

## INDEPENDENT AUDITOR'S REPORT

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

### Opinion

We have audited the consolidated financial statements of The Shiga Bank, Ltd. and its consolidated subsidiaries (the "Group"), which comprise the consolidated balance sheet as of March 31, 2021, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, all expressed in Japanese yen.

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

### Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside 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 provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matter

A key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements of the current period. The matter was 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 the matter.

| The Determination of the Allowance for Loan Losses  |   |
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| Key Audit Matter Description  | How the Key Audit Matter Was Addressed in the Audit   |
| <p>The Shiga Bank, Ltd. (the "Bank") maintains an allowance for loan losses to absorb incurred probable losses due to defaults, etc., by borrowers, assessing the borrowers' financial conditions and repayment statuses, the fair value of collateral, the borrowers' business environments and so forth. As of March 31, 2021, loans and bills discounted of ¥4,001.6 billion and an allowance for loan losses of ¥33.6 billion against these loans and bills were recorded on the consolidated balance sheet.</p> <p>The determination of the allowance for loan losses, as described in Note 2. Summary of significant accounting policies (k) Allowance for loan losses and (v) Significant accounting estimates, is based on the Bank's internal rules for credit ratings and self-assessment of asset quality, depending on the degree of risk, by categorizing loans into five debtor classifications: normal debtors, debtors on close watch, debtors who are likely to go bankrupt, debtors who are virtually bankrupt and debtors who are legally bankrupt. In the self-assessment of asset quality, an operating division, such as a branch, assesses borrower credit ratings and the debtor classifications that are commensurate with the credit ratings, and then the credit risk management division in the Credit Supervision Department approves both of them. Through the process of determining the debtor classifications, the borrowers' situations are considered by assessing their repayment capabilities based on the financial conditions, cash flows, earning capacities and so on. The determination of debtor classifications may depend on future performance estimates, such as the borrower's business improvement plan. To secure the accuracy of the results of such self-assessment of asset quality, the Asset Assessment Division, which is independent of the operating division and the credit risk management division, inspects selected borrowers in accordance with certain criteria.</p> <p>When the determination of debtor classifications depends on future performance estimates, factors such as a business improvement plan, future forecasts of business environments, including the future growth of the industry to which a borrower belongs, supply and demand environments of markets, price trends, and the feasibility of management measures, including cost-cutting and revenue improvement measures, are significant factors to determine the debtor classifications. As a result, the determination of debtor classifications is highly dependent on management's subjective judgments, and the risk of management bias in making estimates may increase for large borrowers who have large unsecured amounts. Additionally, the uncertainty in the estimation of future performances becomes higher for borrowers significantly affected by the novel coronavirus infection ("COVID-19").</p> <p>Therefore, we identified the determination of the allowance for loan losses as a key audit matter because the determination of debtor classification is highly dependent on the estimation of future performance and has significant impacts on the Bank's results of operations if the debtors' classifications deteriorate.</p> | <p>Our audit procedures to address this key audit matter included the following procedures, among others:</p> <ul style="list-style-type: none"> <li>- We tested the effectiveness of internal controls over the determination of debtor classifications based on the Bank's internal rules for credit ratings and self-assessment of asset quality for the borrowers related to this key audit matter.</li> <li>- We evaluated the reasonableness of the future forecasts of business environments, including future growth of industries to which borrowers belong, supply and demand environments of markets and price trends by testing the consistency between the underlying figures used as premises for forecasts and objective facts, such as statistical research and research institutions' reports.</li> <li>- We evaluated the reasonableness of the borrowers' management measures, including cost-cutting and revenue improvement measures, by inspecting the related materials used to develop such measures to determine whether they were supported by concrete figures.</li> <li>- With regard to the progress of borrowers' management measures, we inquired of the division that was involved in the determination of the debtor classifications, inspected borrowers' financial statements and their latest trial balances and compared the planned forecasts with actual results. In addition, we inquired of the Credit Supervision Department, which was responsible for the approving the determination of the debtor classifications, and inspected the records of interviews with borrowers and the records of consultations with financial institutions that supported borrowers, and evaluated the progress of the management measures, taking into account the impacts of COVID-19.</li> </ul> |

## **Responsibilities of Management and Audit & Supervisory Board Members and the Audit & Supervisory Board for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting 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.

Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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 an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgment. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. 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, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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

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

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

*Deloitte Touche Tohmatsu LLC*

June 4, 2021