

Consolidated Balance Sheets  
The Kiyo Bank, Ltd. and its consolidated subsidiaries  
As of March 31, 2021 and 2020

|   | Millions of yen    |                    | Thousands of U.S.<br>dollars (Note 1) |
|---|--------------------|--------------------|---------------------------------------|
|   | 2021               | 2020               | 2021                                  |
| <b>Assets:</b>  |                    |                    |                                       |
| Cash and due from banks (Notes 3 and 22)                                | ¥ 1,216,774        | ¥ 507,968          | \$ 10,990,642                         |
| Monetary claims bought (Note 4)   | 38                 | 688                | 343                                   |
| Trading account securities (Note 4)                                     | 54                 | 45                 | 487                                   |
| Securities (Notes 4, 7, 11, 22 and 23)                                  | 1,077,055          | 1,056,793          | 9,728,615                             |
| Loans and bills discounted (Notes 5, 7, 21, 22, 23 and 25)              | 3,271,208          | 3,072,120          | 29,547,538                            |
| Foreign exchanges   | 2,540              | 3,726              | 22,942                                |
| Other assets (Note 7)   | 51,243             | 48,796             | 462,857                               |
| Tangible fixed assets (Note 6)  | 34,277             | 34,678             | 309,610                               |
| Intangible fixed assets   | 2,966              | 3,386              | 26,790                                |
| Net defined benefit asset (Note 10)                                     | 25,714             | 13,510             | 232,264                               |
| Deferred tax assets (Note 18)   | 580                | 597                | 5,238                                 |
| Customers' liabilities for acceptances and guarantees (Note 11)         | 8,619              | 8,845              | 77,852                                |
| Reserve for possible loan losses  | (26,607)           | (22,991)           | (240,330)                             |
| <b>Total assets</b>   | <b>¥ 5,664,467</b> | <b>¥ 4,728,166</b> | <b>\$ 51,164,908</b>                  |
| <b>Liabilities:</b>   |                    |                    |                                       |
| Deposits (Notes 7, 8 and 22)  | ¥ 4,456,765        | ¥ 4,037,503        | \$ 40,256,209                         |
| Payables under securities lending transactions (Notes 7 and 22)         | 184,714            | 161,505            | 1,668,449                             |
| Borrowed money (Notes 7, 9 and 22)                                      | 709,314            | 249,051            | 6,406,955                             |
| Foreign exchanges   | 272                | 217                | 2,456                                 |
| Other liabilities   | 50,235             | 48,012             | 453,753                               |
| Net defined benefit liability (Note 10)                                 | 29                 | 28                 | 261                                   |
| Reserve for directors' retirement benefits                              | -                  | 30                 | -                                     |
| Reserve for reimbursement of deposits                                   | 626                | 791                | 5,654                                 |
| Provision for contingent losses   | 389                | 408                | 3,513                                 |
| Deferred tax liabilities (Note 18)                                      | 7,801              | 1,515              | 70,463                                |
| Acceptances and guarantees (Note 11)                                    | 8,619              | 8,845              | 77,852                                |
| <b>Total liabilities</b>  | <b>5,418,767</b>   | <b>4,507,910</b>   | <b>48,945,596</b>                     |
| <b>Net assets (Notes 12 and 13):</b>                                    |                    |                    |                                       |
| Common stock  | 80,096             | 80,096             | 723,475                               |
| Capital surplus   | 2,835              | 3,074              | 25,607                                |
| Retained earnings   | 141,773            | 130,571            | 1,280,579                             |
| Treasury stock  | (4,505)            | (3,983)            | (40,691)                              |
| Total shareholders' equity  | 220,200            | 209,759            | 1,988,980                             |
| Net unrealized gains (losses) on available-for-sale securities (Note 4) | 14,848             | 6,299              | 134,116                               |
| Net deferred gains (losses) on hedging instruments                      | 29                 | (7)                | 261                                   |
| Remeasurements of defined benefit plans                                 | 8,862              | 1,510              | 80,046                                |
| Total accumulated other comprehensive income                            | 23,740             | 7,802              | 214,434                               |
| Subscription rights to shares (Notes 13 and 14)                         | 100                | 130                | 903                                   |
| Non-controlling interests   | 1,658              | 2,564              | 14,976                                |
| <b>Total net assets</b>   | <b>245,699</b>     | <b>220,256</b>     | <b>2,219,302</b>                      |
| <b>Total liabilities and net assets</b>                                 | <b>¥ 5,664,467</b> | <b>¥ 4,728,166</b> | <b>\$ 51,164,908</b>                  |

See accompanying notes.

Consolidated Income Statements  
The Kiyo Bank, Ltd. and its consolidated subsidiaries  
Years ended March 31, 2021 and 2020

|  | Millions of yen |                 | Thousands of<br>U.S. dollars<br>(Note 1) |
|--|-----------------|-----------------|--|
|  | 2021            | 2020            | 2021                                     |
| <b>Income</b>  |                 |                 |  |
| Interest income:   |                 |                 |  |
| Interest on loans and bills discounted                     | ¥ 33,505        | ¥ 33,076        | \$ 302,637                               |
| Interest and dividends on securities                       | 9,398           | 14,882          | 84,888                                   |
| Other interest income                                      | 443             | 394             | 4,001                                    |
| Fees and commissions                                       | 15,864          | 14,535          | 143,293                                  |
| Other operating income                                     | 11,472          | 16,764          | 103,622                                  |
| Other income (Note 15)                                     | 8,569           | 7,201           | 77,400                                   |
| <b>Total income</b>  | <b>79,253</b>   | <b>86,854</b>   | <b>715,861</b>                           |
| <b>Expenses</b>  |                 |                 |  |
| Interest expenses:   |                 |                 |  |
| Interest on deposits                                       | 304             | 642             | 2,745                                    |
| Interest on payables under securities lending transactions | 599             | 2,884           | 5,410                                    |
| Interest on borrowings                                     | 134             | 11              | 1,210                                    |
| Other interest expenses                                    | 173             | 329             | 1,562                                    |
| Fees and commissions payments                              | 5,012           | 4,825           | 45,271                                   |
| Other operating expenses                                   | 7,456           | 15,316          | 67,347                                   |
| General and administrative expenses (Note 16)              | 34,393          | 34,974          | 310,658                                  |
| Provision for possible loan losses                         | 4,135           | 244             | 37,349                                   |
| Other expenses (Note 17)                                   | 6,505           | 7,411           | 58,757                                   |
| <b>Total expenses</b>                                      | <b>58,714</b>   | <b>66,639</b>   | <b>530,340</b>                           |
| <b>Profit before income taxes</b>                          | <b>20,538</b>   | <b>20,214</b>   | <b>185,511</b>                           |
| <b>Income taxes (Note 18):</b>                             |                 |                 |  |
| Current  | 6,243           | 5,298           | 56,390                                   |
| Deferred   | 654             | 1,113           | 5,907                                    |
| <b>Total income taxes</b>                                  | <b>6,898</b>    | <b>6,412</b>    | <b>62,306</b>                            |
| <b>Profit</b>  | <b>13,640</b>   | <b>13,802</b>   | <b>123,204</b>                           |
| <b>Profit attributable to non-controlling interests</b>    | <b>49</b>       | <b>82</b>       | <b>442</b>                               |
| <b>Profit attributable to owners of parent</b>             | <b>¥ 13,591</b> | <b>¥ 13,719</b> | <b>\$ 122,762</b>                        |
|  |                 | Yen             | U.S. dollars                             |
| <b>Per share of common stock:</b>                          |                 |                 |  |
| Basic earnings per share (Note 20)                         | ¥ 200.97        | ¥ 201.73        | \$ 1.81                                  |
| Diluted earnings per share (Note 20)                       | 200.76          | 201.49          | 1.81                                     |
| Dividends (Note 13)  | 35.00           | 35.00           | 0.31                                     |

See accompanying notes.

Consolidated Statements of Comprehensive Income  
The Kiyo Bank, Ltd. and its consolidated subsidiaries  
Years ended March 31, 2021 and 2020

|  | Millions of yen |                   | Thousands of<br>U.S. dollars<br>(Note 1) |
|--|-----------------|-------------------|--|
|  | 2021            | 2020              | 2021                                     |
| Profit   | ¥ 13,640        | ¥ 13,802          | \$ 123,204                               |
| Other comprehensive income (loss) (Note 19):                   |                 |                   |  |
| Net unrealized gains (losses) on available-for-sale securities | 8,629           | (20,533)          | 77,942                                   |
| Net deferred gains (losses) on hedging instruments             | 37              | 544               | 334                                      |
| Remeasurements of defined benefit plans                        | 7,352           | (4,584)           | 66,407                                   |
| <u>Total other comprehensive income (loss)</u>                 | <u>16,018</u>   | <u>(24,573)</u>   | <u>144,684</u>                           |
| <u>Comprehensive income (loss)</u>                             | <u>¥ 29,659</u> | <u>¥ (10,770)</u> | <u>\$ 267,898</u>                        |
| <br>   |                 |                   |  |
| <u>Total comprehensive income (loss) attributable to:</u>      | <u>¥ 29,659</u> | <u>¥ (10,770)</u> | <u>\$ 267,898</u>                        |
| Comprehensive income (loss) attributable to owners of parent   | 29,529          | (10,850)          | 266,723                                  |
| Comprehensive income attributable to non-controlling interests | 129             | 79                | 1,165                                    |

*See accompanying notes.*

Consolidated Statements of Changes in Net Assets  
The Kiyo Bank, Ltd. and its consolidated subsidiaries  
Years ended March 31, 2021 and 2020

|   | Shareholders' equity |                 |                   | Accumulated other comprehensive income |                            |  |  |   | Total net assets |  |                               |                           |
|---|----------------------|-----------------|-------------------|--|----------------------------|--|--|---|------------------|--|-------------------------------|---------------------------|
|   | Common stock         | Capital surplus | Retained earnings | Treasury stock                         | Total shareholders' equity | Net unrealized gains (losses) on available-for-sale securities | Net deferred gains (losses) on hedging instruments | Remeasurements of defined benefit plans |                  | Total accumulated other comprehensive income | Subscription rights to shares | Non-controlling interests |
| <b>Balance at April 1, 2019</b>   | ¥80,096              | ¥3,075          | ¥119,264          | ¥(3,434)                               | ¥199,001                   | ¥26,830  | ¥(552)   | ¥6,094                                  | ¥32,371          | ¥106   | ¥2,487                        | ¥233,968                  |
| Cash dividends  | -                    | -               | (2,412)           | -                                      | (2,412)                    | -  | -  | -                                       | -                | -  | -                             | (2,412)                   |
| Profit attributable to owners of parent                                 | -                    | -               | 13,719            | (1,003)                                | 13,719                     | -  | -  | -                                       | -                | -  | -                             | 13,719                    |
| Purchase of treasury stock  | -                    | (1)             | -                 | 454                                    | (453)                      | -  | -  | -                                       | -                | -  | -                             | (1,003)                   |
| Disposal of treasury stock  | -                    | (1)             | -                 | 454                                    | 453                        | -  | -  | -                                       | -                | -  | -                             | 453                       |
| Net changes in items other than shareholders' equity                    | -                    | -               | -                 | -                                      | -                          | (20,530)   | 544  | (4,584)                                 | (24,569)         | 23   | 77                            | (24,469)                  |
| Total changes during the year   | -                    | (1)             | 11,307            | (549)                                  | 10,757                     | (20,530)   | 544  | (4,584)                                 | (24,569)         | 23   | 77                            | (13,712)                  |
| <b>Balance at March 31, 2020</b>  | 80,096               | 3,074           | 130,571           | (3,983)                                | 209,759                    | 6,299  | (7)  | 1,510                                   | 7,802            | 130  | 2,564                         | 220,256                   |
| <b>Balance at April 1, 2020</b>   | 80,096               | 3,074           | 130,571           | (3,983)                                | 209,759                    | 6,299  | (7)  | 1,510                                   | 7,802            | 130  | 2,564                         | 220,256                   |
| Cash dividends  | -                    | -               | (2,888)           | -                                      | (2,888)                    | -  | -  | -                                       | -                | -  | -                             | (2,888)                   |
| Profit attributable to owners of parent                                 | -                    | -               | 13,691            | (1,003)                                | 13,691                     | -  | -  | -                                       | -                | -  | -                             | 13,691                    |
| Purchase of treasury stock  | -                    | (6)             | -                 | 481                                    | (475)                      | -  | -  | -                                       | -                | -  | -                             | (1,003)                   |
| Disposal of treasury stock  | -                    | (6)             | -                 | 481                                    | 475                        | -  | -  | -                                       | -                | -  | -                             | 475                       |
| Change in equity due to purchase of shares of a consolidated subsidiary | -                    | (166)           | -                 | -                                      | (166)                      | -  | -  | -                                       | -                | -  | -                             | (166)                     |
| Change in equity due to sales of shares of a consolidated subsidiary    | -                    | (67)            | -                 | -                                      | (67)                       | -  | -  | -                                       | -                | -  | -                             | (67)                      |
| Net changes in items other than shareholders' equity                    | -                    | -               | -                 | -                                      | -                          | 8,548  | 37   | 7,352                                   | 15,898           | (39)   | (906)                         | 15,002                    |
| Total changes during the year   | -                    | (288)           | 11,202            | (622)                                  | 10,441                     | 8,548  | 37   | 7,352                                   | 15,898           | (39)   | (906)                         | 25,443                    |
| <b>Balance at March 31, 2021</b>  | 80,096               | 2,835           | 141,773           | (4,505)                                | 220,200                    | 14,848   | 29   | 8,862                                   | 23,740           | 100  | 1,658                         | 245,699                   |

Thousands of U.S. dollars (Note 1)

|   | Shareholders' equity |                 |                   | Accumulated other comprehensive income |                            |  |  |   | Total net assets |  |                               |                           |
|---|----------------------|-----------------|-------------------|--|----------------------------|--|--|---|------------------|--|-------------------------------|---------------------------|
|   | Common stock         | Capital surplus | Retained earnings | Treasury stock                         | Total shareholders' equity | Net unrealized gains (losses) on available-for-sale securities | Net deferred gains (losses) on hedging instruments | Remeasurements of defined benefit plans |                  | Total accumulated other comprehensive income | Subscription rights to shares | Non-controlling interests |
| <b>Balance at April 1, 2020</b>   | \$ 723,475           | \$ 27,766       | \$ 1,179,396      | \$ (35,976)                            | \$ 1,894,670               | \$ 56,896  | \$ (63)  | \$ 13,639                               | \$ 70,472        | \$ 1,174                                     | \$ 23,159                     | \$ 1,989,486              |
| Cash dividends  | -                    | -               | (21,569)          | -                                      | (21,569)                   | -  | -  | -                                       | -                | -  | -                             | (21,569)                  |
| Profit attributable to owners of parent                                 | -                    | -               | 122,762           | (9,069)                                | 122,762                    | -  | -  | -                                       | -                | -  | -                             | 122,762                   |
| Purchase of treasury stock  | -                    | (46)            | -                 | 4,344                                  | (4,298)                    | -  | -  | -                                       | -                | -  | -                             | (9,069)                   |
| Disposal of treasury stock  | -                    | (1,499)         | -                 | -                                      | (1,499)                    | -  | -  | -                                       | -                | -  | -                             | 4,290                     |
| Change in equity due to purchase of shares of a consolidated subsidiary | -                    | (605)           | -                 | -                                      | (605)                      | -  | -  | -                                       | -                | -  | -                             | (1,499)                   |
| Change in equity due to sales of shares of a consolidated subsidiary    | -                    | -               | -                 | -                                      | -                          | -  | -  | -                                       | -                | -  | -                             | (605)                     |
| Net changes in items other than shareholders' equity                    | -                    | -               | -                 | -                                      | -                          | 77,210   | 334  | 66,407                                  | 143,961          | (261)  | (6,183)                       | 186,507                   |
| Total changes during the year   | -                    | (2,149)         | 101,183           | (4,715)                                | 94,309                     | 77,210   | 334  | 66,407                                  | 143,961          | (261)  | (6,183)                       | 229,816                   |
| <b>Balance at March 31, 2021</b>  | 723,475              | 25,607          | 1,280,579         | (40,691)                               | 1,988,980                  | 134,116  | 261  | 80,046                                  | 214,434          | 938  | 14,976                        | 2,219,302                 |

See accompanying notes.

