Five-Year Performance Summary

AEON Financial Service Co., Ltd. and Subsidiaries

Years Ended February 28, 2023, 2022 and 2021, Year Ended February 29, 2020 and Year Ended March 31, 2019

	Millions of Yen										Thousands of U.S. Dollars(*1)	
		2023(*2)(*4)		2022(*2)		2021(*2)		2020(*2, *3)		2019(*2)		**2023**
For the Year:												
Total operating revenues	¥	**451,767**	¥	470,657	¥	487,309	¥	457,280	¥	438,441	$	**3,313,532**
Total operating expenses		**392,907**		411,804		446,658		392,210		368,420		**2,881,819**
Income before income taxes		**59,801**		59,746		39,305		64,530		69,178		**438,619**
Net income attributable to owners of the parent		**30,678**		30,213		17,694		34,150		39,408		**225,010**
	Yen										U.S. Dollars(*1)	
Per Share Data:												
Net assets	¥	**2,014.29**	¥	1,965.47	¥	1,860.08	¥	1,823.05	¥	1,764.05	$	**14.77**
Basic net income		**142.13**		139.98		81.99		158.25		182.64		**1.04**
Diluted net income		**142.12**		139.97		81.97		154.15		173.20		**1.04**
	Millions of Yen										Thousands of U.S. Dollars(*1)	
At Year-End:												
Finance receivables—net of allowance for credit losses	¥	**2,491,271**	¥	2,219,939	¥	2,175,612	¥	2,292,210	¥	2,197,819	$	**18,272,485**
Loans in banking business—net of allowance for credit losses		**2,156,978**		2,104,536		1,993,575		1,672,020		1,582,322		**15,820,584**
Property and equipment		**31,925**		34,320		39,152		45,303		39,205		**234,159**
Total assets		**6,659,469**		6,278,586		6,123,722		5,781,371		5,254,080		**48,844,570**
Total liabilities		**6,118,335**		5,769,531		5,649,054		5,322,296		4,805,375		**44,875,569**
Total equity		**541,134**		509,055		474,668		459,075		448,705		**3,969,001**
	Percentage											
Ratios:												
Equity ratio		**6.5%**		6.8%		6.6%		6.8%		7.2%		
Return on assets		**0.5**		0.5		0.3		0.6		0.8		
Return on equity		**7.1**		7.3		4.5		8.8		10.5		

(*1) The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at the rate of ¥136.34 to U.S.$1, the exchange rate as at February 28, 2023. Such translation should not be construed as a representation that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

(*2) 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, 2023, 2022 and 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.

(*3) 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.

(*4) Effective from March 1, 2022, the Company and its domestic subsidiaries have adopted the "Accounting Standard for Revenue Recognition" (Accounting Standards Board of Japan (ASBJ) Statement No. 29, March 31, 2020), etc. The financial results for the fiscal year ended February 28, 2023 are presented in accordance with this Accounting Standard.

Financial Review

AEON Financial Service Co., Ltd. and Subsidiaries
Year Ended February 28, 2023 and 2022

RESULTS OF OPERATIONS

	Millions of Yen						Percentage Change
		2023		2022		Amount Change	
Operating Revenues:							
Credit card purchase contracts	¥	**112,416**	¥	131,780	¥	(19,364)	(14.7) %
Hire purchase contracts		**48,451**		42,663		5,788	13.6
Loan contracts		**137,960**		128,421		9,539	7.4
Financial revenue		**34,403**		33,684		719	2.1
Insurance revenue		**13,205**		29,190		(15,985)	(54.8)
Fees and commissions		**62,179**		60,991		1,188	1.9
Gain on bad debts recovered		**16,117**		11,921		4,196	35.2
Other operating revenues		**27,036**		32,007		(4,971)	(15.5)
Total operating revenues		**451,767**		470,657		(18,890)	(4.0)
Operating Expenses:							
Financial expenses		**(23,562)**		(21,433)		(2,129)	9.9
Insurance expenses		**(12,929)**		(28,192)		15,263	(54.1)
Fees and commissions		**(11,345)**		(11,463)		118	(1.0)
Selling, general and administrative expenses		**(278,086)**		(295,403)		17,317	(5.9)
Provision for credit losses and write-off of bad debts		**(63,949)**		(52,364)		(11,585)	22.1
Other operating expenses		**(3,036)**		(2,949)		(87)	3.0
Total operating expenses		**(392,907)**		(411,804)		18,897	(4.6)
Operating Income	¥	**58,860**	¥	58,853	¥	7	0.0 %

Consolidated Financial Summary

AEON Financial Service Co., Ltd. (hereinafter, “the Company”) and its subsidiaries (collectively, “the Group”) have set the basic policy for the Medium-term Management Plan (FY2021 – FY2025) as “Second Founding: Innovation of Value Chains and Creation of Networks” and are implementing reforms for the growth of the Group. In Domestic segment, the Group worked on investments and enhancement of its infrastructure to integrate the common ID system of AEON Group. At the same time, the Group worked to improve convenience through the use of AEON Group common points and promote cashless payments through the use of AEON Pay for code payments and expanded the Group’s online services that enable applications and various procedures. In Global segment, the Group is working on digital financial inclusion by developing and improving applications that enable customers to complete the process from completing application forms to using various services on their smartphones and by sophisticating the credit administration process.

For the fiscal year ended February 28, 2023, the Group worked to increase the volume of various transactions by promoting sales campaigns in line with changes in consumer spending patterns as economic activities recovered from the impact of coronavirus disease 2019 (“COVID-19”) in countries and regions where the Group operates. The increase in balances of personal loans and hire purchases in Global segment as well as the recovery in the transaction volume of credit card purchases and the balance of operating receivables in both Domestic and Global segments contributed to the consolidated operating revenues of ¥451,767 million ($3,313,532 thousand). Excluding the effect of a decrease of ¥37,401 million ($274,324 thousand) resulting from the adoption of the “Accounting Standard of Revenue Recognition” in Japan, consolidated operating revenues increased as compared to the fiscal year ended February 28, 2022. Consolidated operating income increased by ¥7 million ($51 thousand) to ¥58,860 million ($431,713 thousand) as compared to the fiscal year ended February 28, 2022, with a delay in recovery of the balance of operating receivables in Domestic segment for the latter half of the current fiscal year.

Finance Receivables and Loans in Banking Business

	Millions of Yen 2023	2022	Amount Change	Percentage Change
Installment sales receivables:				
Credit card purchase contracts	¥ **1,126,220**	¥ 966,384	¥ 159,836	16.5 %
Hire purchase contracts	**643,369**	599,901	43,468	7.2
Subtotal	**1,769,589**	1,566,285	203,304	13.0
Operating loan receivables	**845,263**	772,604	72,659	9.4
Allowance for credit losses	**(123,581)**	(118,950)	(4,631)	3.9
Total finance receivables	¥ **2,491,271**	¥ 2,219,939	¥ 271,332	12.2 %

	Millions of Yen 2023	2022	Amount Change	Percentage Change
Loans and bills discounted	¥ **2,160,775**	¥ 2,110,011	50,764	2.4 %
Allowance for credit losses	**(3,797)**	(5,475)	1,678	(30.6)
Total loans in banking business	¥ **2,156,978**	¥ 2,104,536	52,442	2.5 %

Cash Flows

Net cash provided by operating activities for the fiscal year ended February 28, 2023 increased by ¥28,852 million ($211,614 thousand) to ¥105,139 million ($771,150 thousand) as compared to the fiscal year ended February 28, 2022, mainly due to an increase in installment sales receivables resulting from an expansion of the transaction volume of credit card purchases, while deposits in banking business increased as a result of expanded use of the deposits as settlement accounts.

Net cash provided by investing activities for the fiscal year ended February 28, 2023 was ¥11,796 million ($86,522 thousand) (net cash used in investing activities was recorded at ¥33,562 million for the fiscal year ended February 28, 2022), mainly because proceeds from sales and redemption of securities exceeded payments for purchases of securities.

Net cash used in financing activities for the fiscal year ended February 28, 2023 increased by ¥1,051 million ($7,706 thousand) to ¥14,559 million ($106,785 thousand) as compared to the fiscal year ended February 28, 2022, mainly due to an increase in payments of cash dividends.

As a result of the above, the balance of cash and cash equivalents as at February 28, 2023 increased by ¥107,065 million ($785,278 thousand) to ¥804,694 million ($5,902,108 thousand) as compared to that as at February 28, 2022.

BUSINESS PERFORMANCE BY REPORTABLE SEGMENT

Total Assets, Operating Revenues and Income by Reportable Segment

	Millions of Yen 2023	2022	Amount Change	Percentage Change
Total Assets:				
Retail	¥ **5,001,097**	¥ 4,818,288	¥ 182,809	3.8 %
Solutions	**971,616**	935,681	35,935	3.8
China Area	**113,466**	76,592	36,874	48.1
Mekong Area	**375,856**	321,276	54,580	17.0
Malay Area	**355,060**	290,395	64,665	22.3
Reconciliations	**(157,626)**	(163,646)	6,020	(3.7)
Total assets	¥ **6,659,469**	¥ 6,278,586	¥ 380,883	6.1 %
Operating Revenues(*1):				
Retail	¥ **167,877**	¥ 213,579	¥ (45,702)	(21.4) %
Solutions	**176,359**	178,848	(2,489)	(1.4)
China Area	**22,462**	15,743	6,719	42.7
Mekong Area	**86,021**	72,416	13,605	18.8
Malay Area	**60,902**	49,980	10,922	21.9
Reconciliations	**(61,854)**	(59,909)	(1,945)	3.2
Total operating revenues	¥ **451,767**	¥ 470,657	¥ (18,890)	(4.0) %
Segment Profits:				
Retail	¥ **3,873**	¥ 8,090	¥ (4,217)	(52.1) %
Solutions	**14,288**	17,836	(3,548)	(19.9)
China Area	**7,717**	5,531	2,186	39.5
Mekong Area	**18,997**	15,298	3,699	24.2
Malay Area	**15,716**	12,977	2,739	21.1
Reconciliations	**(1,731)**	(879)	(852)	96.9
Total segment profits	¥ **58,860**	¥ 58,853	¥ 7	0.0 %

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

Consolidated Balance Sheet

AEON Financial Service Co., Ltd. and Subsidiaries
February 28, 2023 and 2022

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2023	2022	**2023**
ASSETS			
Current assets:			
Cash and cash equivalents	**¥ 804,694**	¥ 697,629	**$ 5,902,108**
Deposits with banks (Notes 6 and 16)	**37,922**	41,154	**278,146**
Call loans (Note 16)	**10,374**	8,864	**76,088**
Finance receivables—net of allowance for credit losses (Notes 3, 5, 6 and 16)	**2,491,271**	2,219,939	**18,272,485**
Lease receivables and investment assets (Note 15)	**11,952**	12,585	**87,660**
Loans in banking business—net of allowance for credit losses (Notes 3, 5, 16, 18 and 21)	**2,156,978**	2,104,536	**15,820,584**
Securities in banking business (Notes 4, 6 and 16)	**460,545**	536,221	**3,377,917**
Securities in insurance business (Notes 4 and 16)	**18,135**	49,397	**133,013**
Monetary claims bought (Notes 4 and 16)	**22,535**	27,029	**165,285**
Money held in trust (Notes 4 and 16)	**123,895**	111,016	**908,720**
Other current assets (Notes 14 and 16)	**200,523**	170,800	**1,470,759**
Total current assets	**6,338,824**	5,979,170	**46,492,765**
Property and equipment:			
Structures	**26,227**	23,883	**192,367**
Equipment	**88,001**	87,333	**645,449**
Construction in progress	**222**	109	**1,630**
Other property and equipment	**468**	448	**3,432**
Total	**114,918**	111,773	**842,878**
Accumulated depreciation	**(82,993)**	(77,453)	**(608,719)**
Net property and equipment (Note 22)	**31,925**	34,320	**234,159**
Investments and other assets:			
Investment securities (Notes 4 and 16)	**17,959**	12,990	**131,726**
Deferred tax assets (Note 13)	**37,544**	39,022	**275,372**
Guarantee money deposits (Note 6)	**50,742**	50,438	**372,170**
Goodwill (Note 22)	**13,192**	14,925	**96,754**
Software (Note 3)	**113,906**	107,732	**835,455**
Other assets	**55,377**	39,989	**406,169**
Total investments and other assets	**288,720**	265,096	**2,117,646**
Total assets	**¥ 6,659,469**	¥ 6,278,586	**$ 48,844,570**
LIABILITIES AND EQUITY			
Current liabilities:			
Accounts payable (Note 16)	**¥ 314,542**	¥ 281,117	**$ 2,307,044**
Deposits in banking business (Note 16)	**4,397,954**	4,178,545	**32,257,251**
Short-term borrowings (Notes 6, 7 and 16)	**221,934**	204,074	**1,627,801**
Commercial paper (Notes 7 and 16)	**75,000**	85,000	**550,095**
Current portion of long-term borrowings (Notes 7 and 16)	**117,859**	90,215	**864,445**
Current portion of bonds (Notes 7 and 16)	**85,237**	63,410	**625,182**
Allowance for point program	**798**	7,129	**5,854**
Other current liabilities (Notes 7 and 14)	**131,186**	142,755	**962,198**
Total current liabilities	**5,344,510**	5,052,245	**39,199,870**
Non-current liabilities:			
Reserve for insurance policy liabilities	**54,338**	64,368	**398,548**
Bonds (Notes 7 and 16)	**264,826**	277,250	**1,942,394**
Long-term borrowings (Notes 6, 7 and 16)	**417,239**	335,933	**3,060,283**
Deferred tax liabilities (Note 13)	**1,286**	1,274	**9,434**
Allowance for loss on refund of interest received	**4,823**	6,476	**35,375**
Other liabilities (Notes 7 and 8)	**31,313**	31,985	**229,665**
Total non-current liabilities	**773,825**	717,286	**5,675,699**
Total liabilities	**6,118,335**	5,769,531	**44,875,569**
Commitments and contingent liabilities (Notes 15, 17 and 18)			
Equity (Notes 9 and 10):			
Common stock—authorized, 540,000,000 shares; issued, 216,010,128 shares in 2023 and 216,010,128 shares in 2022	**45,698**	45,698	**335,178**
Capital surplus	**120,270**	119,990	**882,135**
Stock acquisition rights—208 rights in 2023 and 191 rights in 2022	**14**	33	**99**
Retained earnings	**278,172**	258,525	**2,040,285**
Treasury stock—at cost, 152,460 shares in 2023 and 172,749 shares in 2022	**(391)**	(443)	**(2,863)**
Accumulated other comprehensive income:			
Unrealized loss on available-for-sale securities (Note 4)	**(27,662)**	(2,550)	**(202,889)**
Deferred gain (loss) on derivatives under hedge accounting	**121**	(1,628)	**886**
Foreign currency translation adjustments	**18,739**	4,852	**137,439**
Accumulated adjustments for retirement benefits (Note 8)	**(147)**	(222)	**(1,081)**
Total	**434,814**	424,255	**3,189,189**
Non-controlling interests	**106,320**	84,800	**779,812**
Total equity	**541,134**	509,055	**3,969,001**
Total liabilities and equity	**¥ 6,659,469**	¥ 6,278,586	**$ 48,844,570**

See notes to consolidated financial statements.

