Independent Auditor's Report

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Independent Auditor's Report

The Board of Directors
Orient Corporation

Opinion

We have audited the accompanying consolidated financial statements of Orient Corporation and its consolidated subsidiaries (the Group), which comprise the consolidated balance sheet as at March 31, 2022, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in 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 ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Note 2(19)(b) to the consolidated financial statements, which describes the Group changed *(i)* method of recognizing revenue for guarantee and loan agent service, *(ii)* accounting method for guaranteed loan receivables and guaranteed loan payables, and (*iii*) accounting method for advance payments for guaranteeing collection from the current consolidated fiscal year. Our opinion is not modified in respect of this matter.

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 the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters.

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Validity of reason for changing method of recognizing revenue from guarantee and loan agent service and appropriateness of notes to the consolidated financial statements	
Description of Key Audit Matter	**Auditor's Response**
As described in (*i*) Method of recognizing revenue for guarantee and loan agent service, 2(19)(b). Changes in accounting policies related to credit guarantees, (Changes in accounting policies) under notes to the consolidated financial statements, the Group previously recognized the entire amount of revenue at once upon entering into guarantee contracts, but beginning from the fiscal year ended March 31, 2022, adopted a method of recognizing revenue over the contract period (Sum-of-the-months' digits method based on the standard under which revenue is recognized at each installment payment date). This change in accounting policy was applied retrospectively and compared to before the retrospective application, deferred tax assets (included in Investments, Advances and Other Assets) and unearned finance income for the fiscal year ended March 31, 2021 increased by 10,239 millions of Japanese yen and 42,844 millions of Japanese yen, respectively, and retained earnings for the fiscal year ended March 31, 2021 decreased by 32,604 millions of Japanese yen. Additionally, operating revenues, and operating profit for the fiscal year ended March 31, 2021 each increased by 1,741 millions of Japanese yen and profit and profit attributable to owners of parent for the fiscal year ended March 31, 2021 increased by 1,903 millions of Japanese yen. Although accounting policies are consistently applied in principle, they may be changed if there is a valid reason. Changes in accounting policies are deemed to have been made for a valid reason if they were made in response to changes in the nature of the entity's business and changes in the operating environment in and out of the entity and to appropriately reflect accounting events and the like in the consolidated financial statements.	We mainly performed the following procedures to consider the validity of the reason for changing the accounting policy related to recognizing revenue from guarantee and loan agent service and the appropriateness of the notes to the consolidated financial statements. 1. Assessment on validity of reason for change in accounting policy ・ We made inquiries of the executive in charge regarding the basis for determining that the change in the accounting policy related to recognizing revenue from guarantee and loan agent service was made in response to changes in the nature of the entity's business and changes in the operating environment within and outside of the entity and to appropriately reflect accounting events and the like in the consolidated financial statements. ・ We inspected the periods in which major costs and indirect costs (e.g., system costs) related to guarantee and loan agent service arise and reperformed calculations to verify that the proportion of costs incurred upon entering into guarantee contracts is decreasing and that the proportion of costs incurred over guarantee contract periods is increasing. ・ We obtained data about changes in the number of payments made by customers on loans such as reform loans and auto loans, which are key products in guarantee and loan agent service, and verified from the standpoint of the satisfaction of performance obligations that the number of payments made by customers for both types of loans is increasing.

