CREDIT SAISON

FINANCIAL SECTION 2022

For the Year Ended March 31, 2022

CREDIT SAISON

The accompanying consolidated financial statements expressed in Japanese yen are the translation of those issued domestically. The amounts expressed in U.S. dollars are not included in the original audited consolidated financial statements. Such U.S. dollar amounts are translated in accordance with the basis stated in "Basis of Presentation" on the next page and are additionally presented herein solely for the convenience of readers outside Japan, and are not subject to audit.

Basis of Presentation

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥122.41 to $1, the approximate rate of exchange at March 31, 2022. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	FY2021 (As of March 31, 2022)	
	Millions of yen	Thousands of U.S. dollars
Assets		
Cash and cash equivalents	¥108,970	$890,207
Trade and other receivables	2,794,545	22,829,389
Inventories	128,462	1,049,448
Operational investment securities	52,992	432,906
Investment securities	72,431	591,711
Other financial assets	14,597	119,250
Property, plant, and equipment	30,342	247,875
Right-of-use assets	12,364	101,011
Intangible assets	162,317	1,326,016
Investment property	94,763	774,151
Investments accounted for using equity method	86,914	710,031
Deferred tax assets	41,377	338,027
Other assets	10,697	87,390
Total assets	¥3,610,778	$29,497,418

	FY2021 (As of March 31, 2022)	
	Millions of yen	Thousands of U.S. dollars
Liabilities and equity		
Liabilities		
Trade and other payables	¥244,349	$1,996,157
Financial guarantee liabilities	8,884	72,579
Bonds and borrowings	2,569,040	20,987,180
Other financial liabilities	19,373	158,271
Income taxes payable	13,038	106,513
Provision for point card certificates	118,368	966,983
Provision for loss on interest repayments	24,066	196,609
Other provisions	1,574	12,865
Deferred tax liabilities	974	7,962
Other liabilities	47,368	386,963
Total liabilities	3,047,040	24,892,086
Equity		
Equity attributable to owners of parent	562,387	4,594,292
Share capital	75,929	620,287
Capital surplus	85,152	695,629
Retained earnings	442,550	3,615,315
Treasury shares	△62,737	△512,521
Other components of equity	21,492	175,581
Non-controlling interests	1,351	11,039
Total equity	563,738	4,605,331
Total liabilities and equity	¥3,610,778	$29,497,418

CONSOLIDATED STATEMENT OF INCOME

	FY2021 (April 1, 2021 to March 31, 2022) Millions of yen	Thousands of U.S. dollars
Revenues		
Income from the payment business	¥209,608	$1,712,345
Income from the lease business	11,835	96,684
Income from the finance business	48,313	394,684
Revenue from the real estate-related business	59,341	484,780
Revenue from the entertainment business	32,866	268,495
Finance income	989	8,085
Total	362,955	2,965,076
Of interest income	108,337	885,041
Cost of sales		
Cost of sales for the real estate-related business	37,478	306,174
Cost of sales for the entertainment business	26,459	216,151
Total	63,937	522,325
Net revenue	299,017	2,442,751
Selling, general, and administrative expenses	222,541	1,817,997
Impairment losses on financial assets	24,575	200,765
Finance costs	11,461	93,633
Share of profit of investments accounted for using equity method	4,588	37,484
Other income	6,259	51,132
Other expenses	1,349	11,023
Profit before tax	49,936	407,947
Income tax expense	14,343	117,171
Profit	¥35,593	$290,775
Profit attributable to		
Owners of parent	¥35,375	$288,994
Non-controlling interests	218	1,781
Profit	¥35,593	$290,775

RECONCILIATION FROM PROFIT BEFORE TAX TO BUSINESS PROFIT

	FY2021 (April 1, 2021 to March 31, 2022) Millions of yen	Thousands of U.S. dollars
Profit before tax	¥49,936	$407,947
Reconciliations (Impairment losses on financial assets)	1,364	11,150
Reconciliations (Other income)	△228	△1,866
Reconciliations (Other expenses)	1,068	8,730
Adjustments for the application of the effective interest method to financial assets	194	1,586
Subtotal	2,399	19,599
Business profit	¥52,336	$427,547

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FY2021 (April 1, 2021 to March 31, 2022)

	Millions of yen							
	Equity attributable to owners of parent						Non-controlling interests	Total
	Share capital	Capital surplus	Retained earnings	Treasury shares	Other components of equity	Total		
Balance as of April 1, 2021	¥75,929	¥85,198	¥414,260	¥△62,808	¥18,392	¥530,971	¥1,086	¥532,057
Profit			35,375			35,375	218	35,593
Other comprehensive income					3,051	3,051	10	3,061
Comprehensive income	—	—	35,375	—	3,051	38,426	228	38,655
Purchase of treasury shares				△0		△0		△0
Disposal of treasury shares		△0		0		0		0
Share-based payment transactions		125		71		197	1	198
Dividends			△7,035			△7,035		△7,035
Transfer from other components of equity to retained earnings			△49		49	—		—
Obtaining of control of subsidiaries		△172				△172	38	△133
Other						—	△3	△3
Total transactions with owners	—	△46	△7,085	70	49	△7,010	36	△6,974
Balance as of March 31, 2022	¥75,929	¥85,152	¥442,550	¥△62,737	¥21,492	¥562,387	¥1,351	¥563,738

	Thousands of U.S. dollars							
	Equity attributable to owners of parent						Non-controlling interests	Total
	Share capital	Capital surplus	Retained earnings	Treasury shares	Other components of equity	Total		
Balance as of April 1, 2021	$620,287	$696,007	$3,384,200	$△513,101	$150,249	$4,337,644	$8,872	$4,346,516
Profit			288,994			288,994	1,781	290,775
Other comprehensive income					24,925	24,925	86	25,012
Comprehensive income	—	—	288,994	—	24,925	313,920	1,868	315,788
Purchase of treasury shares				△3		△3		△3
Disposal of treasury shares		△0		1		0		0
Share-based payment transactions		1,027		581		1,609	11	1,620
Dividends			△57,473			△57,473		△57,473
Transfer from other components of equity to retained earnings			△406		406	—		—
Obtaining of control of subsidiaries		△1,405				△1,405	317	△1,087
Other						—	△29	△29
Total transactions with owners	—	△378	△57,880	579	406	△57,272	299	△56,973
Balance as of March 31, 2022	$620,287	$695,629	$3,615,315	$△512,521	$175,581	$4,594,292	$11,039	$4,605,331

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Notes on important matters forming the basis for preparation of consolidated financial statements)

1. BASIS FOR PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of Credit Saison Co., Ltd. (the "Company") and its subsidiaries (the "Group") are prepared in accordance with International Financial Reporting Standards (IFRS) pursuant to the provisions of Article 120-1 of Regulations for Companies Accounting Regulation. In accordance with the second sentence of the same paragraph, some of the disclosure items required by IFRS have been omitted from the consolidated financial statements. Statements of comprehensive income and cash flows are not required as a part of the basic financial statements under the Companies Act of Japan and applicable regulations and, accordingly, are not presented herein.

2. SCOPE OF CONSOLIDATION

Number of consolidated subsidiaries	36
Names of principal consolidated subsidiary	・SAISON FUNDEX CORPORATION ・JPN COLLECTION SERVICE CO.,LTD. ・SAISON ASSET MANAGEMENT CO., LTD. ・Atrium Servicing Co., Ltd. ・Saison Personalplus Co., Ltd. ・Atrium Co., Ltd. ・Concerto Inc. ・L-BLUE ・Kisetsu Saison Finance(India)Pvt. Ltd. ・Credit Saison Asia Pasific Pte. Ltd. ・Saison Capital Pte. Ltd. ・PT. Saison Modern Finance

3. ACCOUNTED FOR USING EQUITY METHOD

Number of companies accounted for using equity method	40
Names of principal companies	・Saison Information Systems Co., Ltd. ・IDEMITSU CREDIT CO.,LTD. ・Resona Card Co., Ltd. ・Shizugin Saison Card Co., Ltd. ・Daiwa House Financial Co., Ltd. ・Takashimaya Financial Partners Co., Ltd. ・Seven CS Card Service Co., Ltd. ・eplus inc. ・HD SAISON Finance Company Limited

4. FISCAL YEAR OF CONSOLIDATED SUBSIDIARIES

When the reporting date of a subsidiary is different from that of the Company, the subsidiary prepares, for consolidation purposes, additional financial information as of the reporting date of the consolidated financial statements.