Consolidated Statements of Cash Flows  
The Kiyo Bank, Ltd. and its consolidated subsidiaries  
Years ended March 31, 2021 and 2020

Thousands of  
U.S. dollars  
(Note 1)

|   | Millions of yen |           | 2021          |
|---|-----------------|-----------|---------------|
|   | 2021            | 2020      |               |
| <b>Cash flows from operating activities:</b>  |                 |           |               |
| Profit before income taxes  | ¥ 20,538        | ¥ 20,214  | \$ 185,511    |
| Depreciation  | 2,838           | 2,905     | 25,634        |
| Impairment loss on fixed assets   | 125             | 1,513     | 1,129         |
| Increase (decrease) in reserve for possible loan losses   | 3,615           | (721)     | 32,652        |
| (Increase) decrease in net defined benefit asset  | (1,640)         | (2,219)   | (14,813)      |
| Increase (decrease) in net defined benefit liability  | 0               | 2         | 0             |
| Increase (decrease) in accrued directors' retirement benefits                                   | (30)            | -         | (270)         |
| Increase (decrease) in reserve for reimbursement of deposits                                    | (165)           | (250)     | (1,490)       |
| Increase (decrease) in provision for contingent losses  | (19)            | (27)      | (171)         |
| Interest income   | (43,347)        | (48,353)  | (391,536)     |
| Interest expenses   | 1,212           | 3,867     | 10,947        |
| (Gains) losses on securities transactions   | (4,028)         | (1,417)   | (36,383)      |
| (Gains) losses on foreign exchange transactions   | (7,948)         | 4,458     | (71,791)      |
| (Gains) losses on sales and disposal of fixed assets  | (249)           | (41)      | (2,249)       |
| Net (increase) decrease in trading account securities   | (9)             | (9)       | (81)          |
| Net (increase) decrease in loans and bills discounted   | (199,088)       | (112,778) | (1,798,283)   |
| Net increase (decrease) in deposits   | 419,261         | 48,372    | 3,787,020     |
| Net increase (decrease) in borrowed money (excluding subordinated loans)                        | 460,263         | 24,585    | 4,157,375     |
| Net (increase) decrease in call loans   | 650             | 111       | 5,871         |
| Net increase (decrease) in payables under securities lending transactions                       | 23,208          | 79,500    | 209,628       |
| Net (increase) decrease in foreign exchange assets  | 1,185           | (927)     | 10,703        |
| Net increase (decrease) in foreign exchange liabilities   | 55              | 22        | 496           |
| Interest received   | 42,116          | 45,719    | 380,417       |
| Interest paid   | (1,594)         | (3,977)   | (14,397)      |
| Other, net  | 3,007           | 9,063     | 27,161        |
| Subtotal  | 719,960         | 69,612    | 6,503,116     |
| Income taxes paid   | (4,726)         | (4,854)   | (42,688)      |
| Net cash provided by (used in) operating activities   | 715,233         | 64,758    | 6,460,419     |
| <b>Cash flows from investing activities:</b>  |                 |           |               |
| Purchases of securities   | (527,765)       | (770,905) | (4,767,094)   |
| Proceeds from sales of securities   | 357,106         | 520,337   | 3,225,598     |
| Redemption of securities  | 170,187         | 138,765   | 1,537,232     |
| Purchases of tangible fixed assets  | (1,434)         | (3,691)   | (12,952)      |
| Proceeds from sales of tangible fixed assets  | 716             | 269       | 6,467         |
| Purchases of intangible fixed assets  | (856)           | (1,473)   | (7,731)       |
| Proceeds from purchase of shares of a subsidiary resulting in change in scope of consolidation  | 50              | -         | 451           |
| Other, net  | (67)            | (96)      | (605)         |
| Net cash provided by (used in) investing activities   | (2,061)         | (116,793) | (18,616)      |
| <b>Cash flows from financing activities:</b>  |                 |           |               |
| Repayment of subordinated loans   | -               | (5,000)   | -             |
| Purchase of treasury stock  | (1,003)         | (1,003)   | (9,059)       |
| Proceeds from sales of treasury stock   | 475             | 453       | 4,290         |
| Payment of cash dividends   | (2,388)         | (2,412)   | (21,569)      |
| Payment of cash dividends to non-controlling shareholders                                       | (2)             | (2)       | (18)          |
| Purchase of shares of a subsidiary not resulting in change in scope of consolidation            | (1,337)         | -         | (12,076)      |
| Proceeds from sales of shares of a subsidiary not resulting in change in scope of consolidation | 20              | -         | 180           |
| Other, net  | (151)           | (138)     | (1,363)       |
| Net cash provided by (used in) financing activities   | (4,388)         | (8,102)   | (39,635)      |
| Foreign currency translation adjustments of cash and cash equivalents                           | 21              | (17)      | 189           |
| Net increase (decrease) in cash and cash equivalents  | 708,805         | (60,156)  | 6,402,357     |
| Cash and cash equivalents at the beginning of year  | 507,968         | 568,124   | 4,588,275     |
| Cash and cash equivalents at the end of year (Note 3)   | ¥ 1,216,774     | ¥ 507,968 | \$ 10,990,642 |

See accompanying notes.

## Notes to Consolidated Financial Statements

The Kiyō Bank, Ltd. and its consolidated subsidiaries  
Years ended March 31, 2021 and 2020

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### 1. Basis of presenting consolidated financial statements

The Kiyō Bank, Ltd. (the “Bank”) and its consolidated subsidiaries (the “Group”) maintain their official accounting records in Japanese yen, in accordance with the provisions set forth in the Japanese Corporate Law and the Japanese Banking Law, in general conformity with the Japanese regulatory authorities and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects from the application and disclosure requirements of International Financial Reporting Standards. The accompanying consolidated financial statements have been restructured and translated into English, with some expanded descriptions, from the consolidated financial statements of the Bank prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements. In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made in order to present them in a form which is more familiar to readers outside Japan.

Amounts of less than one million yen have been rounded down. As a result, the totals shown in the financial statements (both in yen and U.S. dollars) do not necessarily agree with the sum of the individual amounts.

The translations of the Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of the readers outside Japan, using the prevailing exchange rate at March 31, 2021, which was ¥110.71 to US \$1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

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### 2. Significant accounting policies

**(a) Consolidation** — The consolidated financial statements include the accounts of the Bank and eight (six in 2020) subsidiaries for the year ended March 31, 2021. All significant intercompany transactions and unrealized profits have been eliminated. In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to non-controlling interests, are evaluated using the fair value at the time the Bank acquired control of the respective subsidiary.

(Change in scope of consolidation)

The Kiyō Business Service Co., Ltd. (former The Kiyō Business Service Co., Ltd. was renamed Kiyō Partners Co., Ltd.) was included in the scope of consolidation from the year ended March 31, 2021 as it was incorporated through an incorporation-type demerger. In addition, Kiyō Capital Management Co., Ltd. was included in the scope of consolidation from the year ended March 31, 2021 because it was newly incorporated.

(Unconsolidated company)

There are two unconsolidated companies at March 31, 2021 and 2020. These companies are excluded from the scope of consolidation because the results of the company’s operations have no material effect on the consolidated financial position and operating results of the Group in terms of total assets, net income (corresponding to the share), retained earnings (corresponding to the share) and accumulated other comprehensive income (corresponding to the share). These companies are not accounted for by the equity method.

(Affiliate)

There is one company (SHOKU EN Co., Ltd.), of which the Bank owns the voting rights between 20% and 50% but which is not recognized as an affiliate, because it is held by unconsolidated subsidiary, which is engaged in investment business, for the purpose of incubating its investee, not for the purpose of controlling the company.

The fiscal closing date of all the consolidated subsidiaries is March 31.

**(b) Trading account securities** — Trading account securities are stated at fair market value. Gains and losses realized on the sale of such securities and unrealized gains and losses from market value fluctuations are recognized as gains and losses in the period of the change. Realized gains and losses on the sale of such securities are computed using the moving average cost.

**(c) Securities** — The Bank and its consolidated subsidiaries classify securities as (1) debt securities intended to be held to maturity (“held-to-maturity debt securities”), (2) equity securities issued by subsidiaries and affiliated companies and (3) all other securities that are not classified in any of the above categories (“available-for-sale securities”). Held-to-maturity debt securities are stated at amortized cost. Held-to-maturity debt securities with no available fair value are stated at amortized cost, net of the amount considered not collectible. In principle, available-for-sale securities are stated at fair value based on the market price as of the fiscal closing date. Available-for-sale securities for which it is extremely difficult to determine the fair value are stated at acquisition cost determined by the moving average method. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of shareholders’ equity. Realized gains and losses on the sale of such securities are computed using the moving average cost.

**(d) Derivatives and hedge accounting** — Derivatives are stated at fair value, except when the derivatives are used for hedging purposes. If derivatives are used for hedging purposes and meet certain hedging criteria, recognition of gains and losses resulting from changes in fair value are deferred until the related losses and gains on the hedged items are recognized.

The following hedge accounting is applied to derivatives:

(Foreign exchange fluctuation risk hedge)

To hedge foreign exchange fluctuation risk arising from foreign currency denominated assets and liabilities of the Bank, the Bank applies the deferral method in accordance with “Treatment of Accounting and Auditing Concerning Accounting for Foreign Currency Transactions in the Banking Industry” (JICPA Industry Committee Practical Guidelines No. 25, October 8, 2020). Hedge effectiveness is assessed by ensuring the existence of the corresponding foreign currency positions as hedging instruments, such as currency swaps and foreign exchange swaps conducted to mitigate foreign currency exchange fluctuation risk arising from foreign currency denominated monetary receivables and payables, equivalent to foreign currency denominated monetary receivables and payables as hedged items.

(Hedging relationships that apply “Practical Solution on the Treatment of Hedge Accounting for Financial Instruments that Reference LIBOR”)

Among the above mentioned hedging relationships, all the hedging relationships subject to the application of “Practical Solution on the Treatment of Hedge Accounting for Financial Instruments that Reference LIBOR” (PITF No. 40, September 29, 2020) have adopted the special treatment prescribed in PITF No. 40. The details of the hedging relationships applying PITF No. 40 are as follows:

|                               |   |
|-------------------------------|---|
| Hedge accounting method:      | Deferral hedge accounting   |
| Hedging instruments:          | Currency swaps  |
| Hedged items:                 | Monetary receivables and payables denominated in foreign currencies |
| Type of hedging transactions: | Those which offset market fluctuations                              |

**(e) Depreciation and amortization**

(Tangible fixed assets (excluding lease assets))

Depreciation of tangible fixed assets held by the Bank is generally computed by the declining balance method. However, buildings (excluding attached facilities) acquired on or after April 1, 1998 and facilities attached to buildings and structures acquired on or after April 1, 2016 are depreciated using the straight-line method. The useful life of tangible fixed assets ranges from 8 to 50 years for buildings and 5 to 20 years for equipment. Tangible fixed assets held by the consolidated subsidiaries are mainly depreciated using the declining balance method based on the estimated useful life of the asset.

(Intangible fixed assets (excluding lease assets))

Intangible fixed assets are amortized by the straight-line method. Software developed or obtained for internal use is amortized by the straight-line method over an estimated useful life of 5 years.

(Lease assets)

Depreciation and amortization of lease assets, including both “Tangible fixed assets” and “Intangible fixed assets,” under leasing transactions that are not deemed to transfer ownership of the leased property to the lessee are computed by the straight-line method over the lease period with a residual value of zero.

**(f) Reserve for possible loan losses** — Based on its own rules for self-assessment, the Bank makes provisions for possible loan losses.

For loans to insolvent customers who are undergoing bankruptcy or other collection proceedings (“bankrupt borrowers”) or who are in a similar financial condition (“effectively bankrupt borrowers”), the reserve for possible loan losses is provided in the full amount of such loans, excluding the portion that is estimated to be recoverable due to any underlying collateral or guarantees. For the unsecured and unguaranteed portions of loans to customers not presently in the above circumstances but for whom there is a high probability of so becoming (“likely to become bankrupt borrowers”), the reserve for possible loan losses is provided for the estimated unrecoverable amounts determined after an evaluation of each customer’s overall financial condition. For other loans, the reserve for possible loan losses is provided principally based on the estimated losses for the coming one year or three years. The estimated losses are computed using the loss ratio based on the average loan loss ratio for the past definite period based on the actual losses for the past one or three years, with necessary adjustments such as future projections.

All loans are subject to asset assessment by the business related divisions based on the self-assessment standards for assets. The assessment results are audited by the Asset Audit Department independent from the divisions concerned. Reserves for possible loan losses of the consolidated subsidiaries are provided for general claims in the amount deemed necessary based on the rate of losses in the past and for certain doubtful claims in the amount deemed uncollectible based on assessments of the respective claims. For claims against “bankrupt borrowers” and “effectively bankrupt borrowers,” in principle, the amount exceeding the estimated value of collateral and guarantees deemed uncollectible is deducted directly from those claims. At March 31, 2021 and 2020, the deducted amounts were ¥12,067 million (\$108,996 thousand) and ¥14,383 million, respectively.

**(g) Reserve for directors’ retirement benefits** — On June 29, 2004, the Bank abolished the system for the payment of retirement allowances to retiring directors and auditors. Instead, a provision has been made for accrued retirement benefits of directors and auditors in an amount deemed necessary based on a formula stipulated in the internal regulations when the previous system was abolished.

**(h) Reserve for reimbursement of deposits** — Provision is made for future losses from claims on dormant accounts based on historical refund records.

**(i) Provision for contingent losses** — Provision is made for payment on loan-loss burden sharing to credit guarantee corporations in an amount estimated to be paid in the future.

**(j) Accounting for employees’ severance and retirement benefits** — In determining retirement benefit obligations, the estimated amount of retirement benefits is attributed to periods on a benefit formula basis.

Differences generated from changes in actuarial assumptions are charged or credited to income in an amount allocated by the straight-line method over 9 years, which is shorter than the average remaining service period of the employees, beginning with the term following that when the differences are generated.

In calculating the net defined benefit liability and retirement benefit expenses, some consolidated subsidiaries have adopted a simplified method in which the amount required to be paid if all the employees retired voluntarily at the fiscal year end is regarded as retirement benefit obligations.

**(k) Foreign currency translation** — Receivables and payables in foreign currencies of the Bank and its consolidated subsidiaries are translated into Japanese yen at the year-end rates.

**(l) Income taxes** — Income taxes comprise corporation, inhabitants and enterprise taxes. Deferred tax assets are recorded by the asset-liability approach based on carryforward loss and the temporary differences between the financial statement bases and tax bases of assets and liabilities.

**(m) Finance leases** — As lessor, revenues and costs of finance leases are recognized when lease payments are made. For finance lease transactions in which ownership of the lease assets is not transferred to the lessee and for which leasing contracts commenced prior to April 1, 2008, the theoretical value of the assets (after deduction of accumulated depreciation expenses) as of the previous term-end is used to determine the balance sheet amounts of lease investment assets as of April 1, 2008 in accordance with stipulations stated in the “Guidance on Accounting Standard for Lease Transactions” (ASBJ Guidance No. 16, March 30, 2007).

**(n) Statements of cash flows** — Cash and deposits with the Bank of Japan that are included in the consolidated balance sheets under cash and due from banks are considered to be cash and cash equivalents in the statements of cash flows.



**(o) Earnings per share** — Basic earnings per share is computed by deducting dividends for preferred stock from profit attributable to owners of parent and dividing the balance by the weighted average number of shares of common stock, excluding treasury shares, outstanding during the reporting period. Diluted earnings per share reflect the potential dilution that could occur if preferred stock were converted into common stock.

**(p) Significant accounting estimates**

**Reserve for possible loan losses:**

- a. The Bank recorded reserve for possible loan losses of ¥26,607 million (\$240,330 thousand) in the consolidated financial statements for the year ended March 31, 2021.
- b. Information about details of significant accounting estimates related to the identified items:

**Calculation method and main assumptions:**

The calculation method is stated in Note 2 (f), “Significant accounting policies-Reserve for possible loan losses.”

Based on its own rules for self-assessment, the Bank makes provisions for possible loan losses. For loans to insolvent customers who are undergoing bankruptcy or other collection proceedings (“bankrupt borrowers”) or who are in a similar financial condition (“effectively bankrupt borrowers”), the reserve for possible loan losses is provided in the full amount of such loans, excluding the portion that is estimated to be recoverable due to any underlying collateral or guarantees. For collateralized or guaranteed claims to bankrupt and effectively bankrupt borrowers, the amount deemed uncollectible, which corresponds to the residual amount after deducting the amount deemed collectible from the assessment value of the collateral and guarantees, is directly deducted from the original amount of claims, in principle.

For the loans to customers not presently in the above circumstances but for whom there is a high probability of so becoming, a reserve for possible loan losses is provided for the estimated unrecoverable amounts determined after an evaluation of each customer’s overall financial condition.

For other loans, a reserve for possible loan losses is provided principally based on the estimated losses for the coming one year or three years. The estimated losses are computed using the loss ratio based on the average loan loss ratio for the past definite period based on the actual losses for the past one or three years, with necessary adjustments such as future projections.

Reserves for possible loan losses of the consolidated subsidiaries are provided for general claims in the amount deemed necessary based on the rate of loss in the past and for certain doubtful claims in the amount deemed uncollectible based on individual assessments of the respective claims.

The Bank assumes COVID-19 will settle down by March 2022, but that its effects on economic activities will continue for an extended period of time. The Bank has recorded reserve for possible loan losses with respect to its categories of debtors considering the available information which will affect the estimates under such assumptions.

**Impacts on the consolidated financial statements for the following year:**

Major customers may experience a decline in operating performances or bankruptcy, the value of collateral may decline, economic circumstances may change, and other unexpected events might occur. In addition, while the Bank assumes that the effects of COVID-19 on economic activities will continue for a certain period, it involves uncertainties and the situations of the COVID-19 pandemic and its impact on economic activities are subject to change.

If events and changes in situations such as the above indeed occur, and the categories of debtors, the amounts estimated to be recoverable from underlying collateral or guarantees, the estimated loss ratio and other major assumptions used to calculate reserve for possible loan losses undergo change, the reserve may need additional provisions, and there may be other significant impacts on the reserve for possible loan losses in the consolidated financial statements for the following year.

**(q) New accounting standards not yet adopted**

The following standard and guidance were issued, but not yet adopted.

- “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020)
- “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30, March 26, 2021)

**(1) Overview**

The above standard and guidance provide comprehensive principles for revenue recognition. Under the standard and guidance, revenue is recognized by applying following 5 steps:

Step1: Identify contract(s) with customers.

Step2: Identify the performance obligations in the contract.

Step3: Determine the transaction price.

Step4: Allocate the transaction price to the performance obligation in the contract.

Step5: Recognize revenue when (or as) the entity satisfies a performance obligation.

**(2) Effective date**

Effective from the beginning of the fiscal year ending March 31, 2022.

**(3) Effects of application**

The effects of the new standard and guidance on the consolidated financial statements are expected to be immaterial.

- “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019)
- “Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31, July 4, 2019)
- “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, July 4, 2019)
- “Implementation Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No. 19, March 31, 2020)

**(1) Overview**

In order to enhance the comparability with the international accounting standards, the “Accounting Standard for Fair Value Measurement” and “Implementation Guidance on Accounting Standard for Fair Value Measurement” (hereinafter collectively “Fair Value Accounting Standards, etc.”) have been developed and guidance on fair value measurement has been provided. Fair Value Accounting Standards, etc. will be applied to the fair value of the following items:

- Financial instruments defined in “Accounting Standard for Financial Instruments”

In addition, “Implementation Guidance on Disclosures about Fair Value of Financial Instruments” was revised and notes on the breakdowns by level of the fair value of financial instruments were provided.

**(2) Effective date**

Effective from the beginning of the fiscal year ending March 31, 2022.

**(3) Effects of application**

The effects of the new standard and guidance on the consolidated financial statements are immaterial.

**(r) Change in presentation**

(Accounting Standard for Disclosure of Accounting Estimates)

The Bank applied “Accounting Standard for Disclosure of Accounting Estimates” (ASBJ Statement No. 31, March 31, 2020) for the consolidated financial statements from the year ended March 31, 2021, and included notes concerning significant accounting estimates in the accompanying consolidated financial statements. However, the notes do not include information for the year ended March 31, 2020 pursuant to the transitional treatment prescribed in the proviso of Paragraph 11 of the Standard.