Management determined that it is appropriate to recognize revenue over the contract period based on the reasoning that changes in the Group's business are consistent with the approach to revenue recognition such as that described in Accounting Standard for Revenue Recognition where revenue is recognized as performance obligations are satisfied; specifically, the timing with which major costs related to guarantee and loan agent service arise is changing, indirect costs related to such transactions (e.g., system costs) are arising over longer periods of time, the number of payments made by customers on loans such as reform loans and auto loans are increasing, and guarantee services are provided over contract periods. Given that the timing of the above change in accounting policy involves subjective judgment by management in consideration of changes in the cost structure of guarantee and loan agent service, the shift to transactions taking place over longer periods of time, and other such changes, we must make significant judgments in assessing whether such change in accounting policy was made for a valid reason. In addition, considering that the effect of this change in accounting policy on the beginning balance of retained earnings is material, it is necessary for the purpose of our audit that we consider whether the notes to the consolidated financial statements that include this impact are appropriately prepared. Therefore, we determined that the validity of the reason for changing the accounting policy related to recognizing revenue from guarantee and loan agent service and the appropriateness of the notes to the consolidated financial statements are of particular significance for the fiscal year ended March 31, 2022 and, accordingly, that this is a key audit matter. Further, we determined that the notes to the consolidated financial statements regarding the change in the accounting policy related to recognizing revenue from guarantee and loan agent service are also important in that they are fundamental to users' understanding of the consolidated financial statements.	2. Assessment on appropriateness of notes to the consolidated financial statements We performed the following procedures to assess whether notes to the consolidated financial statements regarding the aforementioned change were appropriately prepared. ・ We assessed the accuracy and completeness of the data that was used to determine the effect of the noted change and reperformed the calculation of the effect. ・ We verified that the details of the change in accounting policy, the valid reason for making the change, and the effect of the change are appropriately reflected in the notes to the consolidated financial statements.

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Estimate of allowance for credit losses	
Description of Key Audit Matter	**Auditor's Response**
As of March 31, 2022, the Group recorded allowance for credit losses of 128,517 millions of Japanese yen (1,049,889 thousands of U.S. dollars) on its consolidated balance sheet and the specific method of estimating this allowance is described in Note 2 (3)(a) to the consolidated financial statements. In accordance with the Group's policy "Allowance for credit losses and write-offs rules, bylaws and related operating principles.", the Group calculates the respective expected loss ratios based on a statistical technique in the light of historical bad debts for normal receivables and for receivables that require special management, such as receivables that are three months or more overdue, to recognize an allowance for credit losses and as for specific receivables, recognize an allowance for credit losses at the amount expected to be uncollectible taking into account the collectability on an individual basis. In calculating the expected loss ratio, the Group assumes that consumer spending will gradually recover in the fiscal year ending March 31, 2023 despite a certain degree of the impact of COVID-19. The Group determined the amount of allowance for credit losses on the assumption that the expected loss ratios would not rise significantly. The Group primarily engages in consumer credit business as its core business and the collectability of installment account receivables and other operating receivables may be affected by future economic trends, an increase in individual bankruptcy filings and other unexpected reasons. Furthermore, in the case where economic conditions get worse due to the effects of COVID-19, the Group may provide an additional allowance for credit losses due to a rise in expected loss ratios and other reasons, and the degree of uncertainty in the estimate and the degree of reliance on management's judgment are high.	In assessing the estimate of the allowance for credit losses, we mainly performed the following audit procedures. 1. Assessment on internal controls related to estimating the allowance for credit losses ・ We assessed the design and operating effectiveness of internal controls for ensuring the accuracy of credit classification and internal controls for ensuring the accuracy of the determination of the allowance for credit losses. 2. Assessment on accuracy of credit classification of receivables ・ For receivables selected through sampling, we assessed the accuracy of the credit classification by inspecting the collection status, negotiation records, etc., and by conducting inquiries with the risk management group as necessary. 3. Assessment on reasonableness of estimation method and estimate of allowance for credit losses ・ We assessed the method used to estimate the allowance for credit losses in the past by performing a comparative analysis of actual losses on installment account receivables and other receivables with historical expected losses. ・ In order to examine changes in the credit status of the portfolio as a whole, we conducted a trend analysis for each credit classification and inspected the status of recent credit losses on nonperforming receivables. ・ We considered whether data in the core system is consistent with materials which was the basis for the calculation of the allowance for credit losses and whether data in the core system is consistent with materials which was the basis for the calculation of the historical loss rate, and also conducted procedures to recalculate the credit loss rate.