5. ACCOUNTING POLICIES

(1) Valuation standards and methods for financial assets

(a) Financial assets

1) Initial recognition and measurement

The Group classifies financial assets into financial assets measured at amortized cost, at fair value through profit or loss, or at fair value through other comprehensive income. The Group determines such classification at the time of initial recognition.

The Group recognizes financial assets on the transaction date when it becomes a party to the contract on such financial instruments.

All financial assets are measured at fair value plus any transaction costs, except for those classified as financial assets measured at fair value through profit or loss.

Financial assets that meet both of the following conditions are classified as financial assets measured at amortized cost:

- The assets are held within a business model whose objective is to hold the assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets other than those measured at amortized cost are classified as financial assets measured at fair value.

Equity instruments measured at fair value are individually designated as measured at fair value through profit or loss or at fair value through other comprehensive income, and such designation is applied consistently after the initial recognition.

Debt instruments measured at fair value that meet both of the following conditions are classified as debt instruments measured at fair value through other comprehensive income:

- The financial assets are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Operational investment securities include stocks, investment trusts, and investments in partnerships, which are held solely for the purpose of investment. Investment securities include stocks, investment trusts, investments in partnerships held for the purpose of promoting business primarily through business, and capital alliances.

2) Subsequent measurement

After initial recognition, financial assets are measured as follows, depending on their classifications:

(i) Financial assets measured at amortized cost

Financial assets are measured at amortized cost using the effective interest method.

(ii) Debt instruments measured at fair value through other comprehensive income

A gain or loss on debt instruments measured at fair value through other comprehensive income is recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses, until the debt instrument is derecognized or reclassified. When the financial asset is derecognized, cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss.

(iii) Financial assets measured at fair value through profit or loss

A gain or loss on financial assets measured at fair value through profit or loss is recognized in profit or loss.

(iv) Equity instruments measured at fair value through other comprehensive income

A gain or loss on equity instruments designated as those measured at fair value through other comprehensive income is recognized in other comprehensive income.

Dividends received from such financial assets are recorded in profit or loss under "Other income."

3) Derecognition of financial assets

Financial assets are derecognized if the contractual rights to receive cash flows from the financial assets expire or if the Group has transferred substantially all the risks and rewards of ownership of the financial assets. If the Group retains control of a transferred asset, the asset and any liability associated with the asset are recognized to the extent of their continuing involvement.

4) Impairment of financial assets

Allowance for doubtful accounts is recognized for expected credit losses on financial assets measured at amortized cost and debt instruments measured at fair value through other comprehensive income.

If the credit risk on financial assets at the end of the reporting period has not increased significantly since initial recognition, allowance for doubtful accounts is measured at an amount equal to the amount of expected credit losses from possible defaults in the next 12 months after the end of the reporting period (12-month expected credit losses). In this case, 12-month expected credit losses are collectively estimated to measure the allowance for doubtful accounts based on information such as the probability of default, subsequent collection rates, and other reasonable and supportable information, including forward-looking data.

Conversely, if the credit risk on financial assets at the end of the reporting period has increased significantly since initial recognition, allowance for doubtful accounts is measured at an amount equal to the expected credit losses that result from all possible default events over the expected life of such financial assets (lifetime expected credit losses). In this case, allowance for doubtful accounts is determined by estimating the lifetime expected credit losses related to the collection of such financial assets based on information such as the probability of default, future recoverable amounts, and other reasonable and supportable information, including forward-looking data. In principle, it is presumed that the credit risk on financial assets has increased significantly when contractual payments are more than 30 days past due. In assessing whether the credit risk has increased significantly, the Group considers reasonably available and supportable information in addition to past due information.

However, for trade receivables that result from transactions that are within the scope of IFRS 15, "Revenue from Contracts with Customers," (IFRS15) and that do not contain a significant financing component, allowance for doubtful accounts is always recognized at an amount equal to the lifetime expected credit losses, regardless of whether or not the credit risk has increased significantly since initial recognition.

As a general rule, the Group determines that a default has occurred when the contractual payment of a receivable is 90 days or more past due. When it is determined that there is a default of a receivable, such receivable is deemed to be a credit-impaired receivable.

The Group directly reduces the gross carrying amount of a financial asset when it has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof.

(b) Financial liabilities

1) Initial recognition and measurement

The Group classifies financial liabilities as subsequently measured at amortized cost, except for

derivatives and financial guarantee liabilities. The classification is made at the time of initial recognition.

Debt securities issued by the Group are initially recognized at the date of issuance. All other financial liabilities are recognized on the transaction date when the Group becomes a party to the contract of such financial liabilities.

Financial liabilities measured at amortized cost are recognized at an amount after deducting transaction costs directly attributable to the issuance of the liabilities.

2) Subsequent measurement

After initial recognition, financial liabilities are measured at amortized cost using the effective interest method, except for derivatives and financial guarantee liabilities.

Amortization using the effective interest method as well as gains and losses arising from derecognition are recognized as "Finance costs" in profit or loss of the period.

3) Derecognition of financial liabilities

The Group derecognizes financial liabilities when they are extinguished (i.e., when the obligation specified in the contract is discharged), canceled, or expired.

(c) Presentation of financial assets and financial liabilities

Financial assets and financial liabilities offset each other with the net amount presented in the consolidated statement of financial position only if the Group has a legal right to offset and has the intention to either settle amounts on a net basis or realize the assets and settle the liabilities simultaneously.

(d) Derivatives and hedge accounting

The Group utilizes derivatives, such as interest rate swaps, for the purpose of hedging interest rate risk and foreign currency risk. These derivatives are initially recognized at fair value at the date when the contracts are entered into and subsequently remeasured at fair value.

At the inception of the hedging relationship, there is formal designation and documentation of the hedging relationship to which the Group plans to apply hedge accounting as well as the Group's risk management objective and strategy for undertaking the hedge. That documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged, and the description on how the Group will assess the effectiveness of changes in fair value of the hedging instruments used in offsetting its exposures to changes in the fair value or cash flows of the hedged items arising from the hedged risk.

A hedging relationship is considered to be effective when it meets all the following requirements:

・ There is an economic relationship between the hedged item and the hedging instrument.

・ The effect of credit risk does not dominate the value changes that result from that economic relationship.

・ The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

The Group prospectively assesses whether the hedging relationships will be effective on an ongoing basis. Hedge ineffectiveness may arise when the fair value change on the hedging instrument exceeds or falls below that of the hedged item.

Hedge ratio is appropriately determined based on an economic relationship between the hedged item and hedging instrument, as well as the Group's risk management strategies.

If a hedging relationship ceases to meet the hedging effectiveness requirement, but the risk management objective remains the same, the Group adjusts the hedge ratio so that the hedging relationship becomes effective again. The Group terminates the hedge accounting if the risk management objective for the designated hedge relationship is changed.

Hedges that qualify for hedge accounting are classified and accounted for as follows:

1) Fair value hedges

Fair value changes on derivatives are recognized in profit or loss of the consolidated statement of income. Fair value changes on hedged items attributable to hedged risks are recognized in profit or loss in the consolidated statement of income with the carrying amounts of the hedged items being adjusted.

2) Cash flow hedges

The effective portion of gains or losses on hedging instruments is recognized in other comprehensive income in the consolidated statement of comprehensive income, while the ineffective portion is immediately recognized in profit or loss in the consolidated statement of income.

The amount posted in other comprehensive income is reclassified to profit or loss when the hedged transaction affects profit or loss.

If a forecast transaction or a firm commitment is no longer expected to occur, cumulative gains or losses previously recognized in equity through other comprehensive income are reclassified to profit or loss. If a hedged future cash flow is still expected to occur, the amount previously recognized in equity through other comprehensive income remains in equity until the future cash flow occurs.

(e) Financial guarantee liabilities

A financial guarantee contract is a contract that requires a contract issuer to make specified payments to reimburse the holder of a guarantee contract for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Revenue is recognized by multiplying the balance of guarantee by the guarantee fee rate.

Financial guarantee liability is measured at fair value when the contract is initially signed. After initial recognition, the amount is measured at the higher of the following:

1) The amount of allowance for doubtful accounts calculated in accordance with the section above titled “Impairment of financial assets”

2) The initially measured amount, less the cumulative amount of revenue recognized in accordance with IFRS 15

(2) Valuation standards and methods for inventories

Inventories are measured at the lower of cost or net realizable value. Net realizable value is determined at the estimated selling price in the ordinary course of business, less estimated costs for completion and estimated selling expenses. Cost is calculated mainly based on the specific identification method.