Consolidated Statement of Income

AEON Financial Service Co., Ltd. and Subsidiaries
Year Ended February 28, 2023 and 2022

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2023	2022	**2023**
Operating revenues:			
Credit card purchase contracts	**¥ 112,416**	¥ 131,780	**$ 824,527**
Hire purchase contracts	**48,451**	42,663	**355,369**
Loan contracts	**137,960**	128,421	**1,011,882**
Financial revenue:			
Interest on loans in banking business	**24,371**	22,879	**178,754**
Interest and dividends on securities in banking business	**3,162**	4,866	**23,195**
Interest on call loans	**205**	30	**1,501**
Interest income	**876**	774	**6,421**
Other financial revenue	**5,789**	5,135	**42,462**
Total financial revenue	**34,403**	33,684	**252,333**
Insurance revenue:			
Reversal of policy reserve	**10,030**	22,271	**73,565**
Other insurance revenue	**3,175**	6,919	**23,288**
Total insurance revenue	**13,205**	29,190	**96,853**
Fees and commissions	**62,179**	60,991	**456,057**
Gain on bad debts recovered	**16,117**	11,921	**118,209**
Other operating revenues	**27,036**	32,007	**198,302**
Total operating revenues (Note 22)	**451,767**	470,657	**3,313,532**
Operating expenses:			
Financial expenses:			
Interest expenses	**(18,954)**	(16,596)	**(139,019)**
Interest on deposits in banking business	**(2,398)**	(1,864)	**(17,587)**
Other financial expenses	**(2,210)**	(2,973)	**(16,213)**
Total financial expenses	**(23,562)**	(21,433)	**(172,819)**
Insurance expenses:			
Insurance claims	**(11,192)**	(28,045)	**(82,085)**
Other insurance expenses	**(1,737)**	(147)	**(12,742)**
Total insurance expenses	**(12,929)**	(28,192)	**(94,827)**
Fees and commissions	**(11,345)**	(11,463)	**(83,215)**
Selling, general and administrative expenses (Note 11)	**(278,086)**	(295,403)	**(2,039,648)**
Provision for credit losses and write-off of bad debts	**(63,949)**	(52,364)	**(469,044)**
Other operating expenses	**(3,036)**	(2,949)	**(22,266)**
Total operating expenses	**(392,907)**	(411,804)	**(2,881,819)**
Operating income	**58,860**	58,853	**431,713**
Non-operating revenues (expenses):			
Dividends income	**108**	202	**794**
Loss on disposal of non-current assets (Note 12)	**(479)**	(574)	**(3,511)**
Impairment loss (Note 22)	**(777)**	(203)	**(5,700)**
Other non-operating revenues (expenses)—net (Note 12)	**2,089**	1,468	**15,323**
Total non-operating expenses	**941**	893	**6,906**
Income before income taxes	**59,801**	59,746	**438,619**
Income taxes (Note 13):			
Current	**(12,931)**	(13,068)	**(94,844)**
Deferred	**(3,246)**	(5,630)	**(23,813)**
Total income taxes	**(16,177)**	(18,698)	**(118,657)**
Net income	**43,624**	41,048	**319,962**
Net income attributable to non-controlling interests	**(12,946)**	(10,835)	**(94,952)**
Net income attributable to owners of the parent	**¥ 30,678**	¥ 30,213	**$ 225,010**

PER SHARE OF COMMON STOCK (Note 20):	Yen		U.S. Dollars
Basic net income	**¥ 142.13**	¥ 139.98	**$ 1.04**
Diluted net income	**142.12**	139.97	**1.04**
Cash dividends applicable to the year	**53.00**	50.00	**0.39**

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

AEON Financial Service Co., Ltd. and Subsidiaries
Year Ended February 28, 2023 and 2022

	Millions of Yen				Thousands of U.S. Dollars (Note 1)	
		2023		2022		**2023**
Net income	¥	**43,624**	¥	41,048	$	**319,962**
Other comprehensive income (Note 19):						
Unrealized loss on available-for-sale securities		**(24,838)**		(5,757)		**(182,173)**
Deferred gain on derivatives under hedge accounting		**3,109**		3,946		**22,802**
Foreign currency translation adjustments		**24,041**		8,226		**176,331**
Adjustments for retirement benefits		**75**		130		**553**
Total other comprehensive income		**2,387**		6,545		**17,513**
Comprehensive income:	¥	**46,011**	¥	47,593	$	**337,475**
Total comprehensive income attributable to:						
Owners of the parent	¥	**21,277**	¥	31,970	$	**156,060**
Non-controlling interests		**24,734**		15,623		**181,415**

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

AEON Financial Service Co., Ltd. and Subsidiaries
Year Ended February 28, 2023 and 2022

	Thousands	Millions of Yen											
							Accumulated Other Comprehensive Income						
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock	Unrealized Loss on Available-for-sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjust-ments	Accumulated adjustments for retirement benefits	Total	Non-controlling Interests	Total Equity
Balance, March 1, 2021	215,830	¥ 45,698	¥ 120,145	¥ 44	¥ 237,385	¥ (461)	¥ 3,284	¥ (3,902)	¥ (335)	¥ (353)	¥ 401,505	¥ 73,163	¥ 474,668
Net income attributable to owners of the parent					30,213						30,213		30,213
Cash dividends, ¥42 per share					(9,065)						(9,065)		(9,065)
Purchase of treasury stock	(1)					(1)					(1)		(1)
Disposal of treasury stock	8				(8)	19					11		11
Change in the parent's ownership interest arising from transactions with non-controlling interests			(155)								(155)	155	
Net change in the year				(11)			(5,834)	2,274	5,187	131	1,747	11,482	13,229
Balance, February 28, 2022	215,837	¥ 45,698	¥ 119,990	¥ 33	¥ 258,525	¥ (443)	¥ (2,550)	¥ (1,628)	¥ 4,852	¥ (222)	¥ 424,255	¥ 84,800	¥ 509,055
Net income attributable to owners of the parent					30,678						30,678		30,678
Cash dividends, ¥51 per share					(11,008)						(11,008)		(11,008)
Purchase of treasury stock	(1)					(1)					(1)		(1)
Disposal of treasury stock	21				(23)	53					30		30
Change in the parent's ownership interest arising from transactions with non-controlling interests			280								280	(280)	
Net change in the year				(19)			(25,112)	1,749	13,887	75	(9,420)	21,800	12,380
Balance, February 28, 2023	215,857	¥ 45,698	¥ 120,270	¥ 14	¥ 278,172	¥ (391)	¥ (27,662)	¥ 121	¥ 18,739	¥ (147)	¥ 434,814	¥ 106,320	¥ 541,134

	Thousands	Thousands of U.S. Dollars (Note 1)											
							Accumulated Other Comprehensive Income						
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock	Unrealized Loss on Available-for-sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjust-ments	Accumulated adjustments for retirement benefits	Total	Non-controlling Interests	Total Equity
Balance, February 28, 2022	215,837	$ 335,178	$ 880,081	$ 243	$ 1,896,182	$ (3,245)	$ (18,703)	$ (11,948)	$ 35,589	$ (1,633)	$ 3,111,744	$ 621,974	$ 3,733,718
Net income attributable to owners of the parent					225,010						225,010		225,010
Cash dividends, $0.37 per share					(80,739)						(80,739)		(80,739)
Purchase of treasury stock	(1)					(1)					(1)		(1)
Disposal of treasury stock	21				(168)	383					215		215
Change in the parent's ownership interest arising from transactions with non-controlling interests			2,054								2,054	(2,054)	
Net change in the year				(144)			(184,186)	12,834	101,850	552	(69,094)	159,892	90,798
Balance, February 28, 2023	215,857	$ 335,178	$ 882,135	$ 99	$ 2,040,285	$ (2,863)	$ (202,889)	$ 886	$ 137,439	$ (1,081)	$ 3,189,189	$ 779,812	$ 3,969,001

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

AEON Financial Service Co., Ltd. and Subsidiaries
Year Ended February 28, 2023 and 2022

	Millions of Yen				Thousands of U.S. Dollars (Note 1)	
		2023		2022		**2023**
OPERATING ACTIVITIES:						
Income before income taxes	**¥**	**59,801**	¥	59,746	**$**	**438,619**
Adjustments for:						
Income taxes—paid		**(10,951)**		(21,519)		**(80,320)**
Income taxes—refund		**5,117**		2,536		**37,530**
Depreciation and amortization		**30,364**		30,561		**222,710**
Amortization of goodwill		**1,735**		1,874		**12,724**
Financial revenue		**(34,403)**		(33,684)		**(252,333)**
Financial expenses		**23,562**		21,433		**172,819**
Dividends income		**(108)**		(202)		**(794)**
Net loss on disposal of non-current assets		**468**		553		**3,433**
Net decrease in allowance for credit losses		**(4,029)**		(10,602)		**(29,553)**
Net decrease in allowance for point program		**(6,331)**		(13,556)		**(46,435)**
Net (decrease) increase in allowance for loss on refund of interest received		**(1,653)**		770		**(12,127)**
Net increase in finance receivables		**(206,739)**		(12,381)		**(1,516,350)**
Net increase in loans in banking business		**(50,765)**		(111,631)		**(372,341)**
Net decrease (increase) in lease receivables and investment assets		**633**		(300)		**4,646**
Net increase in deposits in banking business		**219,409**		159,878		**1,609,279**
Net increase (decrease) in accounts payable		**27,717**		(40,638)		**203,292**
Net increase (decrease) in borrowed money		**76,207**		(8,626)		**558,949**
Net decrease (increase) in deposits with banks		**3,947**		(1,311)		**28,950**
Net decrease in call loans and others		**2,984**		25,750		**21,886**
Net decrease in commercial paper		**(10,000)**				**(73,346)**
Net increase in bonds		**5,148**		33,071		**37,756**
Net decrease in reserve for insurance policy liabilities		**(10,030)**		(22,271)		**(73,565)**
Financial revenue received		**33,342**		33,988		**244,551**
Financial expenses paid		**(23,361)**		(21,711)		**(171,347)**
Other—net		**(26,925)**		4,559		**(197,483)**
Net cash provided by operating activities		**105,139**		76,287		**771,150**
INVESTING ACTIVITIES:						
Purchases of securities		**(617,966)**		(518,991)		**(4,532,540)**
Proceeds from sales of securities		**130,480**		248,187		**957,019**
Proceeds from redemption of securities		**546,185**		283,852		**4,006,053**
Purchases of money held in trust		**(23,628)**		(28,451)		**(173,303)**
Proceeds from collection of money held in trust		**10,578**		10,823		**77,589**
Purchases of property and equipment		**(5,122)**		(4,101)		**(37,570)**
Proceeds from sale of property and equipment		**12**		77		**91**
Purchases of intangible assets		**(28,749)**		(24,962)		**(210,864)**
Proceeds from sale of intangible assets		**6**		4		**47**
Net cash provided by (used in) investing activities		**11,796**		(33,562)		**86,522**
FINANCING ACTIVITIES:						
Dividends paid to the Company's shareholders		**(11,008)**		(9,065)		**(80,739)**
Proceeds from stock issuance to non-controlling shareholders		**2,040**				**14,962**
Dividends paid to non-controlling shareholders		**(5,175)**		(4,443)		**(37,953)**
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		**(416)**				**(3,055)**
Net cash used in financing activities		**(14,559)**		(13,508)		**(106,785)**
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS		**4,689**		1,674		**34,391**
NET INCREASE IN CASH AND CASH EQUIVALENTS		**107,065**		30,891		**785,278**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		**697,629**		666,738		**5,116,830**
CASH AND CASH EQUIVALENTS, END OF YEAR	**¥**	**804,694**	¥	697,629	**$**	**5,902,108**

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Year Ended February 28, 2023 and 2022

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations, and in accordance with accounting principles generally accepted in Japan (“Japanese GAAP”), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards (“IFRS”) and accounting principles generally accepted in the United States of America (“U.S. GAAP”).

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2022 consolidated financial statements to conform to the classifications used in 2023.

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 ¥136.34 to $1, the exchange rate at February 28, 2023. Such translation should not be construed as a representation that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

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

AFS Corporation Co., Ltd.
AEON Bank, Ltd. and other 16 companies

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Consolidation—The consolidated financial statements as at February 28, 2023 include the accounts of the Company and its 31 subsidiaries and one associate.

During the current fiscal year, AEON MICRO FINANCE (TIANJIN) CO., LTD. has been excluded from the scope of consolidation due to completion of liquidation.

AEON ASSET MANAGEMENT (THAILAND) CO., LTD. and ACS DIGITAL BERHAD are non-consolidated subsidiaries, because their assets, ordinary income, net income, retained earnings and accumulated other comprehensive income (corresponding to the equity interest held by the Company) are immaterial to the extent that their exclusion from the scope of consolidation does not preclude reasonable judgment on the financial position and financial results of the Group.

They are not accounted for using the equity method, because its net income and retained earnings (corresponding to the equity interest held by the Company) have an insignificant effect on the consolidated financial statements as a whole.

Rabbit Cash Company Limited is an associate that is not accounted for using the equity method, because its net income and retained earnings (corresponding to the equity interest held by the Company) have an insignificant effect on the consolidated financial statements as a whole.

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.