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Therefore, based on the above factors, we determined the estimate of the allowance for credit losses to be a key audit matter.	・ Regarding the impact of COVID-19 on credit classification and expected loss ratios, we assessed the assumptions adopted by management by carrying out inquiries with the management and the risk management group and comparing them with available external information on the outlook for consumer spending and capital needs.

Recoverability of deferred tax assets	
Description of Key Audit Matter	**Auditor's Response**
As of March 31, 2022 the Group recorded deferred tax assets of 34,921 millions of Japanese yen (285,278 thousands of U.S. dollars) on its consolidated balance sheet and provided related disclosures in Note 2(18)(b) to the consolidated financial statements. The Group recognizes deferred tax assets for deductible temporary differences and assesses their recoverability on the basis of future taxable income in the business plan for the next three years. Some uncertainties are factored in when the Group estimates future taxable income. The Group estimates the amount of deductible temporary differences associated with the allowance for credit losses that is expected to reverse in light of historical bad debts and the amount of other deductible temporary differences that are expected to reverse based on the scheduling for each temporary difference. In formulating future business plans, the Group forecasts operating revenues and expenses related to bad debts and financial expenses for each of the Group's services in the business plan based on the assumption that consumer spending for the year ending March 31, 2023 will gradually recover despite a certain degree of the impact of COVID-19. The Group has described the key assumptions and the impact of COVID-19 in Note 2(18)(b) to the consolidated financial statements.	In assessing the recoverability of deferred tax assets, we mainly performed the following audit procedures. 1. Assessment on internal controls related to recording deferred tax assets ・ We assessed the design and operating effectiveness of internal controls for ensuring the accuracy of the determination of deferred tax assets. 2. Assessment on reasonableness of estimating future taxable income ・ With respect to the major assumptions included in the future business plans, such as the forecast of operating revenues, bad debt expenses and operating expenses such as finance costs for each business, we assessed the assumptions by carrying out inquiries with the management and the corporate planning department, analyzing trends from past results and comparing them with available external information. Regarding the impact of COVID-19 on business plans, etc., we assessed the assumptions adopted by management by carrying out inquiries with the management and the corporate planning department and comparing them with available external information on the future outlook for consumer spending and capital needs. ・ In order to assess certain uncertainties involved in estimating future taxable income, we compared business plans with actual results for previous years.

The recoverability of deferred tax assets may be affected by future economic trends, an increase in individual bankruptcy filings and other unexpected reasons. Furthermore, in the case where economic conditions get worse due to the effects of COVID-19, the outlook for operating revenues and expenses related to bad debts and financial expenses of their respective services in the business plan may be significantly affected, and the estimate of future taxable income may be changed and the degree of uncertainty in the estimate and the degree of reliance on management's judgment are high. Therefore, based on above factors, we determined the recoverability of deferred tax assets to be a key audit matter.	3. Assessment on reasonableness related to the scheduling around the reversal of the deductible temporary differences and the net operating loss carryforwards ・ We considered the reasonableness on the timing of reversal of deductible temporary differences, which management determined, by inspecting the timing of actual reversal of deductible temporary differences and net operating loss carryforwards were reversed in past periods.

Other Information

The other information comprises the information included in the Annual Report that contains audited consolidated financial statements but does not include the consolidated financial statements and our auditor's report thereon. Management is responsible for preparation and disclosure of the other information. The Audit and Supervisory Committee is responsible for overseeing the Group's reporting process of the other information.

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, the Audit and Supervisory Committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

The Audit and Supervisory Committee is responsible for overseeing the Group's financial reporting process.

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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. 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, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not 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 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 in accordance with accounting principles generally accepted in Japan.
- 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 the Audit and Supervisory Committee 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.

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We also provide the Audit and Supervisory Committee with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the consolidated financial statements in Japan, and to 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 the Audit and Supervisory Committee, 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 partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2022 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1(1) to the consolidated financial statements.

Ernst & Young ShinNihon LLC
Tokyo, Japan

September 15, 2022

Nobuko Kubo
Designated Engagement Partner
Certified Public Accountant

Takashi Hasegawa
Designated Engagement Partner
Certified Public Accountant

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