**(s) Additional information**

(Issuance of Treasury Stock to the Employees through the Trust)

The Bank has introduced “Trust-Type Employee Stock Incentive Plan” to fulfill welfare program for the Group employees and to improve business performances by granting incentives to the Group employees toward enhancement of medium and long-term corporate value and enhancing the employees’ awareness of participation in management.

(1) Overview of transactions

The Plan is an incentive plan for all the employees that participate in either “Kiyo Financial Group Employee Stock Ownership Association” or “Kiyo Information System Employee Stock Ownership Association” (collectively “both Associations”).

The Bank has established “Kiyo Financial Group Employee Stock Ownership Association Trust” (hereinafter referred to as the “Trust”). The Trust will acquire in advance the Bank’s shares approximate to the number of shares both Associations may acquire over three and a half years after its inception. Subsequently, the Bank’s shares will be regularly transferred from the Trust to both Associations at market value. When the amounts corresponding to gains on sales of shares are accumulated within the Trust at the termination of the Trust, such amounts will be distributed to the qualified employees who satisfy the requirements as a beneficiary.

In addition, the Bank will assume the obligation to pay for the remaining loan balances pursuant to the guarantee agreement since the Bank guarantees the loans for the Trust in purchasing the Bank’s shares. As such, when the amounts corresponding to losses on sales of shares due to decline in the Bank’s share value are accumulated in the Trust and such loan balances are remaining within the Trust upon termination of the Trust, the Bank will repay the remaining balance.

(2) The Bank’s shares remaining in the Trust

The Bank’s shares remaining in the Trust were recorded as “Treasury stock” under “Net assets” at the carrying amount (excluding incidental expenses) recorded at the Trust. The carrying amount and number of shares of treasury stock were ¥111 million (\$1,002 thousand) and 64 thousand shares as of March 31, 2021 and ¥530 million and 305 thousand shares as of March 31, 2020.

(3) The carrying amount of the borrowed money recorded by applying the gross amount method as of March 31, 2021 and 2020 was ¥202 million (\$1,824 thousand) and ¥590 million, respectively.

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**3. Cash and cash equivalents**

As of March 31, 2021 and 2020, the amounts of cash and cash equivalents at end of year in the consolidated statements of cash flows were in agreement with the amounts of cash and due from banks in the consolidated balance sheets.

#### 4. Trading account securities and other securities

Net valuation gains and losses from trading account securities for the years ended March 31, 2021 and 2020 amounted to ¥(1) million (\$9) thousand and ¥(1) million, respectively.

Investments in unconsolidated subsidiaries (two in 2021 and 2020) in the amounts of ¥123 million (\$1,111 thousand) and ¥247 million are included in “Securities” as of March 31, 2021 and 2020, respectively.

Fair values and unrealized gains and losses on held-to-maturity debt securities and available-for-sale securities with available fair values as of March 31, 2021 and 2020 were as follows:

##### (a) Held-to-maturity debt securities

| Type  | Millions of yen |            |            |
|---|-----------------|------------|------------|
|   | 2021            |            |            |
|   | Carrying amount | Fair value | Difference |
| Held-to-maturity securities whose fair value exceeds the carrying amount:         |                 |            |            |
| Bonds   |                 |            |            |
| Japanese government bonds   | ¥ 25,057        | ¥ 25,225   | ¥ 167      |
| Corporate bonds   | 800             | 803        | 3          |
| Subtotal  | ¥ 25,857        | ¥ 26,028   | ¥ 170      |
| Held-to-maturity securities whose fair value does not exceed the carrying amount: |                 |            |            |
| Bonds   |                 |            |            |
| Corporate bonds   | ¥ 1,700         | ¥ 1,700    | ¥ -        |
| Subtotal  | ¥ 1,700         | ¥ 1,700    | ¥ -        |
| Total   | ¥ 27,557        | ¥ 27,728   | ¥ 170      |

| Type  | Millions of yen |            |            |
|---|-----------------|------------|------------|
|   | 2020            |            |            |
|   | Carrying amount | Fair value | Difference |
| Held-to-maturity securities whose fair value exceeds the carrying amount:         |                 |            |            |
| Bonds   |                 |            |            |
| Japanese government bonds   | ¥ 70,240        | ¥ 70,394   | ¥ 153      |
| Corporate bonds   | 800             | 804        | 4          |
| Subtotal  | ¥ 71,040        | ¥ 71,198   | ¥ 158      |
| Held-to-maturity securities whose fair value does not exceed the carrying amount: |                 |            |            |
| Bonds   |                 |            |            |
| Japanese government bonds   | ¥ -             | ¥ -        | ¥ -        |
| Subtotal  | ¥ -             | ¥ -        | ¥ -        |
| Total   | ¥ 71,040        | ¥ 71,198   | ¥ 158      |

| Type  | Thousands of U.S. dollars |            |            |
|---|---------------------------|------------|------------|
|   | 2021                      |            |            |
|   | Carrying amount           | Fair value | Difference |
| Held-to-maturity securities whose fair value exceeds the carrying amount:         |                           |            |            |
| Bonds   |                           |            |            |
| Japanese government bonds   | \$ 226,330                | \$ 227,847 | \$ 1,508   |
| Corporate bonds   | 7,226                     | 7,253      | 27         |
| Subtotal  | \$ 233,556                | \$ 235,100 | \$ 1,535   |
| Held-to-maturity securities whose fair value does not exceed the carrying amount: |                           |            |            |
| Bonds   |                           |            |            |
| Corporate bonds   | \$ 15,355                 | \$ 15,355  | \$ -       |
| Subtotal  | \$ 15,355                 | \$ 15,355  | \$ -       |
| Total   | \$ 248,911                | \$ 250,456 | \$ 1,535   |

(b) Available-for-sale securities with available fair values, including trading account securities and beneficial interests in trusts included in “Monetary claims bought,” were as follows:

| Type  | Millions of yen |           |                  |           |            |          |
|---|-----------------|-----------|------------------|-----------|------------|----------|
|   | 2021            |           |                  |           |            |          |
|   | Carrying amount |           | Acquisition cost |           | Difference |          |
| Available-for-sale securities whose carrying amount exceeds acquisition cost:         |                 |           |                  |           |            |          |
| Stocks  | ¥               | 46,045    | ¥                | 23,224    | ¥          | 22,820   |
| Bonds   |                 | 355,845   |                  | 352,064   |            | 3,780    |
| Japanese government bonds   |                 | 88,189    |                  | 87,018    |            | 1,170    |
| Local government bonds  |                 | 144,974   |                  | 143,927   |            | 1,047    |
| Corporate bonds   |                 | 122,680   |                  | 121,118   |            | 1,562    |
| Other   |                 | 272,902   |                  | 264,129   |            | 8,772    |
| Foreign bonds   |                 | 178,832   |                  | 174,070   |            | 4,761    |
| Other   |                 | 94,069    |                  | 90,059    |            | 4,010    |
| Subtotal  | ¥               | 674,792   | ¥                | 639,419   | ¥          | 35,373   |
| Available-for-sale securities whose carrying amount does not exceed acquisition cost: |                 |           |                  |           |            |          |
| Stocks  | ¥               | 2,710     | ¥                | 2,910     | ¥          | (199)    |
| Bonds   |                 | 179,422   |                  | 181,489   |            | (2,066)  |
| Japanese government bonds   |                 | 64,684    |                  | 66,147    |            | (1,463)  |
| Local government bonds  |                 | 58,941    |                  | 59,191    |            | (250)    |
| Corporate bonds   |                 | 55,797    |                  | 56,150    |            | (352)    |
| Other   |                 | 189,178   |                  | 202,027   |            | (12,849) |
| Foreign bonds   |                 | 97,719    |                  | 103,085   |            | (5,366)  |
| Other   |                 | 91,459    |                  | 98,941    |            | (7,482)  |
| Subtotal  | ¥               | 371,311   | ¥                | 386,427   | ¥          | (15,115) |
| Total   | ¥               | 1,046,104 | ¥                | 1,025,846 | ¥          | 20,258   |

| Type  | Millions of yen |         |                  |         |            |          |
|---|-----------------|---------|------------------|---------|------------|----------|
|   | 2020            |         |                  |         |            |          |
|   | Carrying amount |         | Acquisition cost |         | Difference |          |
| Available-for-sale securities whose carrying amount exceeds acquisition cost:         |                 |         |                  |         |            |          |
| Stocks  | ¥               | 29,051  | ¥                | 16,101  | ¥          | 12,950   |
| Bonds   |                 | 361,080 |                  | 355,675 |            | 5,405    |
| Japanese government bonds   |                 | 80,863  |                  | 78,997  |            | 1,865    |
| Local government bonds  |                 | 129,419 |                  | 128,003 |            | 1,415    |
| Corporate bonds   |                 | 150,797 |                  | 148,673 |            | 2,124    |
| Other   |                 | 175,681 |                  | 171,274 |            | 4,406    |
| Foreign bonds   |                 | 153,965 |                  | 150,216 |            | 3,749    |
| Other   |                 | 21,715  |                  | 21,058  |            | 656      |
| Subtotal  | ¥               | 565,813 | ¥                | 543,051 | ¥          | 22,761   |
| Available-for-sale securities whose carrying amount does not exceed acquisition cost: |                 |         |                  |         |            |          |
| Stocks  | ¥               | 10,369  | ¥                | 12,769  | ¥          | (2,399)  |
| Bonds   |                 | 175,910 |                  | 177,031 |            | (1,121)  |
| Japanese government bonds   |                 | 46,239  |                  | 46,570  |            | (331)    |
| Local government bonds  |                 | 70,406  |                  | 70,769  |            | (363)    |
| Corporate bonds   |                 | 59,263  |                  | 59,691  |            | (427)    |
| Other   |                 | 231,238 |                  | 241,583 |            | (10,345) |
| Foreign bonds   |                 | 122,498 |                  | 123,093 |            | (594)    |
| Other   |                 | 108,739 |                  | 118,490 |            | (9,750)  |
| Subtotal  | ¥               | 417,518 | ¥                | 431,385 | ¥          | (13,866) |
| Total   | ¥               | 983,331 | ¥                | 974,436 | ¥          | 8,895    |

| Type  | Thousands of U.S. dollars |                  |              |
|---|---------------------------|------------------|--------------|
|   | 2021                      |                  |              |
|   | Carrying amount           | Acquisition cost | Difference   |
| Available-for-sale securities whose carrying amount exceeds acquisition cost:         |                           |                  |              |
| Stocks  | \$ 415,906                | \$ 209,773       | \$ 206,124   |
| Bonds   | 3,214,208                 | 3,180,056        | 34,143       |
| Japanese government bonds   | 796,576                   | 785,999          | 10,568       |
| Local government bonds  | 1,309,493                 | 1,300,036        | 9,457        |
| Corporate bonds   | 1,108,120                 | 1,094,011        | 14,108       |
| Other   | 2,465,016                 | 2,385,773        | 79,234       |
| Foreign bonds   | 1,615,319                 | 1,572,306        | 43,004       |
| Other   | 849,688                   | 813,467          | 36,220       |
| Subtotal  | \$ 6,095,131              | \$ 5,775,620     | \$ 319,510   |
| Available-for-sale securities whose carrying amount does not exceed acquisition cost: |                           |                  |              |
| Stocks  | \$ 24,478                 | \$ 26,284        | \$ (1,797)   |
| Bonds   | 1,620,648                 | 1,639,318        | (18,661)     |
| Japanese government bonds   | 584,265                   | 597,479          | (13,214)     |
| Local government bonds  | 532,390                   | 534,649          | (2,258)      |
| Corporate bonds   | 503,992                   | 507,180          | (3,179)      |
| Other   | 1,708,770                 | 1,824,830        | (116,059)    |
| Foreign bonds   | 882,657                   | 931,126          | (48,468)     |
| Other   | 826,113                   | 893,695          | (67,581)     |
| Subtotal  | \$ 3,353,906              | \$ 3,490,443     | \$ (136,527) |
| Total   | \$ 9,449,047              | \$ 9,266,064     | \$ 182,982   |

Available-for-sale securities with fair value that has declined significantly from the acquisition cost and for which there is deemed to be no likelihood of the fair value recovering to the acquisition cost level are recorded on the balance sheet at the fair value. In addition, the difference between acquisition cost and fair value is posted as a loss in the consolidated accounts for the fiscal year (this process is known as “impairment accounting”). The impairment loss recognized on securities for the years ended March 31, 2021 and 2020 was ¥7 million (\$63 thousand) and ¥102 million of stocks, respectively.

The criteria for determining when available-for-sales securities have “significantly declined” are cases in which the fair value has fallen below 70% of the acquisition cost; or the fair value of a debt security under available-for-sales securities has fallen not below 70%, but the credit worthiness of the issuing company has worsened. In these cases, impairment loss is recognized as follows:

- (1) For all the securities whose fair value has fallen below 50% of the acquisition cost, impairment accounting is implemented.
- (2) For securities whose fair value has fallen below 70% but not below 50%, impairment accounting is implemented taking into account internal and external factors such as the business performance of the issuing company, the market price movements, trends of the market environments, etc. For bonds, impairment accounting is implemented taking into account credit worthiness of the issuing company with respect to those whose market prices are deemed unlikely to recover to the acquisition cost.
- (3) For securities whose fair value has fallen, but not below 70% of the acquisition cost and the credit worthiness of the issuing company has worsened, impairment accounting is implemented, if necessary, taking into account its credit worthiness, etc.

(c) There were no bonds classified as held-to-maturity sold during the years ended March 31, 2021 and 2020.

(d) Total sales of available-for-sale securities in the years ended March 31, 2021 and 2020 amounted to ¥357,828 million (\$3,232,119 thousand) and ¥519,806 million, respectively. The related gains and losses for the year ended March 31, 2021 amounted to ¥10,997 million (\$99,331 thousand) and ¥6,957 million (\$62,839 thousand), respectively. The related gains and losses for the year ended March 31, 2020 amounted to ¥14,255 million and ¥12,880 million, respectively.

(e) Net unrealized gains (losses) on available-for-sale securities as of March 31, 2021 and 2020 were as follows:

|  | Millions of yen |         | Thousands of U.S.<br>dollars |
|--|-----------------|---------|------------------------------|
|  | 2021            | 2020    | 2021                         |
| Difference between acquisition cost and fair value:  |                 |         |                              |
| Available-for-sale securities  | ¥ 20,313        | ¥ 9,262 | \$ 183,479                   |
| Deferred tax liabilities   | (5,140)         | (2,717) | (46,427)                     |
| Difference between acquisition cost and fair value (prior to adjustment for non-controlling interests) | 15,173          | 6,544   | 137,051                      |
| Amount corresponding to non-controlling interests  | (325)           | (245)   | (2,935)                      |
| Net unrealized gains (losses) on available-for-sale securities   | ¥ 14,848        | ¥ 6,299 | \$ 134,116                   |

## 5. Loans and bills discounted

Loans and bills discounted at March 31, 2021 and 2020 included the following:

|                                     | Millions of yen |          | Thousands of U.S.<br>dollars |
|-------------------------------------|-----------------|----------|------------------------------|
|                                     | 2021            | 2020     | 2021                         |
| Loans to borrowers legally bankrupt | ¥ 1,418         | ¥ 1,716  | \$ 12,808                    |
| Other delinquent loans              | 67,379          | 55,879   | 608,608                      |
| Loans past due over 3 months        | 2               | 4        | 18                           |
| Restructured loans                  | 13,650          | 6,114    | 123,295                      |
| Total                               | ¥ 82,449        | ¥ 63,715 | \$ 744,729                   |

Loans to borrowers legally bankrupt are loans to customers who meet specific credit risk criteria such as undergoing bankruptcy proceedings. Interest is not accrued on these loans. Other delinquent loans are loans other than those included in loans to borrowers legally bankrupt for which the recognition of accrued interest has been suspended after an assessment of the loan's quality. Loans past due over 3 months are loans for which principal and/or interest payments are past due for three months or more.

Restructured loans are loans for which the Bank has granted borrowers certain concessions such as reduced or exempted interest, suspended payments of interest, delayed repayment of principal and/or waivers of claims to allow borrowers to restructure or to provide support. This category of loans excludes loans to borrowers legally bankrupt, other delinquent loans and loans past due over 3 months.

The Bank applies "Accounting and Auditing Treatment of Accounting Standards for Financial Instruments in the Banking Industry" (JICPA Industry Committee Practical Guidelines No. 24, October 8, 2020) and accounts for bills discounted as financial transactions. The face value of bank acceptances, bills of exchange and bills of lading which were permitted to be sold or pledged without restrictions and which were acquired at a discount amounted to ¥9,143 million (\$82,585 thousand) and ¥15,045 million at March 31, 2021 and 2020, respectively.

The carrying amount of loan participation, which was accounted for as loans to original borrowers in accordance with "Accounting and Presentation of Loan Participations" (JICPA Accounting Practice Committee Report No. 3, November 28, 2014), was ¥1,270 million (\$11,471 thousand) and ¥1,709 million at March 31, 2021 and 2020, respectively.

## 6. Tangible fixed assets

Accumulated depreciation for tangible fixed assets at March 31, 2021 and 2020 was ¥44,322 million (\$400,343 thousand) and ¥46,865 million, respectively. The amount of accumulated contributions deducted from the acquisition cost of tangible fixed assets was ¥4,271 million (\$38,578 thousand) and ¥4,271 million at March 31, 2021 and 2020, respectively.

