



Annual Report  
(Integrated Report)

2022

April 1, 2021 - March 31, 2022

Aozora Mission

# Mission

**Contribute to the development of society through the creation of new value-added financial services**

Aozora Vision

# Vision

**Adapt to a rapidly changing world while remaining a trusted, valued and specialized financial service provider**

Aozora's Key Priorities

# Action

1. Provide specialized and value-added financial services
2. Move quickly, while responding patiently and politely
3. Prioritize teamwork and provide a more comfortable working environment
4. Respect one's colleagues and support professional growth of all team members
5. Learn from the past while adapting to and focusing on the future
6. Take smart risks in new areas based upon our skills and experience
7. Actively contribute to the sustainable growth of society

## Editorial Policy

The purpose of this document is to provide our stakeholders with an overview of the Aozora Group and information regarding its value-creation initiatives. This document provides financial and non-financial information, taking into consideration the International Integrated Reporting Framework published by the International Integrated Reporting Council as well as the Ministry of Economy, Trade, and Industry's "Guidance for Collaborative Value Creation". This document is an Annual Report (document explaining the Bank's business operations and financial condition) created in compliance with Article 21 of the Banking Act.

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### Forward-Looking Statements

This annual report contains forward-looking statements regarding the Bank's financial condition and results of operations. These forward-looking statements, which include the Bank's views and assumptions with respect to future events, involve certain risks and uncertainties. Actual results may differ from forecasts due to changes in economic conditions and other factors.



## CEO Message to Our Stakeholders



**Kei Tanikawa**

Representative Director and President  
Chief Executive Officer (CEO)

### To our stakeholders

I would like to extend my appreciation to all of Aozora's stakeholders for their ongoing interest and support. I would also like to extend my deepest sympathies to everyone who has been affected by the global COVID-19 pandemic and increasing geopolitical risk.

Based on our Mid-term Plan which we announced in May 2020, entitled "Aozora 2022", we have been focused on our Strategic Investments Business which is designed to foster new business and support corporate restructuring and business recovery through selective risk-taking as part of the "Aozora Mission" to "contribute to the development of society through the creation of new value-added financial services", as described in our Management Philosophy.

Despite the significant impact of COVID-19 throughout the year, both in Japan as well as overseas, the overall global economic environment in FY2021 continued on its recovery trend. I am pleased to report that our full-year earnings exceeded the forecast as a result of our strong customer-related business.

We also announced the establishment of the "Aozora Sustainability Targets" in September 2021, which span each business and support group across the entire Aozora Group, and are proactively promoting initiatives designed to achieve these targets.

FY2022, the final year of the "Aozora 2022" Mid-term Plan, will be an important year to establish a sound foundation for our future business as we develop our next Mid-term Plan in light of the further acceleration of the transition of our customers' industrial structure. While we expect our customer-related business initiatives, including Aozora's Strategic Investments Business, that we are currently working on to grow, we will at the same time strive to achieve our earnings forecast through careful analysis and appropriate judgment of a wide range of risks in the face of large-scale changes in the financial markets amid rising inflation and emerging geopolitical risk.

This Annual Report is designed to provide an easy-to-understand explanation of Aozora and its value creation initiatives for all of our stakeholders. We hope that it proves useful in providing a deeper understanding of our company.

At this time, I would like to once again express my gratitude to all of our stakeholders for their continued interest and support.

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## Value Creation Process

The Aozora Group is a manageably sized organization with approximately 6.7 trillion yen in assets and 20 domestic offices and seven overseas offices, making us a unique financial group that has developed its business globally and throughout Japan.

The Aozora Group places a high priority on continuing to take on new business challenges in order to provide even higher quality services to our corporate and retail customers as part of the previously mentioned "Aozora Mission" to "contribute to the development of society through the creation of new value-added financial services".

In addition to conducting our Customer Satisfaction Survey, which we have continued in order to determine whether we are adequately meeting the needs of our customers and business partners, we also verify and disclose the progress of our retail customer-oriented business management.

Through close collaboration with each of the Group companies, including, Aozora Bank, our New York, London, and Hong Kong subsidiaries, GMO Aozora Net Bank, Aozora Loan Services, Aozora Securities, Aozora Regional Consulting, Aozora Investment Management, Aozora Real Estate Investment Advisors, ABN Advisors, and Aozora Corporate Investment, as well as partnerships with regional financial institutions all over Japan and a wide range of partner companies, we are striving to create a business that has never existed before.

The success we achieved in our business areas of strength within "Aozora's Strategic Investments Business", which includes leveraged finance and real estate finance as key sources of revenue, as well as equity investments, environmental finance, recovery finance, and M&A advisory as growth businesses, was the result of these aforementioned efforts.

The approximately 2,400 Group employees involved in these characteristic business initiatives will contribute to smart risk-taking in new areas through our skill base and organizational flexibility. We have organized "Aozora's Key Priorities (Action)", into seven categories focused on team work and respecting a diverse range of values and working styles.

As a result of these initiatives, we have achieved high profitability and efficiency characterized by a high ROE and ROA, as well as a low OHR. Our policy is to expand our financial and non-financial capital through the generation of added value in order to maintain financial strength, as well as to continue reinvesting in the foundations and capital needed for sustainable creation of added value and stable shareholder returns.

## Sustainable Human Capital

We derive our competitive edge from its "sustainable human capital", and in addition to designating it as a "Key Sustainability Issue (ESG Materiality)" as described below, Aozora strives to create a corporate culture that enables employees with diverse viewpoints and values feel fulfilled in their work and play active roles.

Our human resources strategy is designed to evaluate and develop teamwork, expertise, and taking on new challenges through our three career courses, "Global Professional", "Regional Professional", or "IT Professional", as well as a contract employment system that allows employees with a high level of expertise to play active roles regardless of seniority. We strive to support the promotion of employees to more senior positions by assessing candidates' ability and performance, and as a result, our percentage of managers who are mid-career recruits exceeds 40%, while our employees' average years of service is approximately 15 years for both men and women, which are the characteristics of Aozora's human resource.

In order to implement our mission to continue taking on new business challenges, executives and employees are encouraged to extend beyond the scope of their own roles and work closely with other business groups, Group companies, and various partner companies. We believe that "co-work" is essential, and we offer various training programs that respect the career plans and initiatives of employees with a diverse range of values. In order to further promote "co-work", we have launched a training platform within the

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Aozora internal portal website designed to make use of a wide range of training programs, teaching materials, and expertise from each business group. We have created a system that allows anyone to learn independently, and many of our employees have taken advantage of it.

In addition, we started the "Digital Talents Development Program" in FY2021 with the aim of changing our way of thinking and expanding the range of options for transforming our business. We expect to expand our DX human resources base while leveraging it to support putting the acquired skills into practice as well as our customers' digitalization needs.

In response to the COVID-19 pandemic, working styles have become more diversified over the past two years. We are focused on gathering more feedback from employees and increasing the participation rate of our ongoing employee questionnaire. Currently, about 80% of respondents said that Aozora has a comfortable working environment while approximately 60% of respondents find value in their job, and management's aim is to promote initiatives designed to improve these points.

As mentioned above, we are working to ensure a level of diversity in our hiring for managerial positions that play a core part in corporate management, and over 40% of our managers are mid-career recruits. Starting in FY2021, we have set new goals and tracked the progress of initiatives designed to contribute to workplace where our employees can play active roles, including increasing the percentage of female managers and creating a safe working environment for employees with disabilities.

## Key Sustainability Issues and Aozora's Sustainability Targets

Currently, our society is facing a set of unprecedented changes, such as industrial transition, a worsening climate crisis, prolonged pandemics, demographic changes, digitalization and cyber risk, rising geopolitical risk, increased consideration of human rights issues, and financial market volatility triggered by inflation.

In light of these social trends, the expectations and requests from our stakeholders, and the importance of the Aozora Group's corporate management, we have positioned areas integral to realizing its Management Philosophy as Key Sustainability Issues (ESG Materiality). Approximately 200 topics were identified from among current environmental and social issues, and these items were classified into 20 categories. This process led to multiple discussions within the Sustainability Committee, and the following eight items have been designated as having ESG Materiality: (1) response to climate change, (2) respect for human rights, (3) promoting industrial transition, (4) realizing financial inclusion, (5) promoting digitalization, (6) protecting and providing for the next generation, (7) sustainability of human capital, and (8) governance and compliance. The reasoning behind these selections and the overlap with current initiatives and business strategies are described in this Annual Report, but we will focus on designing initiatives to address each item while continuing to review them as appropriate via an effective PDCA cycle.

As mentioned earlier, we announced the establishment of the "Aozora Sustainability Targets" in September 2021, which span each business and support group across the entire Aozora Group, and are proactively promoting initiatives designed to achieve them.

Of the above eight materiality categories, we are working to realize financial inclusion for start-up companies and companies experiencing financial hardship due to existing debt and promoting the industrial transition of our business partners who wish to transform themselves by setting goals. In addition, we have also set goals centered on Aozora's strengths, such as sustainable finance as a response to climate change and consulting for retail customers to aid them in passing on businesses and assets to the next generation. We made positive progress in each category during FY2021, the first year of this initiative.

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## Aozora's Strategic Investments Business

As I have previously discussed, Aozora has developed specialized business areas as a result of our continued efforts to embark on new ventures in order to provide even better services to our corporate and retail customers.

As our society faces a set of unprecedented changes and the shift towards decarbonization and industrial transition continues to accelerate, we believe we have now entered a crucial turning point that will enable us to contribute to the development of our business partners and society as a whole by focusing on these business areas.

Our Strategic Investments Business is a practical initiative designed to foster new industries and proactively support the business restructuring and revitalization of our business partners who wish to transition to new business areas through long-term contributions via financing from debt to equity in addition to proposals and dialogue with their management teams.

We are also promoting the "Aozora venture ecosystem", which is a support service for venture companies still in the early stages of development that utilizes the Aozora Group network. We provide a wide range of services to venture companies to support their growth, including providing growth financing from debt to equity as well as GMO Aozora Net bank's embedded financial services.

We are also engaged in leveraged finance, environmental finance, and M&A advisory services for companies that have grown to maturity and are working towards industrial transition, both in Japan and overseas. We also leverage the Aozora Group's skills and expertise in order to meet the needs of our retail customers, such as by providing M&A advisory services to meet their business succession needs.

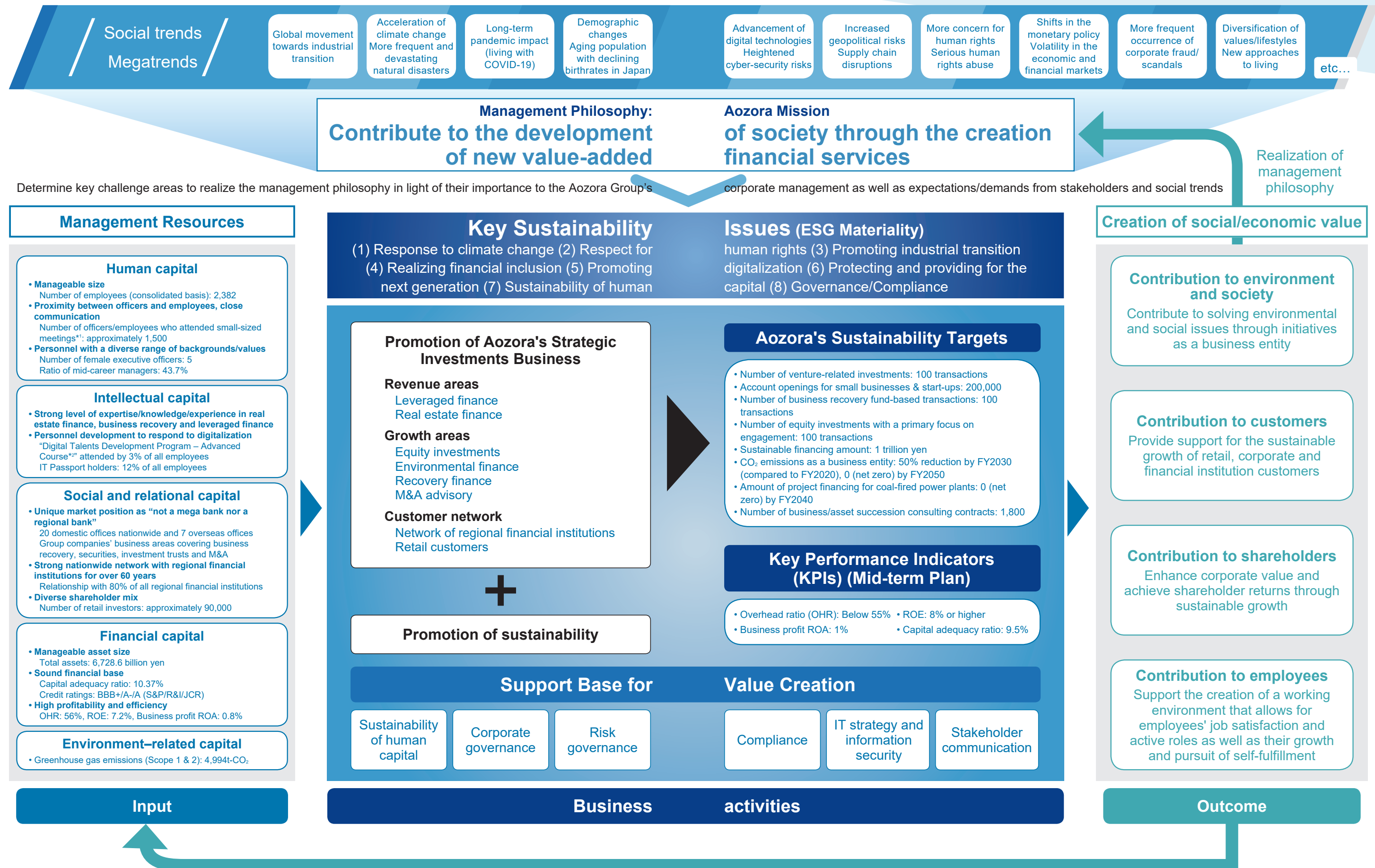
As a way to contribute to the business recovery of regional areas, we work together with regional financial institutions across Japan to develop "recovery finance" initiatives that fully leverages Aozora Loan Services' operations.

