provided toward this effort, with AFS contributing ¥60 million. This money will be used by each government to support their respective vaccination efforts.

In addition, AEON Thana Sinsap (Thailand) Plc., our local subsidiary in Thailand, is working through the AEON Thailand Foundation to support the country's medical care system by providing hospitals and medical staff with oxygen therapy equipment, personal protection equipment, and other supplies. In Malaysia, AEON Credit Service (M) Berhad has also donated relief supplies such as food and drinking water to hospitals, which have proven useful for medical treatment.



Support for Recovery from the Great East Japan Earthquake

As a member of the AEON Group, we participate in Project Aeon Joining Hands, which was launched by AEON Co., Ltd. as a united effort between labor and management to support long-term reconstruction after the Great East Japan Earthquake. AEON Group companies have engaged in a variety of activities to assist in the recovery of disaster-stricken areas, including tree planting and volunteer dispatches. Since 2011, AEON Credit Service Co., Ltd. has held the 100 Santas! event with the cooperation of the NPO Tono Magokoro Net with the intention of bringing smiles to the faces of children affected by the earthquake by offering presents.

The AFS Group will continue to provide support to the reconstruction efforts in Tohoku in the future through donation and volunteer activities.

For more information on our efforts to support Tohoku's recovery, please refer to the following link:

<https://www.aeonfinancial.co.jp/activity/reconstruction/>
(Japanese only)



Donations and Fundraising for the AEON 1% Club Foundation

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

Financial Literacy

AEON Financial Service engages in activities for realizing a sustainable society, based on the Sustainable Development Goals (SDGs) and other factors, with a focus on financial literacy. AEON Credit Service Co., Ltd. is continuously nurturing responsible credit cardholders through financial education on credit cards and other topics aimed at high school and university students.

AEON Bank, Ltd. began offering financial literacy lectures to university students in 2018, and in fiscal 2020, 93 lectures were conducted (primarily online) at 12 universities, with a total of 7,985 students attending. From fiscal 2021, the secretariat for financial literacy education was moved to AFS. This change will unite the AFS Group further and promote further contributions to society.

Human Resources Initiatives

Basic Policy

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

Health and Productivity Management

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

Establishment of Medical Support Centers

We promote health and productivity management in pursuit of the following two goals.

- 1) Enhance preventative and support measures based on health checkup results
- 2) Achieve our mental health promotion plan* to maintain and improve mental health

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

In 2019, we appointed corporate occupational health physicians and nurses at medical support centers to ensure these goals are fulfilled, and in 2021 we established a center in the Makuhari area of Chiba City.

Certified as an Outstanding Health & Productivity Management Organization

AEON Financial Service Co., Ltd., along with AEON Credit Service Co., Ltd., AEON Bank, Ltd., AEON Insurance Service Co., Ltd., ACS Credit Management Co., Ltd., and AEON Product Finance Co., Ltd. received certification under the 2021 Certified Health & Productivity Management Outstanding Organizations Recognition Program in the large enterprise category. Meanwhile, AEON S.S. Insurance Co., Ltd., ACS Leasing Co., Ltd., and AEON Housing Loan Service Co., Ltd. received the same certification in the small and medium-sized enterprise category. ACS Credit Management Co., Ltd. was also recognized as a White 500 organization for 2021, ranking it in the top 500 companies out of the 2,523 that applied for certification.



Implementation of Morale Surveys

Every year, the AFS Group conducts annual morale surveys targeting every employee as a measure to improve working environments. The survey takes the form of a five-stage questionnaire regarding the Company's policies and their spread, communication, and other matters. Employees answer questions related to their satisfaction with their workplace environment and survey results and improvement measures are then shared internally.

Award System

- The AEON Financial Service Award
This award, which is aimed at management at successful companies in Japan and overseas, recognizes initiatives that lead to the future development of the Group.
- The AEON Financial Service Award for Excellent Employees
This award was created as a means to improve customer satisfaction and is given to winners of competitions held by contact center divisions at Group companies in Japan and overseas, as well as to outstanding employees who are selected according to AFS's common guidelines and the evaluation criteria at each Group company. Descriptions of the recipients' efforts are shared with the goal of increasing the level of service throughout the Group.

Promotion of a Variety of Work Styles

We have established a variety of choices in regard to work location, work hours, and prescribed duties, with five employee categories based on employees' differences: global employees, regional employees, area employees, local employees, and flex employees. Each employee category is essentially a choice of work style, and we evaluate and promote employees fairly according to their individual work.

We had previously worked to establish a remote working environment, so when the COVID-19 outbreak began, we were able to mount a rapid response. It is now possible for employees to work more flexibly, thanks to our efforts to establish remote working rules and to distribute equipment that enables our remote work system.

Talent Placement and Development

AEON Financial Service is committed to the placement and development of talent that embody the “Customer-First” philosophy of the AEON Basic Principles from a financial standpoint. Specifically, since March 2021, we have implemented training under a new curriculum categorized into four themes. The goal of this training is to develop a large number of talent that can help us work as a comprehensive financial service to improve the lifestyles of customers in countries and regions where we do business and to do so with a global perspective in a way that is unbound by conventional frameworks.

Courses categorized under management personnel development are aimed at young managers who have been selected to serve as the next generation of leaders. Their training will provide them with opportunities to learn about AEON’s history and what comprises its DNA under its principle-based education, which includes equipping participants with specialized knowledge on management from a global perspective. In fiscal 2021, 40 participants selected from AFS Group companies underwent this training.

In fiscal 2021, courses under the umbrella of specialized employee development will focus on developing digital transformation (DX) literacy, with the goal of cultivating talent that can generate proposals for a common definition of DX and of improving operational efficiency using mathematics, science, and artificial intelligence.

Training under the thorough implementation of principles and the code of conduct are intended to instill the mindset that comprises AEON’s management base—a mindset based on the aforementioned “Customer-First” philosophy.

For our risk management, internal control, and harassment training, we conducted training in line with recent changes in corporate conditions, with a view toward establishing a new management base and creating a positive working environment.

Examples of Training Courses

Management Personnel Development AFS Overseas Management Course AFS Management Course AFS Global Course	Thorough Implementation of Principles and the Code of Conduct AFS AEON Officer and Manager Training AFS Code of Conduct Training (for supervisors and general staff) AFS Code of Conduct Training for Leaders
Specialized Employee Development AFS DX Specialist Training Course AFS Financial and Accounting Specialist Training Course	Risk Management, Internal Control, and Harassment Training AFS Risk Management and Compliance Training AFS Internal Control Training AFS Harassment Training

Diversity

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

Ratio of Female Employees at the Group (As of February, 2021)

	Number of men in managerial positions	Number of women in managerial positions	Percentage of managerial positions filled by women
Domestic	788	119	13.1
Global	477	425	47.1
Total	1,265	544	30.1

Employment Rate for People with Disabilities (As of June 1, 2021)

2.40%* * Total across seven Group companies (legal requirement is 2.3%).
--

Our Management Team

(As of September 1, 2021)

Directors

Masaki Suzuki

Representative Director and Chairman



1978 Joined Ministry of Finance
2002 Appointed Director of Banks Division I of Supervisory Bureau of Financial Services Agency
2007 Appointed Deputy Vice Minister for Policy Planning and Coordination of Minister's Secretariat of Ministry of Finance
2014 Appointed Vice-Minister of the Environment of the Ministry of the Environment
2015 Appointed Advisor of the Company
Appointed Advisor of AEON Co., Ltd.
Appointed Chairman and Representative Director of AEON Bank, Ltd.
2016 Appointed Representative Director and Chairman of the Company
Appointed Chairman and Director of AEON Bank, Ltd. (current position)
Appointed Director of AEON Credit Service Co., Ltd. (current position)
2017 Appointed Executive Officer in charge of General Finance Business of AEON Co., Ltd. president and CEO
2019 Appointed Representative Director and Chairman of AFS Corporation Co., Ltd.
Appointed Chairman of the Company
2020 Appointed Director of AFS Corporation Co., Ltd.
Appointed Representative Director and Chairman of the Company (current position)
2021 Appointed Chairman of the Company (current position)

Reasons for Appointment

Masaki Suzuki has accumulated professional knowledge and experience through a career that includes key positions at the Ministry of Finance and the Ministry of the Environment. This has enabled him to contribute toward strengthening the efficacy of the decision-making and supervisory functions of the Board of Directors.

Committees

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

Number of Shares Held

21,670 shares

Kenji Fujita

President and CEO



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

Reasons for Appointment

Kenji Fujita has approximately 20 years of experience working overseas, during which he has successively held key positions, and has abundant management experience, particularly overseas, serving as president of our locally listed subsidiaries in Malaysia and Thailand. Mr. Fujita will continue to utilize his wealth of experience to help increase sustainable corporate value for the Group.

Committees

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

Number of Shares Held

1,765 shares

Masaaki Mangetsu

Director and Managing Executive Officer



1981 Joined Jusco Co., Ltd. (currently, AEON Co., Ltd.)
2013 Appointed COO of GMS Business of AEON (China) Co., Ltd.
2014 Appointed Director of AEON Marketing Co., Ltd.
2015 Appointed Head of Marketing Division of the Company
Appointed Director of AEON Credit Service Co., Ltd.
2016 Appointed Director in charge of Business Strategy and Head of Overseas Business Division of the Company
2017 Appointed Managing Director in charge of Global Business and Head of Global Business Division of the Company
Appointed Director and Chairman of AEON Credit Service (Asia) Co., Ltd.
2019 Appointed Chairman of AEON Micro Finance (Shenzhen) Co., Ltd.
Appointed Director and Managing Executive Officer in charge of Global Business Strategy and Head of Global Business Strategy Division of the Company
Appointed Director of AEON Credit Service (Philippines) Inc.
Appointed Director of AEON Credit Service (M) Berhad
Appointed Director and Managing Executive Officer in charge of Overseas Business Strategy and Innovation Planning and Head of the Overseas Business Strategy Division and Head of Innovation Planning Division of the Company
2020 Appointed Director and Managing Executive Officer in charge of Overseas Business Strategy and Operation Planning and Head of the Overseas Business Strategy Division and Head of Operation Planning Division
2021 Appointed Director and Managing Executive Officer in charge of Group Marketing and Group Operation Planning (current position)

Reasons for Appointment

Masaaki Mangetsu has broad experience in the business marketing departments at our operating companies and has insight, experience, and a proven track record relating to marketing strategy. Mr. Mangetsu will continue to utilize this experience to help formulate and promote future growth strategies for the Group.