(3) Valuation standards and methods for property, plant, and equipment, and depreciation methods

(a) Recognition and measurement

Property, plant, and equipment are measured by using the cost model and are stated at acquisition cost less accumulated depreciation and accumulated impairment losses. Acquisition cost includes costs directly attributable to the acquisition of assets and costs involved in dismantling, removing and restoring. Gain or loss on disposal of an item of property, plant and equipment represents the net amount of proceeds from disposal less carrying amount, which is recognized in profit or loss.

(b) Depreciation

Depreciation is calculated based on the depreciable amount. The depreciable amount is calculated by deducting the residual value from the acquisition cost of the asset. Depreciation is recognized in profit or loss by mainly using the straight-line method over the estimated useful life of each

component of property, plant and equipment. Land and construction in progress are not subject to depreciation.

The estimated useful lives of main assets are as follows:

Buildings	39 to 50 years
Other	5 to 6 years

Depreciation methods, estimated useful lives, and residual values are reviewed at the end of each reporting period. Any change is applied prospectively as a change in accounting estimates.

(4) Depreciation method for investment property

Investment property is property (including property under construction) held to earn rental income or capital gains, or both. Investment property is measured under the cost model, and is measured at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is calculated based on the depreciable amount. The depreciable amount is calculated by deducting the residual value from the acquisition cost or the amount equivalent to the acquisition cost. Depreciation is recognized in profit or loss over the estimated useful life of each asset, other than land, by mainly using the straight-line method.

The estimated useful lives of main assets are as follows:

Investment property	19 to 50 years

An investment property is derecognized on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Gains or losses arising from the derecognition are calculated as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss at the time of derecognition.

(5) Valuation standards and methods for intangible assets (excluded goodwill), and amortization methods

Intangible assets acquired individually are measured under the cost model. Intangible assets are stated at cost, less accumulated amortization and accumulated impairment losses. These intangible assets include borrowing costs to be capitalized.

After initial recognition, intangible assets other than goodwill and software in progress are amortized over their estimated useful lives under the straight-line method and are recognized in profit or loss, except for intangible assets with indefinite useful lives.

The estimated useful lives of main assets are as follows:

Software	5 to 15 years
Other	5 to 20 years

Amortization methods, estimated useful lives, and residual values are reviewed at the end of each reporting period, and any change is applied prospectively as a change in accounting estimates.

(6) Leases

(a) Leases as a lessee

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

If a contract is, or contains, a lease, the Group recognizes a right-of-use asset and a lease liability at the commencement date. The lease liability is measured at the present value of the lease payments that are not paid at the commencement date. The right-of-use asset is measured at cost, which is the amount of the initial measurement of the lease liability, adjusted for any lease payments made at or before the commencement date, any initial direct costs incurred by the lessee, and any other costs such as obligations to restore the leased assets to their original condition as required under lease agreements.

After initial recognition, the right-of-use asset is depreciated over the shorter of the useful life or the lease term under the straight-line method.

Lease payments are allocated to finance costs and repayments of lease liabilities based on the interest method. Finance costs are recognized in the consolidated statement of income.

However, for short-term leases within a lease term of 12 months or leases for which the underlying asset is of low value, the right-of-use asset and lease liability are not recognized. The lease payments are recognized as expenses over the lease term under the straight-line method.

(b) Leases as a lessor

The Group classifies each of its leases as either an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.

For the finance lease, the Group recognizes assets held under a finance lease in its consolidated statement of financial position at the commencement date and presents them as a receivable at an amount equal to the net investment in the lease.

For the operating lease, the Group presents assets subject to operating leases in its consolidated statement of financial position and recognizes lease payments to be received as income over the lease term under the straight-line method in the consolidated statement of income.

(7) Goodwill

The Group measures goodwill as the excess of the aggregate of the consideration transferred and the amount of any non-controlling interests in the acquiree measured at the acquisition date over the net of acquisition-date amounts of identifiable assets acquired and liabilities assumed (ordinarily in their fair value).

Goodwill is not amortized but is tested for impairment in each reporting period or each time when there is an indication of impairment.

Impairment losses of goodwill are recognized in the consolidated statement of income and not reversed subsequently.

Goodwill is stated at cost less accumulated impairment losses in the consolidated statement of financial position.

(8) Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amount of non-financial assets to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated. Recoverable amounts of goodwill and intangible assets with indefinite useful lives or those not yet available for use are estimated at the same time each year, regardless of whether or not there is an indication of impairment.

The recoverable amount of an asset or a cash-generating unit is the higher of value in use or fair value less costs of disposal. In calculating the value in use, the estimated future cash flows are discounted to their present value by using a pretax discount rate that reflects the time value of money and risks specific to the asset. Assets that are not tested individually for impairment are integrated into the smallest cash-generating unit that generates cash inflows through continuing use that are largely independent of those from other assets or groups of assets. At the time of goodwill impairment testing, cash-generating units to which goodwill is allocated are integrated so that impairment testing is conducted in a manner that reflects the smallest unit with which goodwill can be associated. Goodwill acquired in a business combination is allocated to each cash-generating unit that is expected to benefit from synergies of the combination.

Impairment losses are recognized in profit or loss when the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount. Impairment loss recognized for a cash-generating

unit is first allocated to reduce the carrying amount of goodwill allocated to the unit and subsequently allocated to reduce other assets of the unit on a pro -rata basis, based on the carrying amount of each asset in the unit.

Impairment losses recognized for goodwill are not reversed. Impairment loss recognized in prior periods for other assets is assessed at the end of each reporting period to determine whether there is any indication that such impairment losses may no longer exist or may have decreased. If any change has been made to the estimate used to determine the recoverable amount of an asset, an impairment loss for the asset is reversed up to the carrying amount of the asset that would have been determined had no impairment loss been recognized for the asset in prior years (net of any associated depreciation and amortization expenses).

(9) Accounting policy for significant provisions

A provision is recognized when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. When the time value of money is significant, the estimated future cash flows are discounted to their present value by using a pretax discount rate that reflects the time value of money and risks specific to the liability. Unwinding of the discounted amount arising from the passage of time is recognized in profit or loss.

(a) Provision for point card certificates

The Group offers a rewards program to its card holders (members) as the major benefit of holding the credit card. Under the program, card holders can exchange points earned based on the amount of credit card purchases for a variety of items. Points granted to members have no expiry date.

The Group recognizes a provision for point card certificates as a liability by estimating costs to be incurred through the exchange of points in the future. To measure liability, the Group determines the estimated points to be exchanged in the future out of the outstanding number of points at the end of the period, which is multiplied by a point unit value. The use of points by members involves uncertainty.

(b) Provision for loss on interest repayments

The Group recognizes a provision for loss on interest repayments at an amount required in preparation for future claims for interest repayments, considering historical data on repayments and other information.

(c) Other provisions

Other provisions include asset retirement obligations, provision for loss on collecting gift tickets, and allowance for losses on warranty of defects, all of which are individually immaterial.

(10) Employee benefits

(a) Defined contribution pension plans

The Group adopts defined contribution pension plans. Defined contribution pension plans are post-employment benefit plans under which an employer pays fixed contributions to an independent entity and has no legal or constructive obligation to pay further contributions. Contributions under the defined contribution pension plans are recognized in profit or loss in the period in which employees render the related services.

(b) Short-term employee benefits

Undiscounted amount of short-term employee benefits is recognized as an expense in the period in which the employees render related services.

Expenses for bonuses and paid absences are recognized as a liability at an amount estimated to be paid based on applicable policies for the bonuses and paid absences when the Group has a legal or constructive obligation for the payment and a reliable estimate can be made for the amount.

⑾ Revenue

Centering on the card business, the Group engages in multiple business domains, such as the Internet business, lease business, and finance business. For the purpose of segment reporting, the Group's businesses are divided into five reportable segments: Payment business, Lease business, Finance business, Real estate-related business, and Entertainment business. Revenue recognition criteria by segment are as follows:

(a) Payment business

The payment business provides services such as credit card shopping, credit card cash advance, term loans, and processing/agency for other companies' credit cards and business agency. Revenue recognition criteria by service are as follows:

1) Credit card shopping

(i) Affiliated store fees

Revenue is recognized at the time when a credit card is used, which is when service is completed and the performance obligation is satisfied under the contracts with affiliated stores, who are customers of the Group.

(ii) Customer fees

Customer fees mainly represent fees received from cardholders for using revolving payments and other services. As stated in Note "5. ACCOUNTING POLICIES, (1) Financial instruments, (a) Financial assets, 2) Subsequent measurement ," revenue is recognized under IFRS 9, "Financial Instruments" ("IFRS 9"), using the effective interest method.