In addition to private equity investments, we have also begun making equity investments with a primary focus on engagement. Aozora regards its customers as business partners who it works together with to find solutions to issues. By engaging in dialogue to better understand their business, we strive to realize growth alongside them through active involvement and management advice.

Aozora's Strategic  
Investments Business  
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# Process of Value Creation



(Note) All figures are taken from business results in FY2021 or as of the end of March 31, 2022.

<sup>\*1</sup> For small-sized meetings, please refer to page 105.

<sup>\*2</sup> For "Digital Talents Development Program – Advanced Course," please refer to pages 73-74.

## Message from the Executive Officer in Charge of Sustainability Management

### Promotion of Sustainability Management

Global efforts towards decarbonization, the long-term impact of the COVID-19 pandemic, and the digital transformation spreading in our society are having a profound effect on people's lifestyles and corporate business processes, while at the same time, the industrial structure itself is going through rapid changes.

Amidst these trends, many companies are launching initiatives designed to realize a more sustainable society, but over the past year, societal demands for action, especially regarding climate and human rights issues, has become more widespread and the solutions to these issues encompass the entire supply chain up to and including our own business activities.

Financial institutions are expected to leverage their crucial role in society and promote green innovation and transition through sustainable finance in order to realize a decarbonized society, and we recognize the importance in this day and age of developing finance business initiatives that take sustainability into account.

In order to "proactively contribute to the sustainable development of society" as part of its "Aozora Action" Management Philosophy, the Aozora Group strives to incorporate sustainability into the Group's financial services and activities as a business entity and promote sustainability initiatives while working closely with senior management.

Last year, we took steps to improve the quality of our sustainability management framework by establishing the Sustainability Committee, with our CEO as Chairperson, as a way to discuss and find solutions to important sustainability-related issues as well as the Liaison Meeting of Group Sustainability in order to promote Group governance of sustainability issues.



**Tomomi Akutagawa**

Director, Senior Managing Executive Officer  
in charge of Sustainability Management

### Key Sustainability Issues

We also announced "Aozora's Sustainability Targets", which are designed to be management goals within the Aozora Group's focus and specialty areas. In addition to responding to climate change, our aim is to develop initiatives designed to solve social and environmental issues through our business operations by setting these mid- to long-term KPIs as a way to contribute to important issues within Aozora's Strategic Investments Business such as financial inclusion and industrial transition as well as protect our customer's important assets and provide for the next generation.

This June, the Bank designated eight items as Key Sustainability Issues (ESG Materiality), which includes responding to climate change and human rights issues in addition to "Aozora's Sustainability Targets", in light of the importance of double materiality to both the Aozora Group's corporate management as well as to Aozora's stakeholders.

### Responding to Climate Change

Regarding our own carbon-neutral initiatives, 100% of the energy used at our Head Office located in the Sophia Tower in Yotsuya is derived from renewable energy sources, and we are currently considering switching to green energy for our data center in order to further reduce CO2 emissions related to our business activities.

We have recently established a new division focused on promoting environmental finance in Japan as well as overseas and are accelerating our sustainable finance initiatives. In addition, we have established the "Aozora ESG Support Framework", which has been evaluated by a third-party organization, and supports our customers' efforts to address environmental issues by providing comprehensive solutions that include decarbonization consulting services to SMEs based on the goals of the Paris Climate Agreement.

We are aiming to become carbon-neutral by 2050 by further strengthening our approaches towards decarbonization as a business operator as well as proactively supporting our customers' responses to climate change and transition to decarbonized operations through engagement.



### Responding to Social Issues

In the social sphere, the importance of human capital in business management strategy has come into greater focus as a result of the long-term impact of the COVID-19 pandemic as well as megatrends seen over the past 10 years.

The Aozora Group is working to strengthen its diversity and inclusion initiatives by establishing human resources development and workplace policies which are designed to ensure a diversity of talent among our employees that play a central role in management, and we have set target percentages for female, non-Japanese, and mid-career managers. In addition, we will continue to implement initiatives designed to promote the efforts of our female employees and create a comfortable workplace for employees with disabilities. We believe these efforts are critical to enhancing the Bank's corporate value over the mid- to long-term.

Our aim is to expand the range of Aozora's social contribution activities. This includes actively promoting company-sponsored volunteer activities and recruiting volunteers from among Aozora employees on a trial basis in order to raise awareness of sustainability issues among Aozora's officers and employees, in addition to increasing our monetary contributions to causes that are difficult to support solely through financial services.

### Towards Social Justice

Last year, Aozora adopted both the United Nations Global Compact, an international initiative that seeks to address environmental and human rights issues, and the Equator Principles, a framework designed to avoid and mitigate the impact from environmental and social issues related to large-scale development project finance. We are currently preparing to adopt the United Nations Responsible Banking Principles, a framework for ensuring that the Bank's management and business operations align with the Sustainable Development Goals and the Paris Climate Agreement.

As the global situation has become even more unstable and uncertain since the crisis in Ukraine broke out, it is now the time for society to make appropriate choices from the perspective of "Just Transition", and our intention is to actively contribute to the sustainable development of society. I would like to take this opportunity to thank all of our stakeholders for their continued support.



## Key Sustainability Issues (ESG Materiality)

The Aozora Group's "Materiality" refers to "key challenge areas to realize the management philosophy in light of their importance to the Group's corporate management as well as expectations/demands from stakeholders and social trends".

Amid fast-changing social trends, stakeholders' expectations for the role of companies in addressing challenges are becoming more insightful, diverse and complex.

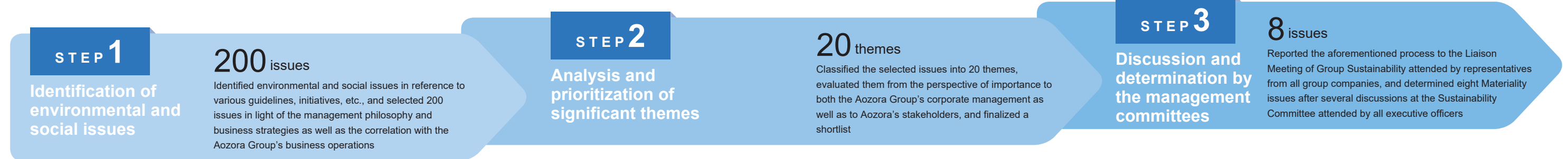
In this business environment, the Aozora Group has designated eight Materiality items as "key challenge areas" as a means to create maximum social and economic value through the targeted allocation of limited managerial resources to specific business areas where the Group's strengths lie.

## Materiality Issue Identifying Process

The Bank has identified Materiality issues as described below in light of double materiality, which takes into account the importance to both the Aozora Group's corporate management as well as Aozora's stakeholders, including expectations/demands from them and social trends.

In addition to the three steps below, the Bank has been also conducting listening surveys of internal and external stakeholders as well as outside experts in conjunction with the preparation of our next Mid-term Plan.

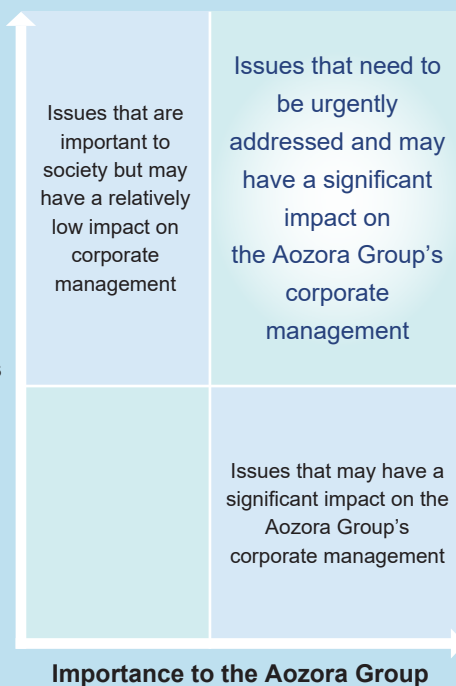
The Aozora Group will continue to flexibly review Materiality issues in response to changes in the business environment and incorporate them into the management plan through the development of an effective PDCA cycle, including the addition and revision of Materiality-tied KPIs (Aozora's Sustainability Targets).



### Social trends / Megatrends

Global movement towards industrial transition
Impact of climate change More frequent and devastating natural disasters
Long-term pandemic impact (living with COVID-19)
Demographic changes Aging population with declining birthrates in Japan
Advancement of digital technologies Heightened cyber-security risks
More concern for human rights Serious human rights abuse
More frequent occurrence of corporate fraud/scandals
etc.

Importance to stakeholders



Determine key challenge areas to realize the management philosophy in light of their importance to the Group's corporate management as well as expectations/demands from stakeholders and social trends

**Aozora's Mission**  
Contribute to the development of society through the creation of new value-added financial services

### Key Sustainability Issues (ESG Materiality)

Response to climate change	Respect for human rights
Promoting industrial transition	Realizing financial inclusion
Promoting digitalization	Protecting and providing for the next generation
Sustainability of human capital	Governance/Compliance

**Aozora Group's Sustainability**

The Aozora Group has identified Materiality issues in reference to guidelines and initiatives from the following three perspectives:

<Assessing social trends in light of global issues and material environmental/social issues in Japan>

169 SDGs Targets, "SDGs Action Plan 2021" (SDGs Promotion Headquarters), "Action Plan of the Growth Strategy" (Government of Japan), and "Social Bond Guidelines" (Financial Services Agency)

<Assessing stakeholders' expectations/demands for corporations>

UN Global Compact, GRI Guidelines, ISO26000, and Stakeholder Capitalism Metrics

<Assessing expectations from investors as well as issues specific to the finance and banking sectors>

SASB Guidelines on the Commercial Bank Sector, assessment items of ESG rating agencies, including MSCI (USA) and FTSE (UK), and "JBA SDGs Report 2020-2021" (Japanese Bankers Association)

The following summarizes some points of contention discussed during the assessment of significant themes and at the management committee.



Why didn't you include "biodiversity" and "promotion of education for the next generation" in Materiality issues?

We understand both topics are socially significant and are potential Materiality candidates. However, we have not chosen them because, at this time, their impact on corporate management is relatively low compared to other Materiality issues. They are among the topics in the information-gathering phase, under research or as non-financial activity, including donation and volunteering. We will consider an approach towards them mainly through our financial initiatives and the expansion of our CSR activities.











Aren't "pursuit of sustainable and stable revenue opportunities" and "stakeholder communication" important to the Aozora Group's corporate management?

Aozora's Materiality refers to "challenging areas that should be addressed with concrete initiatives". We did not choose the above topics, which we believe are what we should constantly work on as a business entity at all times.

"Protecting and providing for the next generation" should be recognized as a broader issue, such as "response to demographic issues".

We have identified Materiality issues by narrowing down to the themes that are addressable through our focus business areas, including M&A advisory and business/property succession consulting services. We may set broader challenge areas, such as "response to demographic issues", if our business activity expands going forward.