(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. Policy-reserve-matching bonds held in accordance with "Temporary Treatment of Accounting and Auditing Concerning Policy-reserve-matching Bonds in Insurance Industry" (Industry Audit Committee Report No. 21 issued by JICPA) are stated at amortized cost (straight-line method) determined by the moving-average method. 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 with no market value are stated at cost determined by the moving-average method. Securities other than those classified as for trading purposes (excluding securities with no market value) 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.

Policy-reserve-matching bonds (including those held as trust assets in money held in trust) are classified within the sub-group categorized by the characteristics of insurance products, such as pension liability contracts denominated in Japanese yen, in accordance with "Temporary Treatment of Accounting and Auditing Concerning Policy-reserve-matching Bonds in Insurance Industry" (Industry Audit Committee Report No. 21 issued by JICPA). In order to appropriately manage interest rate risk, the Group prepares asset management policies based on the sub-groups. In addition, the Group periodically verifies that the duration of policy reserves and policy-reserve-matching bonds is consistent within a certain range.

(j) Software (excluding lease assets and right-of-use 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, 2023 and 2022, which have been deferred and included in other assets, were ¥671 million ($4,920 thousand) and ¥716 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—The amount of policy reserves, which account for the majority of reserves for insurance policy liabilities, are calculated and accumulated in accordance with the method stipulated in the Statement of Calculation Procedures for Insurance Premiums and Policy Reserves (Article 4, Paragraph (2), Item (iv) of the Insurance Business Act), pursuant to Article 116 of the Insurance Business Act, to provide for future fulfillment of obligations for which liabilities under the insurance contracts has commenced at the end of the reporting period. No policy reserve for the reinsured portion is accumulated in accordance with Article 71 of the Ordinance for Enforcement of the Insurance Business Act.

The amount of policy reserves for insurance premiums 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.

For a certain portion of the policy reserves, actuaries confirm whether the policy reserves have been appropriately accumulated for each reporting period in accordance with Article 121, Paragraph (1) of the Insurance Business Act and Article 80 of the Ordinance for Enforcement of the Insurance Business Act.

The policy reserves for contingencies are accumulated to ensure the fulfillment of future obligations under insurance contracts and to prepare for possible future risks in accordance with Article 116 of the Insurance Business Act and Article 69, Paragraph (1), Item (iii) of the Ordinance for Enforcement of the Insurance Business Act.

(n) Insurance Premiums and Other and Insurance Claims

(i) Insurance premiums and other (excluding reinsurance revenue)
Insurance premiums and other (excluding reinsurance revenue) are recorded at the amount received for which liabilities under insurance contracts have been assumed.

(ii) Insurance claims (excluding reinsurance premiums)
Insurance claims (excluding reinsurance premiums) are recorded at the amount paid, which is calculated based on the terms and conditions of the policies.
For insurance claims payable, or considered to be payable but not yet reported, at the end of the reporting period that are not recognized as insurance claims, reserves for outstanding claims are accumulated in accordance with Article 117 of the Insurance Business Act and Article 72 of the Ordinance for Enforcement of the Insurance Business Act.

(iii) Reinsurance revenue and reinsurance premiums
Of the insurance premiums and other, reinsurance revenue, which is mainly reinsurance claims, is recorded at the amount calculated based on the terms and conditions of the reinsurance contracts for which the reinsurance claims become receivable. Of the insurance claims, reinsurance premiums are recorded at the amount calculated based on the terms and conditions of the reinsurance contracts.

(o) 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.

(p) 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 not exceeding 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 of 10 years.

(q) 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.

(r) Recognition of Operating Revenues—The operations of the Group mainly comprise the following, and the recognition of operating revenues varies by business.

(i) Revenues from contracts with customers
The main performance obligations of the Group’s principal businesses with respect to revenues arising from contracts with customers are the rendering of services related to financial services such as credit card services, e-money services, deposit and lending services, foreign exchange services and securities-related services. Revenues are recognized when promised goods or services are transferred to customers in the amount expected to be received in exchange for those goods or services.

These revenues do not include estimates of significant variable considerations and financing components.

(ii) 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.

(iii) 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.

(s) 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.

(t) Right-of-use Assets—Certain consolidated overseas subsidiaries account for lease transactions under IFRS 16 "Leases." Under IFRS 16, lessees shall recognize all lease transactions as right-of-use assets, and depreciation expenses on these assets are computed using the straight-line method.

(u) 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.

(v) Consumption Taxes Relating to Assets That Are not Tax Deductible —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.

(w) 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.

(x) 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 Japanese 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.

(y) 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, 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. 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. 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.

(z) 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.

(aa) 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.

(1) Adoption of Accounting Standard for Revenue Recognition, etc.
Effective from March 1, 2022, the Company and its domestic subsidiaries have adopted the "Accounting Standard for Revenue

Recognition" (ASBJ Statement No. 29, March 31, 2020), etc. Under this Accounting Standard, the Company shall recognize revenues at the amount expected to be received in exchange for promised goods or services as the controls of such goods or services are transferred to customers. Major changes resulting from this adoption are as follows:

(i) Revenue recognition for the point program
For points awarded to customers based on the point program operated by other companies, AEON Bank, Ltd., a consolidated subsidiary of the Company, pays the amount equivalent to the points to such other companies, which was previously recorded as selling, general and administrative expenses. However, this amount is considered to be collected for third parties, and the Company has changed this accounting treatment to the method of deducting the amount from operating revenues from credit card purchase contracts.

(ii) Considerations paid to member stores
The considerations paid by AEON Credit Service Co., Ltd., a consolidated subsidiary of the Company, to the Group's member stores for the use of credit cards were previously accounted for as selling, general and administrative expenses. However, this accounting treatment is changed to the method of deducting the amount from operating revenues from credit card purchase contracts.

In accordance with the transitional treatment stipulated in the proviso to Paragraph 84 of the Accounting Standard for Revenue Recognition, the Company has reflected the cumulative effect of retrospective application of the new accounting policies prior to March 1, 2022, in retained earnings as at March 1, 2022, and has applied the new accounting policies from the beginning balance as at March 1, 2022. However, the Company has applied the treatment stipulated in Paragraph 86 of the Accounting Standard for Revenue Recognition, and the new accounting policies are not retrospectively applied to contracts for which almost all amounts of revenues have been recognized prior to March 1, 2022, in accordance with the previous treatment.

As a result, operating revenues and selling, general and administrative expenses for the fiscal year ended February 28, 2023, decreased by ¥37,401 million ($274,324 thousand), respectively. In addition, allowance for point program decreased by ¥262 million ($1,922 thousand), and other current liabilities increased by the same amount. There is no effect on the balance of retained earnings as at March 1, 2022. Due to the change in the point program operated by the Group, no further provision for point program will be recognized.

In accordance with the transitional treatment stipulated in Paragraph 89-3 of the Accounting Standard for Revenue Recognition, the notes on revenue recognition for the fiscal year ended February 28, 2022 are not disclosed.

(2) Adoption of the Accounting Standard for Fair Value Measurement, etc.
Effective from March 1, 2022, the Company and its domestic subsidiaries have adopted the "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019), etc. In accordance with Paragraph 19 of the Accounting Standard for Fair Value Measurement and Paragraph 44-2 of the "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019), the Company has prospectively applied the new accounting policies stipulated in the Accounting Standard for Fair Value Measurement. The effects of this adoption on the consolidated financial statements for the fiscal year ended February 28, 2023, were immaterial.

In Note 16, "FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES," the Company includes the breakdown of the fair value of financial instruments by the fair value hierarchy. However, the notes on the fair value hierarchy for the fiscal year ended February 28, 2022 are not included in accordance with the transitional treatment stipulated in Paragraph 7-4 of the "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19, July 4, 2019).

(ab) New Accounting Pronouncements

The Company and its consolidated domestic subsidiaries

- **Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31, June 17, 2021)**

(i) Overview
After the "Accounting Standard for Fair Value Measurement" was issued on July 4, 2019, it took approximately one year for the review, and the revision of the "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31) was issued on June 17, 2021. This is because a certain period of time was considered necessary for discussions with related parties on "the determination of the fair value of investment trusts," and certain consideration was also necessary for notes on the fair value of "investments in partnerships for which the amount corresponding to the equity interest is reported on a net basis in the balance sheet."

(ii) Effective date
The Group plans to apply this accounting standard at the beginning of the fiscal year ending February 29, 2024.

(iii) Effects of adoption of these accounting standards
There is no effect on the consolidated financial statements due to the adoption of the Implementation Guidance on Accounting Standard for Fair Value Measurement.

- **Accounting Standard for Current Income Taxes (ASBJ Statement No. 27, October 28, 2022)**
- **Accounting Standard for Presentation of Comprehensive Income (ASBJ Statement No. 25, October 28, 2022)**
- **Implementation Guidance on Tax Effect Accounting (ASBJ Guidance No. 28, October 28, 2022)**

(i) Overview
In February 2018, ASBJ issued "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28), etc. and completed the transfer of the Practical Guidelines on Tax Effect Accounting issued by JICPA to the jurisdiction of ASBJ. In the process of the deliberations, the following two issues were discussed after the issuance of ASBJ Statement No. 28, etc.:

- the classification of tax expenses (taxation on other comprehensive income); and
- the tax effect of sale of shares of subsidiaries or associates under the Group Taxation Regime.

(ii) Effective date
The Group plans to apply these accounting standards at the beginning of the fiscal year ending February 28, 2026.

(iii) Effects of adoption of these accounting standards
The Group is currently evaluating the effect of the adoption of these accounting standards on the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING ESTIMATES

The following items recorded in the consolidated financial statements for the current fiscal year are based on accounting estimates and may have significant effects on the consolidated financial statements for the following fiscal year:

(a) Allowance for credit losses

(1) Amount recorded in the consolidated financial statements for the current fiscal year

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	**2023**
Allowance for credit losses	¥ **127,445**	¥ 124,550	$ **934,762**

(2) Information on the nature of significant accounting estimates for identified items

(i) Calculation method

The calculation method of the allowance for credit losses is described in Note 2, "SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (g) Allowance for Credit Losses."

(ii) Key assumptions

The Group assumes that it will incur losses on operating receivables of domestic subsidiaries equivalent to those incurred in prior years for each category of receivables based on type of products and status of repayment.

For certain overseas subsidiaries applying the impairment model based on expected credit losses, their assumptions include a correlation between past credit losses and macroeconomic indicators and the forecast of the macroeconomic indicators.

(iii) Effect on the consolidated financial statements for the following fiscal year

If the assumptions used in the initial estimates change due to changes in the economic environment of respective countries and regions, the consolidated financial statements for the following fiscal year may be significantly affected.

(b) Impairment loss on non-current assets

(1) Amount recorded in the consolidated financial statements for the current fiscal year

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	**2023**
Software	¥ **113,906**	¥ 107,732	$ **835,455**

(2) Information on the nature of significant accounting estimates for identified items

Retail financial services operated by the Group require a large amount of data processing based on transactions with a large number of individuals. The Group makes significant system investments such as the updating of core systems in response to changes in the external environment.

Of this, the balance of the next-generation core business system under development, which is scheduled to be used for domestic credit card operations, was ¥59,755 million ($438,276 thousand) as at February 28, 2023 (¥50,287 million, as at February 28, 2022), which accounted for 52% (46%, as at February 28, 2022) of the balance of Software.

If the total amount of undiscounted future cash flows from software assets or asset groups with impairment indicators falls below their carrying amount, the Group reduces their carrying amount to the recoverable amount and recognizes the reduction as an impairment loss. The Group makes reasonable judgment in identifying impairment indicators and recognizing and measuring impairment losses based on the information available at the end of the reporting period regarding the investment recovery plan and the usage situation. However, if the assumptions and conditions used for the judgment change due to changes in business plans and market conditions, impairment losses may need to be recognized in the subsequent fiscal year.

As a result of monitoring the most recent progress of the next-generation core business system under development (software) described above, the Group has determined that it is not in a situation where impairment losses should be recognized.

4. SECURITIES IN BANKING BUSINESS AND INSURANCE BUSINESS, MONETARY CLAIMS BOUGHT, MONEY HELD IN TRUST AND INVESTMENT SECURITIES

(a) Trading securities

Unrealized losses on trading securities held as at February 28, 2023 and 2022 were ¥1,549 million ($11,360 thousand) and ¥788 million, respectively.

(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, 2023 and 2022 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	**2023**
Marketable equity securities	¥ **7,028**	¥ 6,904	$ **51,547**
Marketable debt securities:			
Government bonds	**83,211**	68,331	**610,322**
Municipal bonds	**200**	400	**1,467**
Corporate bonds	**94,843**	127,675	**695,633**
Total marketable debt securities	**178,254**	196,406	**1,307,422**
Other securities			
Foreign securities	**72,030**	67,395	**528,309**
Other(*)	**246,126**	336,376	**1,805,239**
Total other securities	**318,156**	403,771	**2,333,548**
Total	¥ **503,438**	¥ 607,081	$ **3,692,517**

(*) Includes investments in non-consolidated subsidiaries and associated companies of ¥5,189 million ($38,060 thousand) and ¥747 million as at February 28, 2023 and 2022, 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, 2023 and 2022 consisted of the following:

	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
February 28, 2023				
Securities classified as:				
Available-for-sale:				
Equity securities	**¥ 2,094**	**¥ 5,033**	**¥ (99)**	**¥ 7,028**
Debt securities	**187,658**	**1**	**(9,405)**	**178,254**
Other securities	**328,451**	**1,034**	**(22,261)**	**307,224**

	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
February 28, 2022				
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 2,094	¥ 4,909	¥ (99)	¥ 6,904
Debt securities	197,675	66	(1,335)	196,406
Other securities	401,098	3,703	(7,115)	397,686

	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
February 28, 2023				
Securities classified as:				
Available-for-sale:				
Equity securities	**$ 15,361**	**$ 36,917**	**$ (731)**	**$ 51,547**
Debt securities	**1,376,396**	**5**	**(68,979)**	**1,307,422**
Other securities	**2,409,058**	**7,588**	**(163,276)**	**2,253,370**

Available-for-sale securities with no market value as at February 28, 2023 and available-for-sale securities whose fair values are deemed to be difficult to determine as at February 28, 2022 are disclosed in Note 16.
Impairment loss on securities for the year ended February 28, 2023 and 2022 was ¥2 million ($11 thousand) (for equity securities) and ¥500 million (for corporate bonds), respectively.

