

interest rates is determined by discounting future cash flows at an interest rate that takes into account the remaining period of the loan and credit risk. For short-term contracts (up to one year), the carrying value of borrowed money is used as it approximates fair value.

The fair value of borrowed money is categorized as Level 2.

Derivatives

Fair values of derivatives are categorized as Level 1 when unadjusted quoted prices in active markets can be used. This includes bond futures.

However, since the majority of derivatives are over-the-counter transactions for which no quoted price is publicly disclosed, their fair values are calculated using evaluation techniques such as the present value technique and the option price calculation model, depending on the type of transaction and the maturity period. The main inputs used in the evaluation techniques are interest rate, currency rate, volatility, etc. The Bank carries out price adjustments based on the credit risk of the trading partner and the Bank's credit risk. The fair values of derivatives are categorized as Level 2 if no unobservable inputs are used or if the effect of the unobservable inputs used is insignificant. This includes interest rate swaps and forward exchange contracts. Fair values are categorized as Level 3 when significant unobservable inputs are used.

(Note 2) Information related to financial instruments recorded on the consolidated balance sheet with fair values categorized as Level 3.

(1) Quantitative information about significant unobservable inputs

Classification	Evaluation technique	Significant unobservable input	Range	Weighted average
Securities				
Available-for-sale securities				
Private placement bonds	Discounted cash flow	Probability of default	0.0%—13.3%	0.4%
		Loss given default	20.0%—100.0%	72.8%

(2) Reconciliation between the opening and closing balances and loss/gain on valuation recognized in profit/loss as of March 31, 2023

(Millions of Yen)

	Balance as of the beginning of the year	Profit/loss or other comprehensive income		Net purchases, sales, issues and settlements	Transfers into Level 3 fair value	Transfers out of Level 3 fair value	Balance as of the end of the year	Loss/gain on valuation of held financial assets/liabilities recorded in the Consolidated Balance Sheet recorded in profit/loss (*1)
		Recorded in profit/loss (*1)	Recorded in other comprehensive income					
Securities								
Available-for-sale securities								
Japanese corporate bonds	78,988	(15)	63	3,804	—	—	82,840	—
Other	84,158	5,182	(1,629)	68,937	—	—	156,649	—
Total assets	163,147	5,167	(1,566)	72,742	—	—	239,490	—
Derivative transactions								
Other	40	(0)	—	2	—	—	42	—
Total derivative transactions	40	(0)	—	2	—	—	42	—

(*1) Included in “Other ordinary income” and “Other ordinary expenses”, etc. presented in the Consolidated Statement of Income.

(3) Explanation of fair value evaluation procedures

The Group has established policies and procedures for calculating fair value in the risk management department and verifies the appropriateness of the calculated fair value. An appropriate valuation model that can reflect the nature, characteristics and risks of individual assets is used to calculate the fair value. When the fair value obtained from a third party is used, the validity of the price is verified using appropriate methods such as confirmation of the evaluation technique and the input used, and comparison with self-estimated values.

(4) Explanation of the impact on fair value when there is a change in significant unobservable input

Probability of default

Probability of default are estimates that show the possibility of the occurrence of a default event. A significant increase (decrease) in the probability of default causes a significant decrease (increase) in fair value.

Loss given default

Loss given default is an estimated value that indicates the ratio of losses expected to occur at the time of default to the total balance of bonds or loans and bills discounted. A significant increase (decrease) in loss given default causes a significant decrease (increase) in the fair value.

(Per share information)

Total net assets per share	846.18 yen
Net income per share attributable to owners of the parent	41.00 yen

(Significant subsequent events)

(Tender offer to The Kanagawa Bank, Ltd.)

At the meeting of the Board of Directors held on February 3, 2023, the Bank resolved to acquire common shares and Series 1 Class A Preferred Shares of The Kanagawa Bank, Ltd. (hereinafter, the “Target Company”) through a public tender offer (hereinafter, the “Tender Offer”) in accordance with the Financial Instruments and Exchange Act (Act No. 25 of 1948, including as amended) as a part of series of transactions to make the Target Company a wholly-owned subsidiary of the Bank. As a result of the Tender Offer implemented during the period from February 6 to April 13, 2023, the Target Company became a consolidated subsidiary of the Bank as of April 27, 2023 (the commencement date of settlement of the Tender Offer).