## Materiality Issues, Specific Initiatives and Associated Business Strategies

Materiality	Reasons for Identification as Materiality Issues	Specific Initiatives	Corresponding SDGs
Response to climate change	<ul style="list-style-type: none"> <li>We understand that responding to climate change is one of the global issues that companies should address as a top priority</li> <li>We properly leverage our financial intermediary function as a financial institution toward the realization of a decarbonized society through support for companies' efforts to become carbon-neutral, spreading green energy and technological innovation</li> <li>If our response to climate change falls far behind other financial institutions or significantly fails to meet expectations from our stakeholders, including investors and customers, the Aozora Group's businesses could incur a material adverse impact mainly due to a loss of business opportunities, damage to our investment and loan portfolio and a deterioration in our reputation</li> </ul>	<ul style="list-style-type: none"> <li>Expanding environmental finance domestically and overseas (e.g. renewable energy, transition finance, decarbonization innovation finance, financing for green buildings) (pages 41, 59)</li> <li>Providing consulting services on decarbonization for mid-sized companies and SMEs as well as sustainable finance (page 60)</li> <li>Consideration of environmental/social issues and response to the Equator Principles in investment and loan originations (pages 54, 63)</li> <li>Development of an integrated risk management framework, including enhanced scenario analysis, and the strengthening of risk tolerance (pages 63, 65)</li> <li>Reduction of GHG emissions as a business entity (Scope1 &amp; 2) (page 61)</li> <li>Phased measurement and reduction of GHG emissions (Scope 3) in the investment and loan portfolios (pages 58, 63)</li> <li>Developing a roadmap towards becoming carbon-neutral, including within the investment and loan portfolios (page 58)</li> </ul>	     
Respect for human rights	<ul style="list-style-type: none"> <li>Any involvement in or neglect of human rights abuses may pose the risks of legal compliance violation, administrative penalty, social criticism and loss of reputation</li> <li>It is natural that Aozora Bank does not violate human rights as a business entity. We also eliminate human rights abuse, discrimination and corruption from any business activities involving the Group and take proper measures for improvement as needed</li> </ul>	<ul style="list-style-type: none"> <li>Consideration of human rights in business activities (investments, loans, etc.) and as a business entity (collaboration with partners in the supply chain including outsourcing) (page 56)</li> <li>Ensuring a corporate culture that respects human rights through initiatives and training to prevent discrimination, harassment and other abuses in the workplace (pages 127, 132)</li> <li>Ensuring anti-bribery and corruption measures (page 101)</li> </ul>	 
Promoting industrial transition	<ul style="list-style-type: none"> <li>The Aozora Group promotes its Strategic Investments Business that is designed to support customers' growth and restructuring through highly professional financial services that it has developed mainly through specialty finance business</li> <li>Amid the accelerating industrial transition on a global scale due to the long-term impact of the pandemic, responses to climate change and the advancement of digital technologies, we strive to realize Aozora's mission to "contribute to the development of society through the creation of new value-added financial services" by financially supporting customers' efforts to address business environment changes</li> </ul>	<ul style="list-style-type: none"> <li>Promotion of equity investments with a primary focus on engagement that is designed to support corporate structural transformation (pages 30, 38, 66)</li> <li>Support for corporate structural transformation mainly through leveraged finance, equity investments, environmental finance and M&amp;A advisory (pages 30-33)</li> <li>Support for solving management issues faced by regional financial institutions and their customers through Aozora's regional financial institution network (pages 33, 35)</li> </ul>	  
Realizing financial inclusion	<ul style="list-style-type: none"> <li>We understand that allowing everyone to access and use financial services required to capture opportunities for economic activity is a critical mission for financial institutions</li> <li>The Aozora Group strives to contribute to the growth of customers and the revitalization of regional communities through the promotion of its Strategic Investments Business as a means to realize financial inclusion in Japan by focusing on: (1) support for companies and small business owners in their start-up phase, start-ups &amp; small businesses and venture firms and (2) support for business recovery and restart in regional communities</li> </ul>	<ul style="list-style-type: none"> <li>Offering a broad range of services through one-stop service for venture companies at each phase of growth by leveraging Aozora's Venture Ecosystem Support Framework, and supporting their funding needs (pages 31, 32, 66)</li> <li>Support for venture companies' funding needs by utilizing venture debt funds available through Aozora Corporate Investment (page 38)</li> <li>Providing a broad range of financial services and business support for small businesses and start-ups by GMO Aozora Net Bank's (pages 31, 32, 50-51, 66)</li> <li>Support for companies' business turnaround and restart through recovery funds provided by Aozora Loan Services (pages 31, 32, 42, 66)</li> <li>Responding to the business recovery finance needs of our corporate and regional financial institution customers and providing recovery finance for assets adversely impacted by the COVID-19 pandemic as well as DIP finance (pages 31, 32, 42)</li> </ul>	  
Promoting digitalization	<ul style="list-style-type: none"> <li>We understand that the advancement of digital technologies and progress of digital transformation (DX) are an irreversible trend that will create new business opportunities and, at the same time, have a wide-ranging impact on a broad array of corporate and personal activities, including the loss of existing business areas as well as the change of traditional business practices and lifestyles</li> <li>The Aozora Group supports its customers' DX initiatives through services backed by its network of IT companies as well as B Spark's and GMO Aozora Net Bank's digital technologies, and also strive to further improve customer convenience mainly in the retail banking business by utilizing digital technologies. Our DX initiatives include further developing digitally proficient human resources and embarking on digital marketing and other business areas</li> </ul>	<ul style="list-style-type: none"> <li>Providing corporate customers with DX support services and solutions through B Spark (page 48)</li> <li>Expansion of embedded finance service and BaaS business available through GMO Aozora Net Bank (pages 50-51)</li> <li>Offering more convenient services through the development and use of data infrastructure, improvement of service capabilities primarily through digital marketing (pages 49, 102)</li> <li>Strengthening the system to develop digitally proficient human resources (pages 49, 74, 102)</li> </ul>	
Protecting and providing for the next generation	<ul style="list-style-type: none"> <li>In our aging society, seniors live a fulfilling 100-year life while having needs for asset succession, and SMEs and small businesses, which underpin the competitiveness of Japanese industries, seek ways to find successors and suitable personnel for business succession. Aozora Bank understands that providing support for their asset/business succession to the next generation is one of its significant initiatives as a financial institution from the perspective of contributing to the sustainability of the society</li> <li>The Aozora Group will remain responsive to customer needs that are expected to grow and become more diverse by providing M&amp;A advisory and business succession consulting services mainly through ABN Advisors as well as asset succession consulting and associated services in the retail banking business</li> </ul>	<ul style="list-style-type: none"> <li>Response to the business/asset succession needs of small business owners and affluent individuals (pages 33, 36, 39)</li> <li>Support for mid- to long-term wealth building (pages 36, 67)</li> <li>Enhancement of business/services through a research project on financial gerontology (page 67)</li> </ul>	
Sustainability of human capital	<ul style="list-style-type: none"> <li>As competition for talent is becoming fiercer on the back of the demographic issues, any personnel shortage/outflow as well as insufficient progress of skill/expertise transfer to the next generation mainly due to the slow development of the HR system and working environment have a material impact on the sustainability of Aozora Group's corporate management</li> <li>Human resources anchor the Aozora Group's competitiveness as personnel skill, expertise and experience have a critical impact on its value creation. We will promote initiatives designed to maintain and improve the sustainability of human capital that supports value creation in order to sustainably provide highly professional and distinctive financial services mainly through its Strategic Investments Business</li> </ul>	<ul style="list-style-type: none"> <li>Personnel redeployment and mid-career recruiting in line with business strategies, understanding of the skill portfolio across the Bank, and optimal allocation of employees (page 71)</li> <li>Knowledge transfer of the specialized skills and expertise of more senior employees, developing successors in each business area and generation (pages 71-72)</li> <li>Support for the creation of a working environment that allows for employees' job satisfaction and active roles (page 76)</li> <li>Investments in human resource development and career support that are carefully tailored to employees pursuing more active and independent roles (pages 72-75)</li> <li>Strengthening of the Digital Talents Development Program (pages 49, 74, 102)</li> <li>Creation of a working environment that allows employees with a diverse range of backgrounds/values to play active roles, enhancement of diversity and inclusion (pages 75-76, 78-81)</li> </ul>	 
Governance/ Compliance	<ul style="list-style-type: none"> <li>Improper corporate governance, neglect of compliance, triggering of damage to creditworthiness and delayed response to system failures have a material impact on all of the stakeholders involved in the operations of financial institutions as well as the sustainability of corporate management, such as through administrative penalty, cancellation of business and loss of social confidence</li> <li>The Aozora Group strives to maintain its management discipline and ensure soundness through the enhancement of the proper risk governance framework in response to external environmental changes as well as stronger initiatives to ensure adherence to compliance requirements</li> </ul>	<ul style="list-style-type: none"> <li>Transparent corporate governance (page 82 onwards)</li> <li>Strong risk control for sound risk-taking, enhancement of a risk management framework (pages 96, 98-99, 119)</li> <li>Enhancement of compliance and risk management frameworks (pages 100-101)</li> <li>Ongoing enhancement of cybersecurity (page 102)</li> <li>Stable operation of the information system, prevention of large-scale system failures, earliest possible system restoration, and appropriate response to customers (page 103)</li> <li>Increase in capital efficiency, development of an appropriate capital management system (page 120)</li> <li>Strengthening of the customer protection management system, appropriate management of customer information (page 125)</li> <li>Increased quality and effectiveness in the internal audit system (page 97)</li> <li>Development and improvement of the crisis management system (page 124)</li> </ul>	



## CFO Message

### FY2021 Financial Results

<b>Net Revenue</b>	<b>103.0 billion yen</b>
Change (year-on-year)	+6.4 billion yen
<b>Business Profit</b>	<b>47.8 billion yen</b>
Change (year-on-year)	+5.1 billion yen
<b>Profit attributable to owners of parent</b>	<b>35.0 billion yen</b>
Change (year-on-year)	+6.0 billion yen
<b>Full-year dividend per common share</b>	<b>149 yen</b>
4Q dividend per common share	45 yen



**Akira Sakai**

Senior Managing Executive Officer  
Chief Financial Officer (CFO)

The Japanese economic environment in FY2021 was heavily impacted by the COVID-19 pandemic throughout the year, but saw sustained improvement overall as industrial production and exports remained relatively strong against the backdrop of a global economic recovery. However, the service industry remained in a difficult position due to the impact of preventative measures such as the quasi-state of emergency. The United States experienced general economic recovery as a result of the full-scale roll out of vaccinations and the progress in economic normalization. However, inflationary trends became the major focus from January of this year. Although the increased inflation was mainly due to supply constraints, not only the price of goods but prices of a wide range of items, such as rental rates and other service prices, started to increase. Under these conditions, our FY2021 net revenue was 103 billion yen, an increase of 6.4 billion yen compared to the previous year, business profit was 47.8 billion yen, an increase of 5.1 billion yen compared to the previous year, and net earnings were 35 billion yen, an increase of 6 billion yen compared to the previous year, reflecting strong customer-related business. Each of these results represented an increase over last year and also exceeded our forecast. Net interest income was 51.6 billion yen, an increase of 1.5 billion yen compared to the previous year mainly due to the increase in the loan outstandings.

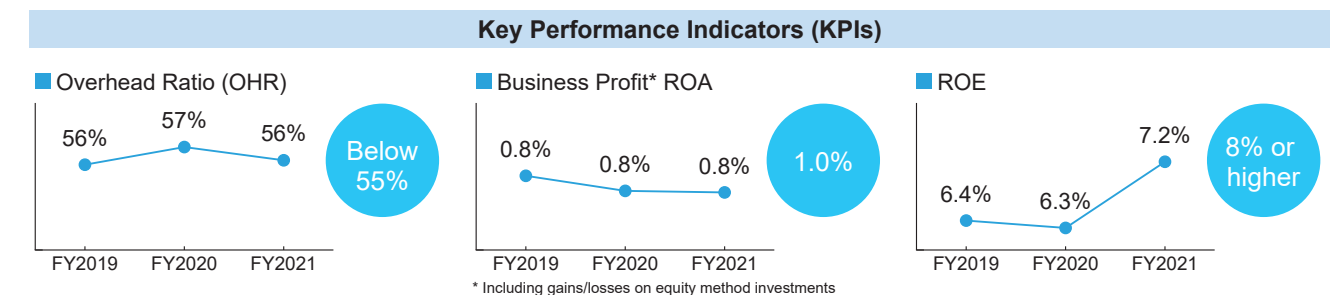
Non-interest income was 51.3 billion yen, an increase of 4.9 billion yen year-on-year. Customer-related business revenue, such as loan-related fee income, gains from limited partnerships, and earnings from investment product sales to retail customers, were strong throughout the fiscal year. G&A expenses were 57.7 billion yen, an increase of 2.8 billion yen year-on-year. Personnel expenses increased due to the hiring of additional staff in our business areas of focus, while IT-related expenses increased mainly for cybersecurity, infrastructure development, and compliance with regulations related to Aozora's market operations. Credit-related expenses were a net expense of 3.7 billion yen (compared to a net expense of 4.3 billion yen in the previous year). The ratio of loan loss reserves to total loans was 1.46% as of March 31, 2022 and remained at an adequate level. NPL claims (consolidated basis) decreased by 5.9 billion to 21.4 billion yen compared to March 31, 2021, mainly due to progress in the work-out of non-performing loans. The ratio of NPL claims to total claims was 0.63%, a decline of 28 basis points.

The FY2021 full-year dividend was 149 yen per common share based on our dividend policy of a target dividend payout ratio of 50%. This represented a 25 yen increase year-on-year, and 21 yen higher compared to the original forecast.

### Progress of Mid-term Plan (Aozora 2022)

As shown in the graph below, the three Key Performance Indicators (KPIs) for FY2021 fell slightly short of our final targets announced in our Mid-term Plan entitled "Aozora 2022". However, the OHR and ROE both improved compared to the previous year as customer-related business remained strong and we continued our focused approach to cost-control.

In spite of the uncertain business environment, Aozora aims for stable and sustainable growth through our Strategic Investments Business while maintaining efficiency as one of our key strengths. We will continue to make progress towards achieving our KPI targets in FY2022 as the final year of our Mid-term Plan.



### FY2022 Earnings and Dividend Forecasts

We expect customer-related business, primarily focused on our active Strategic Investments Business initiatives, to continue its growth trend. However, we also expect volatile financial market conditions to continue due to inflation and increasing geopolitical risk. Consequently, we're taking a cautious stance regarding the management of our securities portfolio. In light of these factors, net revenue is projected to be 103 billion yen, level with last year, and profit attributable to owners of parent is forecasted to be 36 billion, a 3% increase compared to FY2021. Aozora's mid- to long-term dividend policy is based on

	FY2021 results	FY2022 forecast
<b>Net revenue</b>	103 billion yen	103 billion yen
<b>Profit attributable to owners of parent</b>	35 billion yen	36 billion yen
<b>Dividend (Dividend payout ratio)</b>	149 yen (50%)	154 yen (50%)

a target dividend payout ratio of 50% of net earnings. The FY2022 full-year dividend target of 154 yen per common share will be flexibly managed on a quarterly basis in light of Aozora's actual results.

### Capital and Shareholder Return Policies

In our "Aozora 2022" Mid-term Plan, we established a capital and dividend policy that aims to maintain a proper balance among "stable shareholder returns", "strategic investments" and "financial strength". While, Aozora's capital adequacy ratio (domestic standard) targets are 9% on a full implementation (of the Basel III) basis and 9.5% on an operational basis, our capital adequacy ratio as of March 31, 2022 was 10.37%. This is slightly higher than the target level. While we still have excess capital that we intend to deploy effectively through our Strategic Investments Business, we will make gradual investments in consideration of both profitability and risk in light of the uncertain business environment, and we're currently operating with

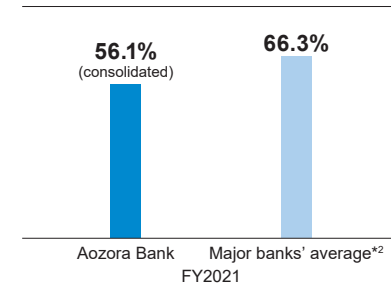
approximately 10% as a target capital adequacy ratio for FY2022. As in the past, management's intent is to deliver a cash dividend with a target payout ratio of 50%. As I previously mentioned, the FY2022 dividend forecast is 154 yen per common share based on our FY2022 earnings forecast. We intend to continue our quarterly dividends.

Aozora will continue to manage its finances and capital with an aim towards promoting sustainable growth and enhancing our corporate value. I would like to take this time to thank all of Aozora's stakeholders for their continued support.

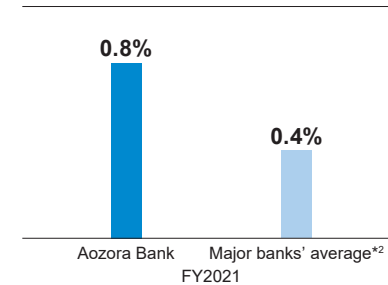
## Financial Highlights

(Note) Amounts expressed in 100 million yen have been rounded down one decimal place.