Money held in trust as at February 28, 2023 and 2022 consisted of the following:

	Millions of Yen	
February 28, 2023	Consolidated Balance Sheet Amount	Unrealized Gains
Trading purposes	¥ 100,881	¥ (508)

	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Consolidated Balance Sheet Amount
February 28, 2023				
Policy-reserve-matching bonds	¥ 23,000	¥ 13		¥ 23,013

	Millions of Yen	
February 28, 2022	Consolidated Balance Sheet Amount	Unrealized Gains
Trading purposes	¥ 111,016	¥ 462

	Thousands of U.S. Dollars	
February 28, 2023	Consolidated Balance Sheet Amount	Unrealized Gains
Trading purposes	**$ 739,926**	**$ (3,725)**

	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Consolidated Balance Sheet Amount
February 28, 2023				
Policy-reserve-matching bonds	$ 168,696	$ 98		$ 168,794

Unrealized losses on available-for-sale securities on the consolidated balance sheets as at February 28, 2023 and 2022 consisted of the following:

	Millions of Yen				Thousands of U.S. Dollars	
		2023		2022		**2023**
Unrealized (losses) gains before deferred tax on:						
Available-for-sale securities(*)	¥	**(25,583)**	¥	214	$	**(187,637)**
Deferred tax liabilities		**(1,384)**		(2,343)		**(10,154)**
Unrealized losses on available-for-sale securities (before adjustment)		**(26,967)**		(2,129)		**(197,791)**
Non-controlling interests		**(695)**		(421)		**(5,098)**
Unrealized losses on available-for-sale securities	¥	**(27,662)**	¥	(2,550)	$	**(202,889)**

(*) Includes a gain on revaluation of available-for-sale securities that are included in assets in investments in limited partnerships amounting to ¥115 million ($841 thousand) for the year ended February 28, 2023 and a gain on revaluation of available-for-sale securities that are included in assets in investments in limited partnerships whose fair values are deemed to be difficult to determine amounting to ¥86 million for the year ended February 28, 2022.

5. FINANCE RECEIVABLES AND LOANS IN BANKING BUSINESS

Finance receivables as at February 28, 2023 and 2022 consisted of the following:

	Millions of Yen				Thousands of U.S. Dollars	
		2023		2022		**2023**
Installment sales receivables:						
Credit card purchase contracts	¥	**1,126,220**	¥	966,384	$	**8,260,376**
Hire purchase contracts		**643,369**		599,901		**4,718,859**
Subtotal		**1,769,589**		1,566,285		**12,979,235**
Operating loan receivables(*1)		**845,263**		772,604		**6,199,670**
Allowance for credit losses(*2)		**(123,581)**		(118,950)		**(906,420)**
Total	¥	**2,491,271**	¥	2,219,939	$	**18,272,485**

(*1) Includes cash advances and personal loan receivables.
(*2) Of which, ¥53,045 million ($389,068 thousand) for installment sales receivables and ¥70,536 million ($517,352 thousand) for operating loan receivables as at February 28, 2023.

Loans in banking business as at February 28, 2023 and 2022 consisted of the following:

	Millions of Yen				Thousands of U.S. Dollars	
		2023		2022		**2023**
Loans and bills discounted(*)	¥	**2,160,775**	¥	2,110,011	$	**15,848,436**
Allowance for credit losses		**(3,797)**		(5,475)		**(27,852)**
Total	¥	**2,156,978**	¥	2,104,536	$	**15,820,584**

(*) Includes housing loan receivables.

6. PLEDGED ASSETS

Assets pledged as collateral as at February 28, 2023 and 2022 consisted of the following:

	Millions of Yen				Thousands of U.S. Dollars	
		2023		2022		**2023**
Assets pledged as collateral:						
Finance receivables	¥	**4,905**	¥	4,948	$	**35,978**
Securities in banking business		**34,658**		32,788		**254,199**
Total	¥	**39,563**	¥	37,736	$	**290,177**
Liabilities corresponding to assets pledged as collateral:						
Short-term borrowings	¥	**30,000**	¥	30,000	$	**220,038**
Long-term borrowings (including current portion)		**6,057**		5,497		**44,428**
Total	¥	**36,057**	¥	35,497	$	**264,466**

In addition to the assets presented above, the following assets were pledged as collateral for exchange settlements and other transactions as at February 28, 2023 and 2022:

	Millions of Yen				Thousands of U.S. Dollars	
		2023		2022		**2023**
Guarantee money deposits (Initial margins deposited at central counterparty clearing houses)	¥	**45,000**	¥	45,000	$	**330,057**

7. 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, 2023 and 2022 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars	Average interest rate(*1)	
	2023	2022	**2023**	**2023**	Due
Short-term borrowings	¥ **221,934**	¥ 204,074	$ **1,627,801**	**1.17 %**	
Commercial paper	**75,000**	85,000	**550,095**	**0.03 %**	
Long-term borrowings (current portion)	**117,859**	90,215	**864,445**	**4.50 %**	
Lease obligations (current portion)	**9,948**	9,955	**72,966**	**2.15 %**	
Long-term borrowings (non-current portion)	**417,239**	335,933	**3,060,283**	**4.43 %**	From March 2024 to May 2028
Lease obligations (non-current portion)	**18,591**	21,623	**136,356**	**1.84 %**	From March 2024 to December 2032

(*1) Average interest rate represents the weighted-average interest rate based on the balances and rates at the end of fiscal year.

Bonds as at February 28, 2023 and 2022 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	**2023**
Issued by the Company:			
Unsecured 0.552% pari passu Japanese yen notes due April 2022		¥ 10,000	
Unsecured 0.23% pari passu Japanese yen notes due May 2022		30,000	
Unsecured 0.35% pari passu Japanese yen notes due May 2024	¥ **30,000**	30,000	$ **220,038**
Unsecured 0.19% pari passu Japanese yen notes due March 2023	**25,000**	25,000	**183,365**
Unsecured 0.3% pari passu Japanese yen notes due September 2024	**25,000**	25,000	**183,365**
Unsecured 0.38% pari passu Japanese yen notes due September 2026	**20,000**	20,000	**146,692**
Unsecured 0.22% pari passu Japanese yen notes due July 2023	**30,000**	30,000	**220,038**
Unsecured 0.3% pari passu Japanese yen notes due January 2025	**20,000**	20,000	**146,692**
Unsecured 0.29% pari passu Japanese yen notes due January 2023		10,000	
Unsecured 0.38% pari passu Japanese yen notes due July 2025	**5,000**	5,000	**36,673**
Unsecured 0.29% pari passu Japanese yen notes due February 2024	**20,000**	20,000	**146,692**
Unsecured 0.36% pari passu Japanese yen notes due February 2026	**15,000**	15,000	**110,019**
Unsecured 0.27% pari passu Japanese yen notes due June 2025	**30,000**	30,000	**220,038**
Unsecured 0.34% pari passu Japanese yen notes due July 2026	**20,000**	20,000	**146,692**
Unsecured 0.47% pari passu Japanese yen notes due October 2025	**5,000**		**36,673**
Unsecured 0.65% pari passu Japanese yen notes due November 2027	**5,000**		**36,673**
Unsecured 0.59% pari passu Japanese yen notes due February 2026	**20,000**		**146,692**
Unsecured 0.8% pari passu Japanese yen notes due February 2028	**20,000**		**146,692**
Issued by AEON Product Finance Co., Ltd.:			
Unsecured 0.38% Japanese yen notes due April 2023	**5,000**	5,000	**36,673**
Unsecured 0.4% Japanese yen notes due October 2023	**5,000**	5,000	**36,673**
Issued by AEON THANA SINSAP (THAILAND) PLC.:			
Unsecured 2.93% Thai baht notes due December 2022		3,529	
Unsecured 2.27% Thai baht notes due November 2022		9,881	
Unsecured 2.57% Thai baht notes due November 2024	**3,192**	3,527	**23,413**
Unsecured 0.65% Japanese yen notes due December 2026	**8,027**	7,019	**58,872**
Unsecured 0.69% Japanese yen notes due November 2025	**9,817**		**72,004**
Unsecured 2.99% Thai baht notes due February 2025	**3,889**		**28,525**
Unsecured 3.18% Thai baht notes due February 2026	**6,612**		**48,494**
Issued by AEON CREDIT SERVICE (M) BERHAD:			
Unsecured 3.8% senior Malaysia ringgit notes due February 2027	**9,147**	8,242	**67,090**
Unsecured 3.85% senior Malaysia ringgit notes due February 2028	**6,097**	5,494	**44,720**
Unsecured 3.95% subordinated Malaysia ringgit notes due March 2030	**3,045**	2,744	**22,338**
Issued by AEON CREDIT SERVICE (PHILIPPINES) INC.:			
Unsecured 7.695% Philippine peso notes due November 2023	**237**	224	**1,740**
Total	¥ **350,063**	¥ 340,660	$ **2,567,576**

The annual maturities of long-term borrowings as at February 28, 2023 were as follows:

Years ending the last day of February	Millions of Yen	Thousands of U.S. Dollars
2024	¥ 117,859	$ 864,445
2025	129,465	949,575
2026	124,626	914,085
2027	93,376	684,878
2028	63,664	466,945
2029 and thereafter	6,108	44,800
Total	¥ 535,098	$ 3,924,728

The annual maturities of bonds as at February 28, 2023 were as follows:

Years ending the last day of February	Millions of Yen	Thousands of U.S. Dollars
2024	¥ 85,237	$ 625,182
2025	82,081	602,034
2026	91,429	670,593
2027	57,174	419,345
2028	31,097	228,084
2029 and thereafter	3,045	22,338
Total	¥ 350,063	$ 2,567,576

The annual maturities of lease obligations as at February 28, 2023 were as follows:

Years ending the last day of February	Millions of Yen	Thousands of U.S. Dollars
2024	¥ 9,948	$ 72,966
2025	6,877	50,442
2026	4,834	35,453
2027	4,174	30,612
2028	1,659	12,173
2029 and thereafter	1,047	7,676
Total	¥ 28,539	$ 209,322

8. 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. Certain consolidated 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, 2023 and 2022 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	**2023**
Balance at beginning of year	**¥ 5,026**	¥ 7,233	**$ 36,865**
Current service cost	**465**	548	**3,413**
Interest cost	**72**	58	**525**
Past service costs		(57)	
Actuarial gains and losses	**(254)**	45	**(1,864)**
Benefits paid	**(257)**	(374)	**(1,889)**
Other	**(111)**	(2,427)	**(810)**
Balance at end of year	**¥ 4,941**	¥ 5,026	**$ 36,240**

(b) The changes in plan assets for the years ended February 28, 2023 and 2022 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	**2023**
Balance at beginning of year	**¥ 2,755**	¥ 2,525	**$ 20,205**
Expected return on plan assets	**137**	79	**1,002**
Actuarial gains and losses	**(214)**	28	**(1,567)**
Contributions from the employer	**242**	239	**1,780**
Benefits paid	**(131)**	(116)	**(964)**
Balance at end of year	**¥ 2,789**	¥ 2,755	**$ 20,456**

(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, 2023 and 2022

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	**2023**
Funded defined benefit obligation	**¥ 2,986**	¥ 3,155	**$ 21,899**
Plan assets	**(2,789)**	(2,755)	**(20,456)**
	197	400	**1,443**
Unfunded defined benefit obligation	**1,955**	1,871	**14,341**
Net liability arising from defined benefit obligation	**¥ 2,152**	¥ 2,271	**$ 15,784**

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	**2023**
Liability for retirement benefits(*)	**¥ 2,152**	¥ 2,271	**$ 15,784**
Net liability arising from defined benefit obligation	**¥ 2,152**	¥ 2,271	**$ 15,784**

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

(d) The components of net periodic benefit costs for the years ended February 28, 2023 and 2022 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	**2023**
Service cost(*)	**¥ 465**	¥ 548	**$ 3,413**
Interest cost	**72**	58	**525**
Expected return on plan assets	**(136)**	(80)	**(1,002)**
Recognized actuarial (gains) losses	**(171)**	(196)	**(1,256)**
Amortization of past service costs	**(1)**	(57)	**(1)**
Other	**(1)**	30	**(3)**
Net periodic benefit costs	**¥ 228**	¥ 303	**$ 1,676**

(*) 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, 2023 and 2022

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	**2023**
Actuarial losses	**¥ (109)**	¥ (189)	**$ (796)**
Total	**¥ (109)**	¥ (189)	**$ (796)**

(f) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as at February 28, 2023 and 2022

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	**2023**
Unrecognized actuarial gains	**¥ 214**	¥ 323	**$ 1,571**
Total	**¥ 214**	¥ 323	**$ 1,571**

(g) Plan assets

(i) Components of plan assets

Plan assets consisted of the following:

	2023	2022
Debt securities	**40.6%**	41.4%
Equity securities	**32.2%**	29.2%
Assets in the life insurer’s general account	**9.1%**	10.9%
Other(*)	**18.1%**	18.5%
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, 2023 and 2022 were set forth as follows:

	2023(*)	2022(*)
Discount rate	**1.4%**	0.8%
Expected rate of return on plan assets	**5.04%**	3.21%

(*) In addition to the above, salary increase rate by age calculated as at the base date of March 31, 2021 was used as an assumption.

The required contribution amounts to the defined contribution pension plan for the years ended February 28, 2023 and 2022 are ¥972 million ($7,132 thousand) and ¥862 million, respectively.

The amounts of benefits paid under the advance payment plan for the years ended February 28, 2023 and 2022 are ¥132 million ($967 thousand) and ¥107 million, respectively.

9. 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.