## 7. Assets pledged as collateral

Assets pledged as collateral at March 31, 2021 and 2020 were as follows:

|                            | Millions of yen |           | Thousands of U.S.<br>dollars |
|----------------------------|-----------------|-----------|------------------------------|
|                            | 2021            | 2020      | 2021                         |
| Securities                 | ¥ 627,205       | ¥ 449,930 | \$ 5,665,296                 |
| Loans and bills discounted | 577,698         | -         | 5,218,119                    |
| Other assets               | 293             | 299       | 2,646                        |
| Total                      | ¥ 1,205,196     | ¥ 450,230 | \$ 10,886,062                |

The above pledged assets secured the following liabilities:

|  | Millions of yen |           | Thousands of U.S.<br>dollars |
|--|-----------------|-----------|------------------------------|
|  | 2021            | 2020      | 2021                         |
| Deposits                                       | ¥ 36,135        | ¥ 22,207  | \$ 326,393                   |
| Payables under securities lending transactions | 184,714         | 161,505   | 1,668,449                    |
| Borrowed money                                 | 708,600         | 247,973   | 6,400,505                    |
| Total  | ¥ 929,449       | ¥ 431,686 | \$ 8,395,348                 |

In addition to the above assets, the following assets were pledged as collateral for transaction guarantees of foreign exchanges, etc.:

|   | Millions of yen |         | Thousands of U.S.<br>dollars |
|---|-----------------|---------|------------------------------|
|   | 2021            | 2020    | 2021                         |
| Securities  | ¥ 2,242         | ¥ 2,408 | \$ 20,251                    |
| Other assets  | 20,000          | 20,000  | 180,652                      |
| <i>Cash deposits for futures transactions</i>         | 1,052           | 1,052   | 9,502                        |
| <i>Guarantee and leasehold deposits</i>               | 1,270           | 1,270   | 11,471                       |
| <i>Cash collateral paid for financial instruments</i> | 430             | 150     | 3,884                        |

## 8. Deposits

Deposits at March 31, 2021 and 2020 were as follows:

|                                    | Millions of yen |             | Thousands of U.S.<br>dollars |
|------------------------------------|-----------------|-------------|------------------------------|
|                                    | 2021            | 2020        | 2021                         |
| Liquid deposits                    | ¥ 2,796,710     | ¥ 2,364,584 | \$ 25,261,584                |
| Fixed-term deposits                | 1,482,530       | 1,512,498   | 13,391,111                   |
| Other deposits                     | 134,200         | 100,858     | 1,212,175                    |
| Negotiable certificates of deposit | 43,324          | 59,563      | 391,328                      |
| Total                              | ¥ 4,456,765     | ¥ 4,037,503 | \$ 40,256,209                |



## 9. Borrowed money and lease obligations

The weighted average interest rate on the term-end balance of borrowed money was 0.00%. Borrowed money consisted of loans from other financial institutions. Annual maturities of borrowed money and lease obligations as of March 31, 2021 were as follows:

| Years ending March 31 | Borrowed money  |                           | Lease obligations |                           |
|-----------------------|-----------------|---------------------------|-------------------|---------------------------|
|                       | Millions of yen | Thousands of U.S. dollars | Millions of yen   | Thousands of U.S. dollars |
| 2022                  | ¥ 708,982       | \$ 6,403,956              | ¥ 163             | \$ 1,472                  |
| 2023                  | 141             | 1,273                     | 136               | 1,228                     |
| 2024                  | 104             | 939                       | 101               | 912                       |
| 2025                  | 64              | 578                       | 43                | 388                       |
| 2026                  | 22              | 198                       | 40                | 361                       |
| 2027 and thereafter   | -               | -                         | 84                | 758                       |
| Total                 | ¥ 709,314       | \$ 6,406,955              | ¥ 570             | \$ 5,148                  |

## 10. Employees' severance and retirement benefits

### (a) Overview of the retirement benefit plans adopted by the Bank and its consolidated subsidiaries

The Bank has defined benefit pension plans consisting of a corporate pension plan and a lump-sum payment plan and established a corporate-type defined contribution pension plan. In addition, the Bank has set up a retirement benefit trust.

A consolidated subsidiary has adopted a defined contribution pension plan and participated in general establishment type welfare pension funds and it is accounted for in the same manner as the defined contribution plan since the amount of plan assets corresponding to its contribution cannot be reasonably determined.

Other consolidated subsidiaries have adopted lump-sum payment plans, and net defined benefit liability and severance and retirement benefit expenses are calculated using a simplified method.

### (b) Defined benefit plans, including the plans to which a simplified method is applied

1. The changes in projected benefit obligation for the years ended March 31, 2021 and 2020 were as follows:

|                              | Millions of yen |          | Thousands of U.S. dollars |
|------------------------------|-----------------|----------|---------------------------|
|                              | 2021            | 2020     | 2021                      |
| Balance at beginning of year | ¥ 29,585        | ¥ 29,881 | \$ 267,229                |
| Service cost                 | 952             | 966      | 8,599                     |
| Interest cost                | 97              | 97       | 876                       |
| Actuarial differences        | 291             | 220      | 2,628                     |
| Benefits paid                | (1,510)         | (1,580)  | (13,639)                  |
| Balance at end of year       | ¥ 29,415        | ¥ 29,585 | \$ 265,694                |

2. The changes in plan assets for the years ended March 31, 2021 and 2020 were as follows:

|                                | Millions of yen |          | Thousands of U.S. dollars |
|--------------------------------|-----------------|----------|---------------------------|
|                                | 2021            | 2020     | 2021                      |
| Balance at beginning of year   | ¥ 43,067        | ¥ 47,733 | \$ 389,007                |
| Expected return on plan assets | 346             | 336      | 3,125                     |
| Actuarial differences          | 12,199          | (4,593)  | 110,188                   |
| Contribution from employers    | 487             | 549      | 4,398                     |
| Benefits paid                  | (999)           | (957)    | (9,023)                   |
| Balance at end of year         | ¥ 55,100        | ¥ 43,067 | \$ 497,696                |

3. Reconciliation between the net defined benefit liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets

|                             | Millions of yen |            | Thousands of U.S. dollars |
|-----------------------------|-----------------|------------|---------------------------|
|                             | 2021            | 2020       | 2021                      |
| Funded benefit obligation   | ¥ 29,386        | ¥ 29,556   | \$ 265,432                |
| Plan assets                 | (55,100)        | (43,067)   | (497,696)                 |
|                             | (25,714)        | (13,510)   | (232,264)                 |
| Unfunded benefit obligation | 29              | 28         | 261                       |
| Net liability (asset)       | ¥ (25,685)      | ¥ (13,482) | \$ (232,002)              |

|                               | Millions of yen |            | Thousands of U.S. dollars |
|-------------------------------|-----------------|------------|---------------------------|
|                               | 2021            | 2020       | 2021                      |
| Net defined benefit liability | ¥ 29            | ¥ 28       | \$ 261                    |
| Net defined benefit asset     | (25,714)        | (13,510)   | (232,264)                 |
| Net liability (asset)         | ¥ (25,685)      | ¥ (13,482) | \$ (232,002)              |

4. The components of severance and retirement benefit expenses for the years ended March 31, 2021 and 2020 were as follows:

|   | Millions of yen |           | Thousands of U.S. dollars |
|---|-----------------|-----------|---------------------------|
|   | 2021            | 2020      | 2021                      |
| Service cost                              | ¥ 952           | ¥ 966     | \$ 8,599                  |
| Interest cost                             | 97              | 97        | 876                       |
| Expected return on plan assets            | (346)           | (336)     | (3,125)                   |
| Recognized actuarial differences          | (1,344)         | (1,771)   | (12,139)                  |
| Other                                     | 22              | 38        | 198                       |
| Severance and retirement benefit expenses | ¥ (618)         | ¥ (1,006) | \$ (5,582)                |

5. The components of remeasurements of defined benefit plans (before tax effect) for the years ended March 31, 2021 and 2020

|                       | Millions of yen |           | Thousands of U.S. dollars |
|-----------------------|-----------------|-----------|---------------------------|
|                       | 2021            | 2020      | 2021                      |
| Actuarial differences | ¥ 10,563        | ¥ (6,586) | \$ 95,411                 |
| Total                 | ¥ 10,563        | ¥ (6,586) | \$ 95,411                 |

6. The components of accumulated remeasurements of defined benefit plans (before tax effect) as of March 31, 2021 and 2020

|                                    | Millions of yen |         | Thousands of U.S. dollars |
|------------------------------------|-----------------|---------|---------------------------|
|                                    | 2021            | 2020    | 2021                      |
| Unrecognized actuarial differences | ¥ 12,733        | ¥ 2,170 | \$ 115,012                |
| Total                              | ¥ 12,733        | ¥ 2,170 | \$ 115,012                |

7. Plan assets

(1) Components of plan assets as of March 31, 2021 and 2020

Plan assets consisted of the following:

|                   | 2021        | 2020        |
|-------------------|-------------|-------------|
| Stocks            | 55%         | 45%         |
| Bonds             | 14%         | 16%         |
| General accounts  | 11%         | 15%         |
| Cash and deposits | 11%         | 12%         |
| Other             | 9%          | 12%         |
| <b>Total</b>      | <b>100%</b> | <b>100%</b> |

Note: Total plan assets include the assets of the retirement benefit trust established for corporate pension plans and lump-sum severance payment plans representing 53% and 46% of total assets as of March 31, 2021 and 2020, respectively.

(2) Method of determining the long-term expected rate of return on plan assets

The long-term expected rate of return on plan assets is determined with consideration for the allocation of plan assets expected currently and in the future and the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

8. Assumptions used for the years ended March 31, 2021 and 2020 were as follows (presented at weighted average rates):

|  | 2021 | 2020 |
|--|------|------|
| Discount rate                                    | 0.3% | 0.3% |
| Long-term expected rate of return on plan assets | 0.8% | 0.7% |
| Expected rate of salary increase                 | 4.4% | 4.5% |

(c) Defined contribution plans

The required contribution to the defined contribution plans of the Bank and its consolidated subsidiaries was ¥195 million (\$1,761 thousand) and ¥193 million for the years ended March 31, 2021 and 2020, respectively.

The multi-employer plan under which the amount of the required contribution is treated as retirement benefit expense is as follows:

(1) Latest funding status of the entire plan

|  | Millions of yen |                 | Thousands of U.S.<br>dollars |
|--|-----------------|-----------------|------------------------------|
|  | 2021            | 2020            | 2021                         |
| Amount of plan assets  | ¥ 245,064       | ¥ 245,472       | \$ 2,213,566                 |
| Total amount of actuarial obligations for pension financing calculation purposes and the minimum actuarial reserve | 202,774         | 200,586         | 1,831,577                    |
| <b>Net amount</b>  | <b>¥ 42,289</b> | <b>¥ 44,885</b> | <b>\$ 381,979</b>            |

Notes: 1. The latest funding status as of March 31, 2021 is based on the information available as of March 31, 2020.

2. The latest funding status as of March 31, 2020 is based on the information available as of March 31, 2019.

(2) The share of contribution of pension premiums of the Group against the whole plan for the years ended March 31, 2021 and 2020 (based on the information for the periods from March 1, 2020 through March 31, 2020 and from March 1, 2019 through March 31, 2019) was 0.1%.

(3) Supplementary explanation

Major factors in the net amount above (1) are past service liabilities for the purpose of pension calculation in the amount of ¥34 million (\$307 thousand) and ¥51 million and surplus brought forward of ¥42,324 million (\$382,296 thousand) and ¥44,936 million as of March 31, 2021 (based on information as of March 31, 2020) and 2020 (based on information as of March 31, 2019), respectively.

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## 11. Guarantee obligations for bonds

Guarantee obligations for privately placed bonds (Article 2, Clause 3 of the Financial Instruments and Exchange Law) stood at ¥37,129 million (\$335,371 thousand) and ¥36,944 million as of March 31, 2021 and 2020, respectively.

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## 12. Shareholders' equity

### (a) Capital stock

The number of shares of the Bank's capital stock as of March 31, 2021 and 2020 was as follows:

|             | Thousands of shares |         |
|-------------|---------------------|---------|
|             | 2021                | 2020    |
| Authorized: |                     |         |
| Common      | 120,000             | 120,000 |
| Total       | 120,000             | 120,000 |

### (b) Retained earnings

Japanese banks are subject to the Corporate Law of Japan (the "Law") and the Banking Law. The Law requires that all shares of common stock be recorded with no par value and that at least 50% of the issue price of new shares be recorded as common stock and the remaining net proceeds as additional paid-in capital, which is included in capital surplus. The Law permits Japanese companies, upon approval of their Boards of Directors, to issue shares to existing shareholders without limitation. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The Law requires that an amount equal to 10% of dividends be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus), depending on the equity account charged upon the payment of such dividends, until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the capital stock. Under the Law, the total amount of additional paid-in capital and legal reserve may be reserved without limitation. The Law also provides that capital stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

The Law allows Japanese companies to repurchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The repurchased amount of treasury stock cannot exceed the amount available for future dividends plus the amount of stated capital, additional paid-in capital or legal reserve to be reduced in cases in which a reduction was resolved at the shareholders' meeting.

In addition to requiring an appropriation for a legal reserve in connection with cash payments, the Law imposes certain limitations on the amount of retained earnings available for dividends.

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year for which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Law.

### 13. Changes in net assets

#### (a) Type and number of shares issued and treasury stock

At March 31, 2021 and 2020, the number of shares was as follows:

|                  | Thousands of shares |          |          |        |
|------------------|---------------------|----------|----------|--------|
|                  | 2020                | Increase | Decrease | 2021   |
| Shares issued:   |                     |          |          |        |
| Common           | 70,300              | -        | -        | 70,300 |
| Total            | 70,300              | -        | -        | 70,300 |
| Treasury stock:  |                     |          |          |        |
| Common (*1) (*2) | 2,351               | 604      | 278      | 2,677  |
| Total            | 2,351               | 604      | 278      | 2,677  |

(\*1) The number of shares of treasury stock at April 1, 2020 and March 31, 2021 includes 305 thousand shares and 64 thousand shares of the Bank held by Kiyo Financial Group Employee Stock Ownership Association Trust (hereinafter referred to as the "Trust"), respectively.

(\*2) The increase in the number of common shares in treasury was due to the acquisition based on the resolution at the Board of Directors' meeting (602 thousand shares), the purchase of shares of less than one unit (2 thousand shares). The decrease in the number of common shares in treasury was due to the transfers resulting from exercise of stock options (36 thousand shares) and the sales by the Trust of common shares (241 thousand shares).

|                  | Thousands of shares |          |          |        |
|------------------|---------------------|----------|----------|--------|
|                  | 2019                | Increase | Decrease | 2020   |
| Shares issued:   |                     |          |          |        |
| Common           | 70,300              | -        | -        | 70,300 |
| Total            | 70,300              | -        | -        | 70,300 |
| Treasury stock:  |                     |          |          |        |
| Common (*1) (*2) | 1,933               | 680      | 261      | 2,351  |
| Total            | 1,933               | 680      | 261      | 2,351  |

(\*1) The number of shares of treasury stock at April 1, 2019 and March 31, 2020 includes 559 thousand shares and 305 thousand shares of the Bank held by the Trust, respectively.

(\*2) The increase in the number of common shares in treasury was due to the acquisition based on the resolution at the Board of Directors' meeting (678 thousand shares), the purchase of shares of less than one unit (2 thousand shares). The decrease in the number of common shares in treasury was due to the transfers resulting from exercise of stock options (8 thousand shares), the requests for additional purchases of shares of less than one unit (0 thousand shares) and the sales by the Trust of common shares (253 thousand shares).

#### (b) Subscription rights to shares

The outstanding balance of subscription rights to shares of the Bank as of March 31, 2021 and 2020 was ¥100 million (\$903 thousand) and ¥130 million, respectively.

#### (c) Information on dividends

Dividends paid during the year ended March 31, 2021 were as follows:

|        | Millions of yen     | Yen                      | Thousands of U.S. dollars | U.S. dollars             |
|--------|---------------------|--------------------------|---------------------------|--------------------------|
|        | Amount of dividends | Cash dividends per share | Amount of dividends       | Cash dividends per share |
| Common | ¥ 2,388             | ¥ 35.00                  | \$ 21,569                 | \$ 0.31                  |

Notes: 1. Date of resolution of the ordinary general meeting of shareholders was June 26, 2020.

2. Record date for all types of shares was March 31, 2020.

3. Effective date for all types of shares was June 29, 2020.

4. The amount of dividends resolved by the ordinary general meeting of shareholders held on June 26, 2020 included dividends in an amount of ¥10 million (\$90 thousand) related to the Bank's shares held by the Trust.

Dividends applicable to the year ended March 31, 2021 and whose effective date (i.e. initial payment date) falls after March 31, 2021 were as follows:

|        | Millions of yen<br>Amount of<br>dividends | Yen<br>Cash dividends<br>per share | Thousands of<br>U.S. dollars<br>Amount of<br>dividends | U.S. dollars<br>Cash dividends<br>per share |
|--------|---|------------------------------------|--|---|
| Common | ¥ 2,369                                   | ¥ 35.00                            | \$ 21,398  | \$ 0.31                                     |

Notes: 1. Date of resolution of the ordinary general meeting of shareholders was June 29, 2021.

2. Record date for all types of shares was March 31, 2021.

3. Effective date for all types of shares was June 30, 2021.

4. The amount of dividends resolved by the ordinary general meeting of shareholders held on June 29, 2021 included dividends in an amount of ¥2 million (\$18 thousand) related to the Bank's shares held by the Trust.

Dividends paid during the year ended March 31, 2020 were as follows:

|        | Millions of yen<br>Amount of<br>dividends | Yen<br>Cash dividends<br>per share |
|--------|---|------------------------------------|
| Common | ¥ 2,412                                   | ¥ 35.00                            |

Notes: 1. Date of resolution of the ordinary general meeting of shareholders was June 27, 2019.

2. Record date for all types of shares was March 31, 2019.

3. Effective date for all types of shares was June 28, 2019.

4. The amount of dividends resolved by the ordinary general meeting of shareholders held on June 27, 2019 included dividends in an amount of ¥19 million related to the Bank's shares held by the Trust.

