



Independent auditor's report

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

Report on the Audit of the Consolidated Financial Statements

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, 2024 and 2023, the consolidated statements of income and comprehensive income, changes in net assets and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and 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, 2024 and 2023, 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)

The key audit matter	How the matter was addressed in our audit
The Kiyo Bank, Ltd. (the Bank) and its consolidated subsidiaries reported loans and bills discounted of ¥3, 832.4 billion, accounting for 66% of total assets, and a	The primary procedures we performed to assess whether the Bank's assessment of loans and bills discounted to SMEs was reasonable included the following:

related reserve for possible loan losses of ¥26.2 billion in the consolidated balance sheet as of March 31, 2024. Of the amount of the loans and bills discounted, the balance of loans and bills discounted to SMEs amounted to ¥2,919.2 billion (76% 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 extended 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 services) or companies or individuals with the number of regular employees of 300 or less (100 or less for wholesalers and goods rental and leasing services; 50 or less for retailers and restaurants).

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 Bank conducts asset assessment based on the internal self-assessment standards for all loans including loans and bills discounted, in order to determine the category of borrowers according to their assigned credit risk rating.

When determining the category of borrowers, the Bank considers their ability to pay based mainly on their substantive financial position, financing, and profitability, and checks the terms and conditions of the loans to them and their payment status. Also, the Bank gives comprehensive consideration, in light of industry characteristics, to their business continuity, projected profitability, and ability to pay obligations based on their cash flows, appropriateness of their business improvement plan, and supports by financial institutions.

For each category of borrowers, the Bank recognizes reserve for possible loan losses or makes direct write-offs for expected credit losses based on the historical experience of

(1) Internal control testing

We tested the design and operating effectiveness of internal controls relevant to the assessment of loan quality. In this assessment, we performed our testing on the following:

- controls to validate whether the internal self-assessment standards, and the policy for write-offs and provisions complied with accounting standards;
- controls to ensure the reliability of the borrowers' financial information entered in the financing support system;
- IT application controls over the determination of quantitative credit rating, and;
- controls to ensure the appropriateness of the monitoring of borrowers including the determination using qualitative factors.

(2) Assessment of determination of the category of borrowers

In order to assess the determination of the category of borrowers for SME borrowers, who are determined to have higher risks of wrong classification, we:

- assessed the appropriateness of the results of the determination of the category of borrowers by inspecting relevant documents, comparing some of the information used for the determination with available external information as necessary, and inquiring of personnel in the Review Department;
- assessed financial and other information of the borrowers and, for the borrowers who have a business improvement plan, assessed the appropriateness of the determination of the category of borrowers, which included analysis of the feasibility of the business improvement plan and assessment of financing;
- for borrowers who were affected by the changes in economic environment caused by COVID-19, understood their recent business conditions and analyzed their financing, such as requests for modification of terms of loans as well as assessed the determination of the categories based on the understanding and analysis; and
- assessed appropriateness of historical changes in the category of borrowers, in order to identify any

<p>loan losses or probability of default, in accordance with the methods specified in the standards for write-off and provisions.</p> <p>While the Bank aims to “refine its business model, which takes loans to SMEs as its starting point,” SMEs as the borrowers are susceptible to developments in regional economies in Wakayama prefecture and the southern part of Osaka prefecture, including economic deterioration due to COVID-19.</p> <p>Since the business foundation of SMEs generally tends to be more vulnerable than that of large-scale enterprises, the Bank determines the category of SME borrowers by comprehensively considering not only their financial conditions but their technical capabilities, sales capacity and growth potential, their representatives’ income status, asset quality, and guarantee status and capacity, in light of their business status.</p> <p>Accordingly, determination of the category of borrowers for loans and bills discounted to SMEs depends significantly on management’s judgment, which may have a significant effect on the recognized amount of reserve for possible loan losses.</p> <p>We, therefore, determined that our assessment of the Bank’s assessment of loans and bills discounted to SMEs, especially the appropriateness of the management’s judgment on the category of borrowers, was one of the most significant matters in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.</p>	<p>management bias on determination of the category of borrowers in prior years.</p>
Appropriateness of the estimate of reserve for possible loan losses for borrowers affected by COVID-19	
The key audit matter	How the matter was addressed in our audit
<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 Bank recognized reserve for possible loan losses (¥2.7 billion) for certain</p>	<p>The primary procedures we performed to assess whether the Bank’s estimate of reserve for possible loan losses for borrowers affected by COVID-19 was appropriate included the following:</p> <p>(1) Internal control testing</p>