10. STOCK-BASED COMPENSATION

The stock options outstanding as at February 28, 2023 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
2023 Stock Option	6 directors	12,700 shares	July 21, 2022	¥ 1 $ 0.01	From August 21, 2022 through August 20, 2037

The summary of stock option activity is as follows:

	2023 Stock Option	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	12,700										
Expired											
Vested	12,700										
Outstanding at end of year											
Vested (Shares)											
Outstanding at beginning of year		1,800	2,700	2,700	1,800	1,800	900	1,400	3,000	1,500	1,500
Vested	12,700										
Exercised	9,100		900	900	1,800	1,800		900	2,000	1,500	1,500
Expired								500	1,000		
Outstanding at end of year	3,600	1,800	1,800	1,800			900				
Exercise price	¥ 1	¥ 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	$ 0.01
Average stock price upon exercise	¥ 1,432		¥ 1,166	¥ 1,166	¥ 1,310	¥ 1,310		¥ 1,310	¥ 1,310	¥ 1,345	¥ 1,345
	$ 10.50		$ 8.55	$ 8.55	$ 9.61	$ 9.61		$ 9.61	$ 9.61	$ 9.87	$ 9.87
Fair value price at grant date	¥ 1,055	¥ 742	¥ 1,309	¥ 1,808	¥ 1,856	¥ 1,940	¥ 3,072	¥ 2,006	¥ 2,715	¥ 1,081	¥ 809
	$ 7.74	$ 5.44	$ 9.60	$ 13.26	$ 13.61	$ 14.23	$ 22.53	$ 14.71	$ 19.91	$ 7.93	$ 5.93

The assumptions used to measure fair value of stock options granted during fiscal year 2023 were as follows:

	2023 Stock Option
Measurement method	Black-Scholes option-pricing model
Risk-free interest rate	0.1780%
Expected life of option grants	7.5 years
Expected volatility of underlying stock	34.41%
Estimated dividend	¥50 per share

11. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the years ended February 28, 2023 and 2022 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	**2023**
Salaries and allowances	¥ **(70,301)**	¥ (67,390)	$ **(515,631)**
Advertising expenses	**(34,255)**	(70,174)	**(251,248)**
Provision for bonuses	**(5,878)**	(5,657)	**(43,115)**
Retirement benefit expenses	**(1,333)**	(1,272)	**(9,774)**
Provision for loss on refund of interest received	**(1,618)**	(4,356)	**(11,869)**
Provision for point program	**6,021**	13,556	**44,165**
Other	**(170,722)**	(160,110)	**(1,252,176)**
Total	¥ **(278,086)**	¥ (295,403)	$ **(2,039,648)**

12. NON-OPERATING REVENUES (EXPENSES)

Loss on disposal of non-current assets for the years ended February 28, 2023 and 2022 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	**2023**
Structures	¥ **(45)**	¥ (90)	$ **(327)**
Equipment	**(363)**	(381)	**(2,663)**
Software	**(71)**	(103)	**(521)**
Total	¥ **(479)**	¥ (574)	$ **(3,511)**

Other non-operating revenues (expenses)—net for the years ended February 28, 2023 and 2022 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	**2023**
Gain on investments in partnership	¥ **310**	¥ 361	$ **2,273**
Impairment loss on investment securities	**(10)**	(54)	**(71)**
Gain on sales of investment securities		437	
Foreign exchange gains	**1,246**		**9,136**
Other—net	**543**	724	**3,985**
Total	¥ **2,089**	¥ 1,468	$ **15,323**

13. 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, 2023 and 2022, respectively. The tax effects of significant temporary differences and tax loss carryforwards, which resulted in deferred tax assets and liabilities as at February 28, 2023 and 2022 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	**2023**
Deferred tax assets:			
Allowance for credit losses	¥ **26,418**	¥ 26,898	$ **193,767**
Loans in banking business and finance receivables	**190**	162	**1,395**
Allowance for point program	**527**	2,529	**3,866**
Allowance for loss on refund of interest received	**1,477**	1,983	**10,832**
Accrued income	**22**	21	**164**
Property and equipment	**677**	803	**4,968**
Intangible assets	**1,227**	940	**8,999**
Liability for retirement benefits	**474**	475	**3,478**
Tax loss carryforwards	**3,280**	2,243	**24,054**
Unrealized loss on acquisition of subsidiaries	**19**	22	**143**
Unrealized loss on available-for-sale securities	**9,686**	2,552	**71,039**
Other	**15,463**	15,691	**113,413**
Less valuation allowance(*)	**(19,969)**	(11,979)	**(146,464)**
Total deferred tax assets	¥ **39,491**	¥ 42,340	$ **289,654**
Deferred tax liabilities:			
Depreciation in consolidated foreign subsidiaries	¥ **442**	¥ 378	$ **3,244**
Unrealized gain on available-for-sale securities	**1,266**	2,616	**9,283**
Unrealized gain on acquisition of subsidiaries	**1,205**	1,328	**8,839**
Other	**320**	270	**2,350**
Total deferred tax liabilities	¥ **3,233**	¥ 4,592	$ **23,716**
Net deferred tax assets	¥ **36,258**	¥ 37,748	$ **265,938**

(*) An increase in valuation allowance of ¥7,990 million ($58,604 thousand) was due to an increase in valuation allowance for unrealized loss on available-for-sale securities.

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, 2023 and 2022 were as follows:

	2023	2022
Effective statutory tax rate	**30.6%**	30.6%
Per capita portion of inhabitants tax	**0.6**	0.6
Lower income tax rates applicable to income in certain foreign countries	**(6.0)**	(4.9)
Impact from elimination in consolidation	**2.1**	1.5
Tax loss carryforwards	**(0.1)**	0.9
Valuation allowance	**1.7**	1.5
Income taxes for prior periods	**(0.4)**	(0.6)
Other	**(1.4)**	1.7
Actual effective tax rate	**27.1%**	31.3%

14. REVENUE

(a) Disaggregation of revenues from contracts with customers

Information on the disaggregation of revenues from contracts with customers is included in Note 22, “SEGMENT INFORMATION.”

(b) Basic information to understand revenues from contracts with customers

Basic information to understand revenues from contracts with customers is included in Note 2, “SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (r) Recognition of Operating Revenues.”

(c) Contract balances

Receivables from contracts with customers and contract liabilities at the beginning and end of the year are as follows:

	Millions of Yen		Thousands of U.S. Dollars	
		2023		**2023**
Receivables from contracts with customers:				
Balance at beginning of year	¥	**17,506**	$	**128,399**
Balance at end of year		**18,712**		**137,244**
Contract liabilities:				
Balance at beginning of year	¥	**4,468**	$	**32,773**
Balance at end of year		**262**		**1,922**

Receivables from contracts with customers are mainly included in other current assets, and contract liabilities are included in other current liabilities in the consolidated balance sheet.

Contract liabilities decrease mainly due to the recognition of revenues when the performance obligations are satisfied.

The principal contract liabilities of the Group relate to the unexercised portion of Tokimeki Points (point program operated by the Group) granted based on the use of AEON Cards. The Group has changed the points to be granted when using AEON Cards from Tokimeki Points to WAON POINTs (point program operated by another company outside the Group) from September 11, 2021.

The balance of contract liabilities decreased due to the discontinuation of new grants of Tokimeki Points from September 11, 2021.

Of the balance of contract liabilities at the beginning of the current fiscal year, the amount of revenues recognized for the current fiscal year was ¥4,217 million ($30,927 thousand).

WAON POINTs granted when using AEON Cards from September 11, 2021 are not included in the table above, because the amount equivalent to the POINTs to be paid to such another company is recorded as accounts payable.

(d) Transaction prices allocated to remaining performance obligations

At the end of the current fiscal year, the total transaction prices allocated to the remaining performance obligations related to the points granted was ¥262 million ($1,922 thousand). The revenues corresponding to the remaining performance obligations are expected to be recognized within one year based on the exercise of the points.

15. LEASES

(Lessee side)
The Group leases equipment, software, and other assets.

Total rental expenses for the years ended February 28, 2023 and 2022 were ¥16,673 million ($122,290 thousand) and ¥15,540 million, respectively.

The minimum rental commitments under noncancelable operating leases as at February 28, 2023 and 2022 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	**2023**
Due within one year	**¥ 768**	¥ 1,081	**$ 5,635**
Due after one year	**767**	692	**5,628**
Total	**¥ 1,535**	¥ 1,773	**$ 11,263**

(Lessor side)
(a) Breakdown of lease receivables and investment assets

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	**2023**
Lease payments receivables	**¥ 11,281**	¥ 12,034	**$ 82,739**
Estimated residual value	**1,626**	1,632	**11,923**
Unearned interest income	**(955)**	(1,081)	**(7,002)**
Lease receivables and investment assets	**¥ 11,952**	¥ 12,585	**$ 87,660**

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

	Millions of Yen					
	2023					
	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Lease receivables and investment assets	**¥ 2,686**	**¥ 2,234**	**¥ 1,766**	**¥ 1,445**	**¥ 1,145**	**¥ 2,005**

	Millions of Yen					
	2022					
	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Lease receivables and investment assets	¥ 2,616	¥ 2,421	¥ 1,970	¥ 1,500	¥ 1,185	¥ 2,342

	Thousands of U.S. Dollars					
	2023					
	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Lease receivables and investment assets	**$ 19,702**	**$ 16,381**	**$ 12,955**	**$ 10,599**	**$ 8,397**	**$ 14,705**

16. 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 market 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 Group 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 Group Risk Management Department monitors the credit status of customers at the time of new credit execution and thereafter 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 Risk Compliance 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 Risk Compliance 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, 2023 was ¥17,699 million ($129,813 thousand) (¥15,294 million, as at February 28, 2022).

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 Risk Compliance 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, 2023 and 2022 are as follows. However, notes on cash and cash equivalents are omitted, and descriptions on deposits with banks, call loans, foreign exchanges, accounts payable, short-term borrowings and commercial paper are also omitted, because they are settled in a short period of time and their fair values approximate their carrying amounts.

	Millions of Yen		
	2023		
	Carrying Amount	Fair Value	Difference
Finance receivables—net of allowance for credit losses	¥ 2,491,271	¥ 2,537,604	¥ 46,333
Loans in banking business—net of allowance for credit losses	2,156,978	2,151,707	(5,271)
Securities in banking business	460,545	460,545	
Securities in insurance business	18,135	18,135	
Monetary claims bought	22,535	22,535	
Money held in trust	123,895	124,396	501
Investment securities	7,028	7,028	
Total	¥ 5,280,387	¥ 5,321,950	¥ 41,563
Deposits in banking business	4,397,954	4,398,198	244
Bonds (including current portion)	350,063	348,896	(1,167)
Long-term borrowings (including current portion)	535,098	536,540	1,442
Total	¥ 5,283,115	¥ 5,283,634	¥ 519
Derivative financial instruments (Note 17):			
Hedge accounting not applied	(520)	(520)	
Hedge accounting applied	6,230	6,230	
Total	¥ 5,710	¥ 5,710	

	Thousands of U.S. Dollars		
	2023		
	Carrying Amount	Fair Value	Difference
Finance receivables—net of allowance for credit losses	$ 18,272,485	$ 18,612,323	$ 339,838
Loans in banking business—net of allowance for credit losses	15,820,584	15,781,923	(38,661)
Securities in banking business	3,377,917	3,377,917	
Securities in insurance business	133,013	133,013	
Monetary claims bought	165,285	165,285	
Money held in trust	908,720	912,397	3,677
Investment securities	51,546	51,546	
Total	$ 38,729,550	$ 39,034,404	$ 304,854
Deposits in banking business	32,257,251	32,259,044	1,793
Bonds (including current portion)	2,567,576	2,559,015	(8,561)
Long-term borrowings (including current portion)	3,924,728	3,935,309	10,581
Total	$ 38,749,555	$ 38,753,368	$ 3,813
Derivative financial instruments (Note 17):			
Hedge accounting not applied	(3,810)	(3,810)	
Hedge accounting applied	45,692	45,692	
Total	$ 41,882	$ 41,882	

The amounts of stocks with no active market quotations and investments in limited partnerships reported in the consolidated balance sheet are as follows. They are not included in the amounts of “Investment securities” in the table above.

	Millions of Yen	Thousands of U.S. Dollars
	2023	2023
Stocks with no active market quotations(*1)	¥ 6,754	$ 49,538
Investments in limited partnerships(*2)	4,178	30,641
Total	¥ 10,932	$ 80,179

(*1) Stocks with no active market quotations are not subject to the disclosure of fair value in accordance with Paragraph 5 of the “Implementation Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No. 19, March 31, 2020).

(*2) Investments in limited partnerships are not subject to the disclosure of fair value in accordance with Paragraph 27 of the “Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31, July 4, 2019).

	Millions of Yen		
	2022		
	Carrying Amount	Fair Value	Difference
Finance receivables—net of allowance for credit losses	¥ 2,215,168	¥ 2,270,185	¥ 55,017
Loans in banking business—net of allowance for credit losses	2,104,536	2,133,256	28,720
Securities in banking business	536,221	536,221	
Securities in insurance business	49,397	49,397	
Monetary claims bought	27,029	27,029	
Money held in trust	111,016	111,016	
Investment securities	6,904	6,904	
Total	¥ 5,050,271	¥ 5,134,008	¥ 83,737
Deposits in banking business	¥ 4,178,545	¥ 4,178,875	¥ 330
Bonds (including current portion)	340,660	340,112	(548)
Long-term borrowings (including current portion)	426,148	430,239	4,091
Total	¥ 4,945,353	¥ 4,949,226	¥ 3,873
Derivative financial instruments (Note 17):			
Hedge accounting not applied	¥ (242)	¥ (242)	
Hedge accounting applied	(3,299)	(3,299)	
Total	¥ (3,541)	¥ (3,541)	

The amounts of financial instruments whose fair values are deemed to be difficult to determine reported in the consolidated balance sheet are as follows. They are not included in the amounts of "Finance receivables—net of allowance for credit losses" and "Investment securities" in the table above.