Committees

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

Number of Shares Held

6,742 shares

Mitsugu Tamai

Director and Managing Executive Officer



1999 Joined the Company
2006 Appointed Director, General Manager of Finance Management Department of the Company
2007 Appointed Director and Head of Finance Division of the Company
2010 Appointed Director, General Manager of Affiliate Management Division of the Company
2011 Appointed Vice President, General Manager of Administration Department, Affiliate Management Division of the Company
2012 Appointed Aide to the Group Control and Accounting Officer of AEON Co., Ltd.
Appointed General Manager of Administration Division of AEON MALL Co., Ltd.
2013 Appointed General Manager of ASEAN Division of AEON MALL Co., Ltd.
Appointed Director and General Manager of ASEAN Division of AEON MALL Co., Ltd.
2019 Appointed Managing Director, General Manager of ASEAN Division, and General Manager of Digital Promotion Department of AEON MALL Co., Ltd.
2021 Appointed Director of AEON MALL Co., Ltd.
Appointed Managing Executive Officer in charge of Overseas Business of the Company
Appointed Director and Managing Executive Officer in charge of Overseas Business of the Company (current position)

Reasons for Appointment

Mitsugu Tamai has served as a director at major companies of the AEON Group and possesses a wealth of experience in corporate administration departments and overseas operations. He also possesses abundant knowledge relating to corporate management and finance and accounting, which he will use to provide leadership, particularly over governance for subsidiaries, management of overseas subsidiaries, and active overseas expansion.

Committees

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

Number of Shares Held

—

Yuro Kisaka

Director and Managing Executive Officer



1997 Joined the Company
2003 Appointed General Manager of Sales Promotion Department, Sales Division of AEON Credit Service (Asia) Co., Ltd.
2006 Appointed Deputy General Manager of Business Promotion Division of AEON Credit Service (Asia) Co., Ltd.
2007 Appointed Head of Credit Card Business Administrative Department of AEON CREDIT SERVICE (M) BERHAD
2011 Appointed Head of Credit Card Business Administrative Department, Head of New Business Development Department of AEON CREDIT SERVICE (M) BERHAD
2012 Appointed General Manager of Myanmar Representative Office of the Company
Appointed Representative Director and President of AEON MICROFINANCE (MYANMAR) COMPANY LIMITED
2019 Appointed Representative Director and President of AEON CREDIT SERVICE (M) BERHAD
2021 Appointed Director and Managing Executive Officer in charge of Group Corporate Planning and Insurance business of the Company. (current position)

Reasons for Appointment

Yuro Kisaka has abundant knowledge and experience relating to the Company's business, with approximately 17 years of experience working overseas during which he worked on the establishment of new companies and served as president of a local subsidiary in Malaysia. Mr. Yuro will utilize his experience in establishing overseas subsidiaries and his experience as a president of a listed company to contribute to the Company's business strategy proposals.

Committees

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

Number of Shares Held

78 shares

Tomoyuki Mitsufuji

Director and Senior Executive Officer



1987 Joined The Sanwa Bank, Limited (currently, MUFG Bank, Ltd.)
1999 Appointed Vice President of Structured Finance Department of Sanwa International plc (London)
2005 Appointed Senior Vice President of Investment Banking Division and Head of Capital Market Department of Tokyo Branch of Lehman Brothers Japan Inc.
2006 Appointed Leader of Market Funds Group of AEON Financial Project Co., Ltd. (currently, AEON Bank, Ltd.)
2007 Appointed Executive Officer and Head of Market Funds Department of AEON Bank, Ltd.
2010 Appointed Director, Executive Officer, and Head of Market Funds Department of AEON Bank, Ltd.
2014 Appointed Director, Managing Executive Officer in charge of Corporate Business Department, Corporate Planning Department, and Asset Management Department of AEON Bank, Ltd.
2019 Appointed Director of AEON Bank, Ltd.
Appointed Head of Risk Management & Compliance Division and Head of Risk Management Department of the Company
Appointed Director and Senior Executive Officer in charge of Risk Management & Compliance and Head of Risk Management & Compliance Division of the Company (current position)
Appointed President Commissioner of PT. AEON Credit Service Indonesia (current position)
2021 Appointed Director and Senior Executive Officer in charge of Group Risk Management
Appointed Director and Senior Executive Officer in charge of Group Corporate Management and Group Risk Management (current position)

Reasons for Appointment

Tomoyuki Mitsufuji has successively held key positions in the Group's banking business since its establishment. These include positions in its market departments, handling front office operations for its corporate businesses and other entities, and handling credit screening and bank operations. He possesses abundant insight in the area of risk management as well as broad knowledge relating to the banking business. Mr. Mitsufuji also provides leadership in his role as the person in charge of governance for Group subsidiaries.

Committees

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

Number of Shares Held

1,900 shares

Shinya Wako

Director



1980 Joined The Dai-Ichi Kangyo Bank, Limited (currently, Mizuho Bank, Ltd.)
2007 Appointed Executive Officer, General Manager of Global Structured Finance Division of Mizuho Corporate Bank, Ltd. (currently, Mizuho Bank, Ltd.)
2008 Appointed Managing Executive Officer, Head of Europe, Middle East and Africa of Mizuho Corporate Bank, Ltd.
2010 Appointed Managing Executive Officer, Head of the Americas of Mizuho Corporate Bank, Ltd.
2013 Appointed Managing Executive Officer, Head of the Americas of Mizuho Bank, Ltd.
2014 Appointed Senior Managing Executive Officer, Group CFO of AEON Co., Ltd.
2015 Appointed Executive Officer, Chief Financial Officer, Senior Chief Officer of International Business of AEON Co., Ltd.
2016 Appointed Deputy President and Executive Officer, Senior Chief Officer of Management Strategy, Senior Chief Officer of International Business, Chief Officer of E-money Business of AEON Co., Ltd.
2017 Appointed Executive Vice President and Executive Officer, Chief Officer of Management Strategy of AEON Co., Ltd.
2020 Appointed Representative Director and President of the AFS Corporation Co., Ltd. (current position)
2021 Appointed Director of the Company. (current position)

Reasons for Appointment

Shinya Wako has a wealth of management experience in both the finance industry and the retail industry, having overseas management experience at a financial institution and having served in important positions at AEON Co., Ltd. Mr. Wako serves as a leader in enhancing governance throughout the Group, primarily as president of a bank holding company that is the Company's subsidiary and based on his efforts regarding the governance of subsidiaries.

Committees

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

Number of Shares Held

760 shares

Hiroyuki Watanabe

Director



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

Reasons for Appointment

Hiroyuki Watanabe has been a head of the human resource departments of multiple operating companies for many years. He has successively held key positions at AEON Bank, Ltd., a Company subsidiary, since its start-up and served as its president from 2015 to 2018, giving him abundant knowledge and experience in the Company's business.

Committees

- Board of Directors

Number of Shares Held

9,511 shares

Directors

Yoshimi Nakajima

**Director
(Outside)**



1980 Joined The Yasuda Trust & Banking Co., Ltd. (currently, Mizuho Trust & Banking Co., Ltd.)
1997 Joined Citibank, N.A.
Appointed Vice President of Personal Finance Division of Citibank, N.A.
2000 Appointed Senior General Manager in charge of Marketing and Sales of SG Online Branch of Societe Generale Securities Ltd.
2011 Appointed President of American Express International, Inc. (Singapore)
2014 Appointed Senior Vice President in charge of Acquisition & Marketing of Personal Business Department of American Express International, Inc. (Japan)
Appointed President and Representative Director of American Express Japan Co., Ltd. (current position)
2017 Appointed Outside Director of the Company (current position)
2018 Appointed Outside Director of Japan Freight Railway Company (current position)
Appointed External Director of ULVAC, Inc. (current position)
2021 Appointed Outside Director of Sekisui House, Ltd. (current position)

(Significant concurrent positions)

Outside Director of Japan Freight Railway Company
External Director of ULVAC, Inc.
Outside Director of Sekisui House, Ltd.

Reasons for Appointment

Yoshimi Nakajima has deep insight into global perspectives and diversity, abundant experience in corporate management, and experience as a company president overseas. The Company, which encompasses a large number of overseas subsidiaries as a comprehensive financial business group, expects that she will be able to provide opinions and suggestions from various standpoints and perspectives by utilizing her personal network, know-how, and insight cultivated to date and has therefore determined that she is an essential part of the Board of Directors.

Committees

• Board of Directors • Nomination and Compensation Committee

Number of Shares Held

—

Kotaro Yamazawa

**Director
(Outside)**



1980 Joined Bank of Japan
2006 Seconded to Osaka Securities Exchange Co., Ltd.
2010 Appointed Director and Senior Executive Officer of Osaka Securities Exchange Co., Ltd.
2013 Appointed Senior Executive Officer of Japan Exchange Group, Inc. and Director and Senior Executive Officer of Osaka Securities Exchange Co., Ltd.
2014 Appointed Senior Managing Executive Officer of Japan Exchange Group, Inc. and Director and Senior Managing Executive Officer of Osaka Securities Exchange Co., Ltd.
2015 Appointed Director and Vice President of Osaka Exchange, Inc.
2017 Appointed Advisor of Osaka Exchange, Inc.
Appointed Corporate Auditor (External) of the Company
Appointed Outside Director of Tokyo Commodity Exchange, Inc.
Appointed Special Advisor of Glory Ltd. (current position)
2018 Appointed Outside Auditor of WingArc1st Inc.
2019 Appointed Outside Director of the Company (current position)
Appointed Outside Director of WingArc 1st Inc. (current position)
2020 Appointed Outside Director of HiJoJo Partners Inc. (current position)

(Significant concurrent positions)

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

Reasons for Appointment

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

Committees

• Board of Directors • Nomination and Compensation Committee

Number of Shares Held

—

Tatsuya Sakuma

**Director
(Outside)**



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

(Significant concurrent positions)

Attorney-at-law of Aoyama TS Law Office

Reasons for Appointment

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

Committees

• Board of Directors • Nomination and Compensation Committee

Number of Shares Held

—

Takashi Nagasaka

**Director
(Outside)**



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

(Significant concurrent positions)

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

Reasons for Appointment

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

Committees

• Board of Directors • Nomination and Compensation Committee

Number of Shares Held

—

Auditors

Junichi Suzuki

**Corporate Auditor
(Outside)**



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

(Significant concurrent positions)

Auditor of AEON Bank, Ltd.
Auditor of AFS Corporation Co., Ltd.