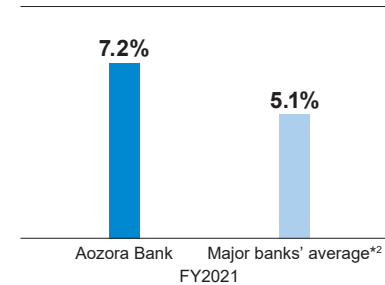
### Overhead Ratio (OHR)



### Business Profit\*1 ROA



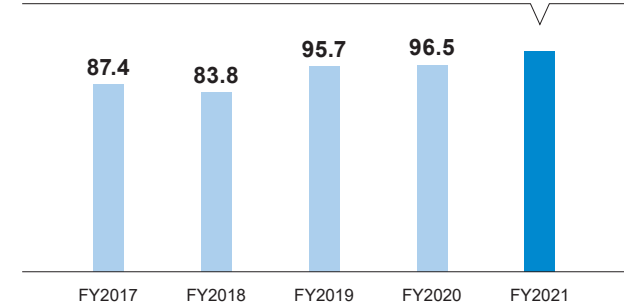
### ROE



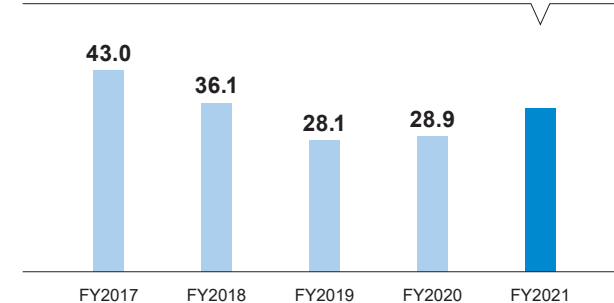
\*1 Business profit includes gains/losses on equity method investments

\*2 Based on each major bank's financial results material (MUFG, SMFG, Mizuho FG, Resona HD, Sumitomo Mitsui Trust HD and Shinsei)

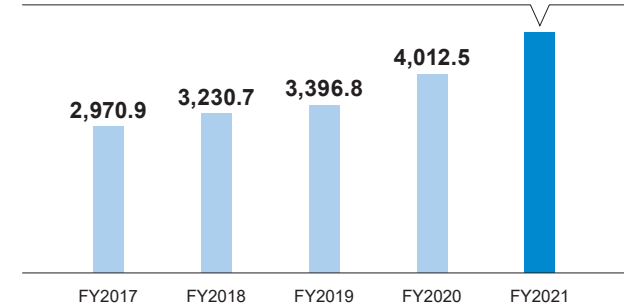
### Consolidated net revenue (billion yen)



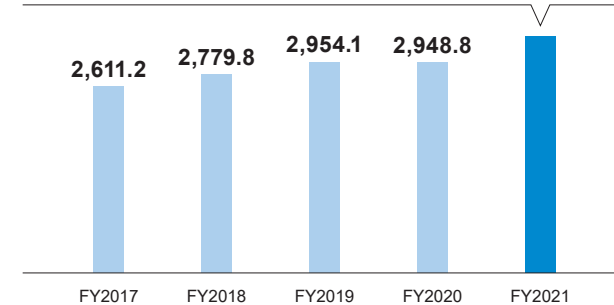
### Profit attributable to owners of parent (billion yen)



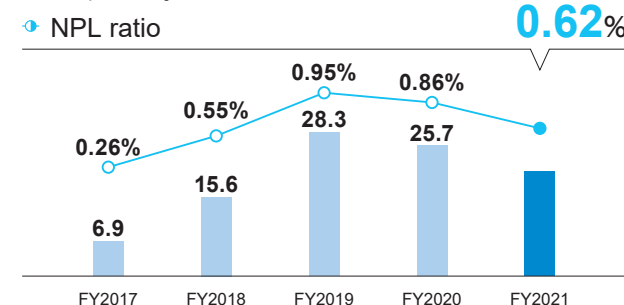
### Deposits / Negotiable certificates of deposit (billion yen)



### Loans and bills discounted (billion yen)

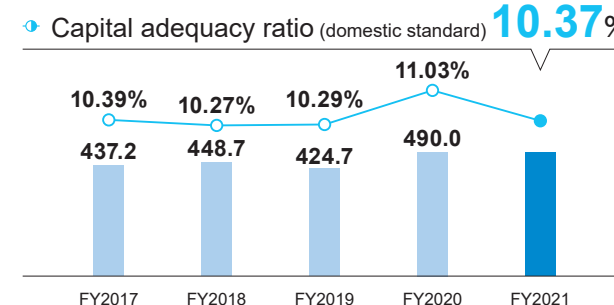


### Non-performing loans based on FRL\* (non-consolidated) (billion yen)

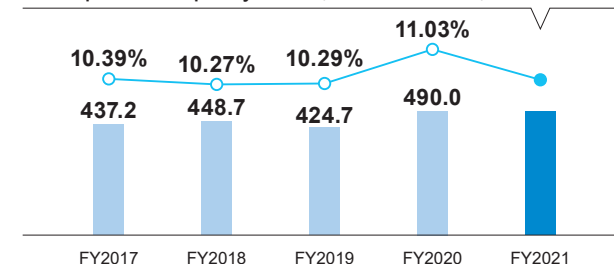


\* Financial Reconstruction Law

### Consolidated net assets (billion yen)

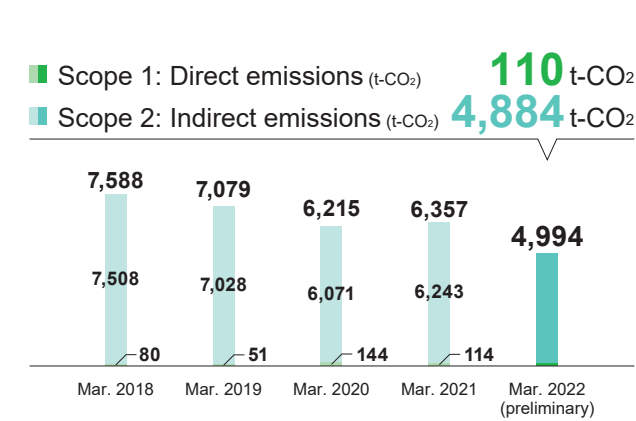


### Capital adequacy ratio (domestic standard)

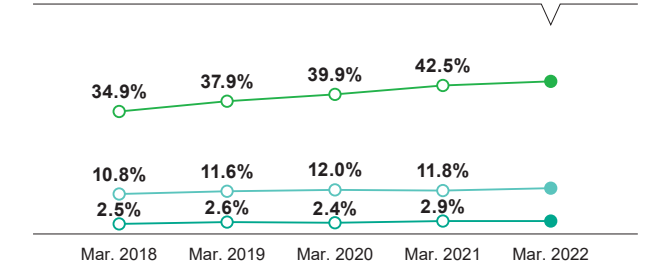


## Non-financial Highlights

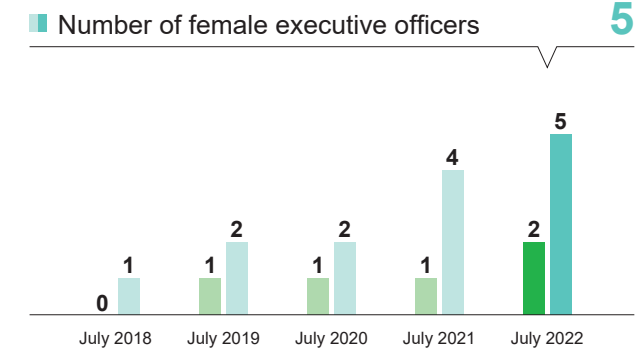
### CO<sub>2</sub> emissions



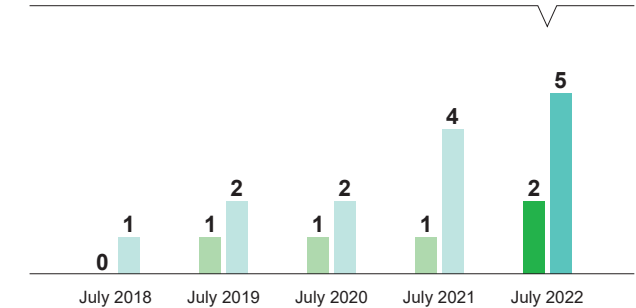
- Percentage of managers who are mid-career recruits **43.7%**
- Percentage of female managers **12.5%**
- Percentage of non-Japanese managers **2.9%**



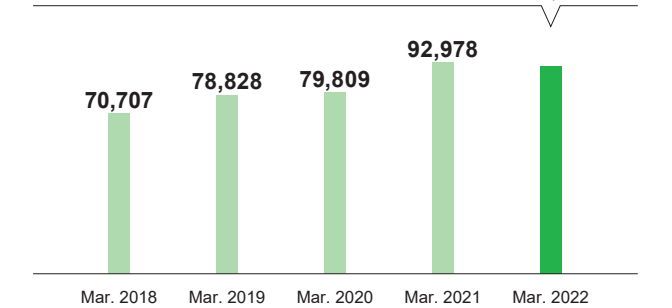
### Number of female directors



### Number of female executive officers



### Number of retail investors



### Support for External Initiatives / Evaluation by Third Parties



Task Force on Climate-related Financial Disclosures



Principles for Financial Action for the 21st Century



Equator Principles



The United Nations Global Compact  
Aozora Bank signed the United Nations Global Compact in 2022 in support of its 10 principles in the areas of human rights, labor, the environment and anti-corruption, and the Bank's management remains committed to the achievement of these goals.



MSCI Japan Empowering Women Index



FTSE Blossom Japan Sector Relative Index



Certification as a 2022 Health and Productivity Management Organization



"Eruboshi" certification



"Kurumin" certification

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# Non-financial Information Index

## Environmental data (bank offices located in Japan)

Items	FY2019	FY2020	FY2021 (preliminary)
Amount of greenhouse gas emissions (t-CO <sub>2</sub> )	(preliminary)		
Scope 1 (direct energy consumption)	144	114	110
Scope 2 (indirect energy consumption) <sup>*1</sup>	6,071	6,243	4,884
Scope 3 (business trip) <sup>*2</sup>	–	64	64
Direct energy consumption			
City gas (thousand m <sup>3</sup> )	19	20	19
Heavy oil/Kerosene (kl)	12	5	5
Gasoline/Light oil (kl)	30	24	23
Indirect energy consumption <sup>*3</sup>			
Electricity (thousand kWh)	12,400	13,052	12,794
Vapor (GJ)	193	50	0
Hot water (GJ)	1,154	1,515	1,499
Cold water (GJ)	4,454	5,481	6,112
Wastes <sup>*4</sup>			
Amount (t)	214	168	173
Recycled amount (t)	174	123	123
Recycling ratio (%)	81%	73%	71%
Amount of printing paper purchased (t)	72	50	47

<sup>\*1</sup> Measurement starting from FY2020, including overseas bank offices and major group companies (consolidated subsidiaries including overseas subsidiaries)

<sup>\*2</sup> Measurement starting from FY2020

<sup>\*3</sup> Measurement starting from FY2020, including overseas bank offices and major group companies (consolidated subsidiaries including overseas subsidiaries)

<sup>\*4</sup> Excluding general industrial wastes in branch offices.

## Social data

### Employee data (non-consolidated)

Category	FY2017	FY2018	FY2019	FY2020	FY2021
No. of employees	1,787	1,878	1,928	1,933	1,966
Male	950	982	1,024	1,034	1,056
(53%)	(52%)	(53%)	(53%)	(54%)	(54%)
Female	837	896	904	899	910
(47%)	(48%)	(47%)	(47%)	(46%)	(46%)
Temporary employees	206	177	142	125	117
Locally hired overseas staff	29	30	32	32	41
Employee composition					
New grad	60%	59%	58%	58%	59%
Mid-career	40%	41%	42%	42%	41%
Average age	42.7	42.8	43.1	43.3	43.4
Male	44.0	44.1	44.1	44.0	43.9
Female	41.2	41.4	41.9	42.5	42.8
Average length of service (year)	14.5	14.5	14.6	14.9	15.1
Male	14.5	14.6	14.5	14.5	14.6
Female	14.5	14.4	14.8	15.4	15.8

Category	FY2017	FY2018	FY2019	FY2020	FY2021
Average annual salary (1,000 yen)	7,913	8,037	7,930	8,089	8,232
Male	9,576	9,758	9,618	9,719	10,073
Female	5,822	5,948	5,899	6,171	6,203
Annual salary gap (male =100)	61	61	61	63	62
No. of new grads	54	62	61	65	70
Male	21	25	39	46	41
(39%)	(40%)	(64%)	(71%)	(59%)	(59%)
Female	33	37	22	19	29
(61%)	(60%)	(36%)	(29%)	(41%)	(41%)
No. of mid-career hires	88	80	63	46	33
Male	45	43	45	32	26
(51%)	(54%)	(71%)	(70%)	(79%)	(79%)
Female	43	37	18	14	7
(49%)	(46%)	(29%)	(30%)	(21%)	(21%)
Male/female ratio (new grads and mid-career)					
Male	46%	48%	68%	70%	65%
Female	54%	52%	32%	30%	35%
New grad/mid-career ratio					
New grad	38%	44%	49%	59%	68%
Mid-career	62%	56%	51%	41%	32%
Retention of new grads 3 years after employed	91%	94%	87%	87%	95%
No. of retirees (non-mandatory retirement)	39	50	53	47	47
(2.2%)	(2.7%)	(2.8%)	(2.4%)	(2.4%)	(2.4%)
Female managers ratio	10.8%	11.6%	12.0%	11.8%	12.5%
Non-Japanese managers ratio <sup>*1</sup>	2.5%	2.6%	2.4%	2.9%	2.9%
Mid-career managers ratio	34.9%	37.9%	39.9%	42.5%	43.7%
Employees' monthly average overtime hours <sup>*2</sup>	9.0 hours	8.3 hours	8.9 hours	10.3 hours	11.8 hours
Days of paid leave used (annual average)	14.8	15.5	15.6	13.3	14.4
Employees with disabilities	No. of employees	20	22	25	29
(as of June when submitting a report to authorities)	Employment ratio	1.7%	1.8%	2.0%	2.2%
No. of Child Leaver users	40	65	41	61	55
(83%)	(86%)	(72%)	(82%)	(78%)	(78%)
Male	14	15	14	24	22
(67%)	(58%)	(47%)	(65%)	(58%)	(58%)
Female	26	50	27	37	33
(96%)	(100%)	(100%)	(100%)	(100%)	(100%)
Female reinstatement ratio after Child Leave	88%	91%	100%	100%	100%
No. of unpaid Nursing Leave users	0	0	0	1	1
No. of paid Nursing Leave users	15	16	15	19	19
No. of employees suffering work-related accidents	10	7	14	6	3
No. of applicants for secondary employment <sup>*3</sup>	–	–	–	16	31
Work-from-Home users ratio <sup>*4</sup>	1%	2%	32%	62%	60%
Training hours per employee <sup>*5</sup>	–	–	–	30.8	32.5
Total of training hours <sup>*5</sup>	–	–	–	59,533	63,951
Total of training participants <sup>*5</sup>	–	–	–	5,184	11,393
Training cost per employee (1,000 yen) <sup>*6</sup>	31.3	37.4	35.9	26.3	27.3

<sup>\*1</sup> Data of employees of domestic and overseas group companies, excluding GMO Aozora Net Bank

<sup>\*2</sup> Non-statutory overtime hours of employees except those in supervisory or managerial positions

<sup>\*3</sup> Application for secondary employment started in FY2020.