	Millions of Yen
	2022
Stocks with no active market quotations	¥ 2,112
Trust beneficiary rights	4,771
Investments in limited partnerships	3,974
Total	¥ 10,857

(i) 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					
	2023					
	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Due from banks	¥ 752,737					
Call loans	10,374					
Finance receivables[*1]	1,577,316	¥ 271,638	¥ 216,892	¥ 149,390	¥ 84,394	¥ 233,864
Loans in banking business[*2]	147,951	101,179	90,609	77,240	94,885	1,600,107
Securities in banking business and insurance business:						
Available-for-sale securities:						
Government bonds						92,000
Municipal bonds	200					
Corporate bonds	36,000	3,000	3,600			54,449
Foreign securities	25,824	15,983	15,105			7,937
Total	62,024	18,983	18,705			154,386
Monetary claims bought	6,600					15,945
Money held in trust	13,816	14,730	11,976	9,780	10,077	57,518
Total	¥ 2,570,818	¥ 406,530	¥ 338,182	¥ 236,410	¥ 189,356	¥ 2,061,820

	Millions of Yen					
	2022					
	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Due from banks	¥ 626,195					
Call loans	8,864					
Finance receivables[*1]	1,404,889	¥ 248,740	¥ 189,983	¥ 125,212	¥ 77,447	¥ 212,474
Loans in banking business[*2]	203,478	109,058	95,703	80,343	70,166	1,495,981
Securities in banking business and insurance business:						
Available-for-sale securities:						
Government bonds						70,000
Municipal bonds	200	200				
Corporate bonds	65,800		3,000	3,600		55,469
Foreign securities	21,791	3,750	12,699	12,803		12,217
Total	87,791	3,950	15,699	16,403		137,686
Monetary claims bought	6,200					20,831
Money held in trust	12,429	11,203	10,059	8,967	7,932	55,148
Total	¥ 2,349,846	¥ 372,951	¥ 311,444	¥ 230,925	¥ 155,545	¥ 1,922,120

	Thousands of U.S. Dollars					
	2023					
	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Due from banks	$ 5,521,028					
Call loans	76,088					
Finance receivables[*1]	11,568,994	$ 1,992,357	$ 1,590,813	$ 1,095,716	$ 618,998	$ 1,715,297
Loans in banking business[*2]	1,085,161	742,111	664,579	566,526	695,943	11,736,155
Securities in banking business and insurance business:						
Available-for-sale securities:						
Government bonds						674,784
Municipal bonds	1,467					
Corporate bonds	264,046	22,004	26,405			399,364
Foreign securities	189,410	117,226	110,792			58,212
Total	454,923	139,230	137,197			1,132,360
Monetary claims bought	48,408					116,951
Money held in trust	101,335	108,035	87,841	71,732	73,907	421,871
Total	$ 18,855,937	$ 2,981,733	$ 2,480,430	$ 1,733,974	$ 1,388,848	$ 15,122,634

(*1) Finance receivables for the years ended February 28, 2023 and 2022 exclude ¥81,358 million ($596,729 thousand) and ¥80,143 million, respectively, which have no specific contractual maturity date due to late payments or being under negotiations.

(*2) Loans in banking business for the years ended February 28, 2023 and 2022 exclude loans of ¥6,008 million ($44,068 thousand) and ¥9,630 million with no specific recoverable amounts, such as loans to borrowers classified as legal bankruptcy, substantial bankruptcy, or possible bankruptcy, and ¥42,796 million ($313,892 thousand) and ¥45,652 million, respectively, which have no fixed maturity.

(ii) 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										
	2023										
	Up to 1 year		1-2 years		2-3 years		3-4 years		4-5 years		Over 5 years
Deposits in banking business(*)	¥	**4,224,684**	¥	**98,071**	¥	**42,153**	¥	**18,872**	¥	**14,174**		
Short-term borrowings		**221,934**										
Commercial paper		**75,000**										
Bonds		**85,237**		**82,081**		**91,429**		**57,174**		**31,097**	¥	**3,045**
Long-term borrowings		**117,859**		**129,465**		**124,626**		**93,376**		**63,664**		**6,108**
Lease obligations		**9,948**		**6,877**		**4,834**		**4,174**		**1,659**		**1,047**
Total	¥	**4,734,662**	¥	**316,494**	¥	**263,042**	¥	**173,596**	¥	**110,594**	¥	**10,200**

	Millions of Yen											
	2022											
	Up to 1 year		1-2 years		2-3 years		3-4 years		4-5 years		Over 5 years	
Deposits in banking business(*)	¥	3,960,033	¥	93,642	¥	76,134	¥	37,444	¥	11,292		
Short-term borrowings		204,074										
Commercial paper		85,000										
Bonds		63,410		85,224		78,527		50,000		55,261	¥	8,238
Long-term borrowings		90,215		105,682		90,913		50,325		68,561		20,452
Lease obligations		9,955		7,956		4,877		3,642		3,259		1,889
Total	¥	4,412,687	¥	292,504	¥	250,451	¥	141,411	¥	138,373	¥	30,579

	Thousands of U.S. Dollars											
	2023											
	Up to 1 year		1-2 years		2-3 years		3-4 years		4-5 years		Over 5 years	
Deposits in banking business(*)	$	**30,986,390**	$	**719,309**	$	**309,172**	$	**138,419**	$	**103,961**		
Short-term borrowings		**1,627,801**										
Commercial paper		**550,095**										
Bonds		**625,182**		**602,034**		**670,593**		**419,345**		**228,084**	$	**22,338**
Long-term borrowings		**864,445**		**949,575**		**914,085**		**684,878**		**466,945**		**44,800**
Lease obligations		**72,966**		**50,442**		**35,453**		**30,612**		**12,173**		**7,676**
Total	$	**34,726,879**	$	**2,321,360**	$	**1,929,303**	$	**1,273,254**	$	**811,163**	$	**74,814**

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

(c) Financial instruments categorized by fair value hierarchy

The fair value of financial instruments is categorized into the following three levels, depending on the observability and significance of the inputs used in making fair value measurements:

Level 1: Fair value measured by using quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Fair value measured by using inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly; and

Level 3: Fair value measured by using unobservable inputs for the assets or liabilities.

If multiple inputs are used that have a significant impact on the measurement of fair value, fair value is categorized at the lowest level in the fair value measurement above among the levels to which each of these inputs belongs.

(i) The financial assets and liabilities measured at fair value in the consolidated balance sheet

	Millions of Yen			
February 28, 2023	**Level 1**	**Level 2**	**Level 3**	**Total**
Securities in banking business and insurance business:				
Available-for-sale securities:				
Government bonds	¥ 83,211			¥ 83,211
Municipal bonds		¥ 200		200
Corporate bonds		94,843		94,843
Foreign securities		40,223	¥ 22,118	62,341
Other	983	4,441	1,604	7,028
Total	84,194	139,707	23,722	247,623
Monetary claims bought			22,535	22,535
Money held in trust		4,492		4,492
Total	¥ 84,194	¥ 144,199	¥ 46,257	¥ 274,650
Derivative financial instruments:				
Hedge accounting not applied		(520)		(520)
Hedge accounting applied		6,230		6,230
Total		¥ 5,710		¥ 5,710

	Thousands of U.S. Dollars			
February 28, 2023	**Level 1**	**Level 2**	**Level 3**	**Total**
Securities in banking business and insurance business:				
Available-for-sale securities:				
Government bonds	$ 610,322			$ 610,322
Municipal bonds		$ 1,467		1,467
Corporate bonds		695,633		695,633
Foreign securities		295,017	$ 162,231	457,248
Other	7,208	32,575	11,763	51,546
Total	617,530	1,024,692	173,994	1,816,216
Monetary claims bought			165,285	165,285
Money held in trust		32,949		32,949
Total	$ 617,530	$ 1,057,641	$ 339,279	$ 2,014,450
Derivative financial instruments:				
Hedge accounting not applied		(3,810)		(3,810)
Hedge accounting applied		45,692		45,692
Total		$ 41,882		$ 41,882

Investment trusts subject to the transitional treatment in accordance with Paragraph 26 of the “Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31, July 4, 2019) are not included in the table above. The amount of the investment trusts reported in the consolidated balance sheet is ¥238,085 million ($1,746,260 thousand).

(ii) The financial assets and liabilities not measured at fair value in the consolidated balance sheet

	Millions of Yen			
February 28, 2023	**Level 1**	**Level 2**	**Level 3**	**Total**
Finance receivables			¥ 2,537,604	¥ 2,537,604
Loans in banking business			2,151,707	2,151,707
Money held in trust		¥ 22,802	97,102	119,904
Total		¥ 22,802	¥ 4,786,413	¥ 4,809,215
Deposits in banking business		4,398,198		4,398,198
Bonds		348,896		348,896
Long-term borrowings		536,540		536,540
Total		¥ 5,283,634		¥ 5,283,634

	Thousands of U.S. Dollars			
February 28, 2023	**Level 1**	**Level 2**	**Level 3**	**Total**
Finance receivables			$ 18,612,323	$ 18,612,323
Loans in banking business			15,781,923	15,781,923
Money held in trust		$ 167,243	712,204	879,447
Total		$ 167,243	$ 35,106,450	$ 35,273,693
Deposits in banking business		32,259,045		32,259,045
Bonds		2,559,015		2,559,015
Long-term borrowings		3,935,309		3,935,309
Total		$ 38,753,369		$ 38,753,369

The following is a description of valuation methodologies and inputs used for measurement of the fair value of assets and liabilities:

Assets

Finance receivables:
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). As significant unobservable inputs are used in the fair value measurement, the fair value is categorized as Level 3.

Loans in banking business:
The carrying amount of loans 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 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 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 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. As significant unobservable inputs are used in the fair value measurement, the fair value is categorized as Level 3.

Securities in banking business, securities in insurance business and 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. The fair value measurement using unadjusted quoted prices in active markets is categorized as Level 1. This includes mainly government bonds. If quoted prices in active markets are not used in the fair value measurement, the fair value is categorized as Level 2. This includes mainly municipal bonds and corporate bonds. If significant unobservable inputs are used in the fair value measurement, the fair value is categorized as Level 3.

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. As significant unobservable inputs are used in the fair value measurement, the fair value is categorized as Level 3.

Money held in trust:
The fair value of money held in trust, which comprises trust assets, is determined by the same method as “Loans in banking business” described above. The fair value of securities is determined by the same method as securities in insurance business described above.

Liabilities

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. The fair value is categorized as Level 2.

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 fair value is categorized as Level 2. If significant unobservable inputs are used in the fair value measurement, the fair value is categorized as Level 3.

Bonds:
The fair values of bonds are determined with reference to quoted market prices. The fair value is categorized as Level 2. If significant unobservable inputs are used in the fair value measurement, the fair value is categorized as Level 3.

Derivatives

Derivatives comprise interest rate swap contracts and currency swap contracts, and are measured at the price in the exchange markets, discounted present value and amount determined using an option-pricing model. As unobservable inputs are not used or their effects are insignificant, the fair value measurement is categorized as Level 2.

(iii) Information on the fair value of Level 3 financial instruments measured at fair value in the consolidated balance sheet

(1) Quantitative information on significant unobservable inputs (as at February 28, 2023)

Categories	Valuation methodologies	Significant unobservable inputs	Input range	Weighted average of inputs
Monetary claims bought	Net present value method	Probability of default	0.03 – 0.74%	0.21%
		Prepayment rate	0.60 – 9.59%	2.46%
		Recovery rate	100.00 – 100.00%	100.00%
		Risk premium	(0.11) – 0.96%	0.10%
Securities:				
Available-for-sale securities:				
Foreign securities	Net present value method	Probability of default	4.00 – 4.00%	4.00%
		Prepayment rate	12.00 – 12.00%	12.00%
		Recovery rate	50.00 – 50.00%	50.00%
		Risk premium	0.79 – 1.44%	0.96%
Other	Price multiples method	Net income	¥296.3 billion	¥296.3 billion
		Price-earnings ratio	27.35 times	27.35 times

(2) Reconciliation of beginning and ending balances and net unrealized gains (losses) recognized in profit or loss for the current period (as at and for the fiscal year ended February 28, 2023)

	Millions of Yen	Thousands of U.S. Dollars
	2023	**2023**
Monetary claims bought:		
Balance at beginning of year	¥ **33,693**	$ **247,125**
Profit or loss or other comprehensive income for the current period:		
Included in profit or loss(*1)	**(13)**	**(94)**
Included in other comprehensive income(*2)	**4**	**32**
Net purchases, sales, issuance and redemptions	**(11,149)**	**(81,778)**
Transfer to Level 3 fair value		
Transfer from Level 3 fair value		
Balance at end of year	**22,535**	**165,285**
Net unrealized gain (loss) on financial assets and financial liabilities held at the reporting date that is included in profit or loss for the current period		
Securities:		
Available-for-sale securities:		
Foreign securities:		
Balance at beginning of year	¥ **22,962**	$ **168,417**
Profit or loss or other comprehensive income for the current period:		
Included in profit or loss(*1)	**47**	**343**
Included in other comprehensive income(*2)	**(30)**	**(220)**
Net purchases, sales, issuance and redemptions	**(860)**	**(6,309)**
Transfer to Level 3 fair value		
Transfer from Level 3 fair value		
Balance at end of year	**22,119**	**162,231**
Net unrealized gain (loss) on financial assets and financial liabilities held at the reporting date that is included in profit or loss for the current period		
Other:		
Balance at beginning of year	¥ **967**	$ **7,089**
Profit or loss or other comprehensive income for the current period:		
Included in profit or loss(*1)		
Included in other comprehensive income(*2)	**637**	**4,674**
Net purchases, sales, issuance and redemptions		
Transfer to Level 3 fair value		
Transfer from Level 3 fair value		
Balance at end of year	**1,604**	**11,763**
Net unrealized gain (loss) on financial assets and financial liabilities held at the reporting date that is included in profit or loss for the current period		

(*1) Included mainly in “Interest and dividends on securities in banking business” presented in the consolidated statement of income.

(*2) Included mainly in “Unrealized loss on available-for-sale securities” of “Other comprehensive income” presented in the consolidated statement of comprehensive income.

(3) Fair value assessment process

The Group has established policies and procedures for the determination of fair value, and the risk management division of each Group company determines fair value in accordance with the policies and procedures. The categorization of the fair value and fair value hierarchy is verified by validating the valuation methodologies and inputs used in determining the fair value.

The fair value is determined using valuation models that best reflect the nature, characteristics and risks of individual assets. Even when using quoted prices obtained from third parties, the Group verifies the appropriateness of the prices by using appropriate methods such as validating the valuation methodologies and inputs used and comparing them with the market prices of similar financial instruments.

(4) Fair value sensitivity of changes in significant unobservable inputs
The significant unobservable inputs used in determining the fair value of monetary claims bought and securities (foreign securities) comprise probability of default, recovery rate, prepayment rate and risk premium. A significant increase (decrease) in the probability of default, prepayment rate or risk premium alone would cause a significant decrease (increase) in the fair value. A significant increase (decrease) in the recovery rate would cause a significant increase (decrease) in the fair value. In general, changes in the assumptions used with respect to the probability of default would result in changes in the same direction in the assumptions used with respect to the risk premium and changes in the opposite direction in the assumptions used with respect to the prepayment rate and recovery rate.