(iii) Annual membership fees, etc.

Revenue is recognized over a certain period determined under the contracts with cardholders to which performance obligation arises for the membership fees received.

2) Credit card cash advance

Revenue from cash advance services represents fees received from cardholders for using credit card cash advance via credit cards or loan cards issued by the Group. As stated in Note "5. ACCOUNTING POLICIES, (1) Financial instruments, (a) Financial assets, 2) Subsequent measurement," revenue is recognized under IFRS 9 using the effective interest method.

3) Term loans

Revenue from term loan services represents fees received from cardholders or customers who obtain loans directly from the Group in forms other than credit card cash advance. As stated in Note "5. ACCOUNTING POLICIES, (1) Financial instruments, (a) Financial assets, 2) Subsequent measurement ," revenue is recognized under IFRS 9 using the effective interest method.

4) Processing/agency for other companies' credit cards and business agency

Processing/agency for other companies' credit cards is a service provided on a contractual basis for processing and use of the Company's ATMs, for which the Company receives fees from its partner companies. Business agency refers to receivables collection businesses and temporary staffing businesses, which receive fees from their partner companies. Revenue is recognized when service is rendered, and the performance obligation is satisfied on a contractual basis.

(b) Lease business

Revenue is recognized under IFRS 16, "Leases." ("IFRS 16"). For details, see Note "5. ACCOUNTING POLICIES, (6) Leases."

(c) Finance business

1) Credit guarantees

Fees are received when the Group guarantee loans provided by their partner financial institutions. Revenue is recognized under IFRS 9. For details, see Note "5 ACCOUNTING POLICIES, (1) Financial instruments, (e) Financial guarantee liabilities ."

2) Finance-related business

Fees are directly received from customers who obtain loans directly from the Group. As stated in Note "5. ACCOUNTING POLICIES, (1) Financial instruments, (a) Financial assets, 2) Subsequent measurement ," revenue is recognized under IFRS 9 using the effective interest method.

(d) Real estate-related business

For real estate sales, revenue is recognized when property is delivered to customers, which is when a performance obligation is satisfied. For real estate rentals, revenue is recognized under IFRS 16.

(e) Entertainment business

Revenue is recognized primarily when services are rendered at stores engaged in amusement business, which is when a performance obligation is satisfied.

Revenues from the above businesses are recognized at an amount reflecting the amount of consideration to which the Group expects to be entitled in exchange for transferring the goods or services to the customer based on the following five-step approach in accordance with IFRS 15, except for interest and dividend income received under IFRS 9 and income from lease arrangements under IFRS 16:

Step 1: Identify contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to performance obligations in the contract

Step 5: Recognize revenue when (or as) the performance obligation is satisfied

Revenue recognized under IFRS 15 is based on contracts with customers, and the amount of revenue containing variable consideration is immaterial. No significant financing component is included in the amount of promised consideration.

⑿ Foreign currency translation

(a) Foreign currency transactions

Foreign currency transactions are translated into the functional currency of each entity of the Group by using the spot exchange rate at the date of the transaction.

Foreign currency monetary assets and liabilities at the end of the reporting period are translated into the functional currency using the spot exchange rate at the end of the reporting period.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency using the exchange rate at the date when the fair value was measured.

Exchange differences arising from translations or settlements are recognized in profit or loss. Exchange differences arising from the translation of equity instruments measured at fair value through other comprehensive income are recognized in other comprehensive income.

(b) Foreign operations

Assets and liabilities of foreign operations, including any goodwill arising on the acquisition of a foreign operation and any fair value adjustments, are translated into Japanese yen using the spot exchange rate at the end of the reporting period, while income and expenses are translated into Japanese yen using average exchange rates during the period.

Exchange differences arising from the translation of financial statements of foreign operations are recognized in other comprehensive income.

Upon the disposal of a foreign operation, exchange differences relating to the foreign operation are reclassified to profit or loss as part of the gain or loss on disposal.

(Notes on changes in accounting policies)

The Group started applying the following standards from the current fiscal year.

Standards	Standard name	Description of new standard and amendments
IFRS 7	financial instruments：disclosure	Revised to address the financial reporting implications that arise when replacing an existing interest rate index with an alternative interest rate index in the context of IBOR reform
IFRS 9	financial instruments	

The adoption of the above standards did not have a material impact on the Group's consolidated financial statements.

(Notes on accounting estimates)

The items that are included in the consolidated financial statements for the current fiscal year as a result of accounting estimates and which may have a significant impact on the consolidated financial statements for the following fiscal year are as follows:

	Millions of yen	Thousands of U.S. dollars
Trade and other receivables	¥2,794,545	$22,829,389
Other financial assets	4,200	34,317
Property, plant, and equipment	30,342	247,875
Right-of-use assets	12,364	101,011
Intangible assets	162,317	1,326,016
Investment property	94,763	774,151
Deferred tax assets	41,377	338,027
Financial guarantee liabilities	8,884	72,579
Other financial liabilities	2,726	22,271
Provision for point card certificates	118,368	966,983
Provision for loss on interest repayments	¥24,066	$196,609

The above amounts for "Trade and other receivables" and "Other financial assets" are net of the allowance for doubtful debts; the amounts are ¥50,329 million (U.S. $411,156 thousand) and ¥9 million (U.S. $77 thousand), respectively.

1. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

The Group makes estimates and assumptions on future events in preparing the consolidated financial statements in compliance with IFRS. Results of accounting estimates may differ from the related actual results by nature. Estimates and assumptions with risks of significantly affecting the carrying amounts of assets and liabilities in the following fiscal year are as follows:

Although the outbreak of the novel coronavirus disease (COVID-19) has started over 2 years ago, the infection is spreading in different forms, including epidemics of mutant strains. Currently, the government and others continue to implement various supporting measures; however, the uncertainty remains as to when the impact on the economy will be resolved. Under these circumstances, depending on the situation of the spread of the disease, deterioration in the economic situation, such as a slump in personal consumption or corporate bankruptcies caused by the spread of COVID-19, could have a significant impact on the Group's performance and financial position. COVID-19 has various impacts, particularly with regard to the credit risk on receivables held by the Group and the risk of impairment of non-financial assets. In calculating the impact of these two risks on the Group’s consolidated financial statements, the Group uses macroeconomic variables, such as the unemployment rate

announced by think tanks. The calculation methodology is based on the deterioration of macroeconomic variables that correlate with credit risk and the reduction in future cash flows from the cash-generating units. In most think-tank scenarios, macroeconomic variables are not expected to recover in March 2023, but gradually recover from March 2024 onward. Therefore, the Group calculates the expected negative impacts on its operating performance under such scenarios. The Group adjusts accounting estimates, such as the allowance for doubtful accounts and impairment of nonfinancial assets, if the expected negative impacts relate to those estimates. Although the Group believes that these estimates are best available at the time of preparation of the consolidated financial statements, there is a high degree of uncertainty in the assumptions used in the estimates. In the event that COVID-19 spreads or accompanying changes in the economic situation occur in the future, the estimates may be revised in the consolidated financial statements from the next fiscal year.

(a) Impairment of financial assets measured at amortized cost and debt instruments measured at fair value through other comprehensive income (Allowance for doubtful accounts and financial guarantee liabilities)

The Group recognizes expected credit losses for financial assets measured at amortized cost and debt instruments measured at fair value through other comprehensive income as the present value of differences between contractual future cash flows that it will receive in accordance with the contract and future cash flows that it expects to receive.

In estimating future cash flows, the Group takes into account not only historical information, such as the possibility of default and the collection rate of receivables after default, but also reasonably expected future events and other factors. Specifically, when various macroeconomic variables are expected to deteriorate in the future and the probability of default of the Group's receivables is expected to increase, the Group adjusts the probability of default by using macroeconomic variables, such as GDP and unemployment rate, which are correlated with expected credit losses. At each reporting date, the Group obtains the most recent future forecast values for macroeconomic variables and considers whether the estimate needs to be changed.

Regarding the probability of default, collection rate of receivables after default, forecast of economic environment using macroeconomic variables, evaluation of correlation between macroeconomic variables and expected credit losses, and the amount of impairment losses recognized for the financial assets may substantially differ if assumed circumstances change.

(b) Provision for point card certificates

The Group offers a rewards program to its card holders (members) as the major benefit of holding the credit card. Under the program, card holders can exchange points earned based on the amount of credit card purchases for a variety of items. Points granted to members have no expiry date.