<sup>\*4</sup> Work-from-Home Program started in FY2017. The ratios were as of March-end of each fiscal year.

<sup>\*5</sup> Date has been compiled since FY2020.

<sup>\*6</sup> Cost for external instructors and financial support for self-development

## Aozora Sustainability Targets

In September 2021, Aozora Bank announced the establishment of Aozora's "Sustainability Targets" as the common targets for business groups and support units across the Aozora Group.

For each of these targets, we have set KPIs for our initiatives aimed at: (i) realizing "Financial Inclusion" by providing growth support for venture companies as a key theme of Aozora's Strategic Investments Business and contributing to regional communities through business recovery, (ii) promoting "Industrial Transition" through equity investments with a primary focus on engagement, (iii) response to climate change towards the realization of decarbonization, and (iv) protecting and providing for the next generation through consulting services for the succession of our customers' wealth assets. We will drive the implementation of initiatives across the Aozora Group for the achievement of these targets.

(The progress and achievement of these targets are taken into consideration as key qualitative assessments in determining the evaluation and remuneration of executive officers.)

### Status of female employees

	July 2018	July 2019	July 2020	July 2021	July 2022
① Executive officers	1 (4.8%)	2 (9.1%)	2 (9.1%)	4 (16.7%)	5 (18.5%)
	March 2018	March 2019	March 2020	March 2021	March 2022
② General managers	10 (11.2%)	10 (11.4%)	11 (11.3%)	11 (11.5%)	11 (9.6%)
③ Group managers	55 (10.7%)	60 (11.7%)	64 (12.1%)	64 (11.8%)	71 (13.2%)
④ Total of (②+③)	65 (10.8%)	70 (11.6%)	75 (12.0%)	75 (11.8%)	82 (12.5%)
⑤ Deputy managers	89 (31.2%)	98 (32.9%)	105 (33.3%)	107 (33.5%)	123 (37.1%)
⑥ Female managers	837 (46.8%)	896 (47.7%)	904 (47.0%)	899 (46.5%)	910 (46.3%)

### Social contribution

Category	FY2017	FY2018	FY2019	FY2020	FY2021
CSR expenses (million yen)	—	15	—	35	35
No. of participants in Basic Banking Seminar (in Sophia University) *	331	389	382	382	367

\* Aozora-sponsored seminars for Sophia University. The Bank's officers and employees offer seminars (14 sessions) every fiscal year. Total of participants are shown.

## Governance

### Corporate governance (status of activity of the Board of Directors and each committee)

Items	FY2017	FY2018	FY2019	FY2020	FY2021
Composition of the directors and the Board of Directors meeting					
No. of persons	8	8	8	8	8
No. of outside directors	4	4	4	4	4
No. of female directors	0	0	1	1	1
No. of Board of Directors meetings held	13	15	14	15	15
Average attendance ratio of the Board of Directors meeting (%)	100.0%	96.6%	100.0%	100.0%	100.0%
Nomination and Remuneration Committee					
No. of Nomination and Remuneration Committee meetings held	7	6	7	7	6
Average attendance ratio of the Nomination and Remuneration Committee (%)	100.0%	94.4%	100.0%	100.0%	100.0%
Audit and Compliance Committee					
No. of Audit and Compliance Committee meetings held	7	7	7	6	6
Average attendance ratio of the Audit & Compliance Committee (%)	100.0%	100.0%	100.0%	100.0%	100.0%

### Compliance

Items	FY2017	FY2018	FY2019	FY2020	FY2021
No. of cases opened by the Aozora Hotline (whistleblowing system)					
Total	8	6	13	7	10
Internal contact point	8	6	7	4	4
External contact point*	—	—	6	3	6
No. of compliance incidents					
Cease and desist notice by relevant government ministries and agencies	0	0	0	0	0
Suspension of operation/business due to misconduct	0	0	0	0	0
Criminal accusation due to an incident or an accident violating a law	0	0	0	0	0

\* An external contact point was established in FY2019.

### Progress of Aozora's Sustainability Targets

#### Promoting Aozora's Strategic Investments Business

##### Realizing "Financial Inclusion"

##### ◆ Growth Support for Venture Companies

	FY2021-FY2030 Targets	FY2021 Results
Number of Venture-related Investments:	<b>100</b> transactions	<b>12</b>
GMO Aozora Net Bank Small businesses & start-ups:	<b>200,000</b> account openings	<b>23,600</b> (approx.)

##### ◆ Contributing to Regional Communities through Business Recovery

	FY2021-FY2025 Targets	FY2021 Results
Number of Business Recovery Fund-based transactions:	<b>100</b> transactions	<b>21</b>

##### Promoting "Industrial Transition"

##### ◆ Investments Designed to Support Structural Transformation

	FY2021-FY2025 Targets	FY2021 Results
Number of equity investments with a primary focus on engagement:	<b>100</b> transactions	<b>33</b>

#### Response to Climate Change

##### ◆ Sustainable Financing Amount

	FY2021-FY2030 Targets	FY2021 Results
	<b>Total: 1 trillion yen</b>	<b>148.5 billion yen</b>
	<b>Includes Environmental Financing of 700 billion yen</b>	<b>137.7 billion yen</b>

##### ◆ CO<sub>2</sub> Emissions as a Business Entity

	By FY2030 Targets	By FY2050* Targets	FY2021 Results
	<b>↓ 50% reduction</b> (compared to FY2020)	<b>0 (net zero)</b> *Or as early as possible	<b>4,994</b> t-CO <sub>2</sub>

##### ◆ Amount of Project Financing for Coal-fired Power Plants

	By FY2040 Targets	As of March 31, 2022
	<b>0 (zero)</b>	<b>29.2 billion yen</b>

#### Protecting and Providing for the Next Generation

##### ◆ Business/Asset Succession Consulting

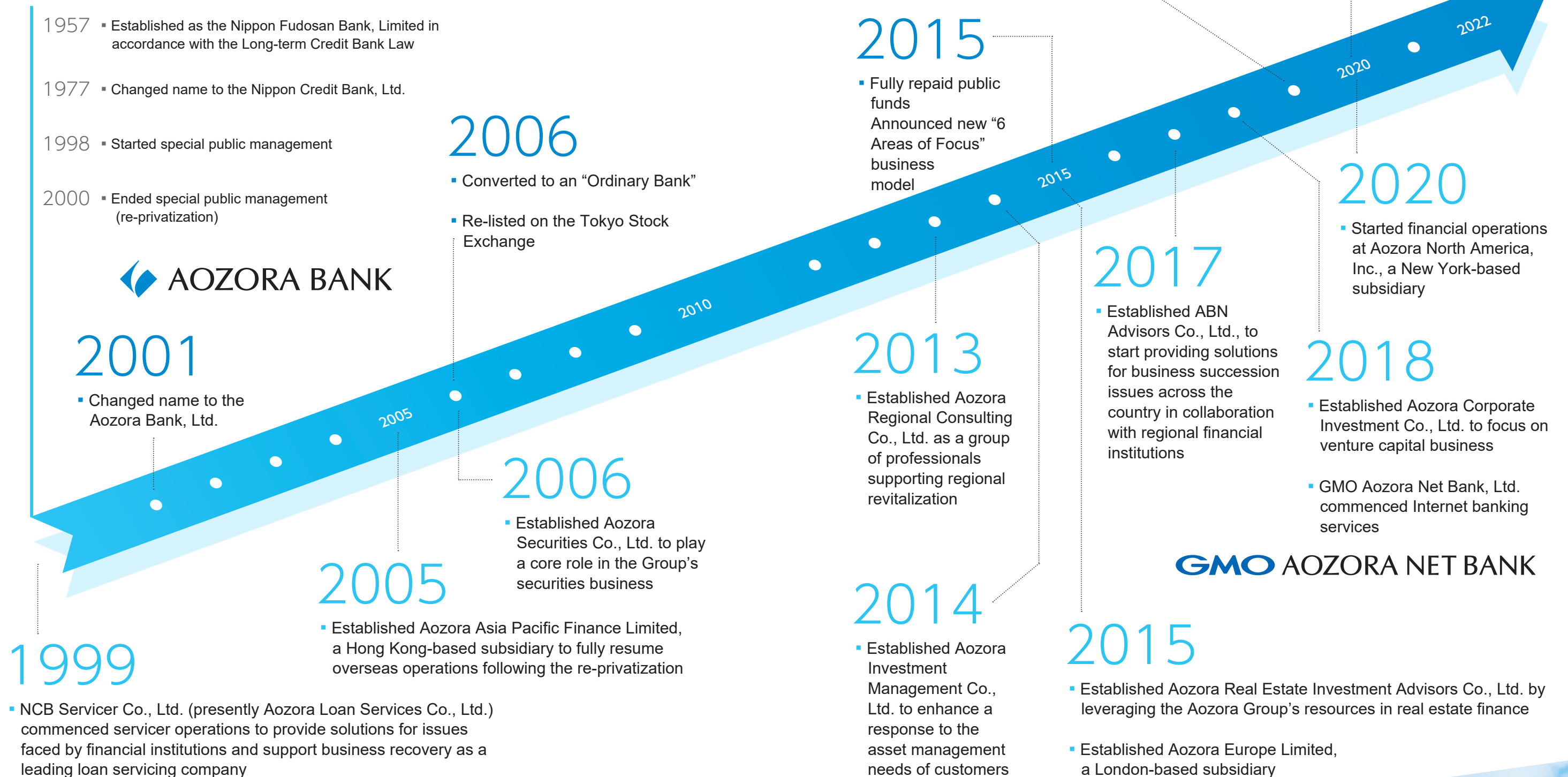
	FY2021-FY2025 Targets	FY2021 Results
Number of Consulting contracts:	<b>1,800</b>	<b>314</b>



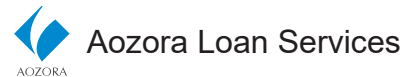
## Timeline of the Aozora Group's History

The Aozora Group has always responded to the needs of the times in advance, and continued to act as one of the pioneers in real estate finance, business recovery, buyout finance and other business areas since the inception of these markets.

By leveraging our track record and expertise accumulated in these business areas, we are promoting Aozora's Strategic Investments Business towards realizing the Aozora Mission to "contribute to the development of society through the creation of new value-added financial services".



## The Aozora Group (Major Consolidated Subsidiaries)



Location: 1-13-5 Kudankita, Chiyoda-ku, Tokyo, Japan  
Hulic Kudan Building  
Start of Servicer Operations: September 17, 1999

**Yukio Sekizawa**  
Representative Director and President



### Major Business

Distressed loan servicing

### Strengths

Loan servicing responding to the needs of regional financial institutions and their clients

- Proven experience and track record in its 22-year business history, which enables the support of a broad range of customers' efforts to address their issues
- Strong awareness of compliance and full respect for the protection of debtors' interests as the Aozora Group's loan servicer
- Response to a range of needs through its network of regional financial institutions across the country

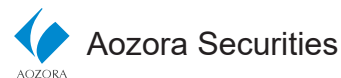
Purchase of distressed and bank loans by leveraging the Aozora Group's strength in business recovery investments

- Cash flow assessment backed by the distinctive business analysis capabilities developed as a group company of a bank
- Long-term holding of loan receivables in order to support customers' business recovery and relaunch
- 19 funds originated to date since the first fund in 2004

### Mid- to Long-term Strategy

Stronger presence as a business recovery loan servicer that aims to support customers' business recovery and relaunch

1. Contribution to the sustainable growth of regional communities by offering support for customers' reduction of excessive debt levels and business recovery
2. Expansion of its asset portfolio in order to establish a sustainable business base while taking into consideration ESG factors and investment return
3. Ensuring a more competitive operating base through collaboration with related parties inside and outside the company as well as DX and other initiatives



Location: 6-1-1 Kojimachi, Chiyoda-ku, Tokyo, Japan  
Established: January 23, 2006

**Katsuyuki Ozaki**  
Representative Director and President



### Major Businesses

- Offering multiple options for retail investors' asset management, such as structured bonds
- Providing regional banks and other institutional investors with asset management solutions, such as privately offered investment trusts

### Strengths

- Cultivation of investors' needs, product development and enhanced follow-ups as the Aozora Group's securities company by capitalizing on the Group's expertise

### Mid- to Long-term Strategy

- Improvement of information disclosure and product proposal capabilities in accordance with the customer-oriented business management policy
- Expansion of the retail customer base by providing a broader range of products and utilizing online channels
- Increase in the AUM of privately offered investment trusts by working closely with regional financial institutions as part of integrated banking and securities services
- Proactive involvement in new product and service development as the Aozora Group's securities company in order to strengthen securities platform features



Location: 6-1-1 Kojimachi, Chiyoda-ku, Tokyo, Japan  
Established: March 21, 2013

