



Independent auditor's report

To the Board of Directors of Chugin Financial Group, Inc:

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Chugin Financial Group, Inc. ("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 fiscal year. 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.

In performing the audit of the consolidated financial statements for the current fiscal year, we communicated with the audit and supervisory committee regarding our significant judgments related to the areas where a significant risk or a risk of material misstatement, determined through our understanding of the entity and its environment, was assessed to be high and the areas of consolidated financial statements with significant management judgments, as well as the impact of significant events or transactions for the current fiscal year on our audit, and paid particular attention to the following items:

	Item	Significant risk (*1)	Significant management judgment (*2)	KAM for the previous fiscal year (*3)
A	Appropriateness of the classification of	◎	Applicable	Applicable

	borrowers who are small and medium-size enterprises at Chugoku Bank, a consolidated subsidiary			
B	Appropriateness of the classification of borrowers who are managed by the headquarters operation (*4) at Chugoku Bank, a consolidated subsidiary	○	Applicable	—
C	Risk of management override of controls	◎	—	—
D	Changes in the accounting policies for sales and cost of sales for installment sales transactions of The Chugin Lease Co., Ltd., a consolidated subsidiary	○	—	—

- *1 Areas where a significant risk (◎) or a risk of misstatement (○) was assessed to be high
 *2 Areas of consolidated financial statements with a significant management judgment
 *3 The key audit matters (KAM) for the previous fiscal year
 *4 Management of loans and bills discounted, such as structured finance including marketable loans and loans to non-Japanese entities, by headquarters operation of the bank

The loans and bills discounted to borrowers who are managed by the headquarters operation (hereinafter, "Headquarters Loans") in "B. Appropriateness of the classification of borrowers who are managed by the headquarters operation at Chugoku Bank, a consolidated subsidiary" amounted to ¥1,234,635 million, an increase of ¥436,417 from the end of the previous fiscal year, representing 20% of the total loans and bills discounted at March 31, 2024. Headquarters Loans include loan facilities, such as loans with underlying loans or other underlying assets, loans combined with specific derivative transactions such as credit linked loans, project finance for specific projects, and object finance for acquisition of specific assets including marine vessels, real estate, and aircraft. Compared to the loans to general corporate customers, these loans have the following characteristics:

- The amount of loan per project is relatively large; and
- The repayment source, in principle, is limited to cash flows generated from the specific projects and assets subject to the finance. There are risk factors of an increasing variety and complexity that affect these cash flows, and accordingly, the risk analysis involves significant management's expert judgment.

The Chugoku Bank, Limited (hereinafter, "Chugoku Bank") continually monitors the Headquarters Loans at its primary assessment department, based on the results of the risk analysis taking into account the characteristics described above and available information such as external ratings. At the same time, Chugoku Bank classifies borrowers by taking into account the results of the monitoring, status of repayments, conditions of the related market environment and other factors comprehensively.

We inquired of management and personnel in the primary and secondary assessment departments regarding the impact on the recoverability of the Headquarters Loans of the severe economic environment for the current fiscal year, such as inflation and soaring prices of natural resources and energy on a global basis, as well as the Headquarters Loans policy, and inspected the monitoring management materials. As a result, we determined that it was unlikely that a large amount of credit cost would arise if Chugoku Bank made a wrong classification of borrowers due to insufficient identification and management of related risks. Accordingly, we determined that "B. Appropriateness of the classification of borrowers who are managed by the headquarters operation at Chugoku Bank, a consolidated subsidiary" was not a key audit matter in our audit of the consolidated financial statements for the current fiscal year.

As for "C. Risk of management override of controls" and "D. Changes in the accounting standards for sales and cost of sales for installment sales transactions of The Chugin Lease Co., Ltd., a consolidated subsidiary," we determined that the relative materiality of these matters was low as a result of the audit procedures that we performed. Accordingly, we determined that these matters were not key audit matters in our audit of the

consolidated financial statements for the current fiscal year.