The Group recognizes a provision for point card certificates as a liability by estimating costs to be incurred through the exchange of points in the future. To measure liability, the Group determines the estimated points to be exchanged in the future out of the outstanding number of points at the end of the period, which is multiplied by a point unit value. The use of points by members involves uncertainty. These estimates and assumptions may significantly affect provision amounts if assumed circumstances change.

(c) Provision for loss on interest repayments

The Group recognizes a provision for loss on interest repayments at an amount required for future claims by considering historical data on interest repayments. If such claims for interest repayments unexpectedly increase or decrease due to a change in legal regulations or other reasons, the actual amount of repayments may differ from the initial estimate, resulting in the over- or understatement of provision for loss on interest repayments.

(d) Impairment of non-financial assets

The Group conducts impairment testing for property, plant and equipment, intangible assets including goodwill and investment property. In determining recoverable amounts through the impairment test, the Group makes certain assumptions on useful lives of assets, future cash flows, pretax discount rate, long-term growth rate, and other factors. These assumptions are determined based on management's best estimates and judgments; however, the assumptions may be affected by results of changes in uncertain economic conditions in the future. If the assumptions need to be reviewed, this may significantly affect amounts recognized in consolidated financial statements in the following fiscal years.

(e) Financial instruments measured at fair value, including derivatives

The Group determines the value of financial assets and liabilities measured at fair value, including derivatives, using the following: quoted prices in an active market for identical assets or liabilities; fair values determined by using inputs other than the abovementioned quoted prices that are observable for the assets and liabilities, either directly or indirectly; or fair values determined by using valuation techniques that incorporate unobservable inputs. Among others, fair values determined using valuation techniques that incorporate unobservable inputs are based on management judgments and assumptions, including appropriate actuarial assumptions and calculation models. These estimates and assumptions may significantly affect the fair values of financial instruments if assumed circumstances change.

The details and amounts of fair values of financial instruments are stated in the note of financial instruments.

(f) Recoverability of deferred tax assets

Deferred tax assets and liabilities are recognized for temporary differences between the carrying amounts of assets and liabilities in the consolidated statement of financial position and their tax bases. Deferred tax assets and deferred tax liabilities are calculated using the tax rates expected to be applicable at the time when the relevant deferred tax assets are realized or deferred tax liabilities are settled in accordance with laws and regulations enacted or substantially enacted at the end of the reporting period. Deferred tax assets are recognized for all of the deductible temporary differences, unused tax losses, and unused tax credits to the extent that it is probable that the Group will earn sufficient future taxable profit. Estimates of future taxable profit are based on subjective judgments and assumptions made by the Group's management, which are supported primarily by business plans approved by management. The changes in assumed circumstances or amendment to tax laws in the future may significantly affect the amounts of deferred tax assets and deferred tax liabilities.

（NOTES TO CONSOLIDATED FINANCIAL STATEMENTS）

1. ACCUMULATED DEPRECIATION AND ACCUMULATED IMPAIRMENT LOSSES OF PROPERTY, PLANT, AND EQUIPMENT

31,764	259,494
Millions of yen	Thousands of U.S. dollars

2. ALLOWANCE FOR DOUBTFUL ACCOUNTS DEDUCTED DIRECTLY FROM ASSETS

Trade and other receivables	50,329 Millions of yen	411,156 Thousands of U.S. dollars
Other financial assets	9 Millions of yen	77 Thousands of U.S. dollars

3. ASSETS PLEDGED AS COLLATERAL AND LIABILITIES RELATED TO COLLATERAL

Assets pledged as collateral		Liabilities related to collateral	
Type	Ending Balance	Type	Ending Balance
Trade and other receivables (Accounts receivable – installment) (Finance lease receivables)	177,992 Millions of yen 1,454,071 Thousands of U.S. dollars	Bonds and borrowings (Long-term borrowings) (Long-term loans payable under securitized borrowings)	175,869 Millions of yen 1,436,728 Thousands of U.S. dollars
Other financial assets (Guarantee deposits)	1,511 Millions of yen 12,343 Thousands of U.S. dollars	Other financial liabilities (Deposits received)	1,604 Millions of yen 13,106 Thousands of U.S. dollars
Total	179,503 Millions of yen 1,466,415 Thousands of U.S. dollars	Total	177,474 Millions of yen 1,449,835 Thousands of U.S. dollars

"Long-term loans payable under securitized borrowings" are liabilities arising from the securitization of instalment receivables and finance lease receivables.
"Guarantee deposits" are deposited as guarantee money for issuance, etc., in accordance with Article 14-1 of the Law Concerning Funds Settlement.

4. INVESTMENT SECURITIES

Investment securities of ¥1,431 million (U.S. $11,690 thousand) are subject to stock lending agreements.

5. CONTINGENCIES

Debt guarantee

	Millions of yen	Thousands of U.S. dollars
Customers related to retail loans provided by partner financial institutions	¥210,589	$1,720,358
Customers related to loans with pictures pledged as collateral provided by partner financial institutions	33	271
Customers related to rent guarantee business	140,478	1,147,603
Customers related to mortgage loans provided by partner financial institutions	138,604	1,132,297
Customers related to housing loans provided by partner financial institutions	961	7,853
Total	¥490,666	$4,008,384

6. COMMITMENTS

（Lender）

The Group provide cash advance and card loan services that accompany their credit card operations in the Payment business. The amount of undrawn loans equivalent to loan commitments in the line of credit facility for the operations as well as for unconsolidated subsidiaries and associates is as follows:

	Millions of yen	Thousands of U.S. dollars
Total loan commitments	¥4,034,559	$32,959,392
Balance of loans taken out	176,369	1,440,813
Net amount	¥3,858,189	$31,518,578

Regarding the contracts equivalent to loan commitments above, the majority are for cash advance services that accompany credit card services furnished to the Company's cardholders, and thus, not all loan commitments will be taken out.

(Borrower)

The Company enters into loan commitment contracts with five banks to finance working capital efficiently.

The unused portion of the loan commitment under these contracts is as follows:

	Millions of yen	Thousands of U.S. dollars
Total amount of commitments	¥300,000	$2,450,780
Borrowings made under the commitment	–	–
Net amount	¥300,000	$2,450,780

(NOTES TO CONSOLIDATED STATEMENT OF INCOME)

1. BUSINESS PROFIT

Business profit is determined by adding or subtracting certain reconciliation items to or from profit before tax.

Given the nature and frequency of income and expenses, reconciliations are determined based on a judgement of whether they can help provide effective comparative information on the Group's performance and appropriately reflect how the businesses are managed.
The breakdown of reconciliations is as follows:

	Millions of yen	Thousands of U.S. dollars
Reconciliations (Impairment losses on financial assets)	¥1,364	$11,150
Allowance for doubtful accounts accumulated due to malfeasance by business partners (*1)	1,364	11,150
Reconciliations (Other income)	△228	△1,866
Gain on sale of fixed assets	△137	△1,123
Gain on change in equity	△64	△525
Other	△26	△216
Reconciliations (Other expenses)	1,068	8,730
Loss on disposal of fixed assets	418	3,420
Loss on sale of fixed assets	365	2,987
Impairment losses on non-financial assets	201	1,644
Loss on valuation of investment securities (stocks, etc.)	23	188
Other	59	489
Adjustments for the application of the effective interest method to financial assets(*2)	194	1,586
Total	¥2,399	$19,599

*1 As a result of the fraudulent acts of a business partner, there was doubt about the collectability of a portion of the Company's receivables, and the Company recorded an allowance for doubtful accounts for the estimated uncollectible amount. The amount of the impairment of financial assets incurred as a result of this is considered as an adjustment item to business profit.

*2 Mainly reversal of effective interest rate adjustments, such as loan administration fees and transaction costs.