Reasons for Appointment

Given Junichi Suzuki's extensive experience at overseas subsidiaries of the AEON Group, the Company expects him to play a role in the proper and appropriate management of the Company and provide oversight and effective advice regarding management as a whole. Therefore, the Company has determined that he is an essential part of the Board of Directors.

Committees

• Board of Corporate Auditors

Number of Shares Held

—

Go Otani

**Corporate Auditor
(Outside)**



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

Reasons for Appointment

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

Committees

• Board of Corporate Auditors

Number of Shares Held

—

Yuko Yogo

**Corporate Auditor
(Outside)**



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

Reasons for Appointment

Yuko Yogo possesses experience as a representative executive officer of a holdings company, coupled with experience from her long tenure as a manager of internal control at a foreign financial institution and as a head of human resources. The Company expects that she will utilize her deep insight and global and social perspective to help enhance corporate governance and has determined that she is an essential part of the Board of Corporate Auditors.

Committee

• Board of Corporate Auditors

Number of Shares Held

—

Takeshi Miyazaki

Corporate Auditor



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

(Significant concurrent positions)

In charge of Finance & Accounting and Head of Finance Department of AEON Co., Ltd.

Reasons for Appointment

Takeshi Miyazaki has successively served as a director of various subsidiaries of the AEON Group. With his abundant insight and experience in corporate management, and due to his being in charge of finance & accounting at AEON Co., Ltd., the Company has determined that he will ensure the soundness and appropriateness of the Company's management and is therefore an essential part of the Board of Corporate Auditors.

Committee

• Board of Corporate Auditors

Number of Shares Held

—

Promoting Initiatives That Are More Oriented toward the Future, the Customer, and Lifetime Values

Yoshimi Nakajima

Outside Director

Chair of the Nomination and Compensation Committee

For AFS to improve its corporate value, it needs to provide products and services that address customer needs, and to achieve its goal of providing financial stability to people in Asia, its most important management resource, out of people, objects, and money, is people. To help improve these people, as well as the organization, I accepted the position of chair of the Nomination and Compensation Committee.

With such rapid changes taking place in society, AFS has found itself in an environment that is very different than the one it initially achieved growth in. Added to this is the fact that companies from a variety of other industries are entering finance, meaning that industry lines are becoming blurred as well. I am working with AFS to help it be a financial group with day-to-day applications and a close relationship with its customers. We want the AFS to be its customers' top consulting partner in times of trouble. One of the distinguishing characteristics of finance is the mission to support and be an intrinsic part of people's lives. Once a relationship is built with a customer, the mission for a financial company is to provide support for customers according to their life stages. It needs to put forth products and services that best suit customers as a close part of their lives. This means not only addressing their new needs but also uncovering potential needs that are not immediately obvious. I would like to work with AFS in its effort to satisfy these customers and their families, as well as all people involved with the Company, such as shareholders, business connections, affiliated stores, and employers so that they will accept us as partners.

To that end, an organization must always be evolving and must be made up of human resources with a strong sense of individuality. The Group's greatest strength has been its aggressive expansion in Asian countries with markedly rapid growth, an effort it embarked on from an early stage. This willingness to take on new challenges is really the AEON Group's DNA put into practice. I expect the Company to expand its business further as it continues to take on more challenges going forward. I would like to help mold AFS into an organization where each and every employee is equipped with this active mindset, and is therefore capable of aggressively taking on these new challenges. There are many people among the Group's human resources who can act after thinking things out and also have the drive to continue studying. When people who embrace new challenges are lauded, this sets a precedent for the organization, which becomes a message that draws in human resources who want to achieve more. I believe that when an organization, its human resources, and the systems that utilize these human resources are well-matched, you can create a challenge-seeking organizational culture.

An outside director's role is to serve as an external set of eyes, propose new initiatives, and introduce advanced case studies that transcend the industry, while also assessing the ability of company members to communicate and lead. I will also give advice that draws from my global management experience, in addition to my financial management experience, which includes experience in banking, securities, credit card, and insurance businesses.

Due to the effects of COVID-19, consumer values are changing at an accelerating rate, and AFS is undergoing major changes as well. Amid these changes, I would like the Company to take lessons from its prior successes, but at the same time I would like it to place value on human resources who can engage in free thinking to embark on new undertakings, unbound by the past. AFS would do well to promote initiatives that will help employees be more oriented toward the future, the customer, and lifetime values, and take care to respect diversity, be it in the form of different cultures, manners of thinking, or otherwise, as these actions will lead to positive results.

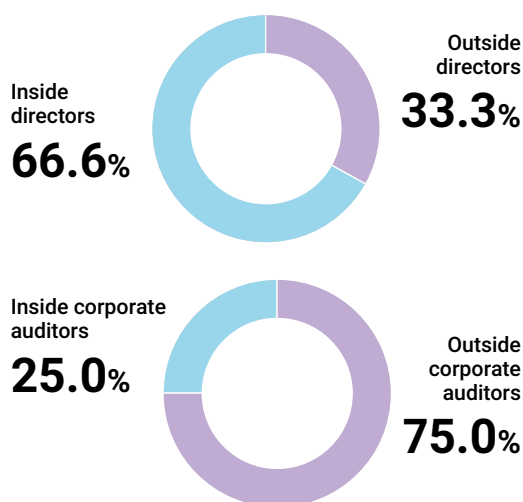


Corporate Governance

CORPORATE GOVERNANCE CHART (As of June 1, 2021)

Organizational Structure	A Company with a Board of Corporate Auditors
Number of Directors	12
Number of Outside Directors	4
Number of Corporate Auditors	4
Number of Outside Corporate Auditors	3
Term Served by Directors	1 year
Adopted an Executive Officer System	Yes
Accounting Auditor	Deloitte Touche Tohmatsu LLC

Board Composition



NUMBER OF MEETINGS OF THE MANAGEMENT POLICY COMMITTEE, BOARD OF DIRECTORS, AND BOARD OF CORPORATE AUDITORS (Fiscal 2020)

Management Policy Committee

29

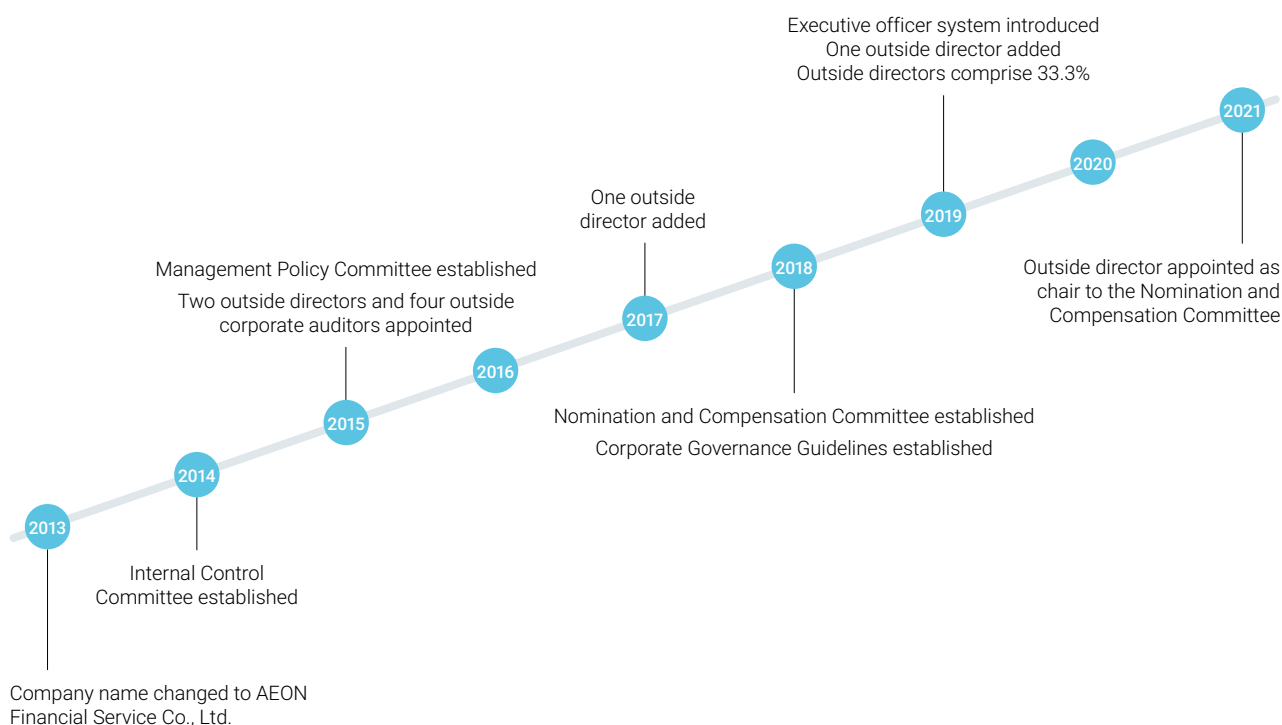
Board of Directors

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Board of Corporate Auditors

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CORPORATE GOVERNANCE TIMELINE