1. Purpose of the Tender Offer

The Bank and the Target Company, both of which is based in Kanagawa Prefecture, will work together to further fulfill their financial intermediation functions for all customers in the region. Through this initiative, Concordia Financial Group, Ltd. will fulfill its mission and role more than ever before as a regional financial institution to contribute to the sustainable development of vibrant local communities and aim to enhance the corporate value of the Group over the medium to long term.

2. Outline of the Target Company

- (1) Name: The Kanagawa Bank, Ltd.
- (2) Location: 9 – 166 Chojamachi, Naka-ku, Yokohama, Kanagawa, Japan
- (3) Representative: Kazuaki Kondo, Director, President
- (4) Business profile: Banking business
- (5) Capital stock: ¥6,191 million (as of March 31, 2023)
- (6) Date of establishment: July 30, 1953

3. Outline of the Tender Offer

- (1) Planned number of shares to be purchased: 4,296,596 shares
(4,193,096 shares for common shares and 103,500 shares for Series 1 Class A Preferred Shares)
- (2) Minimum number of shares to be purchased: 2,810,600 shares
- (3) Maximum number of shares to be purchased: None
- (4) Tender offer period: From February 6 to April 13, 2023 (47 business days)
- (5) Tender offer price: ¥2,039 per share for common shares and ¥10,013 per share for Series 1 Class A Preferred Shares
- (6) Commencement date of settlement: April 27, 2023

4. Outcome of the Tender Offer

(1) Result of the Tender Offer

As a result of the Tender Offer, the total number of shares tendered exceeded the minimum number of shares to be purchased, and the Bank purchased all of the shares tendered.

- (2) Number of shares purchased: 3,477,304 shares of common shares and 103,500 shares of Series 1 Class A Preferred Shares
- (3) Ownership ratio of shares after the Tender Offer: 84.63% (*1)
- (4) Total purchase price: ¥8,126 million

(*1) The ownership ratio of shares before the Tender Offer was 7.76% for the Bank and 0.28% for consolidated subsidiaries of the Bank.

The Bank intends to make the Target Company a wholly-owned subsidiary of the Bank., but could not acquire all of the Target Company’s common shares and Series 1 Class A Preferred Shares in the Tender Offer.

Therefore, the Bank plans to implement a series of procedures to make the Target Company a wholly-owned subsidiary of the Bank.

(TRANSLATION)

INDEPENDENT AUDITOR'S REPORT

May 10, 2023

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

Deloitte Touche Tohmatsu LLC
Tokyo office

Designated Engagement Partner,
Certified Public Accountant:

Hiroyuki Hamahara

Designated Engagement Partner,
Certified Public Accountant:

Takeshi Shimoizaka

Opinion

Pursuant to the fourth paragraph of Article 444 of the Companies Act, we have audited the consolidated financial statements of The Bank of Yokohama, Ltd. and its consolidated subsidiaries (the "Group"), namely, the consolidated balance sheet as of March 31, 2023, and the consolidated statement of income and consolidated statement of changes in equity for the fiscal year from April 1, 2022 to March 31, 2023, and the related notes.

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, 2023, and its consolidated financial performance for the year 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 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.

Other Information

Management is responsible for the other information. 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 other information. The other information comprises the information included in the Business Report and the accompanying supplemental schedules.

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

(TRANSLATION)

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 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.

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. 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.
- 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.

(TRANSLATION)

- 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.

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.

Notes to the Readers of Independent Auditor's Report

This is an English translation of the independent auditor's report as required by the Companies Act of Japan for the conveniences of the reader. The other information in "the Business Report and the accompanying supplemental schedules" referred to in the "Other Information" section of this English translation is not translated.