#### 14. Stock options

##### (1) Stock option expense

|                                     | Millions of yen |      | Thousands of<br>U.S. dollars |
|-------------------------------------|-----------------|------|------------------------------|
|                                     | 2021            | 2020 | 2021                         |
| General and administrative expenses | ¥ 27            | ¥ 36 | \$ 243                       |

##### (2) Gain on forfeited stock options due to unexercised rights

|              | Millions of yen |      | Thousands of<br>U.S. dollars |
|--------------|-----------------|------|------------------------------|
|              | 2021            | 2020 | 2021                         |
| Other income | ¥ 0             | ¥ -  | \$ 0                         |

##### (3) Stock options outstanding at March 31, 2021 were as follows:

###### a. Outline of stock options

|  | 1st Stock Options  | 2nd Stock Options  | 3rd Stock Options   | 4th Stock Options   |
|--|--|--|---|---|
| Persons to whom stock subscription rights were allocated | 9 directors and 5 executive officers of the Bank;<br>a total of 14 persons | 9 directors and 6 executive officers of the Bank;<br>a total of 15 persons | 9 directors (excluding directors serving as audit and supervisory committee members) and 6 executive officers of the Bank;<br>a total of 15 persons | 7 directors (excluding directors serving as audit and supervisory committee members) and 8 executive officers of the Bank;<br>a total of 15 persons |
| Number of options granted                                | Common stock of the Bank 17,300 shares                                     | Common stock of the Bank 26,600 shares                                     | Common stock of the Bank 18,400 shares  | Common stock of the Bank 20,700 shares  |
| Date of grant  | July 27, 2015  | July 29, 2016  | July 31, 2017   | July 27, 2018   |
| Vesting conditions                                       | Not defined  | Not defined  | Not defined   | Not defined   |
| Applicable service period                                | Not defined  | Not defined  | Not defined   | Not defined   |
| Exercise period  | From July 28, 2015 to July 27, 2045  | From July 30, 2016 to July 29, 2046  | From August 1, 2017 to July 31, 2047  | From July 28, 2018 to July 27, 2048   |

|  | 5th Stock Options   | 6th Stock Options  |
|--|---|--|
| Persons to whom stock subscription rights were allocated | 6 directors (excluding directors serving as audit and supervisory committee members) and 11 executive officers of the Bank; a total of 17 persons | 6 directors (excluding directors serving as audit and supervisory committee members) and 9 executive officers of the Bank; a total of 15 persons |
| Number of options granted                                | Common stock of the Bank 26,400 shares  | Common stock of the Bank 17,500 shares   |
| Date of grant  | July 26, 2019   | July 22, 2020  |
| Vesting conditions                                       | Not defined   | Not defined  |
| Applicable service period                                | Not defined   | Not defined  |
| Exercise period  | From July 27, 2019 to July 26, 2049   | From July 23, 2020 to July 22, 2050  |

Note: Number of stock options is converted into number of shares.

b. Stock option activity

The following table summarizes the movement of stock options outstanding for the year ended March 31, 2021, in which the number of stock options is converted into the number of shares.

(i) Number of stock options

|   | Number of shares  |                   |                   |                   |                   |                   |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
|   | 1st Stock Options | 2nd Stock Options | 3rd Stock Options | 4th Stock Options | 5th Stock Options | 6th Stock Options |
| Non-vested:                             |                   |                   |                   |                   |                   |                   |
| Outstanding as of March 31, 2020        | -                 | -                 | -                 | -                 | -                 | -                 |
| Granted                                 | -                 | -                 | -                 | -                 | -                 | 17,500            |
| Forfeited                               | -                 | -                 | -                 | -                 | -                 | -                 |
| Vested                                  | -                 | -                 | -                 | -                 | -                 | 17,500            |
| <b>Outstanding as of March 31, 2021</b> | -                 | -                 | -                 | -                 | -                 | -                 |
| Vested:                                 |                   |                   |                   |                   |                   |                   |
| Outstanding as of March 31, 2020        | 10,300            | 18,800            | 14,700            | 19,200            | 26,400            | -                 |
| Vested                                  | -                 | -                 | -                 | -                 | -                 | 17,500            |
| Exercised                               | 4,100             | 10,000            | 6,200             | 7,400             | 8,500             | 700               |
| Forfeited                               | -                 | -                 | -                 | -                 | -                 | 400               |
| <b>Outstanding as of March 31, 2021</b> | <b>6,200</b>      | <b>8,800</b>      | <b>8,500</b>      | <b>11,800</b>     | <b>17,900</b>     | <b>16,400</b>     |

(ii) Price information

|                                 | Yen               |                   |                   |                   |                   |                   |
|---------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
|                                 | 1st Stock Options | 2nd Stock Options | 3rd Stock Options | 4th Stock Options | 5th Stock Options | 6th Stock Options |
| Exercise price                  | ¥ 1               | ¥ 1               | ¥ 1               | ¥ 1               | ¥ 1               | ¥ 1               |
| Average stock price at exercise | 1,636             | 1,636             | 1,636             | 1,636             | 1,636             | 1,423             |
| Fair value at date of grant     | 1,678             | 1,382             | 1,727             | 1,823             | 1,347             | 1,457             |

|                                 | U.S. Dollars      |                   |                   |                   |                   |                   |
|---------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
|                                 | 1st Stock Options | 2nd Stock Options | 3rd Stock Options | 4th Stock Options | 5th Stock Options | 6th Stock Options |
| Exercise price                  | \$ 0.00           | \$ 0.00           | \$ 0.00           | \$ 0.00           | \$ 0.00           | \$ 0.00           |
| Average stock price at exercise | 14.77             | 14.77             | 14.77             | 14.77             | 14.77             | 12.85             |
| Fair value at date of grant     | 15.15             | 12.48             | 15.59             | 16.46             | 12.16             | 13.16             |

Note: Above information is described after converting into per share data.

(4) Estimation method for fair values of stock options granted

The 6th stock options granted during the year ended March 31, 2021 were valued using the Black-Scholes option pricing model with the following assumptions:

| 6th Stock Options                          |                        |
|--|------------------------|
| Volatility of stock price (*1)             | 31.785%                |
| Expected remaining outstanding period (*2) | 4.6 years              |
| Expected dividend (*3)                     | ¥35 (\$0.31) per share |
| Risk-free interest rate (*4)               | (0.137)%               |

(\*1) Stock price volatility is computed based on actual stock prices during the period corresponding to the expected remaining outstanding period (from December 16, 2015 to July 22, 2020).

(\*2) Expected remaining outstanding period is estimated by the method of averaging the difference between the average retirement age and current age of each incumbent grantee.

(\*3) Expected dividend is based on actual dividend paid per common stock for the year ended March 31, 2020.

(\*4) Risk-free interest rate refers to the yield of government bonds for the period corresponding to the expected remaining outstanding period.

(5) Estimation method for number of stock options vested

The Bank uses the method to reflect the actual forfeited options, since it is difficult to reasonably estimate the number of stock options to be forfeited in the future.

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## 15. Other income

Other income for the years ended March 31, 2021 and 2020 included the following:

|  | Millions of yen |         | Thousands of |
|--|-----------------|---------|--------------|
|  | 2021            | 2020    | U.S. dollars |
| Recovery of written-off claims               | ¥ 1,583         | ¥ 1,870 | \$ 14,298    |
| Gain on sales of stocks and other securities | 5,941           | 4,116   | 53,662       |
| Gain on disposal of fixed assets             | 343             | 95      | 3,098        |

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## 16. General and administrative expenses

General and administrative expenses for the years ended March 31, 2021 and 2020 included the following:

|                         | Millions of yen |          | Thousands of |
|-------------------------|-----------------|----------|--------------|
|                         | 2021            | 2020     | U.S. dollars |
| Salaries and allowances | ¥ 13,448        | ¥ 13,627 | \$ 121,470   |

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## 17. Other expenses

Other expenses for the years ended March 31, 2021 and 2020 included the following:

|   | Millions of yen |         | Thousands of |
|---|-----------------|---------|--------------|
|   | 2021            | 2020    | U.S. dollars |
| Loss on the loans written-off                 | ¥ 1,026         | ¥ 1,862 | \$ 9,267     |
| Loss on sales of stock and other securities   | 4,438           | 2,435   | 40,086       |
| Loss on the devaluation of stocks             | 11              | 125     | 99           |
| Loss on the transfer/sale of loan obligations | 188             | 300     | 1,698        |
| Loss on disposal of fixed assets              | 94              | 53      | 849          |
| Impairment loss on fixed assets               | 125             | 1,513   | 1,129        |



#### Impairment loss on fixed assets

The Bank reduced the book value to the amounts deemed recoverable and posted the reduced amount of ¥125 million (\$1,129 thousand) and ¥1,513 million for the years ended March 31, 2021 and 2020, respectively. Details are as follows:

| Location            | Major use                          | Asset category                           | Impairment loss on fixed assets |                           |
|---------------------|------------------------------------|--|---------------------------------|---------------------------|
|                     |                                    |  | Millions of yen                 | Thousands of U.S. dollars |
|                     |                                    |  | 2021                            | 2021                      |
| Wakayama Prefecture | Operating offices:<br>25 locations | Buildings, movables and leasehold rights | ¥ 56                            | \$ 505                    |
| Wakayama Prefecture | Idle assets:<br>3 locations        | Land, buildings and movables             | 9                               | 81                        |
| Wakayama Prefecture | Business assets                    | Movables and software                    | 16                              | 144                       |
| Osaka Prefecture    | Operating offices:<br>14 locations | Buildings, movables and leasehold rights | 43                              | 388                       |
| Total               | -                                  | -  | ¥ 125                           | \$ 1,129                  |

| Location            | Major use                          | Asset category               | Impairment loss on fixed assets |  |
|---------------------|------------------------------------|------------------------------|---------------------------------|--|
|                     |                                    |                              | Millions of yen                 |  |
|                     |                                    |                              | 2020                            |  |
| Wakayama Prefecture | Operating offices:<br>29 locations | Land, buildings and movables | ¥ 1,452                         |  |
| Osaka Prefecture    | Operating offices:<br>4 locations  | Buildings and movables       | 60                              |  |
| Total               | -                                  | -                            | ¥ 1,513                         |  |

With respect to the calculation of impairment loss on fixed assets, the minimum operational unit recognized for management accounting purposes by the Bank is the single bank branch. However, where a number of branches operate as a group at the managerial level, the accounting unit is the group rather than the individual branch. Each unit of idle assets (one “unit” is defined as one plot of land or one building) is treated as a separate and individual unit for accounting purposes. Because the head office, administration center and Bank provided housing and dormitories for the staff of the Bank do not independently generate any cash flows, they are treated as assets held in common by the Bank for accounting purposes. With respect to the consolidated subsidiaries, in principle, each company is treated as a separate and individual unit for impairment accounting purposes.

In calculating impairment loss on fixed assets for the reporting period, the amount deemed recoverable, i.e., the net proceeds from sale, was estimated by deducting the cost of disposal from the real estate appraisal value based on official appraisal standards. For immaterial assets, the recoverable value is determined by deducting the estimated cost of disposal from the appraisal value based on the roadside land prices, etc.

## 18. Income taxes

The Bank is subject to a number of taxes based on income, which, in the aggregate, indicate a statutory rate in Japan of approximately 30.4% for the years ended March 31, 2021 and 2020. The table below summarizes the significant differences between the statutory tax rate and the Bank's effective tax rate for financial statement purposes for the year ended March 31, 2021.

|   | 2021  |
|---|-------|
| Statutory tax rate  | 30.4% |
| Adjustments:  |       |
| Nondeductible expenses for tax purpose (entertainment expenses, etc.) | 0.2   |
| Dividend income that is not taxable for income tax purposes           | (0.4) |
| Change in valuation allowance   | 3.1   |
| Other   | 0.2   |
| Effective tax rate  | 33.5% |

The difference between the statutory tax rate and the effective tax rate for the year ended March 31, 2020 is not disclosed because it was not more than 5% of the statutory tax rate.

Significant components of deferred tax assets and liabilities at March 31, 2021 and 2020 were as follows:

|  | Millions of yen |          | Thousands of U.S.<br>dollars |
|--|-----------------|----------|------------------------------|
|  | 2021            | 2020     | 2021                         |
| <b>Deferred tax assets:</b>                                    |                 |          |                              |
| Nondeductible reserve for possible loan losses                 | ¥ 9,207         | ¥ 8,311  | \$ 83,163                    |
| Write-down of securities                                       | 1,745           | 2,238    | 15,761                       |
| Carryforward tax loss  | 76              | 86       | 686                          |
| Other  | 4,653           | 5,274    | 42,028                       |
| Subtotal   | 15,682          | 15,910   | 141,649                      |
| Valuation allowance for carryforward tax loss                  | (76)            | (86)     | (686)                        |
| Valuation allowance for deductible temporary differences       | (11,143)        | (10,990) | (100,650)                    |
| Subtotal   | (11,220)        | (11,077) | (101,345)                    |
| Deferred tax assets  | 4,462           | 4,833    | 40,303                       |
| <b>Deferred tax liabilities:</b>                               |                 |          |                              |
| Net unrealized (gains) losses on available-for-sale securities | (5,144)         | (2,722)  | (46,463)                     |
| Net defined benefit asset                                      | (5,193)         | (1,698)  | (46,906)                     |
| (Gains) losses on retirement benefit trust                     | (440)           | (440)    | (3,974)                      |
| Other  | (905)           | (888)    | (8,174)                      |
| Deferred tax liabilities                                       | (11,684)        | (5,750)  | (105,536)                    |
| Net deferred tax assets (liabilities)                          | ¥ (7,221)       | ¥ (917)  | \$ (65,224)                  |

Net amounts recorded in the consolidated balance sheets after offsetting by each taxable entity at March 31, 2021 and 2020 were as follows:

|                          | Millions of yen |       | Thousands of U.S.<br>dollars |
|--------------------------|-----------------|-------|------------------------------|
|                          | 2021            | 2020  | 2021                         |
| Deferred tax assets      | ¥ 580           | ¥ 597 | \$ 5,238                     |
| Deferred tax liabilities | 7,801           | 1,515 | 70,463                       |

## 19. Other comprehensive income (loss)

Amounts reclassified to profit in the current period that were recognized in other comprehensive income (loss) in the current or previous periods and the tax effects for each component of other comprehensive income (loss) were as follows:

|   | Millions of yen |            | Thousands of<br>U.S. dollars |
|---|-----------------|------------|------------------------------|
|   | 2021            | 2020       | 2021                         |
| Net unrealized gains (losses) on available-for-sale securities: |                 |            |                              |
| Increase (decrease) during the year                             | ¥ 15,387        | ¥ (25,781) | \$ 138,984                   |
| Reclassification adjustments                                    | (4,336)         | (1,758)    | (39,165)                     |
| Subtotal before tax   | 11,051          | (27,540)   | 99,819                       |
| Tax benefit (expense)   | (2,422)         | 7,006      | (21,876)                     |
| Net unrealized gains (losses) on available-for-sale securities  | 8,629           | (20,533)   | 77,942                       |
| Net deferred gains (losses) on hedging instruments:             |                 |            |                              |
| Increase (decrease) during the year                             | (132)           | (122)      | (1,192)                      |
| Reclassification adjustments                                    | 186             | 904        | 1,680                        |
| Subtotal before tax   | 53              | 782        | 478                          |
| Tax benefit (expense)   | (16)            | (237)      | (144)                        |
| Net deferred gains (losses) on hedging instruments              | 37              | 544        | 334                          |
| Remeasurements of defined benefit plans:                        |                 |            |                              |
| Increase (decrease) during the year                             | 11,908          | (4,814)    | 107,560                      |
| Reclassification adjustments                                    | (1,344)         | (1,771)    | (12,139)                     |
| Subtotal before tax   | 10,563          | (6,586)    | 95,411                       |
| Tax benefit (expense)   | (3,211)         | 2,002      | (29,003)                     |
| Remeasurements of defined benefit plans                         | 7,352           | (4,584)    | 66,407                       |
| Total other comprehensive income (loss)                         | ¥ 16,018        | ¥ (24,573) | \$ 144,684                   |

## 20. Per share information

|                            | Yen        |            | U.S. dollars |
|----------------------------|------------|------------|--------------|
|                            | 2021       | 2020       | 2021         |
| Net assets per share       | ¥ 3,607.40 | ¥ 3,201.86 | \$ 32.58     |
| Basic earnings per share   | 200.97     | 201.73     | 1.81         |
| Diluted earnings per share | 200.76     | 201.49     | 1.81         |

(Note 1) The calculation of net assets per share as of March 31, 2021 and 2020 was as follows:

|  | Millions of yen |           | Thousands of U.S.<br>dollars |
|--|-----------------|-----------|------------------------------|
|  | 2021            | 2020      | 2021                         |
| Total net assets   | ¥ 245,699       | ¥ 220,256 | \$ 2,219,302                 |
| Amount to be deducted from total net assets:   | 1,758           | 2,694     | 15,879                       |
| Subscription rights to shares  | 100             | 130       | 903                          |
| Non-controlling interests  | 1,658           | 2,564     | 14,976                       |
| Net assets attributable to common stock  | 243,940         | 217,561   | 2,203,414                    |
| Number of shares of common stock as of the fiscal year end used<br>in computing net assets per share (thousands of shares) | 67,622          | 67,948    | -                            |

(Note 2) The calculation of earnings per share for the years ended March 31, 2021 and 2020 was as follows:

|   | Millions of yen |          | Thousands of U.S. |
|---|-----------------|----------|-------------------|
|   | 2021            | 2020     | dollars<br>2021   |
| <b>Basic earnings per share:</b>  |                 |          |                   |
| Profit attributable to owners of parent   | ¥ 13,591        | ¥ 13,719 | \$ 122,762        |
| Amount not attributable to common shareholders  | -               | -        | -                 |
| Profit attributable to common shareholders of parent  | 13,591          | 13,719   | 122,762           |
| Average number of shares of common stock during the term<br>(thousands of shares)                                     | 67,627          | 68,010   | -                 |
| <b>Diluted earnings per share:</b>  |                 |          |                   |
| Adjustment to profit attributable to owners of parent   | -               | -        | -                 |
| Increase in number of shares of common stock (thousands of<br>shares)   | 71              | 80       | -                 |
| Subscription rights to shares (thousands of shares)   | 71              | 80       | -                 |
| Overview of potential shares not included in computing diluted<br>earnings per share due to having no dilutive effect | -               | -        | -                 |

(Note 3) In computing net assets per share, the Bank's shares held by Kiyo Financial Group Employee Stock Ownership Association Trust, which are recorded as treasury stock under shareholders' equity, are included in the number of treasury stock to be deducted from the total number of issued shares at the fiscal year end and are included in the number of treasury stock to be deducted from the average number of shares during the term in computing basic earnings per share and diluted earnings per share.

The number of shares of such treasury stock deducted in computing net assets per share as of March 31, 2021 and 2020 was 64 thousand shares and 305 thousand shares, respectively, and the average number of shares of treasury stock during the term deducted in computing basic earnings per share and diluted earnings per share for the years ended March 31, 2021 and 2020 was 178 thousand shares and 422 thousand shares, respectively.

