



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:

<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>(1) Internal control testing</p> <p>We tested the design and operating effectiveness of internal controls relevant to the assessment of loan losses, primarily performing the procedures set out below:</p> <ul style="list-style-type: none"> • 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. <p>(2) Assessment of judgment on the classification of borrowers</p> <p>With respect to the judgment on the classification of borrowers, especially for SMEs whose classifications are assumed to have higher risks of failure, we:</p> <ul style="list-style-type: none"> • 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
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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 significance 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.