**Nobuyuki Horiuchi**  
Representative Director and President



### Major Businesses

- Advisory services for regional financial institutions on their credit planning and support for the management improvement of their clients
- Advisory services regarding planning for the invigoration of regional economies
- Advisory services for regional financial institutions on providing solutions to the management issues faced by their customers

### Strengths

- Track record of providing a broad range of advisory services for regional financial institutions
- Track record of offering innovative and wide-ranging solutions to the issues of regional companies
- A group of experts in the areas of marketing, business improvement support and regional revitalization
- Distinctive network across industrial, academic, governmental and financial sectors

### Mid- to Long-term Strategy

- Full commitment towards the enhanced management of regional financial institutions and the reinvigoration of regional economies as a member of Aozora Bank's Regional Finance Partner Bank Task Force



**Aozora Investment Management**

Location: 6-1-1 Kojimachi, Chiyoda-ku, Tokyo, Japan  
Established: February 4, 2014

**Takayoshi Nomura**  
Representative Director and President



### Major Business

- Investment management services

### Strengths

- Customer-oriented product design – Offering diversified investment opportunities on a global scale provided through excellent management approaches
- Enhanced follow-ups – Customized support for product distributors
- Timely delivery of information – Value-added information delivery to beneficiaries

### Mid- to Long-term Strategy

- Full commitment to protecting and growing customers' assets while aiming to become a reliable asset management company
- Development and provision of products that meet the needs and best interests of customers
- Working on ESG and SDGs in pursuit of growth as an asset management company





Location: 6-1-1 Kojimachi, Chiyoda-ku, Tokyo, Japan  
Established: January 6, 2015

**Takashi Imai**  
Representative Director and President



### Major Businesses

- Development and management of real estate investment funds
- Intermediation of beneficiary rights in real estate, private placement of interests in collective investment schemes
- Real estate finance consulting
- Referral of tenants, real estate agencies/professionals, etc. (business matching)

### Strengths

- Resources of the Aozora Group with strengths in real estate finance
- Aozora Bank's broad network of regional financial institutions
- Disciplined fund and risk management in accordance with the criteria applicable to financial institutions

### Mid- to Long-term Strategy

- Development of new funds that match diverse investor needs in order to offer products to various investor segments in addition to regional financial institutions
- Maintaining and improving the performance of existing funds while responding flexibly to a changing environment



Location: 4-3 Nibancho, Chiyoda-ku, Tokyo, Japan  
Nibancho Cashew Building 3F  
Established: May 24, 2017

**Shinya Kawabata**  
Representative Director and President



### Major Business

- Providing solutions to business succession needs in the SME market as an M&A advisory subsidiary of Aozora Bank

### Strengths

- High-level expertise regarding M&A and business succession developed as an Aozora Group company
- Excellent track record and wide-ranging information gathering capability covering all regions of Japan
- Providing customized solutions by leveraging the financial expertise and broad network of funds and regional financial institutions across Japan

### Mid- to Long-term Strategy

- Providing solutions tailored to a wide range of customer needs to maintain and develop their business, including business succession through M&A, with the aim of contributing to the development of the Aozora Group's M&A business



**Aozora Corporate Investment**

Location: 6-1-1 Kojimachi, Chiyoda-ku, Tokyo, Japan  
Established: April 24, 2018

**Akifumi Kubo**  
Representative Director and President



### Major Business

- Venture capital investment  
Managing "AOZORA HYBRID Investment Limited Partnership, II" as a core fund

### Strengths

- "Venture debt"(\*1) investments by leveraging knowledge of equity and debt finance  
Response to the needs of start-ups to avoid the dilution of management's ownership stake and ensuring financing sources at a firm's critical growth phase
- Offering one-stop services as the window to the entire Aozora Group by utilizing its network to serve customer needs at each growth phase
- (\*1) A general term for financial products with features of both equity and debt finance, such as convertible bonds and straight corporate bonds with stock options

### Mid- to Long-term Strategy

- Increase investment balances to the FY2022 target of 5.0 billion yen
- Improvement of operational expertise by strengthening collaboration with major overseas venture capital firms, as well as support for venture companies' efforts to enhance their corporate value from a mid- to long-term perspective by promoting the Aozora Venture Ecosystem Support Framework



Location: 1-2-3 Dogenzaka, Shibuya-ku, Tokyo, Japan  
Shibuya FUKURAS Building  
Launch of Internet Banking Operations: July 17, 2018

**Takeshi Yamane**  
(Left) President,  
Representative Director  
**Takehito Kaneko**  
(Right) Chairman,  
Representative Director



### Major Business

Internet banking operations

GMO Aozora Net Bank's features

- 1) Lowest level of bank transfer fees in the industry\*
- 2) Online application for business loans without requiring financial statements, collateral or guarantors for approval
- 3) "Simple Embedded Finance Services" that allow corporate customers to incorporate banking service components into their services
- 4) Leading player in providing embedded finance services, including Bank APIs
- 5) Debit card with the highest level of cashback rates\*

\* Based on data compiled by GMO Aozora Net Bank as of June 30, 2022

### Strengths

- In-house system development backed by technological capabilities
- Delivery of the five values of "safety", "speed", "price", "convenience" and "new experience" regarding services/solutions developed through in-house systems

### Mid- to Long-term Strategy

Innovative services based on the following three areas of focus:

- No. 1 Bank among small businesses and start-ups
- No. 1 Embedded Finance Services
- No. 1 tech-first banking services

## Aozora Asia Pacific Finance Limited

Location: Suites 1501-03, Two Exchange Square, 8  
Connaught Place, Central, Hong Kong, P.R.C.  
Established: June 29, 2005

**Ryouhei Sasaki**  
Managing Director



### Major Businesses

- Finance-related services in the Asia-Pacific region
- Providing corporate loans, etc. as a Hong Kong-based moneylender

### Strengths

- Established presence in the Asia-Pacific loan market by taking advantage of Hong Kong as a financial hub in Asia
- Allocation of professionals with business experience in East Asia, Southeast Asia, South Asia and Oceania

### Mid- to Long-term Strategy

- Focus on sustainable finance and debt fund investments in the Asia-Pacific region
- Development of expanded capabilities as Aozora Group's R&D center (operating base for new business) in Asia, particularly in the Greater China region

## Aozora Europe Limited

Location: 1st Floor, 80 Cheapside, London,  
EC2V 6EE, United Kingdom  
Established: December 15, 2015

**Tsuyoshi Sasaki**  
Managing Director



### Major Businesses

- Investment management of corporate loans in Europe
- Wide range of information collection/analysis operations in Europe

### Strengths

- Providing finance-related services to customers in European countries in accordance with applicable laws and regulations
- High-quality portfolio tailored to wide-ranging sectors in Europe
- Local network in major financial markets, including London

### Mid- to Long-term Strategy

- Steady building of high-quality asset portfolio, mainly in consideration of changes in the social/industrial structure and geopolitical risk
- Planning and promotion of new business in conjunction with the development of the Aozora Group's operations inside and outside Japan
- Gathering, analyzing, and delivering information regarding ESG and SDGs

## AOZORA NORTH AMERICA, INC.

Location: 1270 Avenue of the Americas,  
Suite #1701, New York, NY 10020 U.S.A.  
Business Commencement: September 1, 2020

**Anthony Pui**  
President



### Major Business

- Investment management of North American corporate loans

### Strengths

- Portfolio monitoring and risk management by in-market professionals with North American corporate loan expertise. Located closer to counterparties and issuers compared to Japan

### Mid- to Long-term Strategy

- Manage the portfolio in line with current investment guidelines and risk appetite, while flexibly responding to the U.S. economic environment, government policy, etc.



# Aozora's Strategic Investments Business

## - Promoting Industrial Transition and Realizing Financial Inclusion -

### ► A Changing World

The world is facing unprecedented changes. There continues to be a wide range of direct and indirect effects on business activity as a result of the COVID-19 pandemic and, more recently, the Russia-Ukraine conflict. Far ranging changes in business operations and lifestyles as a result of the development of digital technologies and the progress of industrial transition towards realizing a decarbonized society are also underway. That being said, we expect the emergence of corporations that intend to take advantage of the changing business landscape in order to capitalize on new opportunities and promote corporate evolution.

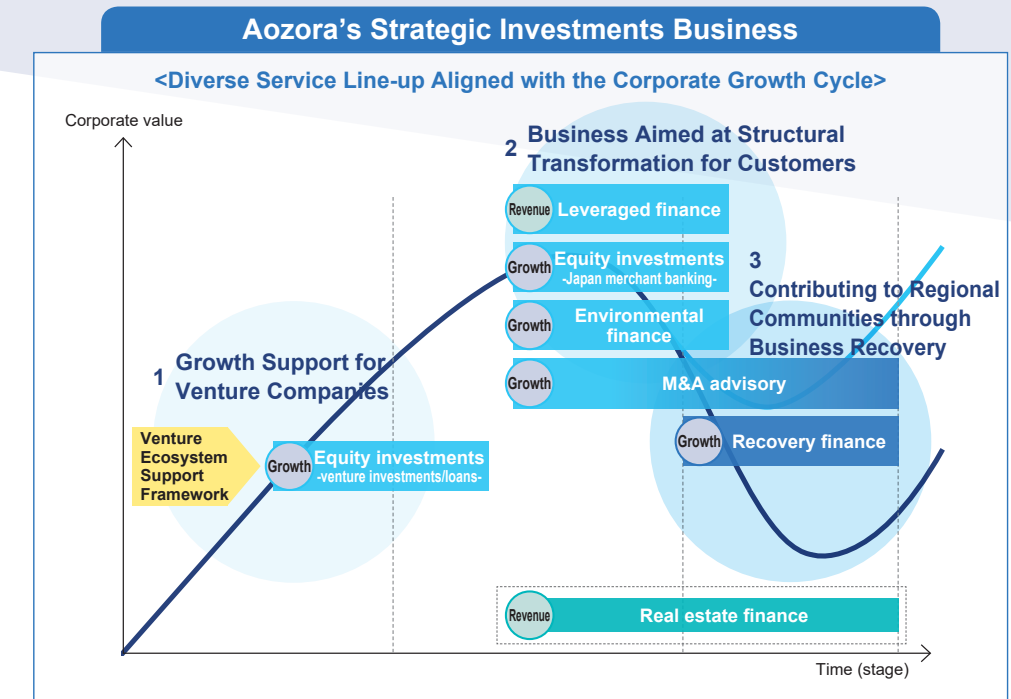
### ► Aozora Group Services Designed to Help Customers Take on New Challenges

As our customers develop business structure transformation initiatives or work on a business turnaround, we expect that the demand for equity financing that enables firms to take on these risks and opportunities to only increase. The Aozora Group will continue to promote its Strategic Investments Business as a way to support its customers in taking on new challenges by fostering communication and developing new ideas with the management teams of our business partners through long-term engagement consisting of investments and financing ranging from debt to equity. We will also help cultivate the development of new industries and actively support business restructuring and recovery for companies looking to take on new business challenges in order to realize sustainable growth in tandem with our customers.

As a major player in real estate and leveraged finance since the inception of these markets, the Aozora Group has developed a broad base of risk management knowledge (through credit analysis, financial structuring, documentation, etc. at the time of financing) and leverages this knowledge in its equity investments and corporate loans. Our equity investments, which include business recovery, real estate, and buyout ventures, exceed 190 billion yen (as of March 31, 2022), and we generate stable revenue each year through well-timed and diversified investments. We have also strengthened our risk management framework by establishing an office dedicated exclusively to equity analysis within our Credit Group.

### ► A New Partnership with Our Customers through Equity Investments with a Primary Focus on Engagement

Traditionally, Japanese banks have provided capital to corporate customers not only through loans but also through cross-shareholdings. Banks are trusted by their corporate clients with providing advice on a wide range of issues, and by being familiar with their clients' businesses, are well-positioned to offer value-added advice regarding business decisions and the associated risks. After the collapse of the bubble economy, we saw progress in the work-out of non-performing loans and the dissolution of cross-shareholdings as the business relationship between companies and banks continued to evolve. However, companies that have been forced to transition into new business approaches require partners who understand their businesses and can provide consultations on critical management issues. The Aozora Group continues to make new investments in the equities of its corporate and financial institution customers and engages in dialogue with them in order to obtain a deeper understanding of their business and proactively provide management advice. Known as "equity investments with a primary focus on engagement", Aozora will utilize this approach to form new partnerships with its customers through disciplined risk-taking. In FY2022, we established the Merchant Banking Division, a division dedicated to investing in our corporate customers, and are working to further develop human resources with the skill and expertise capable of building partnerships and researching analytical methods to gain a deeper understanding of our customers' business.



### ► Diverse Service Line-up Aligned with the Corporate Growth Cycle

A broad range of services are required to support each stage in the corporate growth cycle. "Aozora's Strategic Investments Business" will seek to utilize our high level of expertise cultivated through investments and financing ranging from debt to equity in order to develop a wide range of solutions designed to promote industrial transition and realize financial inclusion.

#### 1. Growth Support for Venture Companies

The Aozora Group is promoting its "Venture Ecosystem Support Framework", which provides support services for venture companies in the early stages of development by utilizing Aozora's network. We provide a wide range of services that align with a venture company's stage of growth, including growth funds ranging from debt to equity and GMO Aozora Net Bank's embedded finance services.

#### 2. Business Aimed at Structural Transformation for Customers

We are proactively developing domestic and overseas "leveraged finance", "environmental finance", and "M&A advisory" initiatives for companies that have reached their maturation point and are aiming to transform their business structure.

In addition to private equity investments, we have also begun to make equity investments with a primary focus on engagement. Our aim is to achieve growth in tandem with our customers by working to understand their operations through dialogue with them as business partners working together to solve issues as well as by actively involving ourselves in their management and providing advice.

#### 3. Contributing to Regional Communities through Business Recovery

One of the Aozora Group's strengths is "recovery finance" that fully utilizes the resources of our group company Aozora Loan Services as a way of contributing to regional communities through business recovery in collaboration with regional financial institutions across Japan.