## 21. Commitment lines

Loan agreements and commitment line agreements are agreements which oblige the Bank to lend funds up to a certain limit agreed to in advance. The Bank makes the loans upon a borrower's request to draw down funds under the agreements as long as there is no breach of the various terms and conditions stipulated in the agreements. The unused commitment balances related to these agreements at March 31, 2021 and 2020 amounted to ¥451,701 million (\$4,080,037 thousand) and ¥408,842 million, respectively. Of this amount, the unused commitment balances related to agreements with terms of one year or less or that were unconditionally cancelable at any time totaled ¥390,474 million (\$3,526,998 thousand) and ¥346,760 million, respectively.

In many cases, the term of the agreement runs its course without the loan ever being drawn down. Therefore, unused loan commitment balances will not necessarily affect future cash flows. Conditions are included in certain loan agreements which allow the Bank to decline a request to draw down funds or to reduce the agreed limit amount when there is a cause to do so, such as when there is a change in the financial condition of the borrower or when it is necessary to protect the Bank's credit. The Bank makes various measures to protect its credit, including having the obligor pledge collateral in the form of real estate, securities, etc., on signing the loan agreement or confirming the obligor's financial condition in accordance with the Bank's established internal procedures.

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## 22. Financial instruments and related disclosures

### 1. Disclosure about Financial Instruments

#### (1) Policy on financial instruments

The Group provides comprehensive financial services such as deposit-taking and lending services, leasing operations, credit card business and others. Since the Group is exposed to the market risk of fluctuation in interest rates arising from deposit-taking, lending services and securities investment operations, the Group conducts comprehensive asset and liability management (ALM) and engages in derivative transactions.

#### (2) Nature and risk of financial instruments

Financial assets held by the Group consist mainly of loans to domestic customers that are exposed to credit risk arising from the customers' nonperformance of contractual obligations and the risk of interest rate fluctuations. Securities held by the Group consist mainly of debt securities, equity securities and investment trusts, which are held for the purpose of holding to maturity, net investment, strategic investment and trading purposes. These securities are exposed to the credit risk of the issuers, interest rate fluctuation risk and price fluctuation risk.

Financial liabilities consist mainly of deposits, which are exposed to liquidity risk and interest rate fluctuation risk, and other financial assets.

Major risks inherent in derivative transactions include the market risk of fluctuation in interest rates, foreign exchange, stock prices and other market instruments and the credit risk arising from customers' nonperformance of contractual obligations. The Group employs derivative transactions mainly to hedge these risks, and the market risk of the hedged items is almost entirely offset by the derivatives. Hedging instruments to which hedge accounting is applied are currency swaps, etc. The corresponding hedged items are securities.

#### (3) Risk management system for financial instruments

##### ***Credit risk management***

The Group has established a credit risk management system that includes the "Credit Risk Control Rule" and other various rules and defines the basic credit risk control policy and management system. Specifically, the Review Department conducts reviews according to the risk characteristics of the credit items by identifying the financial position, use of funds, repayment resources and other factors related to credit customers. The Credit Control Department sets up and controls limits to avoid the concentration of credit risk and identifies the quantitative level of credit risk. The Department is also responsible for the maintenance of the credit rating system and reports the measured volume of credit risk to the Board of Directors and risk management committee so that credit risk management may be discussed within the framework of integrated risk control.

##### ***Market risk management***

The Group has established a market risk management system that includes the "Market Risk Control Rule" and other various rules and defines the basic market risk control policy and management system.

##### (i) Interest rate risk management

With respect to interest rate management, the Group regularly measures the volume of interest rate risk arising from assets and liabilities such as securities, loans and deposits and conducts interest rate gap analysis and interest rate sensitivity analysis and reports the outcome to the ALM Strategy Committee and the Risk Control Committee. The Group also has established specific limits on the level of interest rate risk.

##### (ii) Price fluctuation risk management

With respect to price fluctuation risk, the Group controls the level of risk on a daily basis by measuring the risk volume and setting up limits on the level of risk. Securities held for net investment purposes are controlled by setting up additional limits on transactions and losses above those set up by the executive committee in addition to the risk volume control. With respect to shares held for strategic investment purposes, the Group tries to reduce the risk level by limiting the balance and using hedge transactions, etc.

##### (iii) Foreign exchange risk management

The Group identifies the fluctuation risk associated with foreign currency denominated assets and liabilities, controls the risk within the limit determined by the executive committee and works to mitigate the risk using currency swaps, etc.

(iv) Derivative transactions

Derivatives transactions are employed principally and limitedly for hedging purposes. An internal control system has been established by segregating the functions of executing derivative transactions, evaluating hedge effectiveness and controlling operations.

(v) Quantitative information on market risk

Major financial instruments that are affected by interest rate risk that is regarded as major risk factors are call loans, other debt purchased, bonds and investment trusts included in securities, loans and bills discounted, deposits, call money, payables under securities lending transactions and borrowed money. Financial instruments that are affected by price fluctuation risk consist of stocks and investment trusts included in securities.

The Bank calculates Value at Risk (VaR) to capture the effects of income and economic value from interest rate fluctuation and price fluctuation. VaR is made available to internal management. To calculate VaR, the Bank applies the variance and covariance method, using 3 to 6 months as the holding period based on risk characteristics, 99% as the confidence interval and 1 to 5 years as the observation period based on risk characteristics. The amount of risk at March 31, 2021 and 2020 was ¥11,038 million (\$99,701 thousand) and ¥11,040 million, respectively, for interest rate risk and ¥18,714 million (\$169,036 thousand) and ¥20,747 million, respectively, for price fluctuation risk.

For the fiscal year ended March 31, 2021, VaR for strategic investment (equity, investment trust) out of VaR for price fluctuation risk uses modified VaR, that is VaR after deducting valuation gain or loss for the purpose of internal control of the Bank and the above VaR for price fluctuation risk also uses modified VaR. (The modified VaR for strategic investment (equity, investment trust) is zero, since total valuation gain or loss on strategic investment (equity, investment trust) in the amount of ¥17,512 million (\$158,179 thousand) exceeds VaR for the price fluctuation risk in the amount of ¥7,460 million (\$67,383 thousand).)

In addition, the Bank verifies the effectiveness of risk measurement under the variance and covariance method by a back testing protocol that compares VaR to actual income.

In calculating VaR on interest rate risk, the core deposits of liquid deposits are adjusted. Core deposits do not have specified interest rates and are demand deposits that are expected to be held for the long term without demand for withdrawal. VaR is a statistical measure of market risk volume under a certain probability of occurrence based on the past market fluctuations. Accordingly, it may be impossible to capture the risk if the market fluctuates rapidly under extraordinary circumstances.

**Liquidity risk management**

The Group has established a liquidity risk management system that includes the “Liquidity Risk Control Rule” and other various rules and defines the basic liquidity risk control policy and management system. The Group tries to control liquidity risk by maintaining stable cash management, securing highly liquid reserves and strengthening preliminary controls.

(4) Supplementary explanation about fair value of financial instruments

In addition to value based on the market price, the fair values of financial instruments include valuations calculated on a reasonable basis if no market price is available. Since certain assumptions are used in calculating the values, the outcome of such calculations may vary if different assumptions are used.

2. Fair value of financial instruments

The carrying amount, the fair value and any difference as of March 31, 2021 and 2020 are set forth in the table below. Note that unlisted equity securities for which the fair value was extremely difficult to determine were not included in the following table (See Note 2). Also, insignificant items were omitted.

|  | Millions of yen |             |                           |
|--|-----------------|-------------|---------------------------|
|  | 2021            |             |                           |
|  | Carrying amount | Fair value  | Unrealized gains (losses) |
| Cash and due from banks                        | ¥ 1,216,774     | ¥ 1,216,774 | ¥ -                       |
| Securities:                                    |                 |             |                           |
| Held-to-maturity securities                    | 27,557          | 27,728      | 170                       |
| Available-for-sale securities                  | 1,046,066       | 1,046,066   | -                         |
| Loans and bills discounted                     | 3,271,208       |             |                           |
| Reserve for possible loan losses (*1)          | (26,498)        |             |                           |
|  | 3,244,710       | 3,256,875   | 12,165                    |
| Total assets                                   | ¥ 5,535,108     | ¥ 5,547,444 | ¥ 12,336                  |
| Deposits                                       | ¥ 4,413,441     | ¥ 4,413,475 | ¥ 34                      |
| Payables under securities lending transactions | 184,714         | 184,714     | -                         |
| Borrowed money                                 | 709,314         | 709,314     | -                         |
| Total liabilities                              | ¥ 5,307,469     | ¥ 5,307,504 | ¥ 34                      |
| Derivative transactions (*2)                   |                 |             |                           |
| Hedge accounting not applied                   | ¥ (824)         | ¥ (824)     | ¥ -                       |
| Hedge accounting applied                       | (265)           | (265)       | -                         |
| Total derivative transactions                  | ¥ (1,090)       | ¥ (1,090)   | ¥ -                       |

(\*1) General and specific reserves for possible loan losses corresponding to loans and bills discounted are deducted.

(\*2) Net receivables and payables incurred from derivative transactions are presented in net amounts, and net payables are presented in parentheses.

|  | Millions of yen |             |                           |
|--|-----------------|-------------|---------------------------|
|  | 2020            |             |                           |
|  | Carrying amount | Fair value  | Unrealized gains (losses) |
| Cash and due from banks                        | ¥ 507,968       | ¥ 507,968   | ¥ -                       |
| Securities:                                    |                 |             |                           |
| Held-to-maturity securities                    | 71,040          | 71,198      | 158                       |
| Available-for-sale securities                  | 982,643         | 982,643     | -                         |
| Loans and bills discounted                     | 3,072,120       |             |                           |
| Reserve for possible loan losses (*1)          | (22,823)        |             |                           |
|  | 3,049,297       | 3,057,917   | 8,619                     |
| Total assets                                   | ¥ 4,610,949     | ¥ 4,619,727 | ¥ 8,778                   |
| Deposits                                       | ¥ 4,037,503     | ¥ 4,037,534 | ¥ 31                      |
| Payables under securities lending transactions | 161,505         | 161,505     | -                         |
| Borrowed money                                 | 249,051         | 249,051     | -                         |
| Total liabilities                              | ¥ 4,448,060     | ¥ 4,448,091 | ¥ 31                      |
| Derivative transactions (*2)                   |                 |             |                           |
| Hedge accounting not applied                   | ¥ 1,509         | ¥ 1,509     | ¥ -                       |
| Hedge accounting applied                       | 249             | 249         | -                         |
| Total derivative transactions                  | ¥ 1,758         | ¥ 1,758     | ¥ -                       |

(\*1) General and specific reserves for possible loan losses corresponding to loans and bills discounted are deducted.

(\*2) Net receivables and payables incurred from derivative transactions are presented in net amounts, and net payables are presented in parentheses.

|  | Thousands of U.S. dollars |                      |                           |
|--|---------------------------|----------------------|---------------------------|
|  | <b>2021</b>               |                      |                           |
|  | Carrying amount           | Fair value           | Unrealized gains (losses) |
| Cash and due from banks                        | \$ 10,990,642             | \$ 10,990,642        | \$ -                      |
| Securities:                                    |                           |                      |                           |
| Held-to-maturity securities                    | 248,911                   | 250,456              | 1,535                     |
| Available-for-sale securities                  | 9,448,703                 | 9,448,703            | -                         |
| Loans and bills discounted                     | 29,547,538                |                      |                           |
| Reserve for possible loan losses (*1)          | (239,346)                 |                      |                           |
|  | <b>29,308,192</b>         | <b>29,418,074</b>    | <b>109,881</b>            |
| <b>Total assets</b>                            | <b>\$ 49,996,459</b>      | <b>\$ 50,107,885</b> | <b>\$ 111,426</b>         |
| Deposits                                       | \$ 39,864,881             | \$ 39,865,188        | \$ 307                    |
| Payables under securities lending transactions | 1,668,449                 | 1,668,449            | -                         |
| Borrowed money                                 | 6,406,955                 | 6,406,955            | -                         |
| <b>Total liabilities</b>                       | <b>\$ 47,940,285</b>      | <b>\$ 47,940,601</b> | <b>\$ 307</b>             |
| Derivative transactions (*2)                   |                           |                      |                           |
| Hedge accounting not applied                   | \$ (7,442)                | \$ (7,442)           | \$ -                      |
| Hedge accounting applied                       | (2,393)                   | (2,393)              | -                         |
| <b>Total derivative transactions</b>           | <b>\$ (9,845)</b>         | <b>\$ (9,845)</b>    | <b>\$ -</b>               |

(\*1) General and specific reserves for possible loan losses corresponding to loans and bills discounted are deducted.

(\*2) Net receivables and payables incurred from derivative transactions are presented in net amounts, and net payables are presented in parentheses.

(Note 1) Method of calculation for fair value of financial instruments

Assets:

**Cash and due from banks**

For deposits without maturity, the carrying amount is presented as the fair value since the fair value approximates the carrying amount. For deposits with maturity, the carrying amount is presented as the fair value since the fair value approximates the carrying amount because the maturity is short (less than one year).

**Securities**

The fair value of equity securities is determined using the quoted price on exchanges, and the fair value of debt securities is determined using the price published by the industry group or offered by the financial institutions with which they are transacted. The fair value of investment trusts is determined using the quoted price on exchanges or the price offered by the financial institution with which they are transacted. The fair value of non-publicly traded private placement bonds guaranteed by the Bank is determined using the same calculation method as that of loans.

**Loans and bills discounted**

For loans with variable interest rates which reflect short-term interest rates, the carrying amount is presented as the fair value since the fair value approximates the carrying amount as long as the creditworthiness of the borrower has not changed significantly from the time of the loan origination. For loans with fixed interest rates, the fair value is determined based on the aggregate value of principal and interest by categories of types of loans, internal ratings and maturities discounted using the interest rate assumed if the same loans were newly originated. For loans with short contractual terms (less than one year), the carrying amount is presented as the fair value since the fair value approximates the carrying amount.

For receivables from bankrupt, effectively bankrupt and likely to become bankrupt borrowers, loan losses are estimated based on factors such as the present value of expected future cash flows or the expected amount to be collected from collateral and guarantees. Since the fair value of these items approximates the carrying amount, net of the expected loan losses, the carrying amount is presented as the fair value.

For loans which have non-defined repayment due dates because of restricting the amount of the loans to the amount of the pledged assets, the carrying amount is presented as the fair value since the fair value approximates the carrying amount considering the expected repayment schedule and interest rate.



## Liabilities:

### Deposits

For demand deposits, the amount payable on demand as of the balance sheet date (i.e., the carrying amount) is considered to be the fair value. The fair value of time deposits is determined using the discounted present value of future cash flows grouped by certain maturity lengths. The discount rate used is the interest rate that would be applied to newly accepted deposits. For deposits whose maturity is short (less than one year), the carrying amount is presented as the fair value since the fair value approximates the carrying amount.

### Payables under securities lending transactions

For payables under securities lending transactions in which the trade term is short (less than one year), the carrying amount is presented as the fair value since the fair value approximates the carrying amount.

### Borrowed money

For borrowed money with variable interest rates linked to short-term market interest rates, the carrying amount is presented as the fair value since the fair value approximates the carrying amount because the creditworthiness of the Bank and its consolidated subsidiaries did not change significantly after it was executed. For borrowed money with a short-term contract period (within one year), the carrying amount is presented as the fair value since the fair value approximates the carrying amount.

## Derivative transactions:

Information regarding derivative transactions is provided in Note 23, "Derivative transactions."

(Note 2) Financial instruments for which fair value is extremely difficult to determine are set forth in the table below. These securities are not included in "Available-for-sale securities" under "Assets" in the table "Fair value of financial instruments."

|                                      | Carrying amount |         |                           |
|--------------------------------------|-----------------|---------|---------------------------|
|                                      | Millions of yen |         | Thousands of U.S. dollars |
|                                      | 2021            | 2020    | 2021                      |
| Unlisted equity securities (*1) (*2) | ¥ 1,950         | ¥ 1,646 | \$ 17,613                 |
| Investment in partnerships (*3)      | 1,481           | 1,462   | 13,377                    |
| Total                                | ¥ 3,431         | ¥ 3,109 | \$ 30,990                 |

(\*1) No market price is available for unlisted equity securities, and the fair value is not disclosed since it was extremely difficult to determine.

(\*2) The Bank recognized impairment loss in an amount of ¥3 million (\$27 thousand) and ¥23 million on unlisted equity securities for the years ended March 31, 2021 and 2020, respectively.

(\*3) The fair value of investment in partnerships whose assets consisted of securities such as unlisted equity securities whose fair value is extremely difficult to identify is not disclosed.