BASIC PRINCIPLES OF CORPORATE GOVERNANCE

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

OUR BASIC APPROACH TO CORPORATE GOVERNANCE

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

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

CORPORATE GOVERNANCE STRUCTURE

The Company aims to further strengthen its management control and corporate governance. To this end, it has established the Management Policy Committee, Internal Control Committee, the Sustainability Committee, the Nomination and Compensation Committee, and the Disclosure Committee, in addition to the Board of Directors. The Management Policy Committee is an advisory body that discusses management decision-making executed on the president and CEO's authority. With the aim of realizing sustainable growth and increasing corporate value for the Group over the medium and long term, the Internal Control Committee comprehensively and expertly discusses and makes decisions on matters regarding the development of an internal control system within the scope entrusted by the Board of Directors and provides reports and opinions to the Board of Directors. The committee consists of the president and CEO as the presiding officer within the scope entrusted by the Board of Directors. The internal control system is ready to be operated and improved flexibly and, by conducting thorough consideration and deliberation of individual themes, provide

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

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

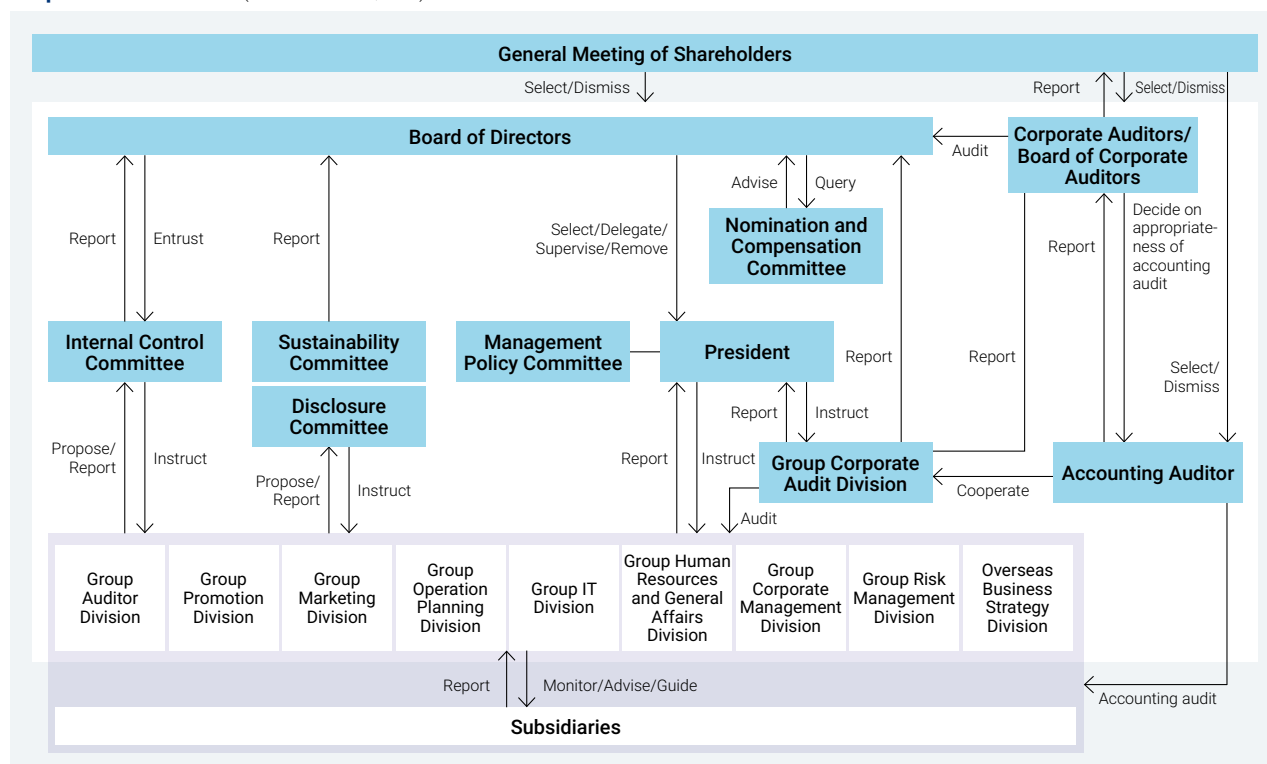
The Disclosure Committee multidimensionally and comprehensively discusses and deliberates disclosure materials to explain the Company's financial results and the status of the operating business.

The Board of Directors consists of an appropriate number of people in order to emphasize mobility and enable prompt decision-making. Important matters related to the management of the Company and the Group are decided by the Board of Directors after deliberation by the Management Policy Committee and the Internal Control Committee from

the viewpoint of the effectiveness and efficiency of the business.

In addition, the Company is a company with the Board of Corporate Auditors, and the Board of Corporate Auditors consists of three outside corporate auditors (including two independent directors) and one corporate auditor.

Corporate Governance (As of October 26, 2021)



INITIATIVES TO INCREASE THE EFFECTIVENESS OF THE BOARD OF DIRECTORS

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

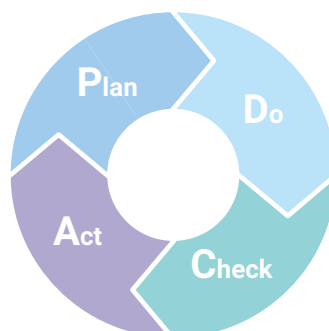
This initiative has supported corporate governance reforms that include enhancing the operation of the Board of

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

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

1 Clarification of business processes and facts

4 Further investigation of issues



2 Progress of business and productivity improvement management

3 Innovation that integrates external expertise

POLICIES FOR COMPENSATION AMOUNT AND METHOD OF CALCULATION

Officer Compensation (Fiscal 2020)

Classification	Total Compensation (Millions of Yen)	Total Compensation by Classification (Millions of Yen)				Number of Recipients
		Base Compensation	Stock Options	Performance-Linked Compensation	Retirement Benefits	
Directors (Excluding Outside Directors)	174	137	9	27	—	10
Corporate Auditors (Excluding Outside Corporate Auditors)	—	—	—	—	—	—
Outside Officers	79	79	—	—	—	8

Note:

- The above table includes compensation for three directors (including one outside director) who retired at the conclusion of the 39th Ordinary General Meeting of Shareholders.
- The Company determines director compensation fairly and transparently to provide strong motivation for directors to properly execute management strategy and links it to business performance.
- Director compensation consists of base compensation, performance-linked compensation, and equity-linked compensation in the form of stock options. Base compensation is determined based on individual assessment within the standard amount for each position and is paid monthly. Base compensation for directors who concurrently serve at and receive compensation as officers of affiliated companies is handled on an individual basis.
Performance-linked compensation is weighted at about 30% of total cash compensation (base compensation plus performance-linked compensation), with the weight increasing according to responsibilities. The payment for performance-linked compensation will be 100% of the standard amount when the targets set at the beginning of a given fiscal year are achieved and ranges from 0% to 200% based on performance and individual assessment for the relevant fiscal year.
Performance-linked compensation consists of compensation linked to Company results and compensation for individual performance. Compensation linked to Company results is determined by comprehensively considering performance and applying a coefficient to the standard compensation for each position based on the ratio of actual to target consolidated or Company results. Compensation for individual performance is determined by applying a coefficient to the standard compensation of each position based on individual evaluation, the performance of the relevant business units, and the ratio of actual to target management goals achieved. Equity-linked compensation in the form of stock options aims to align stock price, performance, and compensation. Recipients share the benefits of stock price increases and the risk of stock price declines with shareholders. Stock acquisition rights are allocated as stock options that reflect business performance and serve to motivate and encourage recipients in consistently improving business performance and increasing corporate value. The number of stock acquisition rights allocated is determined by adjusting the standard number for each position according to performance in the relevant fiscal year.
- Outside directors receive only fixed compensation and are not subject to Company or individual performance evaluations.
- The 34th Ordinary General Meeting of Shareholders held on June 24, 2015 resolved to limit compensation for directors to a total of ¥550 million per year. Monetary compensation is limited to ¥400 million per year (including ¥50 million for outside directors) and equity-linked compensation is limited to ¥150 million per year as determined by the fair market value of the stock options.
- The Board of Directors resolved at a May 27, 2020 meeting to give the president and CEO the authority to determine the policy and calculation method for the compensation of Company officers, the scope of which includes monetary compensation for individual directors. Performance-linked compensation is determined in accordance with the ratio of actual to target Company and individual performance of the officer.

Remuneration Type for Each Position of Director

KPIs for performance-linked compensation are mainly based on the ratio of actual to targeted ordinary profit. Factors including non-recurring income, changes in the operating environment during the fiscal year, and revisions of intracompany transactions influence the actual amount of performance-linked compensation. The Company has selected ordinary profit as the main KPI because it best reflects normal business performance.

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

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

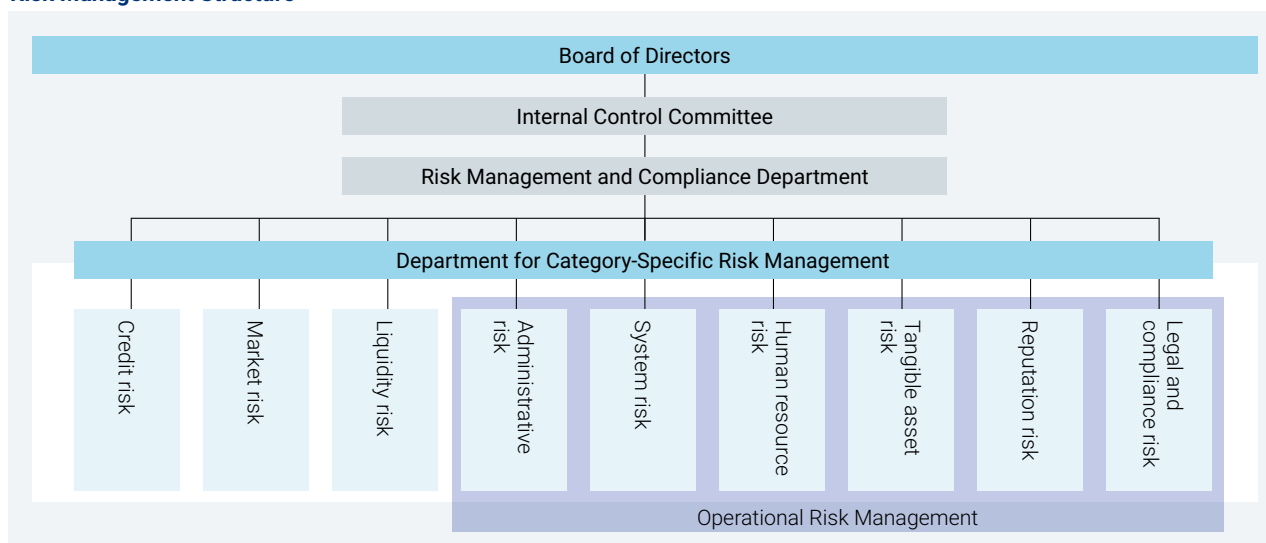
RISK MANAGEMENT

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

As a structure to promote said risk management, the Company has established the Group Risk Management Division to oversee the risk management of the Group. The Internal Control Committee comprehensively studies and deliberates on matters relating to overall risk management in the Group and refers important matters to the Board of Directors. In addition, we have established subcommittees related to internal control and conduct concrete examinations regarding operational issues that focus on monitoring and risk control within the Group. These examinations entail understanding problems, analyzing the root causes of said