(NOTES TO CONSOLIDATED STATEMENT OF CHANGES IN EQUITY)

1. TYPE AND NUMBER OF SHARES ISSUED AS OF MARCH 31, 2022

Common stock 185,444,772 shares

2. DIVIDENDS

(1) Dividends paid

Resolution	Class of shares	Total amount of dividends (Millions of yen) *Thousands of U.S. dollars	Dividends per share (Yen) *U.S. dollars	Record date	Effective date
Ordinary general meeting of shareholders held on June 23, 2021	Common stock	¥7,035 *$57,473	¥45 *$0.36	March 31, 2021	June 24, 2021

(2) Dividends with an effective date falling in the following fiscal year are as follows:

Resolution (planned)	Class of shares	Resource of dividends	Total amount of dividends (Millions of yen) *Thousands of U.S. dollars	Dividends per share (Yen) *U.S. dollars	Record date	Effective date
Ordinary general meeting of shareholders held on June 22, 2022	Common stock	Retained earnings	¥8,600 *$70,260	¥55 *$0.44	March 31, 2022	June 23, 2022

(NOTES TO FINANCIAL INSTRUMENTS)

1. STATUS OF FINANCIAL INSTRUMENTS

(1) Policy on financial instruments

The Group is engaged in the Payment business, Lease business, Finance business, Real estate-related business, and Entertainment business. While considering market forces and the balance of short-term and long-term borrowings, the Group utilizes both indirect financing through bank borrowings and direct financing through the issuance of bonds and commercial papers as well as securitization of receivables to operate businesses in each segment. As the Group is significantly affected by interest rate fluctuations, the Group mitigates interest rate risks by promoting the use of Asset-Liability Management("ALM"), which is the practice of managing assets and liabilities in a comprehensive manner. For the same purpose, the Group also enters into derivative transactions, such as interest rate swaps.

(2) Description of financial instruments and risks

Financial assets of the Group are mainly composed of accounts receivable – installment from its card members. The Group is exposed to credit risks mainly when the repayment ability of credit card members deteriorates. The majority of accounts receivable – installment as of March 31, 2022, resulted from the Payment business. Changes in economic environment surrounding the business, such as labor conditions, household disposable income, and consumer spending due to recession, may hinder card members in fulfilling their obligations in accordance with contract terms and conditions.
The Group's (operational) investment securities mainly consist of stocks, investment trusts, and investments in partnerships, which are held for the purpose of pure investment and business promotion.
The Group is exposed to liquidity risk, which represents the risk that it cannot fulfil the repayment obligation when due for interest-bearing debts, such as borrowings, bonds and commercial papers, under certain circumstances. For example, a greater-than-expected change might be seen in financial markets or the Group might not be able to participate in markets due to a downgrade of the Group's credit rating. In addition, the Group has borrowings with floating interest rates, which expose it to

the risk of interest rate fluctuations, but some of these borrowings are hedged against this risk by interest rate swap transactions.
Derivative transactions include interest rate swap transactions conducted as a part of ALM. The Group applies hedge accounting to these hedging instruments for interest rate fluctuation risks associated with borrowings that are hedged items.

⑶ Risk management system for financial instruments

① Credit risk management

The Group strives for continuous improvement in the quality of receivables and develops and operates a system related to credit control, such as credit limits, credit information control, and internal ratings, in accordance with the Company's internal rules for credit risk management. The Group periodically holds Board of Directors and other relevant meetings to discuss and report the status of credit controls. The ALM Committee is responsible for the management of (operational) investment securities by regularly obtaining credit and fair value information. Long-term loans receivable are regularly monitored at the level of each department for borrowers' credit risk and other risks. In dealing with counterparty risk in derivative transactions, in order to avoid credit risk that arises from default, the Group contracts with domestic and foreign banks and securities companies with high creditworthiness.

② Market risk management

(i) Interest rate risks management

The Group manages interest rate fluctuation risks through ALM. Methods and procedures for risk management are stated under internal rules for ALM. Based on the policy determined by the ALM Committee, the Board of Directors understands the implementation status and discusses matters to be addressed. The relevant departments regularly review the overall status of interest rates and terms of financial assets and liabilities and monitor them through sensitivity (gap) analysis and other measures. Through ALM, the Group also enters into derivative transactions for interest rate swaps to hedge interest rate fluctuation risks.

(ii) Price fluctuation risks management

Based on the ALM policy, the Group mitigates price fluctuation risks of investment products, including (operational)investment securities by implementing preliminary investigations, setting a cap on investment amounts, and also implementing ongoing monitoring for potential investments. Additionally, stocks held for the purpose of promoting business through business or capital alliances are monitored by relevant departments of the Group for issuers' market environments, financial conditions, and other risk factors.
Relevant departments are responsible for regularly reporting to the ALM Committee and other management.

(iii) Derivative transactions

Regarding the derivative transactions, relevant departments are responsible for executing derivative transactions in accordance with procedures specified in internal control regulations stipulated by the Board of Directors, and the total transaction limit and the range of the hedge ratios are authorized by the Board of Directors in advance. The status of major derivative transactions is reported to the Board of Directors on a quarterly basis.
Consolidated subsidiaries enter into derivative transactions in accordance with control regulations stipulated by each subsidiary. Subsidiaries are required to report to the Company on a quarterly basis regarding the hedging relationships between derivatives and corresponding receivables/payables, counterparties, transaction amounts, remaining periods, and the fair values of transactions.

(iv) Quantitative information about market risk

Financial instruments affected by interest rate risk, the main risk variable of the Group, mainly consist of trade and other receivables, bonds and borrowings, and interest rate swap transactions. Quantitative analysis for the management of interest rate fluctuation risks for such financial assets and liabilities is conducted by reasonably estimating changes in interest rates over the next year or so after the end of the reporting period and the effect on profit or loss for the year due to the change. To determine the effect on profit or loss, the Group classifies financial assets and

liabilities into those with fixed interest rates and those with floating interest rates and takes the difference between floating rate assets and floating rate liabilities to calculate an interest rate gap. Assuming that all risk variables other than interest rates remain constant, when the benchmark interest rate as of March 31, 2022, rises by one basis point (0.01%), profit before tax for the fiscal year ended March 31, 2022, would increase by ¥7 million (U.S. $57 thousand), and conversely, when the benchmark interest rate falls by one basis point (0.01%), profit before tax for the fiscal year ended March 31, 2022, would decrease by ¥7 million (U.S. $57 thousand). The effect assumes that risk variables other than interest rates remain constant and that there are no correlations between interest rates and other risk variables. When actual interest rates go beyond the reasonably estimated range, it could have a greater impact on profit or loss compared to the estimated amount.

③ Liquidity risk management related to financing

The Group manages liquidity risks through ALM to implement timely cash management, diversify financing methods, obtain commitment lines from multiple financial institutions, and balance short-term and long-term borrowings in consideration of market forces.

⑷ Supplementary explanation of matters concerning fair value of financial instruments

The fair values of financial instruments include values based on quoted market prices and also include reasonably estimated values in case there are no quoted market prices. Since certain assumptions are used in the calculation of such values, the values may differ if different assumptions are used. In addition, the contract amounts of derivative transactions in "2. Fair Value of Financial Instruments" do not indicate the market risk associated with derivative transactions.

2. MATTERS RELATED TO THE FAIR VALUE OF FINANCIAL INSTRUMENTS

Classification based on fair value hierarchy

The Group analyses financial assets and financial liabilities measured at fair value or those whose fair value is disclosed in the notes. The following shows the classification of fair value from Level 1 to Level 3 based on the fair value hierarchy.

The levels under the fair value hierarchy are defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Fair value, other than Level 1, that is determined by directly or indirectly using the observable price

Level 3: Fair value determined by using valuation techniques that incorporate unobservable inputs

⑴ Fair Value Calculation Methodology

The fair value of financial instruments is calculated as follows:

Assets

1) Trade and other receivables

(a) Accounts receivable – installment

Accounts receivable – installment with variable interest rates reflect market interest rates in the short term and are stated at carrying amount given that the carrying amount approximates the fair value, unless the credit status of debtors changes significantly in later periods. In contrast, the fair value is determined for accounts receivable – installment with fixed interest rates by discounting credit risk-adjusted future cash flows from the group of financial assets classified by the type of loans and maturity terms, using a risk-free market interest rate. The fair value of certain delinquent receivables is measured by deducting the estimated amount of loss allowance from the carrying amount of receivables at the end of the reporting period, assuming that the calculated amount approximates the fair value.

The fair value of certain receivables without a due date but with other limitations, such as limiting the loan amount to the value of collateralized asset, is measured at the carrying amount, assuming that the carrying amount approximates the fair value based on expected repayment periods and interest rate terms.

The fair value calculation does not incorporate future interest repayments.

(b) Finance lease receivables

The fair value of finance lease receivables is determined by estimating future cash flows of the principal and interests arising from respective lease periods and subtracting debtor's credit risk, which is then discounted using a risk-free market rate.