(Note 3) Repayment schedule of monetary receivables and securities with contract maturities subsequent to the balance sheet date

|   | Millions of yen   |                                     |                                      |                                      |                                       |                    |
|---|-------------------|-------------------------------------|--------------------------------------|--------------------------------------|---------------------------------------|--------------------|
|   | 2021              |                                     |                                      |                                      |                                       |                    |
|   | Due within 1 year | Due after 1 year but within 3 years | Due after 3 years but within 5 years | Due after 5 years but within 7 years | Due after 7 years but within 10 years | Due after 10 years |
| Cash and due from banks                                 | ¥ 1,216,774       | ¥ -                                 | ¥ -                                  | ¥ -                                  | ¥ -                                   | ¥ -                |
| Securities:   | 89,010            | 88,470                              | 103,398                              | 142,322                              | 169,633                               | 246,541            |
| Held-to-maturity debt securities:                       | 25,057            | -                                   | 1,700                                | -                                    | 800                                   | -                  |
| Japanese government bonds                               | 25,057            | -                                   | -                                    | -                                    | -                                     | -                  |
| Corporate bonds   | -                 | -                                   | 1,700                                | -                                    | 800                                   | -                  |
| Available-for-sale securities with contract maturities: | 63,952            | 88,470                              | 101,698                              | 142,322                              | 168,833                               | 246,541            |
| Japanese government bonds                               | 27,261            | 42,654                              | 10,213                               | -                                    | 14,569                                | 58,174             |
| Local government bonds                                  | 1,716             | 1,729                               | 45,242                               | 84,575                               | 66,801                                | 3,850              |
| Corporate bonds   | 11,938            | 14,482                              | 22,842                               | 15,100                               | 13,498                                | 100,616            |
| Other   | 23,036            | 29,604                              | 23,400                               | 42,646                               | 73,963                                | 83,900             |
| Foreign bonds   | 23,036            | 29,604                              | 23,400                               | 42,646                               | 73,963                                | 83,900             |
| Loans and bills discounted (*)                          | 690,581           | 624,359                             | 476,613                              | 302,339                              | 364,194                               | 721,720            |
| Total   | ¥ 1,996,365       | ¥ 712,829                           | ¥ 580,012                            | ¥ 444,661                            | ¥ 533,827                             | ¥ 968,262          |

(\*) Loans and bills discounted at March 31, 2021 do not include ¥68,797 million of those due from bankrupt, effectively bankrupt or likely to become bankrupt borrowers whose repayment schedules cannot be estimated and ¥22,602 million of those which have non-defined maturities.

| Millions of yen  |                      |   |  |  |   |                       |
|--|----------------------|---|--|--|---|-----------------------|
| 2020   |                      |   |  |  |   |                       |
|  | Due within<br>1 year | Due after<br>1 year but<br>within 3 years | Due after<br>3 years but<br>within 5 years | Due after<br>5 years but<br>within 7 years | Due after<br>7 years but<br>within 10 years | Due after<br>10 years |
| Cash and due from banks                                    | ¥ 507,968            | ¥ -                                       | ¥ -  | ¥ -  | ¥ -   | ¥ -                   |
| Securities:  | 87,782               | 140,716                                   | 69,029                                     | 141,498                                    | 170,151                                     | 275,316               |
| Held-to-maturity debt securities:                          | 45,067               | 25,172                                    | -  | -  | 800   | -                     |
| Japanese government bonds                                  | 45,067               | 25,172                                    | -  | -  | -   | -                     |
| Corporate bonds  | -                    | -   | -  | -  | 800   | -                     |
| Available-for-sale securities with<br>contract maturities: | 42,715               | 115,543                                   | 69,029                                     | 141,498                                    | 169,351                                     | 275,316               |
| Japanese government bonds                                  | -                    | 66,471                                    | 8,224                                      | 6,166                                      | -   | 46,239                |
| Local government bonds                                     | 11,155               | 2,640                                     | 7,856                                      | 90,682                                     | 77,441                                      | 10,049                |
| Corporate bonds  | 12,002               | 24,977                                    | 25,672                                     | 19,402                                     | 30,408                                      | 97,599                |
| Other  | 19,557               | 21,454                                    | 27,275                                     | 25,246                                     | 61,502                                      | 121,428               |
| Foreign bonds  | 19,557               | 21,454                                    | 27,275                                     | 25,246                                     | 61,502                                      | 121,428               |
| Loans and bills discounted (*)                             | 712,081              | 590,095                                   | 465,789                                    | 287,124                                    | 274,272                                     | 658,133               |
| Total  | ¥ 1,307,832          | ¥ 730,811                                 | ¥ 534,819                                  | ¥ 428,622                                  | ¥ 444,423                                   | ¥ 933,450             |

(\*) Loans and bills discounted at March 31, 2020 do not include ¥57,596 million of those due from bankrupt, effectively bankrupt or likely to become bankrupt borrowers whose repayment schedules cannot be estimated and ¥27,026 million of those which have non-defined maturities.

| Thousands of U.S. dollars                                 |                      |   |  |  |   |                       |
|---|----------------------|---|--|--|---|-----------------------|
| 2021  |                      |   |  |  |   |                       |
|   | Due within<br>1 year | Due after<br>1 year but<br>within 3 years | Due after<br>3 years but<br>within 5 years | Due after<br>5 years but<br>within 7 years | Due after<br>7 years but<br>within 10 years | Due after<br>10 years |
| Cash and due from banks                                   | \$ 10,990,642        | \$ -                                      | \$ -                                       | \$ -                                       | \$ -  | \$ -                  |
| Securities  | 803,992              | 799,114                                   | 933,953                                    | 1,285,538                                  | 1,532,228                                   | 2,226,908             |
| Held-to-maturity debt securities                          | 226,330              | -   | 15,355                                     | -  | 7,226                                       | -                     |
| Japanese government bonds                                 | 226,330              | -   | -  | -  | -   | -                     |
| Corporate bonds   | -                    | -   | 15,355                                     | -  | 7,226                                       | -                     |
| Available-for-sale securities with<br>contract maturities | 577,653              | 799,114                                   | 918,598                                    | 1,285,538                                  | 1,525,002                                   | 2,226,908             |
| Japanese government bonds                                 | 246,237              | 385,276                                   | 92,250                                     | -  | 131,596                                     | 525,462               |
| Local government bonds                                    | 15,499               | 15,617                                    | 408,653                                    | 763,932                                    | 603,387                                     | 34,775                |
| Corporate bonds   | 107,831              | 130,810                                   | 206,322                                    | 136,392                                    | 121,922                                     | 908,824               |
| Other   | 208,075              | 267,401                                   | 211,363                                    | 385,204                                    | 668,078                                     | 757,835               |
| Foreign bonds   | 208,075              | 267,401                                   | 211,363                                    | 385,204                                    | 668,078                                     | 757,835               |
| Loans and bills discounted (*)                            | 6,237,747            | 5,639,589                                 | 4,305,058                                  | 2,730,909                                  | 3,289,621                                   | 6,519,013             |
| Total   | \$ 18,032,381        | \$ 6,438,704                              | \$ 5,239,020                               | \$ 4,016,448                               | \$ 4,821,849                                | \$ 8,745,930          |

(\*) Loans and bills discounted at March 31, 2021 do not include \$621,416 thousand of those due from bankrupt, effectively bankrupt or likely to become bankrupt borrowers whose repayment schedules cannot be estimated and \$204,154 thousand of those which have non-defined maturities.

(Note 4) Repayment schedule of bonds, borrowed money and other interest-bearing liabilities subsequent to the balance sheet date

| Millions of yen                                   |                      |   |  |  |   |                       |
|---|----------------------|---|--|--|---|-----------------------|
| 2021  |                      |   |  |  |   |                       |
|   | Due within<br>1 year | Due after<br>1 year but<br>within 3 years | Due after<br>3 years but<br>within 5 years | Due after<br>5 years but<br>within 7 years | Due after<br>7 years but<br>within 10 years | Due after<br>10 years |
| Deposits (*)                                      | ¥ 4,153,032          | ¥ 208,158                                 | ¥ 52,249                                   | ¥ -  | ¥ -   | ¥ -                   |
| Payables under securities lending<br>transactions | 184,714              | -   | -  | -  | -   | -                     |
| Borrowed money                                    | 708,982              | 245                                       | 86   | -  | -   | -                     |
| Total   | ¥ 5,046,729          | ¥ 208,404                                 | ¥ 52,336                                   | ¥ -  | ¥ -   | ¥ -                   |

(\*) Demand deposits are shown under "Due within 1 year."

| Millions of yen                                   |                      |   |  |  |   |                       |
|---|----------------------|---|--|--|---|-----------------------|
| 2020  |                      |   |  |  |   |                       |
|   | Due within<br>1 year | Due after<br>1 year but<br>within 3 years | Due after<br>3 years but<br>within 5 years | Due after<br>5 years but<br>within 7 years | Due after<br>7 years but<br>within 10 years | Due after<br>10 years |
| Deposits (*)                                      | ¥ 3,765,199          | ¥ 223,876                                 | ¥ 48,428                                   | ¥ -  | ¥ -   | ¥ -                   |
| Payables under securities lending<br>transactions | 161,505              | -   | -  | -  | -   | -                     |
| Borrowed money                                    | 248,148              | 823                                       | 79   | -  | -   | -                     |
| Total   | ¥ 4,174,853          | ¥ 224,699                                 | ¥ 48,507                                   | ¥ -  | ¥ -   | ¥ -                   |

(\*) Demand deposits are shown under "Due within 1 year."

| Thousands of U.S. dollars                         |                      |   |  |  |   |                       |
|---|----------------------|---|--|--|---|-----------------------|
| 2021  |                      |   |  |  |   |                       |
|   | Due within<br>1 year | Due after<br>1 year but<br>within 3 years | Due after<br>3 years but<br>within 5 years | Due after<br>5 years but<br>within 7 years | Due after<br>7 years but<br>within 10 years | Due after<br>10 years |
| Deposits (*)                                      | \$ 37,512,708        | \$ 1,880,209                              | \$ 471,944                                 | \$ -                                       | \$ -  | \$ -                  |
| Payables under securities lending<br>transactions | 1,668,449            | -   | -  | -  | -   | -                     |
| Borrowed money                                    | 6,403,956            | 2,212                                     | 776  | -  | -   | -                     |
| Total   | \$ 45,585,123        | \$ 1,882,431                              | \$ 472,730                                 | \$ -                                       | \$ -  | \$ -                  |

(\*) Demand deposits are shown under "Due within 1 year."

### 23. Derivative transactions

Information regarding derivative transactions, such as the types of derivatives, the policies and purpose for using derivatives and the risks and risk control systems for derivatives are described in Note 22, "Financial instruments and related disclosures."

Outstanding derivative contracts which were revalued at fair value and the gains and losses recognized in the consolidated statements of income as of March 31, 2021 and 2020 are set forth in the tables below.

#### Derivatives to which hedge accounting is not applied:

With respect to derivatives to which hedge accounting is not applied, the contract amount, fair value and recognized gain (loss) at the balance sheet date designated by transaction type and method of calculating fair value are set forth in the table below. Note that the contract amounts do not reflect the market risk exposure associated with the derivatives themselves.

#### Currency related:

| Millions of yen            |                 |               |            |                        |                 |               |            |                        |
|----------------------------|-----------------|---------------|------------|------------------------|-----------------|---------------|------------|------------------------|
| 2021                       |                 |               |            |                        | 2020            |               |            |                        |
|                            | Contract amount |               | Fair value | Recognized gain (loss) | Contract amount |               | Fair value | Recognized gain (loss) |
|                            | Total           | Over one year |            |                        | Total           | Over one year |            |                        |
| Currency swaps             | ¥ 992,571       | ¥ 795,495     | ¥ 1,381    | ¥ 1,381                | ¥ 988,167       | ¥ 750,299     | ¥ 1,326    | ¥ 1,326                |
| Forward foreign exchanges: |                 |               |            |                        |                 |               |            |                        |
| Sell                       | 69,524          | -             | (2,363)    | (2,363)                | 34,822          | -             | 132        | 132                    |
| Buy                        | 7,938           | -             | 157        | 157                    | 4,073           | -             | 49         | 49                     |
| Total                      | -               | -             | ¥ (824)    | ¥ (824)                | -               | -             | ¥ 1,509    | ¥ 1,509                |

The transactions are valued at market value, and valuation gains and losses are credited or charged to income. Fair value is determined using the value calculated by the discounted present value.

| Thousands of U.S. dollars  |                 |               |            |                        |
|----------------------------|-----------------|---------------|------------|------------------------|
| 2021                       |                 |               |            |                        |
|                            | Contract amount |               | Fair value | Recognized gain (loss) |
|                            | Total           | Over one year |            |                        |
| Currency swaps             | \$ 8,965,504    | \$ 7,185,394  | \$ 12,474  | \$ 12,474              |
| Forward foreign exchanges: |                 |               |            |                        |
| Sell                       | 627,983         | -             | (21,344)   | (21,344)               |
| Buy                        | 71,700          | -             | 1,418      | 1,418                  |
| Total                      | -               | -             | \$ (7,442) | \$ (7,442)             |

The transactions are valued at market value, and valuation gains and losses are credited or charged to income. Fair value is determined using the value calculated by the discounted present value.

#### Derivatives to which hedge accounting is applied:

With respect to derivatives to which hedge accounting is applied, the contract amount and fair value at the balance sheet date by transaction type and by hedge accounting method and method of calculating fair value are set forth in the table below. Note that the contract amounts do not reflect the market risk exposure associated with the derivatives themselves.

**Currency related:**

|                         |                 |  | Millions of yen |               |            |
|-------------------------|-----------------|--|-----------------|---------------|------------|
|                         |                 |  | <b>2021</b>     |               |            |
|                         |                 |  | Contract amount |               |            |
| Hedge accounting method | Type            | Major hedged items                             | Total           | Over one year | Fair value |
| Fundamental method      | Currency swaps: | Foreign currency denominated loans, securities | ¥ 17,627        | ¥ 14,985      | ¥ (265)    |

## Notes:

- The above transactions are accounted for by deferral hedge accounting in accordance with “Treatment of Accounting and Auditing Concerning Accounting for Foreign Currency Transactions in the Banking Industry” (JICPA Industry Committee Practical Guidelines No. 25, October 8, 2020).
- Fair value is determined using the value calculated by the discounted present value.

|                         |                 |  | Millions of yen |               |            |
|-------------------------|-----------------|--|-----------------|---------------|------------|
|                         |                 |  | <b>2020</b>     |               |            |
|                         |                 |  | Contract amount |               |            |
| Hedge accounting method | Type            | Major hedged items                             | Total           | Over one year | Fair value |
| Fundamental method      | Currency swaps: | Foreign currency denominated loans, securities | ¥ 14,735        | ¥ 11,380      | ¥ 249      |

## Notes:

- The above transactions are accounted for by deferral hedge accounting in accordance with “Treatment of Accounting and Auditing Concerning Accounting for Foreign Currency Transactions in the Banking Industry” (JICPA Industry Committee Practical Guidelines No. 25, October 8, 2020).
- Fair value is determined using the value calculated by the discounted present value.

|                         |                 |  | Thousands of U.S. dollars |               |            |
|-------------------------|-----------------|--|---------------------------|---------------|------------|
|                         |                 |  | <b>2021</b>               |               |            |
|                         |                 |  | Contract amount           |               |            |
| Hedge accounting method | Type            | Major hedged items                             | Total                     | Over one year | Fair value |
| Fundamental method      | Currency swaps: | Foreign currency denominated loans, securities | \$ 159,217                | \$ 135,353    | \$ (2,393) |

## Notes:

- The above transactions are accounted for by deferral hedge accounting in accordance with “Treatment of Accounting and Auditing Concerning Accounting for Foreign Currency Transactions in the Banking Industry” (JICPA Industry Committee Practical Guidelines No. 25, October 8, 2020).
- Fair value is determined using the value calculated by the discounted present value.

## 24. Segment information

### (a) General information about reportable segments

The Group's reportable segment is defined as an operating segment for which discrete financial information is available and examined by the Board of Directors meeting, etc. regularly in order to make decisions about the allocation of resources and assess performance. The Group comprises of the Bank and the eight consolidated subsidiaries, and engages mainly in the banking business, and financial information is controlled based on figures provided by the Bank, which operates the banking business. So, the Group defines the banking business as a reportable segment.

### (b) Basis of measurement for reportable segment profit and loss, segment assets, segment liabilities and other material items

The accounting methods used for the reportable segments are the same as those used for the preparation of the consolidated financial statements. Profits for reportable segments are ordinary profit. Ordinary profit is profit derived from regular business activities, including wages, dividends and interest. Profits and transfer sums of intersegment transactions within the Group are based on market prices.

### (c) Information about reportable segment profit or loss, segment assets, segment liabilities and other items

Segment information as of and for the fiscal year ended March 31, 2021 was as follows:

|   | Millions of yen     |                   |           |                |              |
|---|---------------------|-------------------|-----------|----------------|--------------|
|   | 2021                |                   |           |                |              |
|   | Banking<br>business | Other<br>business | Total     | Reconciliation | Consolidated |
| Ordinary income:                                    |                     |                   |           |                |              |
| Outside customers                                   | ¥ 69,770            | ¥ 9,138           | ¥ 78,909  | ¥ -            | ¥ 78,909     |
| Intersegment  | 278                 | 1,574             | 1,852     | (1,852)        | -            |
| Total   | 70,049              | 10,712            | 80,762    | (1,852)        | 78,909       |
| Segment profit                                      | 19,174              | 1,253             | 20,428    | (13)           | 20,415       |
| Segment assets                                      | 5,660,262           | 40,045            | 5,700,308 | (35,840)       | 5,664,467    |
| Segment liabilities                                 | 5,427,065           | 23,566            | 5,450,631 | (31,863)       | 5,418,767    |
| Others  |                     |                   |           |                |              |
| Depreciation  | ¥ 2,524             | ¥ 313             | ¥ 2,838   | ¥ -            | ¥ 2,838      |
| Interest income                                     | 43,369              | 53                | 43,423    | (75)           | 43,347       |
| Interest expense                                    | 1,211               | 74                | 1,285     | (73)           | 1,212        |
| Gain on disposal of fixed assets                    | 343                 | -                 | 343       | -              | 343          |
| Loss on disposal of fixed assets                    | 94                  | 0                 | 94        | -              | 94           |
| Impairment loss on fixed assets                     | 125                 | -                 | 125       | -              | 125          |
| Income taxes  | 6,469               | 424               | 6,893     | 4              | 6,898        |
| Increase in tangible and intangible<br>fixed assets | 2,344               | 240               | 2,584     | -              | 2,584        |

- Notes:
1. Ordinary income represents total income less certain specific income.
  2. The "Other" category incorporates operations not included in any of the reportable segments reported, including the credit assurance business, computing business, job referral services, clerical work agency industry, leasing business, venture capital services, investment business, credit card services and electronic data processing related services.
  3. (1) "Reconciliation" of "Intersegment" under "Ordinary income" in the amount of ¥(1,852) million represents intersegment elimination.  
(2) "Reconciliation" of "Segment profit" in the amount of ¥(13) million represents intersegment elimination.  
(3) "Reconciliation" of "Segment assets" in the amount of ¥(35,840) million represents intersegment elimination.  
(4) "Reconciliation" of "Segment liabilities" in the amount of ¥(31,863) million represents intersegment elimination.  
(5) "Reconciliation" of "Interest income" in the amount of ¥(75) million represents intersegment elimination.  
(6) "Reconciliation" of "Interest expenses" in the amount of ¥(73) million represents intersegment elimination.  
(7) "Reconciliation" of "Income taxes" in the amount of ¥4 million represents intersegment elimination.
  4. Segment profit is reconciled to ordinary profit in the consolidated income statement.