problems, and planning countermeasures. The examination results are then proposed and reported to the Internal Control Committee. The role of the Board of Directors with respect to risk management is to regularly receive reports on the status of risk management, perform monitoring of risk management, and deliberate and decide on important fundamental matters relating thereto. The Group categorizes risks that occur in the course of operations into a number of categories: credit risk, market risk, liquidity risk, and operational risk. Risks are managed according to their specific characteristics. In particular, we are working to create a regularly updated system to identify, analyze, and evaluate changes in external conditions, including the COVID-19 pandemic, which has been ongoing since the beginning of 2020, and changing political situations in countries that the Group is expanding into.

Risk Management Structure



Note: The Group classifies operational risk management into six categories. Departments manage risks relevant to them, while the Group Risk Management Division works to understand and manage risks on a comprehensive level.

Business Risks

When assessing the Group's business risks, the Company makes a comprehensive judgment on whether a risk is a priority risk or not after evaluating the possibility of said risk materializing and the impact it will have on management.

The items listed on page 48 have been highlighted as high priority risks.

These risks are considered to have a relatively high possibility of affecting the Group's performance and financial standing based on the Company's risk assessment.

Other risks that could affect business operations include physical damage to our sales offices and communication systems from natural disasters caused by climate change and an increase in abnormal weather. Such events could also have an adverse effect on customers' daily lives and household budgets, resulting in an increase in Group credit-related expenses. AEON Co., Ltd., the parent company of AFS, has established Aeon Decarbonization Vision 2050, aiming to realize a carbon-neutral society, and has been working to

tackle the problem of global warming—something that bears a major impact on the earth's environment—at an early stage. They have been working to expand initiatives to understand and assess risks and disclose information in line with the recommendations put forth by the TCFD. As a member of the

AEON Group, AFS is working to reduce CO₂ emissions by promoting paperless operations. These efforts include using tablets for explaining products and for application procedures and introducing digital signage at stores, in addition to moving AEON Card usage details online.

High Priority Risks

Type of Risk	Description	Countermeasures
System Risk	<p>■ Risks related to major IT projects</p> <p>The AFS Group is committed to gaining a competitive edge and differentiating itself from other companies through a variety of efforts, including the advancement of the DX-related initiatives highlighted in its medium-term management plan, by improving core systems, and providing new products and services. In fiscal 2020, the Group made capital investments, including investments in IT and systems of approximately ¥34.0 billion in the Domestic Business and ¥5.0 billion in the Global Business, with software assets reaching a value of ¥100.0 billion. Changes in the progress of important IT projects for Group companies can push back release dates, result in products with inadequate functions, lower the quality of programs and other deliverables, or cause these projects to go over budget. If any of these risks materialize, they can have a significant impact on the Group.</p>	<p>Building a core system is an advanced technological endeavor, as the system needs to be highly reliable in avoiding shutdowns and well-guarded against any malfunctions while also being able to process large volumes of a wide variety of transactions. Moreover, in the unlikely event that a malfunction does occur, functions need to be in place to ensure recovery. Therefore, the Company moves forward with projects utilizing an integrated development framework, while conducting multilevel monitoring of development planning, development processes, and quality. This is in addition to working with vendors to conduct mutual checks to increase design quality and ensure testing is as comprehensive as possible. Furthermore, care is taken to confirm for all foreseeable scenarios before migrating to a new system, and the development progress of important systems is reported to the Board of Directors on a monthly basis.</p>
System Risk	<p>■ Interruption or malfunction of system services (IT service quality risks)</p> <p>Human error in the development and operation of IT systems, installation of defective software, hardware failures, earthquakes, tsunamis, political instability, and terrorist activity may impact the power and communication capabilities of IT assets and infrastructure. This may lead to the interruption or suspension of IT services, delayed or inaccurate processing, and information leaks. If any of these external risks materialize, they can have a significant impact on the Group.</p>	<p>To minimize the impact of natural disasters and system failures, the Company has placed office centers and core system servers for its domestic banking and credit businesses across several locations built on solid ground that is unlikely to be affected by tsunamis and other disasters. In addition, local storage of data for domestic companies, including personal information, is limited to locations in Japan. As a countermeasure to COVID-19, the Company has also developed a remote working system to ensure business services can continue even while employees are unable to work on location.</p>
System Risk	<p>■ Risks related to external attacks (cyberattacks)</p> <p>Hacking or viruses transmitted from external network communications or email could lead to a suspension of IT services and data leaks or corruption. If any of these risks materialize, they can have a significant impact on the Group.</p>	<p>In addition to technical measures to combat cyberattacks, computer security incident response teams (CSIRTs) have been set up at major Group companies to respond to cyber incidents from the operational side. Furthermore, employees participate in training to prepare for a variety of accidents and hindrances, conducted in collaboration with Group companies or industry organizations. Moreover, the Company conducts regular information sharing and training for its employees to protect against phishing and business email compromise (BEC) scams.</p>
Administrative Risk	<p>■ Fraud from external sources (damage from unauthorized access, etc., through phishing sites and other means)</p> <p>The AFS Group provides financial services that include opening bank accounts and issuing credit cards. However, false emails pretending to be from AEON Bank could lead customers to fake websites where they might give up account numbers, IDs, passwords, and other personal information. This opens customers up to the risk of fraudulent withdrawals, credit card phishing scams, and other forms of financial fraud. The damages caused by such incidents could lead to a loss of trust in the Group.</p>	<p>The Group monitors for phishing sites and unauthorized access to ensure that customers can partake in its financial services safely and securely. At the same time, the Group strives to alert customers when there is a chance of their account being compromised and will make every attempt to minimize damage if such an event occurs.</p>
Administrative Risk	<p>■ Personal information leaks</p> <p>The Group has in its possession information about individuals who are business partners and is a business operator that handles personal information as stipulated by the Act on the Protection of Personal Information.</p> <p>If safety management measures or management of outsourced companies as stipulated by law are not sufficiently put in place and information is used for unauthorized purposes, such events may be treated as a violation of the law, and the Group may be subject to guidance, recommendations, orders, and penalties from a competent authority as a result. In particular, if a large amount of customer data is leaked or corrupted as a result of external unauthorized access or internal fraud, compensation for damages, loss of trust in the Group, and other negative impacts could affect the Group's performance.</p>	<p>The Group has taken measures to ensure information safety management from a variety of perspectives. Organizational measures include the assignment of a person responsible for the safety management of personal information for each department of the Group that handles such information, person-based measures that include information safety management education and training for all employees, physical measures to secure all business locations and systems, and technical measures to ensure the authority to access such information is properly managed.</p> <p>Furthermore, the Group also implements strict management and supervisory measures when outsourcing personal information.</p>

Business Continuity Management

As a member of the AEON Group, we have created a manual on business continuity management in preparation for natural disasters, such as earthquakes, floods and typhoons, system troubles, pandemics, fires, and other various risks, and distribute this manual to employees.

In March 2020, we acquired ISO 22301 certification, the international standard for business continuity management systems (BCMS). Efforts to ensure business continuity in the event of a large-scale disaster are critical to the management of financial companies. Since the Company's business involves payment infrastructure, there is high demand from the local community and other stakeholders for a quick recovery of services in the event of an emergency. Therefore,

we are making various efforts to maintain and improve our disaster response and business continuity capabilities. These efforts fulfill the BCMS standards put forth under ISO 22301, with certification applicable to AEON Financial Service Co., Ltd., AEON Credit Service Co., Ltd., and AEON Bank, Ltd. in the part of the business.

To prepare for the various risks facing the Company, we continue to conduct prevention drills for large-scale natural disasters together with AEON Co., Ltd. twice a year. At the same time, the AFS Group conducts its own disaster prevention drills as a comprehensive financial business in addition to employee education and other efforts.