Among the wide range of services the Aozora Group provides, we have positioned "leveraged finance" and "real estate finance" as revenue drivers and will continue to focus on these areas while building upon our strong track record. Amidst major changes in the industrial structure, we have positioned "equity investments", "environmental finance", "recovery finance" and "M&A advisory" as growth businesses which are expected to grow going forward alongside our customers' increasing needs for support.

Aozora Bank is developing initiatives aimed at creating new business through close cooperation among each of its business groups and group companies as well as in collaboration with regional financial institutions and a wide range of partner companies.

## Revenue Areas

### ■ Leveraged Finance

Amid the accelerating trend towards corporate structural transformation, needs for M&A are expanding, from major corporations to mid-sized companies and SMEs. The Bank works to arrange/provide LBO loans, propose syndicated loans and build a high-quality portfolio through private equity investments.

For overseas corporate loans, Aozora strives to ensure a flexible portfolio management aimed at risk diversification and maintaining/improving credit quality through coordinated monitoring by the Head Office and New York and London-based subsidiaries.

### ■ Real Estate Finance

In our real estate finance business, we intend to actively incorporate sustainable finance, which is increasingly gaining momentum in the real estate industry, in addition to real estate non-recourse loans and corporate loans. For equity finance, we will continue to make value-added proposals by leveraging our knowledge and insights of the real estate sector while selectively making equity investments with a primary focus on engagement as well as more typical equity investments in real estate.

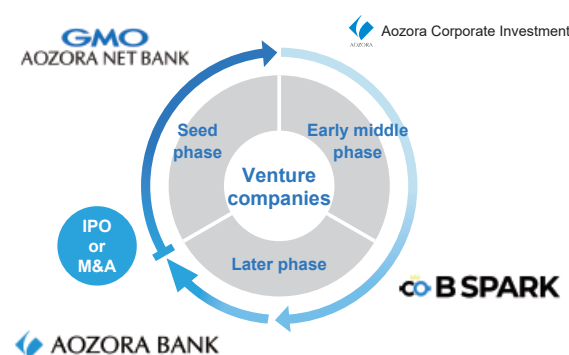
In addition, we offer financial products in tie-ups with Aozora Real Estate Investment Advisors, B Spark (a DX support company) and Vietnam-based Orient Commercial Joint Stock Bank (OCB) as well as wide-ranging financial services by leveraging the Aozora Group's wealth of expertise in the real estate area, such as business matching designed to meet diverse real estate needs, including more boutique real estate products.

## Growth Areas

### ■ Equity Investments

Aozora intends to promote equity investments with a primary focus on engagement, an approach where we purchase our customers' equities and work closely with them towards their growth by offering advice through active involvement in their management while facilitating dialogue focused on gaining a deeper understanding of their business.

In our investments and loans to venture companies, we will provide assistance that contributes to the mid- to long-term enhancement of their corporate value mainly by providing venture debt funds available through Aozora's Venture Ecosystem Support Framework, our venture company support service that utilizes Aozora's network.



#### Seed phase

GMO Aozora Net Bank provides multiple services ranging from account openings to business support

#### Early middle phase

Aozora Corporate Investment provides financing solutions, including venture debt. B Spark creates business opportunities mainly through business-customer matching

#### Later phase

Aozora Bank provides (i) large-sized venture debt and (ii) equity investment with a primary focus on engagement with a view to post-IPO

### ■ Environmental Finance

Aozora flexibly responds to emerging needs, including ongoing large-scale solar power development projects and transition finance towards decarbonization, and serves the needs of local communities through financing arrangements and syndicated loans in collaboration mainly with regional financial institutions

Through financing for renewable energy projects, which are growing in the U.S. and European markets ahead of other regions, we aim to explore new innovative areas by leveraging our expertise domestically and overseas and support the development of advanced energy-related projects in Japan as well as throughout Asia.

### ■ Recovery Finance

By leveraging our over-20-year experience in recovery finance led by Aozora Loan Services, we remain committed to contributing to regional communities as a leading domestic player by responding to the business recovery financing needs of regional customers and providing recovery finance for assets adversely impacted by the COVID-19 pandemic as well as DIP finance.

### ■ M&A Advisory

ABN Advisors is further strengthening its framework specializing in business succession-related M&A advisory services in response to business succession needs that are growing amid the recent trend towards corporate structural transformation. ABN Advisors will provide a wide range of solutions in collaboration with the Retail Banking Group while leveraging our network of regional financial institutions.

For cross-border M&A projects, we intend to focus on Vietnam-related transactions with high M&A demand from Japanese companies in collaboration with OCB, our local business and capital partner.

## Customer Network

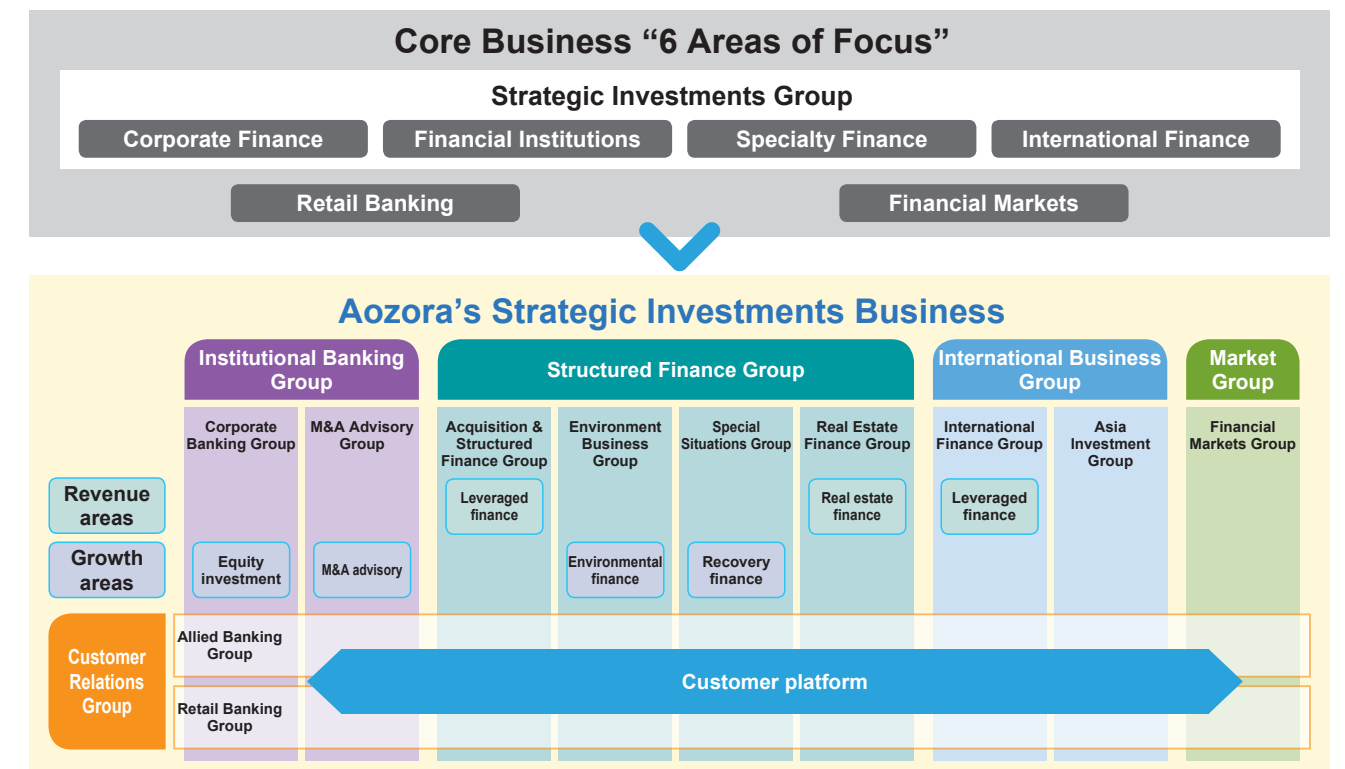
### ■ Network of Regional Financial Institutions

Our Regional Finance Partner Bank Task Force is now in place to utilize our nationwide network of regional financial institutions that has been in place for over 60 years as well as our wide-ranging financial capabilities across the Aozora Group developed over time. We aim to flexibly and quickly respond to the diverse needs of our regional financial institution customers. These needs may require providing business recovery/succession support, securities investment and risk management support, retail business support regarding Aozora Investment Management's publicly offered investment trusts sold through regional financial institutions as well as a broad range of services tailored to regional companies by promoting collaboration with our business groups and group companies.

### ■ Retail Customers

We provide solutions to diverse customer needs, including business succession support for SMEs and small business owners as well as real estate investment support for affluent individuals, by leveraging the strengths of our group companies and other corporate banking groups through the retail customer base as a common platform across the Aozora Group. Aozora provides comprehensive financial services through specialized consulting at traditional branches located across Japan as well as the highly convenient BANK™ service. We also actively offer sales of financial products with the ultimate aim of increasing investment trust AUM balances.

Based on a selection and concentration approach promoted under our "6 Areas of Focus" business model, Aozora has evolved its organizational structure in order to drive "Aozora's Strategic Investments Business".



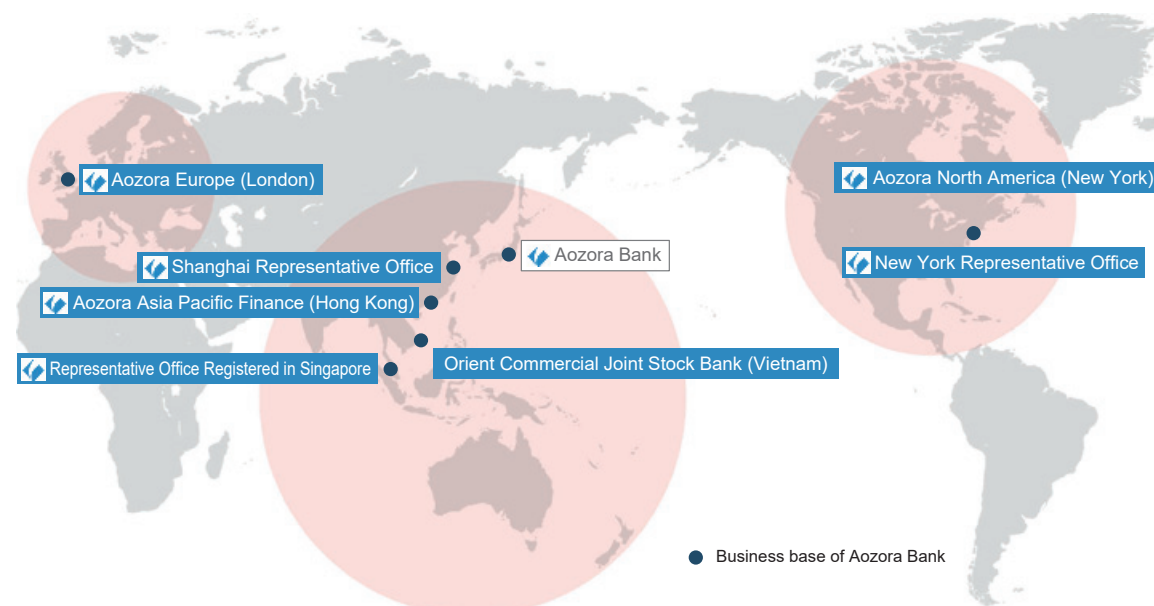


## Aozora Network

### Domestic Network



### Overseas Network



## Customer Relations Group

### Allied Baking Group (ABG)

#### Major Businesses

- Provision of bank bonds, a wide range of derivative-embedded deposits/loans, private placement investment trusts, as well as other trust-related investment products
- Offering opportunities for regional financial institutions to participate in syndicated loans, LBO finance, etc., originated by the Bank
- Support for the establishment of securities investment management systems and risk management frameworks
- Support for "customer-oriented business management" in the asset management of regional financial institutions' retail customers
- Offering collaborative proposals to regional financial institutions' corporate clients regarding solutions to business challenges including reducing foreign exchange exposure risk, raw materials/fuel price fluctuation risk hedging, business improvement, and business succession



**Takashi Kato**  
Senior Managing Executive Officer  
Head of Allied Banking Group



**Naoko Tanaka**  
Executive Officer  
Deputy Head of Allied Banking Group



**Akemi Hashimoto**  
Managing Executive Officer  
General Manager of Kansai Branch

#### ABG's Advantages

- Strong network built by engaging in a broad array of transactions with regional financial institutions across Japan for over 60 years
- Nationwide sales structure led by our "Regional Finance Partner Bank Task Force", which contributes to solving problems faced by regional financial institutions who support local economies by leveraging the financial services that the Aozora Group has developed over the years
- Publicly offered investment trusts offered by Aozora Investment Management and multifaceted support based upon the sales structure of regional banks and their securities subsidiaries who sell investment trusts as Aozora's sales agents in line with their "customer-oriented business management" policies

#### Mid- to Long-term Strategy

- We will promote the full array of financial services of the Aozora Group throughout Japan by combining our strong network of regional financial institutions nationwide, the trust that our regional financial institution customers have built within their communities, and our regional network centered on our local branches.
- We will deepen the activities of the "Regional Financial Partner Bank Task Force" to contribute to solving the increasingly complex and diverse issues faced by our regional financial institution customers.

#### Online Seminar on Business Recovery during the COVID-19 Pandemic

In June 2021, we held an online seminar for our regional financial institution customers to introduce examples of business recovery during the COVID-19 pandemic. As an increasing number of mid-sized companies and SMEs have fallen into the vicious cycle of excessive debt due to the pandemic, this seminar was held as a response to requests from our regional financial institution customers who feel the need for quick business recovery support for their customers without postponing addressing the issue.

The seminar was attended by more than 200 regional financial institution customers, and introduced several examples of the use of servicers, which allow for a flexible response, as a means to resolve issues that have become difficult to handle for a variety of reasons.

The Aozora Group will continue to provide a wide range of timely information to support our regional financial institution customers in resolving their business challenges.