2) Operational investment securities and investment securities

The fair value of operational investment securities and investment securities is determined as follows: listed stocks are valued at prices on the stock exchanges; bonds are valued at prices on the exchange markets or information provided by counterpart financial institutions, or at prices that are reasonably calculated based on the value of underlying assets; and investment trusts are based on the disclosed net asset value. The fair value of investments in limited liability investment partnerships and similar partnerships is deemed to be the amount proportionate to the Group's share of equity interests, which is determined based on the fair value of assets belonging to the partnership as long as they can be fair valued. The fair value of unlisted stocks is calculated by using valuation techniques based on discounted cash flow, transactions and the market price of comparable companies. When determining the fair value of unlisted stocks, unobservable inputs, such as weighted-average cost of capital, price-earnings ratio, and price-book value ratio, are used.

3) Other financial assets

Since these are settled in a short period of time, the carrying amount approximates the fair value, and is therefore stated at that carrying amount.

Liabilities

1) Trade and other payables

Trade and other payables are stated at carrying amount as the carrying amount approximates the fair value due to the short settlement period.

2) Bonds and borrowings

(a) Short-term loans payable

Short-term loans payable are stated at the carrying amount as the carrying amount approximates the fair value due to the short settlement period.

(b) Commercial papers

Commercial papers are stated at the carrying amount as the carrying amount approximates the fair value due to the short settlement period.

(c) Long-term loans payable

Long-term loans payable with variable interest rates only take a change in credit spread into account as variable interest rates reflect market interest rates in a short period. The current credit spread is determined by referring to a credit spread that would be offered by financial institutions if the Group was to newly obtain finance with similar terms and conditions for the average remaining maturity for the outstanding borrowings. To calculate the difference between the carrying amount and the fair value, the Group calculates the fair value by first compartmentalizing the differences of interest arising from fluctuation of the credit spread by certain period of time, and then discounting them at risk-free market interest rates corresponding to each period of time. The fair value of long-term loans payable with fixed interest rates is determined by discounting the aggregate amount of principal and interest of the long-term loans compartmentalized by certain periods of time at interest rates that would be offered for similar borrowings.

(d) Bonds

The fair value of public offering bonds issued by the Company is measured based on the market price, which is the Reference Statistical Prices (Yields) for Over-the-Counter Bond Transactions issued by the Japan Securities Dealers Association. As private placement bonds issued by the Company are those subscribed privately by its main banks, the fair value is calculated in the same way as described in "(c) Long-term loans payable."

(e) Long-term loans payable under securitized borrowings

Long-term loans payable under securitized borrowings will not be affected by ups and downs in the Company's creditworthiness; therefore, the fair value measurement of such payables only takes into account changes in market interest rates. The fair value of Long-term loans payable under securitized borrowings is determined by discounting the aggregate amount of principal and interests of the borrowings compartmentalized by certain periods of time at interest rates that would be offered for similar borrowings.

3) Other financial liabilities

Since these are settled in a short period of time, the carrying amount approximates the fair value, and is therefore stated at that carrying amount.

4) Financial guarantee liabilities

The fair value of financial guarantee liabilities is determined by discounting future cash outflows for guarantees to be provided under financial guarantee contracts, which is adjusted by debtor's credit risk.

The amount of financial guarantee contracts classified as contingent liabilities is ¥499,550 million (U.S. $4,080,963 thousand). The liability amount recognized in the consolidated statement of financial position is ¥8,884 million (U.S. $72,579 thousand) and the fair value is ¥27,451 million (U.S. $224,258 thousand) (asset).

(2) Financial instruments measured at fair value

Financial instruments measured at fair value and the breakdown by level of the fair value hierarchy are as follows:

(Millions of yen)

	Level 1	Level 2	Level 3	Total
Assets				
Measured at fair value through profit or loss				
Trade and other receivables	¥–	¥19,657	¥–	¥19,657
Operational investment securities	–	–	52,992	52,992
Investment securities	–	3,261	16,503	19,764
Other financial assets	–	1,191	–	1,191
Equity instruments measured at fair value through other comprehensive income				
Investment securities	47,917	4,149	599	52,666
Debt instruments measured at fair value through other comprehensive income				
Trade and other receivables	–	–	2,839	2,839
Total	47,917	28,259	72,935	149,112
Liabilities				
Measured at fair value through profit or loss				
Other financial liabilities	–	2,726	–	2,726
Total	¥–	¥2,726	¥–	¥2,726

(Thousands of U.S. dollars)

	Level 1	Level 2	Level 3	Total
Assets				
Measured at fair value through profit or loss				
Trade and other receivables	$–	$160,588	$–	$160,588
Operational investment securities	–	–	432,906	432,906
Investment securities	–	26,642	134,821	161,464
Other financial assets	–	9,730	–	9,730
Equity instruments measured at fair value through other comprehensive income				
Investment securities	391,454	33,894	4,897	430,246
Debt instruments measured at fair value through other comprehensive income				
Trade and other receivables	–	–	23,199	23,199
Total	391,454	230,856	595,825	1,218,137
Liabilities				
Measured at fair value through profit or loss				
Other financial liabilities	–	22,271	–	22,271
Total	$–	$22,271	$–	$22,271

(3) Quantitative information on financial instruments classified as Level 3

Significant unobservable inputs used to measure the fair value of financial instruments classified as Level 3 are as follows:

	Fair value (Millions of yen)	Fair value (Thousands of U.S. dollars)	Valuation techniques	Unobservable inputs	Range
Measured at fair value through profit or loss					
Operational investment securities	¥47,350	$386,817	Capitalization method	Capitalization rate	3.4% – 5.3%
			Net asset value	–	–
			Discounted cash flow	weighted average cost of capital(WACC)	3.45% – 12.38%
Investment securities	15,656	127,900	Market prices of comparable companies	price-earnings ratio(PER)	14.0 – 22.8
				price book-value ratio (PBR)	1.1 – 2.3
			Net asset value	–	–
Measured at fair value through other comprehensive income					
Trade and other receivables	2,839	23,199	Discounted cash flow	Discount rate	2.98% – 12.17%
Investment securities	599	4,897	Net asset value	–	–
Total	¥66,446	$542,815			

(Notes) 1. Operational investment securities are mainly composed of investments in funds for real estate.
2. Investment securities are mainly composed of unlisted stocks and investments in funds for unlisted stocks.
3. In addition to the valuation techniques in the table above, some issues are measured by the transaction case method.

(4) Reconciliation of financial instruments classified as Level 3 from the beginning to the end of the period

The reconciliation of financial instruments measured at fair value classified as Level 3 is as follows:

(Millions of yen)

	Financial assets measured at fair value through profit or loss	Financial assets measured at fair value through other comprehensive income	Total
Balance at beginning of period	¥65,474	¥7,651	¥73,125
Total gains and losses	6,560	2,149	8,709
Profit or loss (Note 1)	6,560	195	6,755
Other comprehensive income	–	1,953	1,953
Purchases	8,943	682	9,625
Sales	(9,593)	(351)	(9,945)
Transfer from Level 3 (Note 2)	(2,346)	(6,692)	(9,038)
Others	457	–	457
Balance at end of period	69,495	3,439	72,935
Change in unrealised gains or losses for the period included in profit or loss for assets held at the end of the reporting period (Note 1)	1,770	(75)	1,694

(Thousands of U.S. dollars)

	Financial assets measured at fair value through profit or loss	Financial assets measured at fair value through other comprehensive income	Total
Balance at beginning of period	$534,879	$62,504	$597,384
Total gains and losses	53,592	17,559	71,151
Profit or loss (Note 1)	53,592	1,597	55,190
Other comprehensive income	–	15,961	15,961
Purchases	73,057	5,577	78,635
Sales	(78,375)	(2,868)	(81,244)
Transfer from Level 3 (Note 2)	(19,165)	(54,675)	(73,840)
Other	3,739	–	3,739
Balance at end of period	567,728	28,097	595,825
Change in unrealised gains or losses for the period included in profit or loss for assets held at the end of the reporting period (Note 1)	14,464	(619)	13,845

(Notes) 1. The amounts are included in "Revenue from the payment business," "Revenue from the finance business," "Revenue from the real estate-related business," "Other income," as well as "Impairment losses on financial assets" and "Other expenses" per the consolidated statement of income.

2. The transfer from Level 3 is due to the availability of observable data as a result of the listing.

(5) Valuation processes

Valuations and procedures to determine the fair value of financial instruments classified as Level 3 are undertaken by the Group's independent administrative division, which is responsible for regularly checking the details of investees' businesses, the availability of their business plans, and comparable listed companies to determine whether fair value measurements, including valuation models, are appropriate.