The significant unobservable inputs used in determining the fair value of securities (other) comprise net income of issuers of the equity instruments and price-earnings ratio of similar entities. A significant increase (decrease) in the net income or price-earnings ratio alone would cause a significant increase (decrease) in the fair value.

17. 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, 2023 and 2022 consisted of the following:

	Millions of Yen		
	2023		
	Contract Amount	Fair Value	Unrealized Gain/Loss
Currency swap contracts:			
Receive JPY/Pay HKD	**¥ 5,221**	**¥ (825)**	**¥ (825)**
Receive JPY/Pay MYR	**10,689**	**(1,410)**	**(1,410)**
Receive JPY/Pay THB	**43,868**	**(3,363)**	**(3,363)**
Receive USD/Pay MYR	**95,612**	**6,720**	**6,720**
Receive USD/Pay THB	**83,601**	**4,613**	**4,613**
Interest rate swap contracts:			
Receive floating/Pay fixed	**31,095**	**494**	**494**

	Millions of Yen		
	2022		
	Contract Amount	Fair Value	Unrealized Gain/Loss
Currency swap contracts:			
Receive JPY/Pay HKD	¥ 4,446	¥ (346)	¥ (346)
Receive JPY/Pay MYR	9,636	(412)	(412)
Receive JPY/Pay THB	33,560	(1,110)	(1,110)
Receive USD/Pay MYR	83,436	(788)	(788)
Receive USD/Pay THB	64,409	20	20
Interest rate swap contracts:			
Receive floating/Pay fixed	40,132	(663)	(663)

	Thousands of U.S. Dollars		
	2023		
	Contract Amount	Fair Value	Unrealized Gain/Loss
Currency swap contracts:			
Receive JPY/Pay HKD	**$ 38,293**	**$ (6,048)**	**$ (6,048)**
Receive JPY/Pay MYR	**78,400**	**(10,340)**	**(10,340)**
Receive JPY/Pay THB	**321,753**	**(24,668)**	**(24,668)**
Receive USD/Pay MYR	**701,278**	**49,291**	**49,291**
Receive USD/Pay THB	**613,183**	**33,833**	**33,833**
Interest rate swap contracts:			
Receive floating/Pay fixed	**228,067**	**3,624**	**3,624**

Derivative financial instruments not qualifying for hedge accounting as at February 28, 2023 and 2022 consisted of the following:

	Millions of Yen					
	2023					
	Contract Amount		Fair Value		Unrealized Gain/Loss	
Currency swap contracts:						
Receive JPY/Pay MYR	¥	**3,054**	¥	**(520)**	¥	**(520)**
Currency forward contracts:						
Short position		**521**		**1**		**1**
Long position		**332**		**1**		**1**

	Millions of Yen					
	2022					
	Contract Amount		Fair Value		Unrealized Gain/Loss	
Currency swap contracts:						
Receive JPY/Pay MYR	¥	2,753	¥	(242)	¥	(242)
Currency forward contracts:						
Short position		511		1		1
Long position		188		(1)		(1)

	Thousands of U.S. Dollars					
	2023					
	Contract Amount		Fair Value		Unrealized Gain/Loss	
Currency swap contracts:						
Receive JPY/Pay MYR	$	**22,400**	$	**(3,812)**	$	**(3,812)**
Currency forward contracts:						
Short position		**3,822**		**1**		**1**
Long position		**2,432**		**1**		**1**

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.

18. 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	
	2023		2022		**2023**	
Total loan limits	¥	**10,375,870**	¥	9,911,408	$	**76,102,907**
Loan executed		**526,940**		497,711		**3,864,898**
Unexercised portion of loan commitments	¥	**9,848,930**	¥	9,413,697	$	**72,238,009**

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, 2023 and 2022 were as follows:

	Millions of Yen				Thousands of U.S. Dollars	
	2023		2022		**2023**	
Unutilized commitments	¥	**16,858**	¥	23,034	$	**123,645**
Of which: those expiring within one year		**1,693**		4,999		**12,414**

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. 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.

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	**2023**
Unutilized credit lines	**¥ 50,993**	¥ 26,693	**$ 374,013**
Of which: those expiring within one year	**16,517**	8,853	**121,143**

Contingent liabilities as at February 28, 2023 and 2022 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	**2023**
Guarantee obligation related to credit guarantee business for general customers operated by a consolidated subsidiary	**¥ 41,452**	¥ 50,201	**$ 304,031**

19. OTHER COMPREHENSIVE INCOME

Reclassification adjustments to profit or loss and tax effects of other comprehensive income for the years ended February 28, 2023 and 2022 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	**2023**
Unrealized loss on available-for-sale securities:			
Losses arising during the year	**¥ (35,140)**	¥ (8,771)	**$ (257,735)**
Reclassification adjustments to profit or loss	**(917)**	400	**(6,725)**
Amount before income tax effect	**(36,057)**	(8,371)	**(264,460)**
Income tax effect	**11,219**	2,614	**82,287**
Total	**¥ (24,838)**	¥ (5,757)	**$ (182,173)**
Deferred gains on derivatives under hedge accounting:			
Gains arising during the year	**¥ 4,763**	¥ 8,285	**$ 34,932**
Reclassification adjustments to profit or loss	**(856)**	(3,236)	**(6,276)**
Amount before income tax effect	**3,907**	5,049	**28,656**
Income tax effect	**(798)**	(1,103)	**(5,854)**
Total	**¥ 3,109**	¥ 3,946	**$ 22,802**
Foreign currency translation adjustments:			
Gains arising during the year	**¥ 24,041**	¥ 8,226	**$ 176,331**
Amount before income tax effect	**24,041**	8,226	**176,331**
Total	**¥ 24,041**	¥ 8,226	**$ 176,331**
Adjustments for retirement benefit:			
Gains (losses) arising during the year	**¥ 40**	¥ (17)	**$ 297**
Reclassification adjustments to profit or loss	**68**	205	**499**
Amount before income tax effect	**108**	188	**796**
Income tax effect	**(33)**	(58)	**(243)**
Total	**¥ 75**	¥ 130	**$ 553**
Total other comprehensive income	**¥ 2,387**	¥ 6,545	**$ 17,513**

20. NET INCOME PER SHARE

Basic and diluted EPS for the years ended February 28, 2023 and 2022 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, 2023:				
Basic EPS				
Net income	**¥ 30,678**			
Net income available to common shareholders	**¥ 30,678**	**215,846**	**¥ 142.13**	**$ 1.04**
Effect of dilutive securities				
—Warrants of the Company		**18**		
—Convertible bonds with stock acquisition rights of the Company				
Diluted EPS				
—Net income for computation	**¥ 30,678**	**215,864**	**¥ 142.12**	**$ 1.04**
For the year ended February 28, 2022:				
Basic EPS				
Net income	¥ 30,213			
Net income available to common shareholders	¥ 30,213	215,833	¥ 139.98	
Effect of dilutive securities				
—Warrants of the Company		24		
—Convertible bonds with stock acquisition rights of the Company				
Diluted EPS				
—Net income for computation	¥ 30,213	215,857	¥ 139.97	

21. RELATED PARTY TRANSACTIONS

There were no transactions between the Company and related parties for the years ended February 28, 2023 and 2022.

Transactions between the Company's consolidated subsidiaries and related parties for the years ended February 28, 2023 and 2022 were as follows:

(1) Transactions with a subsidiary of the parent company(*) and the Company's other subsidiaries

	Millions of Yen		Thousands of U.S. Dollars
AEON Retail Co., Ltd. (subsidiary of the parent company)	**2023**	2022	**2023**
Loans in banking business	**¥ 28,000**	¥ 30,000	**$ 205,369**
Other assets	**41**	44	**304**
Lending of loans	**29,167**	30,666	**213,929**
Interest income	**263**	276	**1,926**

	Millions of Yen		Thousands of U.S. Dollars
AEON Marketing Co., Ltd. (subsidiary of the parent company)	**2023**	2022	**2023**
Settlement of funds related to point transactions	**¥ 43,694**	**¥ 25,909**	**$ 320,476**
Accounts payable	**6,081**	**4,313**	**44,604**

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

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.

(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	**2023**	**2023**	**2023**	**2023**
Housing loans (Loans in banking business)	**¥ 66**	**$ 483**	**¥ 290**	**$ 2,128**

	Transaction amount	Balance at end
	Millions of Yen	Millions of Yen
Directors, executive officers and their close relatives of the Company and its subsidiaries	2022	2022
Housing loans (Loans in banking business)	¥ 30	¥ 272

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.

(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 operating income in the accompanying consolidated statement of income. The intersegment revenue or transfers are based on the current market prices.

As described in Note 2, (aa) Accounting Changes and Error Corrections, the Company and its domestic subsidiaries have adopted the "Accounting Standard for Revenue Recognition," etc. from March 1, 2022, and changed the accounting treatment for revenue recognition. As a result, the reporting method of operating revenues and segment profit of reportable segments has been changed in the same manner.

The effects of this change on the operating revenues of respective reportable segments are ¥ (35,208) million ($ (258,239) thousand) for Domestic – Retail segment, ¥ (2,361) million ($ (17,314) thousand) for Domestic – Solutions segment and ¥168 million ($1,229 thousand) for reconciliations. There is no effect on segment profit.

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

	Millions of Yen														
	2023														
	Reportable Segment														
	Domestic				Global										
	Retail		Solutions		China Area		Mekong Area		Malay Area		Subtotal		Reconciliations (*2)		Total
Operating revenues(*1)															
Operating revenues from customers(*4)	¥	**164,328**	¥	**118,026**	¥	**22,462**	¥	**85,998**	¥	**60,902**	¥	**451,716**	¥	**51**	¥ **451,767**
Intersegment revenue or transfers		**3,549**		**58,333**		**1**		**23**				**61,906**		**(61,906)**	
Total operating revenues		**167,877**		**176,359**		**22,463**		**86,021**		**60,902**		**513,622**		**(61,855)**	**451,767**
Segment profit(*3)	¥	**3,873**	¥	**14,288**	¥	**7,717**	¥	**18,997**	¥	**15,716**	¥	**60,591**	¥	**(1,731)**	¥ **58,860**
Segment assets	¥	**5,001,097**	¥	**971,616**	¥	**113,466**	¥	**375,856**	¥	**355,060**	¥	**6,817,095**	¥	**(157,626)**	¥ **6,659,469**
Other items															
Depreciation and amortization	¥	**6,243**	¥	**15,952**	¥	**1,412**	¥	**4,041**	¥	**2,377**	¥	**30,025**	¥	**339**	¥ **30,364**
Amortization of goodwill		**1,457**		**275**						**3**		**1,735**			**1,735**
Financial expenses		**3,297**		**1,355**		**728**		**7,314**		**10,191**		**22,885**		**677**	**23,562**
Provision for credit losses		**(427)**		**16,856**		**1,392**		**27,898**		**15,038**		**60,757**		**15**	**60,772**
Increases in tangible and intangible assets		**7,112**		**26,899**		**903**		**3,482**		**1,381**		**39,777**		**121**	**39,898**

	Millions of Yen														
	2022														
	Reportable Segment														
	Domestic				Global										
	Retail		Solutions		China Area		Mekong Area		Malay Area		Subtotal		Reconciliations (*2)		Total
Operating revenues(*1)															
Operating revenues from customers	¥	210,032	¥	122,908	¥	15,743	¥	72,373	¥	49,980	¥	471,036	¥	(379)	¥ 470,657
Intersegment revenue or transfers		3,547		55,940		0		43				59,530		(59,530)	
Total operating revenues		213,579		178,848		15,743		72,416		49,980		530,566		(59,909)	470,657
Segment profit(*3)	¥	8,090	¥	17,836	¥	5,531	¥	15,298	¥	12,977	¥	59,732	¥	(879)	¥ 58,853
Segment assets	¥	4,818,288	¥	935,681	¥	76,592	¥	321,276	¥	290,395	¥	6,442,232	¥	(163,646)	¥ 6,278,586
Other items															
Depreciation and amortization	¥	6,797	¥	16,036	¥	1,251	¥	3,820	¥	2,331	¥	30,235	¥	326	¥ 30,561
Amortization of goodwill		1,457		416						1		1,874			1,874
Financial expenses		3,715		1,296		430		6,031		9,519		20,991		442	21,433
Provision for credit losses		1,001		16,843		144		23,195		9,033		50,216		32	50,248
Increases in tangible and intangible assets		5,526		22,702		783		2,815		2,199		34,025		325	34,350

	Thousands of U.S. Dollars							
	2023							
	Reportable Segment							
	Domestic		Global					
	Retail	Solutions	China Area	Mekong Area	Malay Area	Subtotal	Reconciliations (*2)	Total
Operating revenues(*1)								
Operating revenues from customers(*4)	**$ 1,205,284**	**$ 865,673**	**$ 164,751**	**$ 630,759**	**$ 446,690**	**$ 3,313,157**	**$ 375**	**$ 3,313,532**
Intersegment revenue or transfers	**26,034**	**427,848**	**2**	**169**		**454,053**	**(454,053)**	
Total operating revenues	**1,231,318**	**1,293,521**	**164,753**	**630,928**	**446,690**	**3,767,210**	**(453,678)**	**3,313,532**
Segment profit(*3)	**$ 28,404**	**$ 104,796**	**$ 56,600**	**$ 139,338**	**$ 115,272**	**$ 444,410**	**$ (12,697)**	**$ 431,713**
Segment assets	**$ 36,681,068**	**7,126,420**	**$ 832,229**	**$ 2,756,752**	**$ 2,604,228**	**$ 50,000,697**	**$ (1,156,127)**	**$ 48,844,570**
Other items								
Depreciation and amortization	**$ 45,794**	**$ 116,998**	**$ 10,354**	**$ 29,641**	**$ 17,436**	**$ 220,223**	**$ 2,487**	**$ 222,710**
Amortization of goodwill	**10,689**	**2,012**			**23**	**12,724**		**12,724**
Financial expenses	**24,180**	**9,938**	**5,336**	**53,648**	**74,747**	**167,849**	**4,970**	**172,819**
Provision for credit losses	**(3,133)**	**123,629**	**10,213**	**204,622**	**110,300**	**445,631**	**109**	**445,740**
Increases in tangible and intangible assets	**52,163**	**197,290**	**6,627**	**25,539**	**10,133**	**291,752**	**886**	**292,638**

(*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 ¥51 million ($375 thousand) and ¥ (379) million represent operating revenues of holding company and others included in consolidation unattributable to any reportable segment for the years ended February 28, 2023 and 2022, respectively.