As for "A. Appropriateness of the classification of borrowers who are small and medium-size enterprises at Chugoku Bank, a consolidated subsidiary," we determined that this matter was a key audit matter in our audit of the consolidated financial statements for the current fiscal year for the reasons described below:

Appropriateness of the classification of borrowers who are small and medium-size enterprises at Chugoku Bank, a consolidated subsidiary	
The key audit matter	How the matter was addressed in our audit
<p>In the consolidated balance sheet of Chugin Financial Group, Inc. and its consolidated subsidiaries (hereinafter, the "Group"), loans and bills discounted of ¥6,231,363 million were recognized, representing a significant proportion (approximately 58%) of the total assets of ¥10,763,804 million. For receivables including those loans and bills discounted, reserve for possible loan losses of ¥60,570 million was recognized. This was mainly recognized for The Chugoku Bank, Limited (hereinafter, "Chugoku Bank"), a consolidated subsidiary engaged in banking businesses.</p> <p>As described in Notes 2, "Significant Accounting Policies (g) Reserve for Possible Loan Losses" and Notes 3, "Significant Accounting Estimates" to the consolidated financial statements, Chugoku Bank classified borrowers based on assessment results utilizing the internal rules on self-assessment of assets, and measured the amount of the reserve for possible loan losses for each borrower category.</p> <p>As a regional financial institution, Chugoku Bank provides comprehensive financial services to contribute to the development of regional society in the Eastern Setouchi region centering on Okayama prefecture. As a characteristic of such a regional financial institution, Chugoku Bank provides loans to a relatively large number of small and medium-size enterprises (hereinafter, "SMEs"). As a result, the balance of those loans amounted to ¥3,451,084 million, representing 55% of the total loans and bills discounted.</p> <p>For a number of SMEs that support the development of the regional society, the Group, as an entire group including Chugoku Bank, provides not only loans but also consulting activities in different life stages. Through these activities, Chugoku Bank is able to identify borrowers' management challenges and technical and sales</p>	<p>The primary procedures we performed to assess the appropriateness of the classification of borrowers who are SMEs at Chugoku Bank included the following:</p> <p>(1) Internal control testing</p> <p>We assessed the design and operating effectiveness of relevant internal controls over the classification of borrowers in the self-assessment of loan quality.</p> <p>In this assessment, we focused our testing on the following:</p> <ul style="list-style-type: none"> ● controls to validate whether the internal rules on self-assessment criteria were set out in compliance with relevant accounting standards; ● application controls provided by IT systems over the classification of borrowers on a quantitative basis; and ● controls to ensure the effectiveness of the secondary assessment department's verification in the classification of borrowers. <p>(2) Assessment of the appropriateness of the classification of borrowers</p> <p>In order to assess the appropriateness of the classification of borrowers who are SMEs, we:</p> <ul style="list-style-type: none"> ● evaluated whether the borrowers' information, including financial data as the basis for classifying the borrowers, was sufficient and most recent information by inspecting supporting documents and comparing the information with relevant documents; ● inquired of relevant personnel in the secondary assessment department in order to assess the timeliness and appropriateness of judgments regarding qualitative factors, and inspected relevant documents that contributed to the judgments of the actual conditions of the borrowers' business. Particularly for the

<p>capabilities.</p> <p>On the other hand, in classifying borrowers who are SMEs into borrower categories, Chugoku Bank considers not only the borrower's current financial position, but also qualitative factors such as the feasibility of the profit plan prepared by the borrower, future funding prospects, and the support status of financial institutions. These factors are based on various assumptions.</p> <p>In the current fiscal year, while the impacts of COVID-19 have been waning, the business performance of some borrowers continues to be sluggish because of the impact of increased costs due to the yen's depreciation and soaring resource and energy prices which cannot be reflected to selling prices in a timely manner. The profit plans prepared by these borrowers involve highly uncertain assumptions, such as the projection of effectiveness of business improvement measures such as raising sales prices and reducing costs. In addition, careful consideration is required regarding the status of any support provided by financial institutions.</p> <p>We, therefore, determined that our assessment of the appropriateness of the classification of borrowers who are SMEs at the Chugoku Bank 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>borrowers who were still in lower performance and whose financial position had deteriorated, we examined their business conditions and future projections, their cash flow conditions, and their status of financial support, if any, from financial institutions; and</p> <ul style="list-style-type: none"> • for SME borrowers who were still in lower performance due to failures to revise their selling prices in a timely manner despite the significant adverse impacts of rapid changes in the business environment such as the depreciation of the yen and soaring resource and energy prices, and whose profit plans served as a key factor for classifying the borrowers, examined the feasibility of those plans in light of the current regional economic conditions, industry trends, historical business performance and information obtained by Chugoku Bank in relation to the borrowers, among others.
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Other Information

The other information comprises the information included in the Annual Report, but does not include the consolidated financial statements, the financial statements, and our auditor's reports thereon. Management is responsible for the preparation and presentation of the other information. 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 reporting process for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Management and 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.

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, 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 138 million yen and 10 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.

Suzuki Shigehisa

Designated Engagement Partner

Certified Public Accountant

Saito Koji

Designated Engagement Partner

Certified Public Accountant

KPMG AZSA LLC

Osaka Office, Japan

September 20, 2024