Segment information as of and for the fiscal year ended March 31, 2020 was as follows:

|   | Millions of yen     |                   |           |                |              |  |
|---|---------------------|-------------------|-----------|----------------|--------------|--|
|   | 2020                |                   |           |                |              |  |
|   | Banking<br>Business | Other<br>Business | Total     | Reconciliation | Consolidated |  |
| Ordinary income:                                    |                     |                   |           |                |              |  |
| Outside customers                                   | ¥ 77,508            | ¥ 9,250           | ¥ 86,759  | ¥ -            | ¥ 86,759     |  |
| Intersegment  | 286                 | 1,486             | 1,773     | (1,773)        | -            |  |
| Total   | 77,795              | 10,737            | 88,532    | (1,773)        | 86,759       |  |
| Segment profit                                      | 20,347              | 1,303             | 21,651    | 35             | 21,686       |  |
| Segment assets                                      | 4,725,129           | 38,836            | 4,763,965 | (35,799)       | 4,728,166    |  |
| Segment liabilities                                 | 4,516,220           | 23,586            | 4,539,807 | (31,896)       | 4,507,910    |  |
| Others  |                     |                   |           |                |              |  |
| Depreciation  | ¥ 2,559             | ¥ 346             | ¥ 2,905   | ¥ -            | ¥ 2,905      |  |
| Interest income                                     | 48,363              | 68                | 48,432    | (78)           | 48,353       |  |
| Interest expense                                    | 3,866               | 77                | 3,943     | (75)           | 3,867        |  |
| Gain on disposal of fixed assets                    | 94                  | 0                 | 95        | -              | 95           |  |
| Loss on disposal of fixed assets                    | 52                  | 0                 | 53        | -              | 53           |  |
| Impairment loss on fixed assets                     | 1,513               | -                 | 1,513     | -              | 1,513        |  |
| Income taxes  | 5,980               | 424               | 6,404     | 7              | 6,412        |  |
| Increase in tangible and intangible<br>fixed assets | 4,832               | 336               | 5,168     | -              | 5,168        |  |

Notes: 1. Ordinary income represents total income less certain specific income.

2. The "Other" category incorporates operations not included in any of the reportable segments reported, including the credit assurance business, computing business, clerical work agency industry, leasing business, venture capital services, credit card services and electronic data processing related services.

3. (1) "Reconciliation" of "Intersegment" under "Ordinary income" in the amount of ¥(1,773) million represents intersegment elimination.

(2) "Reconciliation" of "Segment profit" in the amount of ¥35 million represents intersegment elimination.

(3) "Reconciliation" of "Segment assets" in the amount of ¥(35,799) million represents intersegment elimination.

(4) "Reconciliation" of "Segment liabilities" in the amount of ¥(31,896) million represents intersegment elimination.

(5) "Reconciliation" of "Interest income" in the amount of ¥(78) million represents intersegment elimination.

(6) "Reconciliation" of "Interest expenses" in the amount of ¥(75) million represents intersegment elimination.

(7) "Reconciliation" of "Income taxes" in the amount of ¥7 million represents intersegment elimination.

4. Segment profit is reconciled to ordinary profit in the consolidated income statement.

Thousands of U.S. dollars

|  | 2021             |                |            |                |              |
|--|------------------|----------------|------------|----------------|--------------|
|  | Banking Business | Other Business | Total      | Reconciliation | Consolidated |
| Ordinary income:                                 |                  |                |            |                |              |
| Outside customers                                | \$ 630,205       | \$ 82,539      | \$ 712,754 | \$ -           | \$ 712,754   |
| Intersegment                                     | 2,511            | 14,217         | 16,728     | (16,728)       | -            |
| Total  | 632,725          | 96,757         | 729,491    | (16,728)       | 712,754      |
| Segment profit                                   | 173,191          | 11,317         | 184,518    | (117)          | 184,400      |
| Segment assets                                   | 51,126,926       | 361,710        | 51,488,646 | (323,728)      | 51,164,908   |
| Segment liabilities                              | 49,020,549       | 212,862        | 49,233,411 | (287,805)      | 48,945,596   |
| Others   |                  |                |            |                |              |
| Depreciation                                     | \$ 22,798        | \$ 2,827       | \$ 25,634  | \$ -           | \$ 25,634    |
| Interest income                                  | 391,735          | 478            | 392,222    | (677)          | 391,536      |
| Interest expense                                 | 10,938           | 668            | 11,606     | (659)          | 10,947       |
| Gain on disposal of fixed assets                 | 3,098            | -              | 3,098      | -              | 3,098        |
| Loss on disposal of fixed assets                 | 849              | 0              | 849        | -              | 849          |
| Impairment loss on fixed assets                  | 1,129            | -              | 1,129      | -              | 1,129        |
| Income taxes                                     | 58,431           | 3,829          | 62,261     | 36             | 62,306       |
| Increase in tangible and intangible fixed assets | 21,172           | 2,167          | 23,340     | -              | 23,340       |

Notes: 1. Ordinary income represents total income less certain specific income.

2. The "Other" category incorporates operations not included in any of the reportable segments reported, including the credit assurance business, computing business, job referral services, clerical work agency industry, leasing business, venture capital services, investment business, credit card services and electronic data processing related services.

3. (1) "Reconciliation" of "Intersegment" under "Ordinary income" in the amount of \$(16,728) thousands represents intersegment elimination.  
(2) "Reconciliation" of "Segment profit" in the amount of \$(117) thousand represents intersegment elimination.  
(3) "Reconciliation" of "Segment assets" in the amount of \$(323,728) thousand represents intersegment elimination.  
(4) "Reconciliation" of "Segment liabilities" in the amount of \$(287,805) thousand represents intersegment elimination.  
(5) "Reconciliation" of "Interest income" in the amount of \$(677) thousand represents intersegment elimination.  
(6) "Reconciliation" of "Interest expenses" in the amount of \$(659) thousand represents intersegment elimination.  
(7) "Reconciliation" of "Income taxes" in the amount of \$36 thousand represents intersegment elimination.
4. Segment profit is reconciled to ordinary profit in the consolidated income statement.

#### (d) Information about services

Millions of yen

|                   | 2021          |                       |          |          |
|-------------------|---------------|-----------------------|----------|----------|
|                   | Loan services | Securities investment | Other    | Total    |
| Ordinary income:  |               |                       |          |          |
| Outside customers | ¥ 37,780      | ¥ 20,388              | ¥ 20,740 | ¥ 78,909 |

Millions of yen

|                   | 2020          |                       |          |          |
|-------------------|---------------|-----------------------|----------|----------|
|                   | Loan services | Securities investment | Other    | Total    |
| Ordinary income:  |               |                       |          |          |
| Outside customers | ¥ 36,648      | ¥ 29,215              | ¥ 20,895 | ¥ 86,759 |

Thousands of U.S. dollars

|                   | 2021          |                       |            |            |
|-------------------|---------------|-----------------------|------------|------------|
|                   | Loan services | Securities investment | Other      | Total      |
| Ordinary income:  |               |                       |            |            |
| Outside customers | \$ 341,251    | \$ 184,156            | \$ 187,336 | \$ 712,754 |

Note: Ordinary income represents total income less certain specific income.

**(e) Information about geographic areas**

The information is not required to be disclosed because the amounts of ordinary income and tangible fixed assets in Japan exceeded 90% of the respective total amount for all segments.

**(f) Information about major customers**

The information is not required to be disclosed because ordinary income from any particular outside customer represented less than 10% of consolidated ordinary income.

**(g) Segment information for impairment loss on fixed assets by reportable segment**

|                                 | Millions of yen  |                |       |
|---------------------------------|------------------|----------------|-------|
|                                 | 2021             |                |       |
|                                 | Banking business | Other business | Total |
| Impairment loss on fixed assets | ¥ 125            | ¥ -            | ¥ 125 |

|                                 | Millions of yen  |                |         |
|---------------------------------|------------------|----------------|---------|
|                                 | 2020             |                |         |
|                                 | Banking business | Other business | Total   |
| Impairment loss on fixed assets | ¥ 1,513          | ¥ -            | ¥ 1,513 |

|                                 | Thousands of U.S. dollars |                |          |
|---------------------------------|---------------------------|----------------|----------|
|                                 | 2021                      |                |          |
|                                 | Banking business          | Other business | Total    |
| Impairment loss on fixed assets | \$ 1,129                  | \$ -           | \$ 1,129 |

**(h) Segment information on amortization and the unamortized portion of goodwill by reportable segment**

There was no applicable information for the years ended March 31, 2021 and 2020.

**25. Related party transactions**

Significant transactions with the directors of the Bank or major shareholders for the years ended March 31, 2021 and 2020 were as follows:

**Year ended March 31, 2021**

| Type | Name  | Business/<br>Occupation       | Ownership                      | Relationship | Transactions  | Transaction amount<br>(millions of yen) | Account                    | Outstanding balance<br>(millions of yen) |
|------|---|-------------------------------|--------------------------------|--------------|---------------|---|----------------------------|--|
| *1   | Akira Danbooru Kogyo Co., Ltd.<br>(Notes 2 and 4) | Production of cardboard boxes | Non-controlled 0.05%, directly | Loans        | Loan (Note 1) | ¥ 142                                   | Loans and bills discounted | ¥ 157                                    |
|      | MORI KEN CO., LTD.<br>(Notes 3 and 4)             | Construction                  | Non-controlled 0.00%, directly | Loans        | Loan (Note 1) | ¥ (71)                                  | Loans and bills discounted | ¥ 289                                    |

\*1 A company in which an officer or his or her relative owns a majority interest

Notes:

- The terms and conditions of the transactions were the same as those applied to general third parties with which the Bank enters into ordinary transactions.
- A relative of Mr. Yasuhiko Akira, a managing executive officer of the Bank, owns a majority of the voting rights of this company.
- A relative of Mr. Kazuhiro Yasuyuki, a managing executive officer of the Bank, owns a majority of the voting rights of this company.
- The Bank took out a revolving mortgage on its real estate to secure the loans.



### Year ended March 31, 2020

| Type | Name   | Business/<br>Occupation             | Ownership                            | Relationship | Transactions  | Transaction<br>amount<br>(millions of yen) | Account                       | Outstanding<br>balance<br>(millions of yen) |
|------|--|-------------------------------------|--------------------------------------|--------------|---------------|--|-------------------------------|---|
| *1   | Akira Danbooru<br>Kogyo Co., Ltd.<br>(Notes 2 and 4) | Production of<br>cardboard<br>boxes | Non-controlled<br>0.05%,<br>directly | Loans        | Loan (Note 1) | ¥ (23)                                     | Loans and bills<br>discounted | ¥ 14  |
|      | MORI KEN<br>CO., LTD.<br>(Notes 3 and 4)             | Construction                        | Non-controlled<br>0.00%,<br>directly | Loans        | Loan (Note 1) | ¥ 113                                      | Loans and bills<br>discounted | ¥ 360                                       |

\*1 A company in which an officer or his or her relative owns a majority interest

Notes:

1. The terms and conditions of the transactions were the same as those applied to general third parties with which the Bank enters into ordinary transactions.
2. A relative of Mr. Yasuhiko Akira, a managing executive officer of the Bank, owns a majority of the voting rights of this company.
3. A relative of Mr. Kazuhiro Yasuyuki, a managing executive officer of the Bank, owns a majority of the voting rights of this company.
4. The Bank took out a revolving mortgage on its real estate to secure the loans.

### Year ended March 31, 2021

| Type | Name   | Business/<br>Occupation             | Ownership                            | Relationship | Transactions  | Transaction<br>amount<br>(thousands of U.S.<br>dollars) | Account                       | Outstanding<br>balance<br>(thousands of<br>U.S. dollars) |
|------|--|-------------------------------------|--------------------------------------|--------------|---------------|---|-------------------------------|--|
| *1   | Akira Danbooru<br>Kogyo Co., Ltd.<br>(Notes 2 and 4) | Production of<br>cardboard<br>boxes | Non-controlled<br>0.05%,<br>directly | Loans        | Loan (Note 1) | \$ 1,282  | Loans and bills<br>discounted | \$ 1,418   |
|      | MORI KEN<br>CO., LTD.<br>(Notes 3 and 4)             | Construction                        | Non-controlled<br>0.00%,<br>directly | Loans        | Loan (Note 1) | \$ (641)  | Loans and bills<br>discounted | \$ 2,610   |

\*1 A company in which an officer or his or her relative owns a majority interest

Notes:

1. The terms and conditions of the transactions were the same as those applied to general third parties with which the Bank enters into ordinary transactions.
2. A relative of Mr. Yasuhiko Akira, a managing executive officer of the Bank, owns a majority of the voting rights of this company.
3. A relative of Mr. Kazuhiro Yasuyuki, a senior executive officer of the Bank, owns a majority of the voting rights of this company.
4. The Bank took out a revolving mortgage on its real estate to secure the loans.

### Information about parent company or significant affiliates

#### Years ended March 31, 2021 and 2020

Not applicable

### 26. Subsequent events

There were no significant subsequent events to be noted.



# Independent auditor's report

To the Board of Directors of The Kiyo Bank, Ltd.:

## Opinion

We have audited the accompanying consolidated financial statements of The Kiyo Bank, Ltd. (“the Company”) and its consolidated subsidiaries (collectively referred to as “the Group”), which comprise the consolidated balance sheets as at March 31, 2021 and 2020, the consolidated income statements, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and notes, comprising a summary of significant accounting policies, other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2021 and 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

## Basis for Opinion

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

## Key Audit Matters

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

### Assessment of loans and bills discounted to small and medium-sized enterprises (SMEs) (valuation of the reserve for possible loan losses)

| The key audit matter   | How the matter was addressed in our audit   |
|--|---|
| The Kiyo Bank, Ltd. (the Company) and its consolidated subsidiaries reported loans and bills discounted of ¥3,271.2 billion, accounting for 58% of total assets, and a related reserve for possible loan losses of ¥26.6 billion in the consolidated balance sheet as of March 31, 2021. | The primary procedures we performed to assess whether the Company's assessment of loans and bills discounted to SMEs (valuation of the reserve for possible loan losses) was reasonable included the following: |

Of the amount of the loans and bills discounted, the balance of loans and bills discounted to SMEs amounted to ¥2,452.0 billion (77% of the total balance of loans and bills discounted), which accounted for a significant portion of the balance of loans and bills discounted. Loans and bills discounted to SMEs refer to loans to companies with the capital of ¥300 million or less (¥100 million or less for wholesalers; ¥50 million or less for retailers, restaurants, and goods rental and leasing companies), or companies with 300 or less the number of regular employees of 300 or less (100 or less for wholesalers and goods rental and leasing companies; 50 or less for retailers and restaurants) or individuals.

As described in Note 2. Significant accounting policies (f) Reserve for possible loan losses and (p) Significant accounting estimates to the Consolidated Financial Statements, the Company conducts an asset assessment based on the internal self-assessment standards for all loans including loans and bills discounted, in order to classify a borrower into the relevant category of borrowers depending on its credit risk.

When classifying a borrower, the Company considers its ability to pay based mainly on its substantial financial position, financing capabilities, and profitability, as well as the terms and conditions of the loans to the borrower and its payment status. The Company also gives a comprehensive consideration, in light of characteristics of the borrower's industry related to the borrower, mainly to the outlook of its business continuity and profitability, its ability to pay obligations based on its cash flows, appropriateness of its business improvement plan, and supports from financial institutions.

For each category of borrowers, the Company recognizes a reserve for possible loan losses or makes direct write-offs for expected credit losses based on the rate of losses in the past or probability of default, in accordance with the methods stipulated in the standards for write-off and provisions.

### **(1) Internal control testing**

We tested the design and operating effectiveness of internal controls relevant to the assessment of loan losses, primarily performing the procedures set out below:

- evaluation of whether the standards and rules for the self-assessment and the standards and rules for write-off and provisions were in compliance with the relevant accounting standards;
- evaluation of the reliability of the financial information of borrowers entered into the IT system for lending;
- evaluation of IT application controls over the judgment on quantitative credit rating, and;
- evaluation of the appropriateness of the monitoring of borrowers including qualitative judgments.

### **(2) Assessment of judgment on the classification of borrowers**

With respect to the judgment on the classification of borrowers, especially for SMEs whose classifications are assumed to have higher risks of failure, we:

- compared components of the information used for the classification with available external information, inspected relevant documents and inquired to the relevant personnel in the Asset Audit Department, relating to the results of the judgment on the classification of borrowers;
- examined financial and other information of the borrowers and, for the borrowers who have a business improvement plan, evaluated the appropriateness of the judgment on the classification of the borrowers, as well as analyzing the feasibility of their business improvement plan and considering their financing capabilities;
- for the borrowers who were affected by the spread of COVID-19 infections and the resulting changes in economic environments, understood their recent business conditions, analyzed their financing status, such as requests for modifications of the terms and conditions of their loans, and then evaluated the appropriateness of the judgment on the classification; and

While the Company has been pursuing its business model that takes lending to SMEs as its starting point, SMEs as the borrowers are susceptible to regional economic developments in regional economies in the Wakayama prefecture and the southern part of the Osaka prefecture, including the economic deterioration due to the spread of COVID-19 infections.

Since the business foundation of SMEs generally tends to be more vulnerable than that of large-scale enterprises, the Company determines the classification of SMEs based on their actual business conditions by comprehensively considering not only their financial conditions but their technical capabilities, sales capacities and growth potentials, and moreover individual income status, asset quality, and guarantee status and capacities of their representatives.

Accordingly, determination of the classification of borrowers for loans and bills discounted to SMEs depends significantly on management's judgment, which may have a significant impact on the recognized amount of reserve for possible loan losses recognized.

We, therefore, determined that our assessment of the Company's assessment of loans and bills discounted to SMEs (valuation of the reserve for possible loan losses), especially the judgment on the classification of borrowers, was the of most significant in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.

- evaluated the appropriateness of historical changes in the classification of the borrowers as to whether there was any management bias in judgment on the classification of the borrowers in prior years.

### **Responsibilities of Management and the audit and supervisory committee for the Consolidated Financial Statements**

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

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

The audit and supervisory committee are responsible for overseeing the directors' performance of their duties with regard to the design, implementation and maintenance of the Group's financial reporting process.

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express 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 presentation and disclosures in the consolidated financial statements are in accordance with accounting standards generally accepted in Japan, 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 the audit and supervisory committee regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

### Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2021 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

### Interest required to be disclosed by the Certified Public Accountants Act of Japan

We 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.

Katsuhiko Akimune  
Designated Engagement Partner  
Certified Public Accountant

Takuya Obata  
Designated Engagement Partner  
Certified Public Accountant

KPMG AZSA LLC  
Osaka Office, Japan  
September 24, 2021

Notes to the Reader of Independent Auditor's Report:

This is a copy of the Independent Auditor's Report and the original copies are kept separately by the Company and KPMG AZSA LLC.