(2) A reconciliation to segment profit of ¥ (1,731) million ($ (12,697) thousand) and ¥ (879) 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, 2023 and 2022, respectively.

(3) A reconciliation to segment assets of ¥ (157,626) million ($ (1,156,127) thousand) and ¥ (163,646) 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, 2023 and 2022, respectively.

(*3) Segment profit is adjusted to reconcile it to operating income in the accompanying consolidated statement of income.

(*4) Revenues from contracts with customers, subject to the Accounting Standard for Revenue Recognition, that are included in operating revenues from customers of respective reportable segments for the fiscal year ended February 28, 2023 are ¥30,980 million ($227,223 thousand) for Domestic – Retail segment, ¥65,618 million ($481,284 thousand) for Domestic – Solutions segment, ¥4,193 million ($30,754 thousand) for Global – China Area segment, ¥7,821 million ($57,362 thousand) for Global – Mekong Area segment, ¥6,333 million ($46,451 thousand) for Global – Malay Area segment and ¥349 million ($2,558 thousand) for reconciliations.

(d) Information about geographic areas

(i) Operating revenues(*1)(*2)

Millions of Yen				
2023				
Japan	Thailand	Malaysia	Other	Total
¥ 282,196	**¥ 79,668**	**¥ 55,428**	**¥ 34,475**	**¥ 451,767**

Millions of Yen				
2022				
Japan	Thailand	Malaysia	Other	Total
¥ 332,534	¥ 67,355	¥ 45,724	¥ 25,044	¥ 470,657

Thousands of U.S. Dollars				
2023				
Japan	Thailand	Malaysia	Other	Total
$ 2,069,800	**$ 584,334**	**$ 406,540**	**$ 252,858**	**$ 3,313,532**

(*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			
2023			
Japan	Thailand	Other	Total
¥ 22,648	**¥ 5,039**	**¥ 4,238**	**¥ 31,925**

Millions of Yen			
2022			
Japan	Thailand	Other	Total
¥ 25,873	¥ 3,917	¥ 4,530	¥ 34,320

Thousands of U.S. Dollars			
2023			
Japan	Thailand	Other	Total
$ 166,116	**$ 36,959**	**$ 31,084**	**$ 234,159**

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

Millions of Yen						
2023						
Domestic		Global				
Retail	Solutions	China Area	Mekong Area	Malay Area	Reconciliations	Total
¥ 281			**¥ 363**	**¥ 133**		**¥ 777**

Millions of Yen						
2022						
Domestic		Global				
Retail	Solutions	China Area	Mekong Area	Malay Area	Reconciliations	Total
¥ 203						¥ 203

Thousands of U.S. Dollars						
2023						
Domestic		Global				
Retail	Solutions	China Area	Mekong Area	Malay Area	Reconciliations	Total
$ 2,060			**$ 2,662**	**$ 978**		**$ 5,700**

(f) Information about goodwill by reportable segment

	Millions of Yen					
	2023					
	Domestic		Global			
	Retail	Solutions	China Area	Mekong Area	Malay Area	Total
Goodwill at February 28, 2023 (*)	**¥ 12,508**	**¥ 673**			**¥ 11**	**¥ 13,192**

	Millions of Yen					
	2022					
	Domestic		Global			
	Retail	Solutions	China Area	Mekong Area	Malay Area	Total
Goodwill at February 28, 2022 (*)	¥ 13,965	¥ 947			¥ 13	¥ 14,925

	Thousands of U.S. Dollars					
	2023					
	Domestic		Global			
	Retail	Solutions	China Area	Mekong Area	Malay Area	Total
Goodwill at February 28, 2023 (*)	**$ 91,737**	**$ 4,935**			**$ 82**	**$ 96,754**

(*) 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 July 4, 2023, the Company issued unsecured bonds pursuant to the resolution at the Company's Board of Directors' meeting held on February 21, 2023. The key information of the unsecured bonds is summarized as follows:

1. (1)	Name	22th Unsecured Bonds (with limited inter-bond pari passu clause)
(2)	Total amount of issue	¥25 billion ($183,365 thousand)
(3)	Interest rate	0.44% per annum
(4)	Issue price	100% of the principal amount of the bonds
(5)	Issue date	July 4, 2023
(6)	Maturity date	January 4, 2027
(7)	Method of redemption	Bullet redemption at maturity Retirement by purchase of the bonds can be made at any time from the day following the closing date.
(8)	Closing date	July 4, 2023
(9)	Use of proceeds	To be applied toward the partial repayment of borrowed money.

2. (1)	Name	23th Unsecured Bonds (with limited inter-bond pari passu clause)
(2)	Total amount of issue	¥15 billion ($110,019 thousand)
(3)	Interest rate	0.58% per annum
(4)	Issue price	100% of the principal amount of the bonds
(5)	Issue date	July 4, 2023
(6)	Maturity date	July 4, 2028
(7)	Method of redemption	Bullet redemption at maturity Retirement by purchase of the bonds can be made at any time from the day following the closing date.
(8)	Closing date	July 4, 2023
(9)	Use of proceeds	To be applied toward the partial repayment of borrowed money.

(b) Absorption-type merger of a consolidated subsidiary

At the Board of Directors' meeting held on October 4, 2022, the Company resolved to absorb AEON Credit Service Co., Ltd. (hereinafter, "AEON Credit Service"), a consolidated subsidiary of the Company, and concluded the merger agreement on December 1, 2022. On June 1, 2023, AEON Credit Service was absorbed into the Company.

(1) Purpose of the merger

Under the basic policy of "Second Founding: Innovation of Value Chains and Creation of Networks" in the Medium-term Management Plan, the Group aims to create a platform that goes beyond the boundaries of the Group's financial products, services and customer base by connecting AEON Group companies and external alliance partners with payment, point and other financial services. Through this reorganization, the Group will accelerate the above initiatives by strategically utilizing management resources across the Group and further speeding up its decision-making process.

By further expanding the Group's payment network and providing financial services that seamlessly integrate online and offline services, the Group aims to become the most accessible financial group for its customers.

(2) Outline of the merger

(i) Schedule

Date of the resolution at the Board of Directors' meeting: October 4, 2022
Date of the merger agreement: December 1, 2022
Date of the amendment agreement of the merger agreement: February 21, 2023
Effective date of the merger: June 1, 2023

* The merger is a simplified absorption-type merger for the Company, as stipulated in Article 796, Paragraph 2 of the Companies Act, and a short-form merger for AEON Credit Service, as stipulated in Article 784, Paragraph 1 of the Companies Act. Accordingly, the merger agreement takes effect without the approval of the General Meeting of Shareholders of either the Company or AEON Credit Service.

(ii) Method of the merger

Absorption-type merger in which the Company is the surviving company

(iii) Details of allotment pertaining to the merger

Not applicable

(iv) Treatment of the merged company's stock acquisition rights and bonds with stock acquisition rights

Not applicable

(v) Name of the Company after the merger

AEON Financial Service Co., Ltd.

(3) Outline of the company in merger

	Merged company (as at February 28, 2023)
(i) Name of the company	AEON Credit Service Co., Ltd.
(ii) Location	1-1 Kandanishiki-cho, Chiyoda-ku, Tokyo, Japan
(iii) Name and title of representative	Kenji Fujita, President and CEO
(iv) Line of business	Credit card, payment service and processing businesses
(v) Common stock	¥500 million ($3,667 thousand)
(vi) Date of establishment	November 2012
(vii) Number of shares issued and outstanding	10,000,000 shares of common stock
(viii) Fiscal year-end	Last day of February
(ix) Major shareholders and shareholding ratio	AEON Financial Service Co., Ltd.: 100%
(x) Financial position and operating results for the previous fiscal year (ended February 28, 2023)	
Fiscal year	Fiscal year ended February 28, 2023 (Non-consolidated)
Total equity	¥77,442 million ($568,003 thousand)
Total assets	¥557,228 million ($4,087,044 thousand)
Net assets per share	¥7,744.16 ($56.80)
Operating revenues	¥150,981 million ($1,107,386 thousand)
Operating income	¥7,120 million ($52,225 thousand)
Ordinary income	¥7,105 million ($52,112 thousand)
Net income per share	¥450.27 ($3.30)

(4) Accounting treatment to be implemented

The Company plans to treat this merger as transactions under common control in accordance with the “Accounting Standard for Business Combinations” (ASBJ Statement No. 21, January 16, 2019) and the “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10, January 16, 2019).

Deloitte.

Deloitte Touche Tohmatsu LLC
Marunouchi Nijubashi Building
3-2-3 Marunouchi
Chiyoda-ku, Tokyo 100-8360
Japan

Tel: +81 (3) 6213 1000
Fax: +81 (3) 6213 1005
www2.deloitte.com/jp/en

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, 2023, 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, 2023, 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<table>
<tr><th colspan="2">Allowance for credit losses</th></tr>
<tr><th>Key Audit Matter Description</th><th>How the Key Audit Matter Was Addressed in the Audit</th></tr>
<tr><td>The Group, which mainly provides retail financial services throughout Asia, recorded installment sales receivables of ¥1,769,589 million and operating loan receivables of ¥845,263 million as disclosed in Note 5, "FINANCE RECEIVABLES AND LOANS INB BANKING BUSINESS," to the consolidated financial statements. For the installment sales receivables and the operating loan receivables, the Group recorded an allowance for credit losses of ¥53,045 million and ¥70,536 million respectively to absorb credit losses in the future, as disclosed in Note 5 to the consolidated financial statements.

As described in Note 2, "SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (g)," to the consolidated financial statements, the allowance for credit losses is estimated mainly based on the historical loss experiences and also it is estimated using the expected credit loss model in accordance with International Financial Reporting Standard ("IFRS") 9 in certain overseas subsidiaries.

The allowance for credit losses is estimated based on various input data gathered and calculated through operating processes, including IT systems, in accordance with the Group's accounting policy under accounting principles generally accepted in Japan and IFRS. Management also considers forward looking information.

We identified the allowance for credit losses as a key audit matter because of the following reasons:

(1) The input data used in calculating the allowance for credit losses is gathered through internal controls including complex IT systems. If the input data were not properly processed, the monetary impact on the financial statements could be material.

(2) Since the expected credit loss model requires a large number of input data, which includes historical loan experiences for each product by delinquency period, macroeconomic indicators, such as GDP, price index, interest rate and foreign exchange rate, and assumptions, with a high degree of uncertainty for forward looking information, such as the probability of default and other parameters, professional judgment requires specialized skills and knowledge to establish the model.</td><td>In order to address the estimation of the allowance for credit losses, we performed the following procedures, among others:

(1) Test of the design implementation and operating effectiveness of controls, including IT systems

• We evaluated the design implementation and operating effectiveness of controls over business operating processes with the assistance of our IT specialists. Those controls included collection and write-off of delinquent loans, financial reporting processes for calculating and monitoring the allowance for credit losses, and relevant general IT controls and automated controls.

• We evaluated whether the IT system properly captured relevant balance data of receivables and calculated the allowance rate for credit losses applied to each risk category with the assistance of our IT specialists as necessary.

(2) Test of the expected credit loss model

We evaluated the reasonableness of the model to estimate expected credit losses in accordance with IFRS 9 adopted by certain overseas subsidiaries with the assistance of our risk management specialists. Our procedures included evaluating the accuracy of underlying data used and assumptions used for forward looking information.</td></tr>
</table>

<table>
<tr><th colspan="2">Assessment of capitalized software development costs</th></tr>
<tr><th>Key Audit Matter Description</th><th>How the Key Audit Matter Was Addressed in the Audit</th></tr>
<tr><td>
In response to changes in external business environments, the Group has invested significantly in software development, such as updating of the core business operating system, for purposes of processing a large volume of individual transaction data.

As described in Note 3, "SIGNIFICANT ACCOUNTING ESTIMATES," to the consolidated financial statements, the balance of capitalized software developments costs related to the next generation core business system which is scheduled to be used for domestic credit card service (the "System") was ¥59,755 million, which accounted for 52% of the total software balance as of February 28, 2023.

Since the development of the System is large-scale and complex and the development needs a long period of time to be completed, originally expected functions may not be developed due to technical or quality issues, or the total capitalized development costs may exceed the original budget due to an extension of the release, which may result in the capitalized development costs being significantly greater than the recoverable amount.

To ensure that originally expected functions are fulfilled, the Group implements various internal controls over software development with external software vendors at each stage of development; these internal controls include system development project planning, multilayered monitoring, verification of system quality and so forth. Under those internal controls, the Group reviews the project to identify any deviations from the original plan and re-evaluates the project feasibility as necessary. If the capitalized software development costs are significantly greater than the recoverable amount due to the deviations from the plan, an impairment loss would be recognized.
</td><td>
In order to evaluate the reasonableness of assessments on capitalized costs of the System, with the assistance of our internal specialists with knowledge of software development, we performed the following procedures, among others:

Test of internal controls over the review process of software

We evaluated the design and operating effectiveness of the controls over software development and the financial reporting process in determining impairment of the software.

Test of valuation of the capitalized costs of the System

(1) Identifying risks in developing the software

We inspected minutes of board of directors and relevant monitoring committee and also inquired of management in charge of the software development to evaluate whether those controls were properly established to identify risks in developing software.

(2) Identifying and evaluating functions not to be implemented

Our audit procedures to test whether the capitalized costs of the System were impaired when certain functions were not expected to be implemented as planned due to system development risks and significant impediments in the development included the following procedures, among others:

• Inspection of the management evaluation of capitalized software development costs

• Inquiries of management in charge of the software development

• Inspection of minutes and relevant documents of discussions between the Group and external software vendors regarding software development issues
</td></tr>
</table>

Other Information

Management is responsible for the other information. 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 other information. The other information comprises the information included in the Annual Report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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.

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.

From the matters communicated with Audit & Supervisory Board members and the Audit & Supervisory Board, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Our firm and its designated engagement partner 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

August 31, 2023