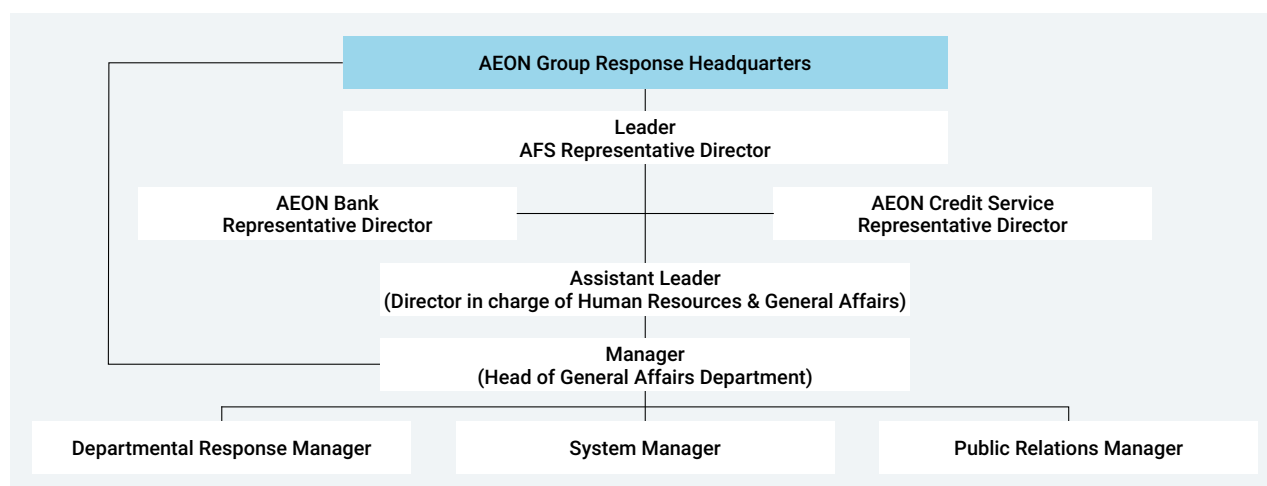
Business Continuity Policy

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

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

Emergency Response Headquarters System

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



COMPLIANCE SYSTEM

The AEON Code of Conduct has been established to provide guidance for appropriate judgments and actions in line with the social norms and corporate ethics upheld by the AEON Group. The Group, meanwhile, has established the AFS (AEON Financial Service) Group Policies on Compliance. All officers

and employees of the Group comply with these guidelines, which represent common value standards.

The Group has also formulated the Compliance Regulations and Compliance Manual to thoroughly inform all officers and employees about the laws and regulations that they must

comply with, specific red flags to watch out for, and how to respond should they discover any compliance violations. In addition, the Group holds compliance training at regular intervals and whenever necessary.

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

The Internal Control Committee monitors compliance within the Group and examines compliance-related policies, regulations, and case-by-case responses to compliance-related issues.

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

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

Due to strong domestic and international demand, we have positioned money laundering and terrorist financing as important issues for management, in addition to measures aimed at preventing corruption among foreign public servants.

To promote a proactive response in this regard, we are working to develop and operate management systems at each Group company based on our AFS Group Compliance Policy.

WHISTLEBLOWING SYSTEM

Each Group company has a contact point for consultation to ensure the promotion of compliance and the integrity of the compliance system of the Group. In addition, all officers and employees are informed about the AEON Code of Conduct "110" hotline and the outside hotline for consultation. These hotlines are aimed at providing individuals an option to report problems ranging from legal violations, to violations of the Code of Conduct, to day-to-day work issues when there are difficulties correcting these problems at the workplace in question. When a violation is reported, efforts are made to investigate

the facts and implement appropriate actions and improvements while protecting the individual reporting the infraction. On June 1, 2020, businesses in Japan became legally obligated to prevent power harassment in the workplace. Therefore, we are committed to continuing our efforts to utilize these consultation systems to accept and investigate reports, take corrective action, and make improvements. Furthermore, we have also set up a dedicated contact point for reporting officer misconduct at each Group company, further strengthening corporate governance for the AEON Group.

AEON Bank Receives Whistleblowing System Certification

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



INTERNAL AUDITS

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

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

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 ¹
Consolidated cardholders (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
Consolidated cardholders (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 ⁴	2020 (FY)
Consolidated cardholders (millions)							
Total	35.67	37.22	38.94	40.64	42.69	45.27	46.13
Domestic	24.64	25.88	26.92	27.75	28.40	28.89	29.45

For the year (millions of yen)

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

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	1,860.08
Earnings per share	152.55	180.09	189.75	179.29	182.64	158.25	81.99
Diluted earnings per share	152.04	180.00	183.96	170.02	173.20	154.15	81.97

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

Key indicators (%)

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

Dividends

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

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* ¹	375,166	407,970	439,001	457,280	487,309
Operating profit* ²	61,606	65,746	70,171	65,070	40,651
Profit attributable to owners of parent	39,454	38,677	39,408	34,149	17,693

*¹ Ordinary revenue is used from fiscal 2016–fiscal 2018.

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

Segment Results (Fiscal 2020)

(Millions of Yen)

	Domestic Business Total*	Retail	Solutions	Global Business Total*	China Area	Mekong Area	Malay Area	Total
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	5,908,393
Domestic	4,515,763	4,955,492	5,358,216	5,378,384	5,676,809
Global	195,913	236,215	260,161	291,292	231,582
Hire purchase contracts	315,497	334,790	346,550	351,099	300,704
Cash advances	475,851	508,336	540,997	515,070	378,375

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

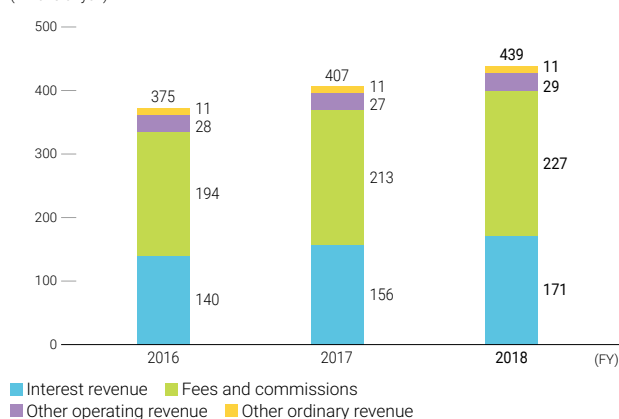
*1. Ordinary revenue is used from fiscal 2016 to fiscal 2018.

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

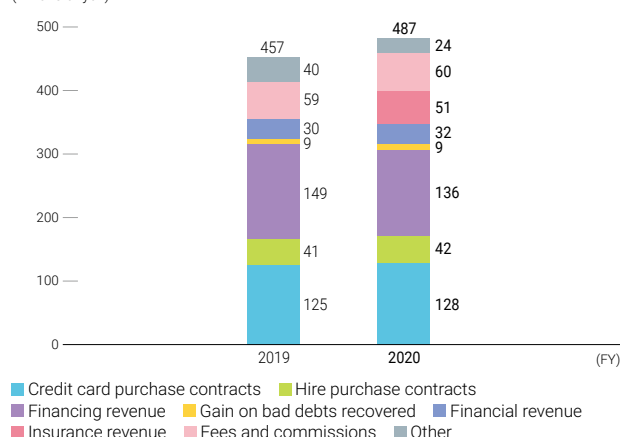
- Operating revenue increased 6.6% year on year as a result of incorporating revenue in Japan from AALI, which became a consolidated subsidiary during the fiscal year under review, and greater revenue from interest payments and commissions in keeping with a higher number of housing loans and e-money 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)



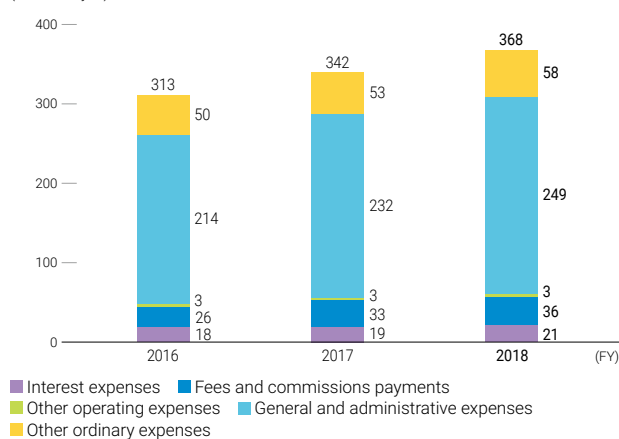
Operating Expenses*1

(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)



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

*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)

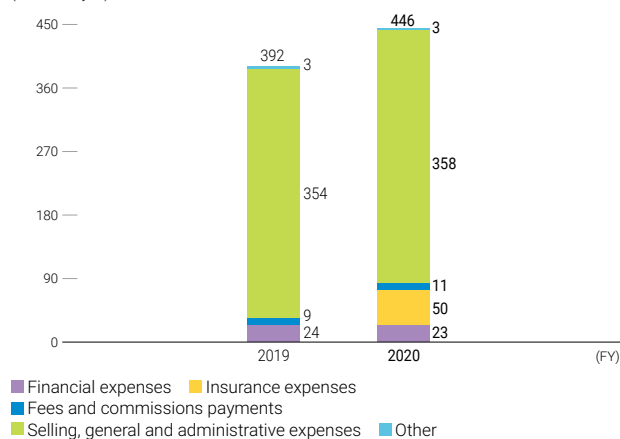
	Fiscal 2019*2	Fiscal 2020*2
Total operating expenses	392,209	446,657
Financial expenses	24,473	23,030
Insurance expenses	—	50,404
Fees and commissions payments	9,004	11,161
Selling, general and administrative expenses	354,977	358,689
Other	3,753	3,372

*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.

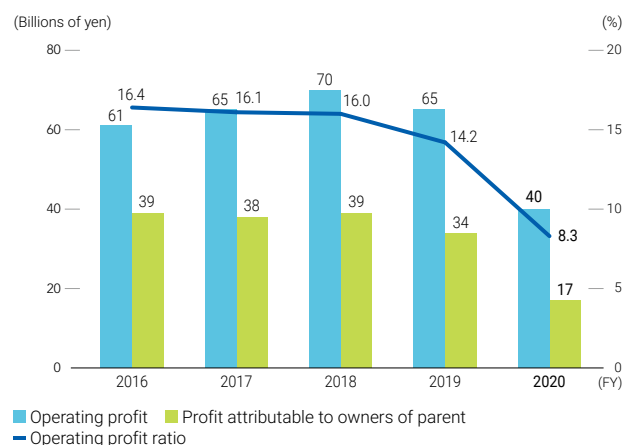
overseas, as well as to higher personnel, administrative, and equipment expenses related to incorporating the full-scale sales activities of AALI in Japan, and was despite a pullback in sales activities in Japan and overseas; lower personnel, administrative, and equipment costs from reduced shipping 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)