(6) Sensitivity analysis of fair value measurement classified as Level 3

Fair value measurements classified as Level 3 are conducted using valuation techniques based on inputs, such as prices and rates, whose fair values are not observable in the market. The following sensitivity analysis shows the effect on profit or loss and other comprehensive income for changes in unobservable inputs within a reasonably possible range, which are used to measure the fair value of financial assets classified as Level 3 in the consolidated statement of financial position. Sensitivity analysis is conducted by taking account of the type of financial instruments and market conditions at the time of analysis. Changes in significant assumptions for each valuation technique are set as follows:

・ Capitalization method: Capitalization rate changes within the range of plus/minus 0.5%

・ Discounted cash flow method: WACC changes within the range of plus/minus 1%

・ Market price of comparable companies: PBR and PER change within the range of plus/minus 0.1 and plus/minus 1.0, respectively

When fair values of operational investment securities, investment securities, and trade and other receivables classified as Level 3 are measured through a valuation technique other than the above using reasonably possible alternative assumptions for unobservable inputs, such fair values would not be included in the table below if the change in fair value is not material.

(Millions of yen)

	Total fair value	Impact on profit or loss		Impact on other comprehensive income	
		Favorable changes	Unfavorable changes	Favorable changes	Unfavorable changes
Measured at fair value through profit or loss					
Operational investment securities	¥11,545	¥3,451	¥ (2,732)	¥–	¥–
Investment securities	7,317	1,298	(980)	–	–

(Thousands of U.S. dollars)

	Total fair value	Impact on profit or loss		Impact on other comprehensive income	
		Favorable changes	Unfavorable changes	Favorable changes	Unfavorable changes
Measured at fair value through profit or loss					
Operational investment securities	$94,316	$28,194	$(22,320)	$–	$–
Investment securities	59,781	10,604	(8,007)	–	–

(7) Financial instruments that are not measured at fair value

Fair value of financial instruments that are not measured at fair value and the fair value hierarchy by level is as follows. Financial instruments whose carrying amounts approximate fair value are not included in the table below.

(Millions of yen)

	Fair value				Total carrying amount
	Level 1	Level 2	Level 3	Total	
Assets					
Trade and other receivables	¥–	¥1,799,417	¥1,029,067	¥2,828,485	¥2,772,047
Total	–	1,799,417	1,029,067	2,828,485	2,772,047
Liabilities					
Financial guarantee liabilities (assets)	–	–	(27,451)	(27,451)	8,884
Bonds and borrowings	–	2,569,187	–	2,569,187	2,569,040
Total	¥–	¥2,569,187	¥ (27,451)	¥2,541,736	¥2,577,925

(Thousands of U.S. dollars)

	Fair value				Total carrying amount
	Level 1	Level 2	Level 3	Total	
Assets					
Trade and other receivables	$–	$14,699,924	$8,406,726	$23,106,650	$22,645,600
Total	–	14,699,924	8,406,726	23,106,650	22,645,600
Liabilities					
Financial guarantee liabilities (assets)	–	–	(224,258)	(224,258)	72,579
Bonds and borrowings	–	20,988,382	–	20,988,382	20,987,180
Total	$–	$20,988,382	$(224,258)	$20,764,123	$21,059,759

(NOTES TO INVESTMENT PROPERTY)

1. STATUS OF INVESTMENT PROPERTY

The Company and some of its consolidated subsidiaries have investment property in Tokyo and other areas.

2. FAIR VALUE OF INVESTMENT PROPERTY

	Millions of yen	Thousands of U.S. dollars
Carrying amount	¥94,763	$774,151
Fair value	¥124,481	$1,016,925

(Note) 1.The carrying amount recorded in the consolidated statement of financial position is acquisition cost less accumulated depreciation and accumulated impairment losses.

2.Fair value at the end of the period is mainly determined by the Group, which refers to the Real Estate Appraisal Standard (and the appraisal value is adjusted using indicators as necessary).

(NOTES TO REVENUE RECOGNITION)

1. BREAKDOWN OF REVENUE

The breakdown of revenue recognized from contracts with customers and other sources is as follows:

(Millions of yen)

	Revenue recognized from contracts with customers	Revenue recognized from other sources	Total
Income from the payment business	¥128,180	¥81,427	¥209,608
Income from the lease business	–	11,835	11,835
Income from the finance business	–	48,313	48,313
Revenue from the real estate-related business	53,607	5,734	59,341
Revenue from the entertainment business	32,866	–	32,866
Finance income	–	989	989
Total	¥214,654	¥148,300	¥362,955

(Thousands of U.S. dollars)

	Revenue recognized from contracts with customers	Revenue recognized from other sources	Total
Income from the payment business	$1,047,141	$665,203	$1,712,345
Income from the lease business	–	96,684	96,684
Income from the finance business	–	394,684	394,684
Revenue from the real estate-related business	437,935	46,845	484,780
Revenue from the entertainment business	268,495	–	268,495
Finance income	–	8,085	8,085
Total	$1,753,572	$1,211,504	$2,965,076

Revenue recognized from other sources includes interest and dividend income based on IFRS 9 and lease income based on IFRS 16.

Interest and dividend income is recognized as revenue in accordance with IFRS 9, and income from the Lease business, and also from real estate rentals in the Real estate-related business, is recognized as revenue in accordance with IFRS 16. Revenue recognized in accordance with IFRS 9 amounted to ¥133,622 million (U.S. $1,091,601 thousand) for FY2021. Revenue recognized in accordance with IFRS 16 amounted to ¥14,677 million (U.S. $119,902 thousand) for FY2021.

2. CONTRACT BALANCE

The breakdown of contract balances is as follows:

	Millions of yen		Thousands of U.S. dollars	
	Beginning of period (April 1, 2021)	End of period (March 31, 2022)	Beginning of period (April 1, 2021)	End of period (March 31, 2022)
Receivables arising from contracts with customers				
Trade and other receivables	¥97,528	¥103,824	$796,735	$848,166
Contract liabilities	7,809	8,437	63,799	68,929

Contract liabilities mainly represent a deferred portion of annual membership fees. The amounts of revenue recognized in FY2021 that was included in the beginning balance of contract liabilities were ¥5,765 million (U.S. $47,100 thousand).

None of the revenue recognized in FY2021 arose from performance obligations satisfied (or partially satisfied) in previous periods.

3. TRANSACTION PRICE ALLOCATED TO REMAINING PERFORMANCE OBLIGATIONS

The Group has adopted a practical expedient and omitted information on remaining performance obligations, given that there were no significant transactions for which an individual estimated contract period exceeds one year.

(NOTES TO EARNINGS PER SHARE)

1. EQUITY ATTRIBUTABLE TO OWNERS OF PARENT PER SHARE	(Yen)	¥3,598.22
	*U.S. dollars	$29.39
2. BASIC EARNINGS PER SHARE	(Yen)	¥226.35
	*U.S. dollars	$1.85

(NOTES TO SIGNIFICANT SUBSEQUENT EVENTS)

There are no pertinent items.

INDEPENDENT AUDITOR'S REPORT

May 12, 2022

To the Board of Directors of
Credit Saison Co., Ltd.:

Deloitte Touche Tohmatsu LLC
Tokyo office

Designated Engagement Partner,
Certified Public Accountant:

Mitsuo Kimura

Designated Engagement Partner,
Certified Public Accountant:

Takeshi Ishisaka

Opinion

Pursuant to the fourth paragraph of Article 444 of the Companies Act, we have audited the consolidated financial statements of Credit Saison Co., Ltd. and its consolidated subsidiaries (the "Group"), namely, the consolidated statement of financial position as of March 31, 2022, and the consolidated statement of income and consolidated statement of changes in equity for the fiscal year from April 1, 2021 to March 31, 2022, and the related notes.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2022, and its consolidated financial performance for the year then ended in accordance with accounting standards prescribed pursuant to the provisions of the second sentence of the first paragraph of Article 120 of the Ordinance on Company Accounting that omit a part of the disclosures required under International Financial Reporting Standards.

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.

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 Business Report and the accompanying supplemental schedules.

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 standards prescribed pursuant to the provisions of the second sentence of the first paragraph of Article 120 of the Ordinance on Company Accounting that omit a part of the disclosures required under International Financial Reporting Standards, 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 standards prescribed pursuant to the provisions of the second sentence of the first paragraph of Article 120 of the Ordinance on Company Accounting that omit a part of the disclosures required under International Financial Reporting Standards.

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. 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.

- 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 standards prescribed pursuant to the provisions of the second sentence of the first paragraph of Article 120 of the Ordinance on Company Accounting that omit a part of the disclosures required under International Financial Reporting Standards, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

Notes to the Readers of Independent Auditor's Report

This is an English translation of the independent auditor's report as required by the Companies Act of Japan for the conveniences of the reader.