borrowers who were affected by COVID-19 infections (hereinafter “borrowers affected by COVID-19”), excluding bankrupt borrowers and effectively bankrupt borrowers. This was executed in order to provide for future uncertainties arising from the deterioration of business performance of borrowers affected by COVID-19 and secure the Bank’s soundness, thereby ensuring to fulfill a sustainable financial intermediation function.

The reserve for possible loan losses was estimated by using the assumptions that (1) the future financial position, financing and profitability of borrowers affected by COVID-19 were more likely to deteriorate than other borrowers and (2) the category of some of these borrowers would be downgraded from the current level.

For loans to borrowers affected by COVID-19, among normal borrowers and borrowers requiring caution in specific sectors who are expected to be affected by COVID-19 based on the historical damage to their credit, reserve for possible loan losses is recognized using a loss rate applied to the category of borrowers one level below the current category.

For loans to potentially bankrupt borrowers affected by COVID-19, the Bank recognizes reserve for possible loan losses including the unsecured amount that is deemed necessary by comprehensively assessing the downgrading of the category of borrowers in the past and other matters.

Estimating reserve for possible loan losses for borrowers affected by COVID-19—i.e., determining borrowers whose category is expected to be downgraded due to the impact of COVID-19 and estimating their possible losses—involves estimation uncertainty and management’s subjective judgment. If the assumptions used for the estimate are not appropriate, it may have a significant effect on the consolidated financial statements.

We, therefore, determined that our

We tested the design and operating effectiveness of certain of the Bank’s internal controls relevant to the assessment of the estimate of reserve for possible loan losses for borrowers affected by COVID-19. In this assessment, we performed our testing on the following:

- effectiveness of internal controls relevant to inspection and approval within the Bank to ensure that the reserve for possible loan losses for borrowers affected by COVID-19 is appropriately recognized based on internal regulations; and
- effectiveness of internal controls to ensure the accuracy and completeness of important basic data used for the internal controls relevant to the assessment, such as information of borrowers.

(2) Assessment of the appropriateness of the estimated reserve for possible loan losses for borrowers affected by COVID-19

In order to assess the appropriateness of determining borrowers whose category was expected to be downgraded due to the impact of COVID-19, the method, assumptions and data used by management to estimate their possible losses, we:

- inspected the materials for the board of directors’ meeting and the management meeting where the recognition of reserve for possible loan losses was discussed and resolved and inquired of personnel in relevant departments (the Financing Department and the Risk Management Department);
- assessed the appropriateness of data used for the default analysis for each sector and category of borrowers that was conducted by the Bank, by performing recalculation; and

assessed the appropriateness of assumptions used to estimate the reserve for possible loan losses based on the default analysis for each sector and category of borrowers that was conducted by the Bank by comparing them with available external information.

assessment of the appropriateness of the estimate of reserve for possible loan losses for borrowers affected by COVID-19 was one of the most significant matters in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.	
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Other Information

The other information comprises the information included in the disclosure documents that contain or accompany the audited financial statements, but does not include the financial statements and our auditor's report thereon.

We do not perform any work on the other information as we determine such information does not exist.

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 is 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. (注14) 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, actions taken to eliminate threats or safeguards applied.

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.

Fee-related Information

Fees paid or payable to our firm and to other firms within the same network as our firm for audit and non-audit services provided to the Company and its subsidiaries for the current year are 69 million yen and 5 million yen, respectively.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2024 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.

Yukihisa Tatsumi

Designated Engagement Partner

Certified Public Accountant

Takuya Obata

Designated Engagement Partner

Certified Public Accountant

KPMG AZSA LLC

Osaka Office, Japan

December 2, 2024

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.