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

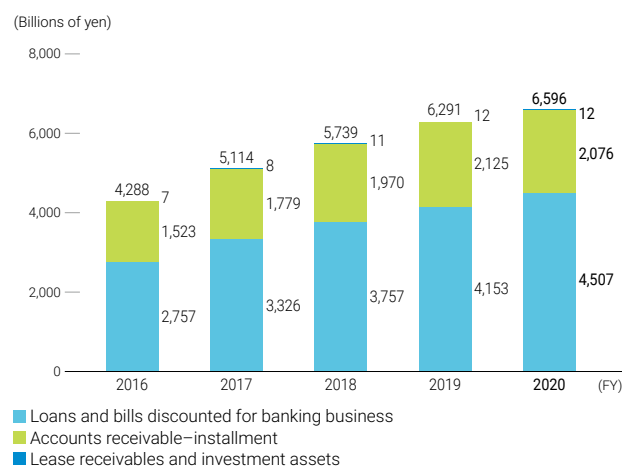
(Millions of Yen)

	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	6,596,405
Loans and bills discounted for banking business	2,757,434	3,326,572	3,757,628	4,153,294	4,507,680
Accounts receivable—installment	1,523,981	1,779,143	1,970,668	2,125,629	2,076,439
Lease receivables and investment assets	7,103	8,506	11,425	12,782	12,284

*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	474,667
Equity ratio	8.5%	8.3%	7.3%	6.8%	6.6%

- 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 ^(*)
	2021 ^(*)	2020 ^(*)	2019 ^(*)	2021
For the Year:				
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
	Yen			U.S. Dollars ^(*)
Per Share Data:				
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
	Millions of Yen			Thousands of U.S. Dollars ^(*)
At Year-End:				
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
	Percentage			
Ratios:				
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 ^(*)	2017 ^(*)		
For the Year:				
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		
	Yen			
Per Share Data:				
Net assets	¥1,714.92	¥1,604.79		
Basic net income	179.29	189.75		
Diluted net income	170.02	183.96		
	Millions of Yen			
At Year-End:				
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		
	Percentage			
Ratios:				
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
Operating Revenues:				
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
Operating Expenses:				
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
Operating Profit	¥40,651	¥65,070	¥(24,419)	(37.5)%

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 ^(*) :				
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
ASSETS			
Current assets:			
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
Property and equipment:			
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
Investments and other assets:			
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
LIABILITIES AND NET ASSETS			
Current liabilities:			
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
Non-current liabilities:			
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)			
Net Assets (Notes 8 and 9):			
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
Operating revenue:			
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
Operating expenses:			
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
Non-operating revenues (expenses):			
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
Income taxes (Note 12):			
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
Profit attributable to non-controlling interests	(8,415)	(10,844)	(79,209)
Profit attributable to owners of parent	¥ 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												
	Outstanding Number of Shares of Common Stock	Accumulated Other Comprehensive Income										Total	Non-Controlling Interests	Net Assets
		Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock	Unrealized Gain on Available-for-Sale Securities	Deferred Loss on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Accumulated Adjustments for Retirement Benefits				
Balance, April 1, 2019	215,778	¥45,698	¥120,214	¥104	¥235,414	¥(24,949)	¥ 5,151	¥(1,676)	¥ 1,472	¥(680)	¥380,748	¥ 67,957	¥448,705	
Net income attributable to owners of the parent					34,150						34,150		34,150	
Cash dividends, ¥68 per share					(14,674)						(14,674)		(14,674)	
Conversion of convertible bonds	1					1					1		1	
Purchase of treasury stock	(1)					(1)					(1)		(1)	
Disposal of treasury stock	9,524				(19)	60					41		41	
Cancellation of treasury stock	(9,500)				(24,354)	24,354								
Change in the parent's ownership interest arising from transactions with non-controlling interests			146								146	(146)		
Change in scope of consolidation					(9)						(9)		(9)	
Net change in the year				(22)			(2,238)	(2,793)	(1,939)	89	(6,903)	(2,235)	(9,138)	
Balance, February 29, 2020	215,802	¥45,698	¥120,360	¥ 82	¥230,508	¥ (535)	¥ 2,913	¥(4,469)	¥ (467)	¥(591)	¥393,499	¥ 65,576	¥459,075	
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	
Balance, February 28, 2021	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)																
	Outstanding Number of Shares of Common Stock	Accumulated Other Comprehensive Income										Total	Non-Controlling Interests	Net Assets				
		Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock	Unrealized Gain on Available-for-Sale Securities	Deferred Loss on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Accumulated Adjustments for Retirement Benefits								
Balance, February 29, 2020	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
Balance, February 28, 2021	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
OPERATING ACTIVITIES:			
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
Changes in assets and liabilities:			
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
INVESTING ACTIVITIES:			
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)
FINANCING ACTIVITIES:			
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)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(40)	(260)	(377)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(46,669)	85,478	(439,282)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	713,407	627,929	6,715,056
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 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 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 ^(*)	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
February 28, 2021				
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
February 28, 2021				
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)
February 28, 2021		
Trading purposes	¥91,614	¥473
Other	953	—

Millions of Yen

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

Thousands of U.S. Dollars

	Consolidated Balance Sheet Amount	Unrealized Gains (Losses)
February 28, 2021		
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 ^(*)	¥ 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 ^(*)	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 (*)	¥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 (*)	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

(*)1) 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
Issued by the Company:			
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
Issued by AEON Product Finance Co., Ltd.:			
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
Issued by AEON THANA SINSAP (THAILAND) PLC.:			
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
Issued by AEON CREDIT SERVICE (M) BERHAD:			
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
Issued by AEON CREDIT SERVICE (PHILIPPINES) INC.:			
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
Total	¥305,735	¥298,107	\$2,877,769

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 ^(*)	¥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 ^(*)	¥ 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
Non-vested (Shares)										
Outstanding at beginning of year										
Granted	12,800									
Expired										
Vested	12,800									
Outstanding at end of year										
Vested (Shares)										
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:

	2021	2020	2021
	Millions of Yen	Thousands of U.S. Dollars	Thousands of U.S. Dollars
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 ^(*)	1,370,619	¥251,762	¥191,791	¥131,629	¥ 66,343	¥ 212,951
Loans in banking business ^(*)	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 ^(*)	1,420,990	¥284,779	¥205,354	¥142,442	¥ 68,505	¥ 208,068
Loans in banking business ^(*)	207,292	97,182	76,623	72,621	64,573	1,096,918
Securities in banking business:						
Available-for-sale securities:						
Government bonds						1,000
Municipal bonds			200	200		
Corporate bonds	137,700	1,300	800			54,746
Foreign securities	1,642	8,000	1,696	2,254	4,103	31,091
Total	139,342	9,300	2,696	2,454	4,103	86,837
Monetary claims bought						14,691
Money held in trust	6,702	5,865	5,117	4,475	3,875	24,275
Total	¥2,503,168	¥397,126	¥289,790	¥221,992	¥141,056	¥1,430,789

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 ^(*)	12,901,163	\$2,369,748	\$1,805,263	\$1,238,977	\$ 624,463	\$ 2,004,432
Loans in banking business ^(*)	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 ^(*)	¥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
Total	¥4,191,393	¥248,582	¥254,996	¥195,744	¥90,924	¥80,277

Millions of Yen

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

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 ^(*)	\$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
Total	\$39,452,123	\$2,339,813	\$2,400,189	\$1,842,469	\$855,834	\$755,615

(*) 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	¥9,627,547	¥9,445,832	\$90,620,743
Loan executed	523,260	600,393	4,925,266
Unexercised portion of loan commitments	¥9,104,287	¥8,845,439	\$85,695,477

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	¥24,696	¥29,323	\$232,459
Of which: those expiring within one year	4,471	3,861	42,085

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	¥60,083	¥72,231	\$565,538

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).^{*1} As part of the Group's strategy, the Group is considering entering the life insurance business in collaboration with AEON Group companies with the aim of extending healthy life expectancy in an aging Japanese society. The Group believes that the acquisition of shares of Allianz Life Japan will provide a valuable opportunity and foundation for starting the life insurance business.

Through this life insurance business, the Group plans to support customers' activities to improve their health to prevent illness, 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.^{*2}

^{*1} Allianz Life Japan has suspended the new contracts since January 2012.^{*2} There is no plan to change the terms and conditions of the existing policyholders' insurance contracts.

(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	¥17,694			
Net income available to common shareholders	¥17,694	215,813	¥ 81.99	\$0.77
Effect of dilutive securities				
– Warrants of the Company		39		
– Convertible bonds with stock acquisition rights of the Company				
Diluted EPS				
– Net income for computation	¥17,694	215,852	¥ 81.97	\$0.77
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^(*) 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	¥32,000	¥34,000	\$301,205
Other assets	47	51	446
Lending of loans	32,666	31,525	307,471
Interest income	294	285	2,768

(*) 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 ^(*)	Total
	Domestic		Global					
	Retail	Solutions	China Area	Mekong Area	Malay Area			
Operating revenues ⁽¹⁾								
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 ⁽¹³⁾	¥ 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 ^(*)	Total
	Domestic		Global					
	Retail	Solutions	China Area	Mekong Area	Malay Area			
Operating revenues ⁽¹⁾								
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 ⁽²⁾	¥ 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

	2021							
	Reportable Segment					Subtotal	Reconciliations ^(*)	Total
	Domestic		Global					
	Retail	Solutions	China Area	Mekong Area	Malay Area			
Operating revenues ⁽¹⁾								
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 ⁽¹³⁾	\$ 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 ^(*)(*)2

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 ^(*)						
Domestic		Global				Total
Retail	Solutions	China Area	Mekong Area	Malay Area	Reconciliations	
¥144	—	—	—	—	—	¥144

Millions of Yen

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

Thousands of U.S. Dollars

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

Millions of Yen

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

Thousands of U.S. Dollars

	2021					
	Domestic		Global			Total
	Retail	Solutions	China Area	Mekong Area	Malay Area	
Goodwill at February 28, 2021 ^(*)	\$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

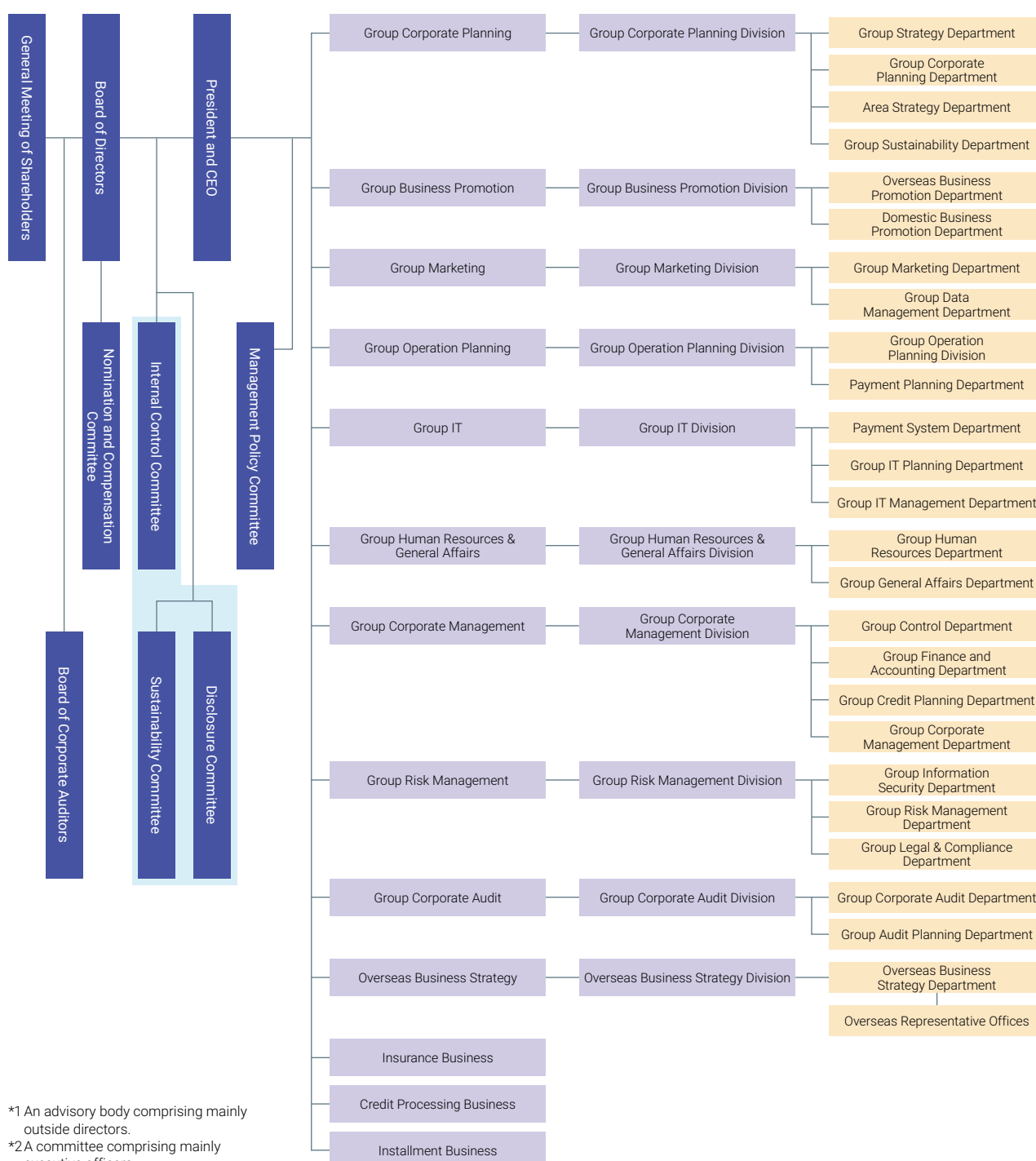
(August 27, 2021 as to Note 23)

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)



Affiliated Companies

Company Name	Location	Capital (millions of yen)	Main Business ¹	Voting Rights (%) ²	Relationship to the Company			
					Concurrently Serving Officers	Financial Assistance	Business Transactions	Facility Leasing
(Parent) AEON Co., Ltd. ³	Mihama-ku, Chiba	220,007	Pure holding company	Ownership: 49.9 (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. ^{4,5}	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. ^{4,5,8}	Chiyoda-ku, Tokyo	500	Solutions	100.0	2	Loans of capital	Management fees, outsourcing fees	Subletting of office premises
AEON Product Finance Co., Ltd.	Chiyoda-ku, Tokyo	3,910	Solutions	100.0	—	Loans of capital	Management fees, outsourcing fees	Subletting of office premises
ACS Leasing Co., Ltd.	Chiyoda-ku, Tokyo	250	Solutions	100.0	—	Loans of capital	Management fees, outsourcing fees	—
AFS Corporation Co., Ltd.	Chiyoda-ku, Tokyo	2,000	Holding Company or Other	100.0	3	Loans of capital	Management fees, outsourcing fees	Subletting of office premises
AEON Allianz Life Insurance Co., Ltd. ^{4,5}	Chiyoda-ku, Tokyo	17,199	Retail	60.0	—	—	—	Subletting of office premises
AEON Credit Service (Asia) Co., Ltd. ⁶	Hong Kong	HKD 269 million	China Area	52.8 (52.8)	1	—	Management fees	—
AEON Thana Sinsap (Thailand) Plc. ^{4,7}	Thailand	THB 250 million	Mekong Area	54.3 (19.2)	1	—	Management fees	—
AEON Credit Service (M) Berhad ^{4,5,8}	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. ⁵	Hong Kong	RMB 740 million	Holding Company or Other	100.0	—	—	Management fees	Subletting of office premises
AEON Micro Finance (Tianjin) Co., Ltd.	Tianjin, China	RMB 100 million	China Area	100.0 (100.0)	—	—	—	—
AEON Leasing Service (Lao) Co., Ltd.	Laos	LAK 28,000 million	Mekong Area	100.0 (100.0)	—	—	Management fees	—
AEON Credit Service (Philippines) Inc.	Philippines	PHP 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

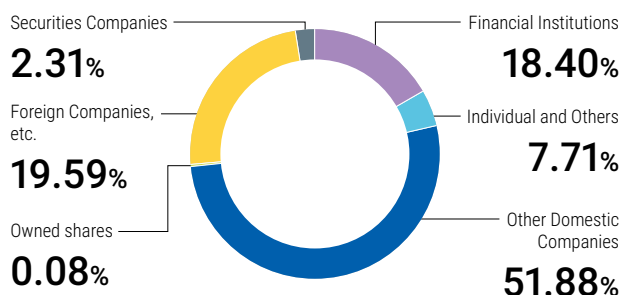
Basic Share Information

(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)



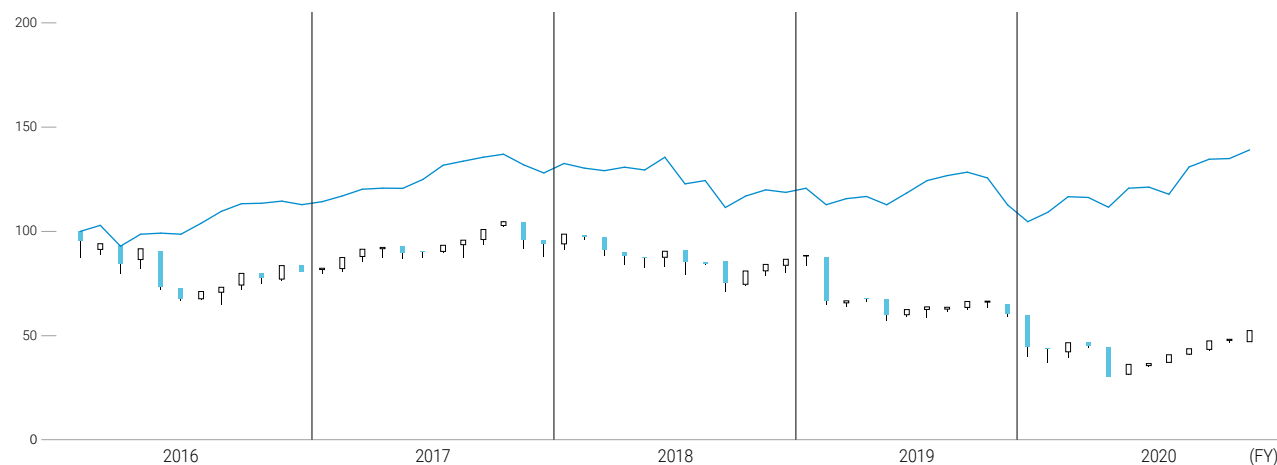
Major Shareholders

(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)



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	294.6
High (Yen)	2,790	2,914	2,785	2,329	1,601
Low (Yen)	1,689	2,067	1,849	1,493	793

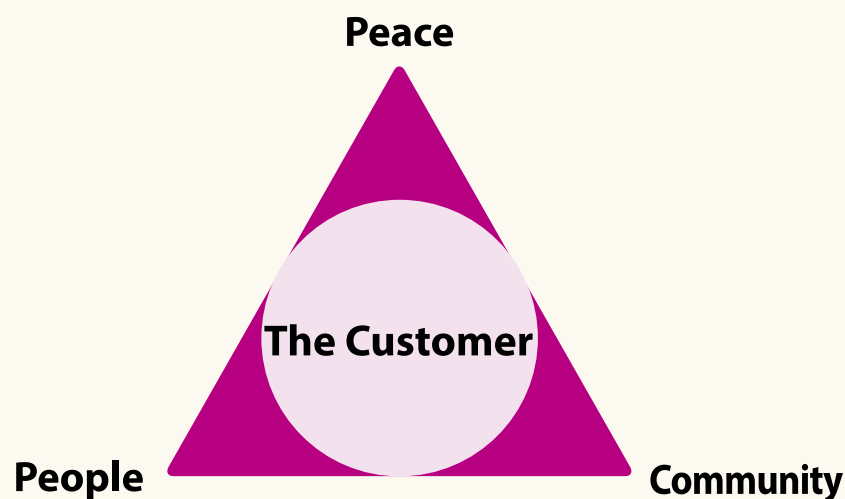
Note: Market capitalization is calculated by multiplying the closing price of the stock price at the end of the fiscal year by the total number of shares issued at the end of the fiscal year.

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.



AEON Financial Service Co., Ltd.
<https://www.aeonfinancial.co.jp/en/>