## Customer Relations Group

### Retail Banking Group (RBG)

#### Major Businesses

- Offering comprehensive consulting services related to business succession and wealth transfer in addition to wealth accumulation and asset management
- Provision of BANK™, a highly convenient financial service that allows customers to engage in a broad range of transactions, including account openings, via a smartphone app
- Support for customers' mid- to long-term wealth accumulations, mainly by providing "Aozora Core Funds"

#### RBG's Advantages

- Comprehensive Consulting Services**  
Providing a wide range of consulting services to retail customers, SMEs, and business owners regarding transferring their businesses and assets to the next generation  
Specialized consulting services via the "Financial Advisor Office", an organization within the Head Office consisting of certified tax accountants and financial planners with extensive professional experience, in cooperation with sales offices/branches
- BANK™ Services**  
Creating new value through "BANK The Teiki (time deposit)" and ordinary deposits, both of which provide attractive interest rates, "BANK The Savings" (Automatic Piggy Bank), "BANK The Debit" (a cashless debit card service), and "BANK The Story"
- Product Development**  
Joint development with Aozora Investment Management of products that take sustainability into consideration (please refer to page 67)



**Jun Nakashima**

Executive Officer  
Head of Retail Banking Group

#### Mid- to Long-term Strategy

The Bank will conduct business based on a policy of customer-oriented business management and will provide comprehensive solutions that not only address asset management issues but also the diverse needs of our customers by utilizing the Aozora Group's network. The monitoring results regarding the achievement criteria designed to ensure proper implementation of this policy are published semiannually in the "Aozora Bank's Initiatives for Customer-Oriented Business Management" report. (Currently, there are 36 achievement criteria. Please refer to our website for details.)

### Customer-oriented Business Management (introduction of initiatives)

#### Customer Satisfaction Surveys

Overall customer satisfaction in FY2021 was high, with more than 80% of customers responding that they were satisfied as a result of enhanced BANK™ services which were achieved through functional improvements. However, we also received feedback such as "branches are located too far away", based on which we will work to improve, such as by further expanding our points of contact. For more details regarding the "Customer Satisfaction Survey Results", please visit our website.

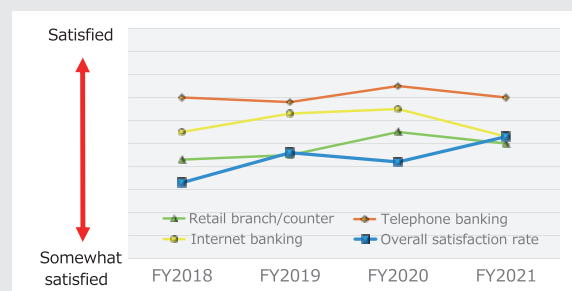
#### Diversification of points of contact with customers

In addition to our branch locations, we have also begun using "WORKSTYLING SHARE", a system of multi-location corporate satellite offices, as new locations to meet with customers in cooperation with Mitsui Fudosan Co., Ltd. as a means to enhance customer convenience.

We have also introduced online consulting tools which enable our customers to meet with us without having to leave home.

#### Asset Accumulation Support by "Aozora Core Funds"

In FY2021, investment trust net assets under management grew by 143%, with major contributions from the Aozora Core Funds, which grew by 173% during the same year.



## Institutional Banking Group

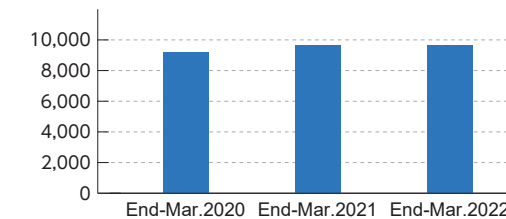
### Corporate Banking Group (CBG): Corporate Banking

#### Major Businesses

- Loan services for corporate customers
  - 1) Corporate finance
  - 2) Structured finance
- Delivery of high value-added financial solutions to corporate customers in cooperation with other business groups
  - 1) Products that meet market risk-hedging needs
  - 2) Equity investments with a primary focus on engagement
  - 3) Equity-related finance, etc.

#### CBG (Corporate Banking)

Asset Balances (JPY 100M)



**Kazuhiro Yasuda**

Managing Executive Officer  
Head of Corporate Banking Group  
(Corporate Banking)



**Akemi Hashimoto**

Managing Executive Officer  
General Manager of Kansai Branch

#### CBG (Corporate Banking)'s Advantages

- A flat and open organization with the ability to respond promptly through cross-sectoral cooperation
- Ability to provide investment and financing opportunities ranging from loans to equity as well as products that meet market risk hedging needs

#### Mid- to Long-term Strategy

We will focus on close communication with our corporate customers and provide them with high value-added financial solutions.

- We will proactively pursue new lending opportunities in response to business succession and business recovery. Also, we will focus on regional development and business collaborations with regional financial institutions.
- We will work with the Financial Markets Group to provide high value-added products tailored to customers' market risk hedging needs, including interest rates, foreign exchange, and commodities instruments.
- Regarding equity investments with a primary focus on engagement and equity finance, we will collaborate with other business groups to actively support our customers' structural transformation and business restructuring through close communication with their management and our proposals that contribute to enhancing corporate value including DX support, transition toward decarbonization, and M&A.

### Strengthening Proposal-based Sales Approach

CBG is promoting equity investments with a primary focus on engagement that aim to realize structural transformation in order to achieve Aozora's Sustainability Targets. Based on close communication with our customers with the goal of enhancing their corporate value, we strive to deepen our understanding of their overall business and develop initiatives designed to address their management challenges. While continuing to maintain the trustworthy and prompt handling of issues that has been highly praised by our customers based on the results of our annual customer satisfaction survey, we will strive to further enhance our proposal-based sales approach by expending the effort necessary to improve our capacity to better understand our customers' overall business, identify their issues in a timely and appropriate manner, and provide qualitative and quantitative proposals and information.



## Institutional Banking Group

### Corporate Banking Group (CBG): Merchant Banking

#### Major Businesses

- Investment in corporate customers
  - Equity investments with a primary focus on engagement
  - Venture debt
- Capital and business alliances with other companies, planning of training programs that contribute to advancing sales skills, etc.

#### CBG (Merchant Banking)'s Advantages

- As a unit that specializes in investments, the Merchant Banking unit is staffed with professionals with extensive experience and expertise regarding investments and loans obtained while working in specialty finance, credit divisions, etc.

#### Mid- to Long-term Strategy

- For customers who wish to adapt themselves to a changing environment, we will contribute to the support of structural transformation and business restructuring by offering a full range of financing, from debt to equity.
- As CBG professionals, we will work closely with other business groups to enhance equity investments with a primary focus on engagement and offer new transactions and services to our customers, including the provision of risk capital and solutions to management issues.



**Jun Shinozaki**

Managing Executive Officer  
Head of Corporate Banking Group  
(Merchant Banking)

### Equity Investments with a Primary Focus on Engagement

Traditionally, banks have provided risk capital in the form of both loans and equity as a way to more fully support corporate growth. Companies also trusted banks' business approaches and consulted with them on a variety of matters. After the collapse of the bubble economy, as banks' credit decisions became stricter and cross-shareholdings were dissolved, transactions between banks and corporations have continued to decline, and, as a result, banks no longer play the role they once did. Amid the historic turning point in the industrial structures, companies that are developing structural transformation and business restructuring initiatives are once again looking for providers of risk capital as well as partners who understand their business and can consult with them on management issues. Aozora Bank is working to establish a new role akin to the role banks assumed in the past by providing risk capital ranging from debt to equity for companies that need to transition to new business areas, engaging in close communication with their management teams, and giving strategic advice that contributes to improving their corporate value. We refer to this approach as "equity investments with a primary focus on engagement".

### Venture Debt

For Japanese venture companies that have a strong need for funding but have no other way of raising capital other than issuing new shares, we will provide venture debt through venture funds and other vehicles managed by Aozora Corporate Investment. Venture debt is a general term for financial products with the features of both equity and debt, such as convertible bonds and bonds with share acquisition rights. This allows venture companies to raise the funds necessary for business growth while avoiding equity dilution. In addition, the Aozora Group also leverages its extensive network to provide one-stop support services tailored to each growth phase of venture companies.

## Institutional Banking Group

### M&A Advisory Group (MAG)

#### Major Businesses

- M&A advisory services
- Consulting services regarding M&A strategies, business growth/recovery strategies, business succession, etc.
- Support for customers' overseas business expansion, mainly in Asia, and corporate valuations

#### MAG's Advantages

- One-stop support to large companies and SMEs for domestic and cross-border M&A
- Expertise and extensive network established over many years, both in Japan and overseas
- Services provided by a team of experienced professionals, most of whom have long careers in M&A and the private equity businesses.
- Offering customized solutions to meet customers' needs in collaboration with other business groups engaged in commercial lending and buyout/succession funds
- Support for customers' cross-border M&A and overseas business by leveraging alliances with financial institutions across Asia, including Orient Commercial Joint Stock Bank (OCB) in Vietnam

#### Mid- to Long-term Strategy

Provide high value-added solutions to meet the changing needs of our customers, both domestic and overseas, from large-scale transactions to business succession services for SMEs, while leveraging the Aozora Group's capabilities. Through our M&A advisory services, we will contribute to the development of society as well as provide support for the enhancement of our customers' corporate value, structural transformation, and addressing issues including business succession.

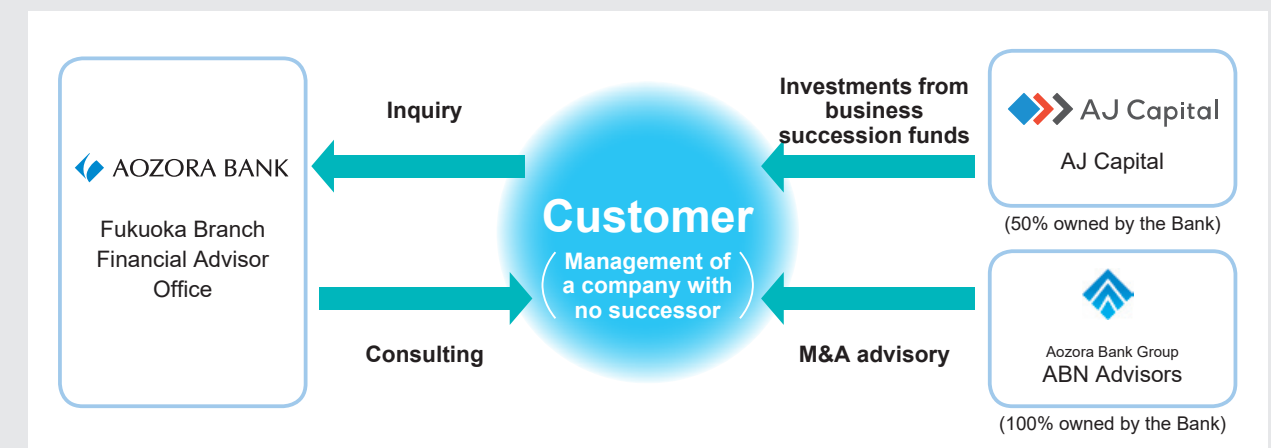


**Shu Takahashi**

Executive Officer  
Head of M&A Advisory Group

### Business Succession Leveraging the Aozora Group's Strengths

The wide range of consulting services provided by the Financial Advisor Office and the customized support provided by ABN Advisors were able to provide significant reassurance to a customer of the Fukuoka Branch with business succession needs, and business ownership was successfully transitioned through a business succession fund managed by AJ Capital.



## Structured Finance Group

### Acquisition & Structured Finance Group (ASG)

#### Major Businesses

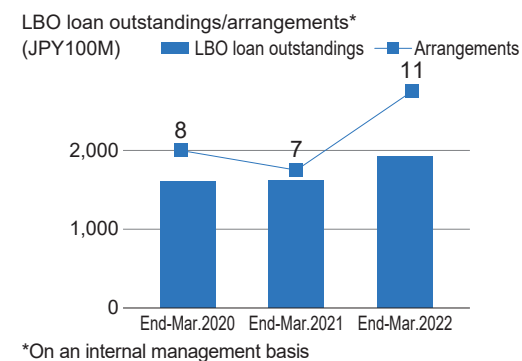
- Transaction arrangement for LBO, MBO and other M&A-related financing, loan execution, syndicated loan origination
- LP investments in private equity funds
- Arrangement of structured finance transactions and execution of investments and loans

#### ASG's Advantages

- Ongoing involvement in large transactions as one of the leaders in the LBO financing market.
- Strong network with a large number of private equity funds, including global funds
- Offering of advisory and financing services in collaboration with the M&A Advisory Group, including through our Group companies and investment funds
- High level of expertise, excellent mobility/flexibility, and extensive domestic/global experience and track record

#### Mid- to Long-term Strategy

We will capture opportunities for target M&A-related finance investments and loans stemming from the business succession needs of small business owners and carve-out strategies of major companies for selection/concentration of their business operations. In addition, we will further enhance the efficiency of investments and loans by strengthening our ability to underwrite mid- to large-sized projects, building upon our strong distribution capabilities, and provide attractive investment and loan opportunities to regional financial institutions and other customers.



#### LBO Market Trends

In FY2021, the M&A market continued to be active resulting in a record number of transactions, which included business succession, carve-out (sales of subsidiaries and businesses, etc.) resulting from the selection and concentration of major listed companies, and the privatization of listed companies, as the domestic LBO market also continued to be active. The number and volume of LBO finance transactions undertaken by Aozora have also reached record high levels, and Aozora is further strengthening its presence in the market. This trend is expected to continue into the post-COVID-19 world and the size of the market is projected to expand even further.



**Hiroki Nakazato**

Executive Officer  
Head of Acquisition & Structured Finance Group,  
Head of Environment Business Group

## Structured Finance Group

### Environment Business Group (EBG)

#### Major Businesses

- Transaction arrangement, loan execution, and syndicated loan origination for environment-related project finance with a focus on renewable energy
- LP investments in environment-related equity and infrastructure funds

#### EBG's Advantages

- High level of expertise, knowledge and network developed through a wide range of structured finance initiatives, both domestically and overseas
- Application of a broad range of financing technologies to renewable energy projects including solar, wind, and geothermal power generation projects, gas-fired power generation projects that include energy storage facilities, and transition financing designed to promote the cleaner operation of existing thermal power plants
- Superior speed, flexibility, and extensive domestic and international experience

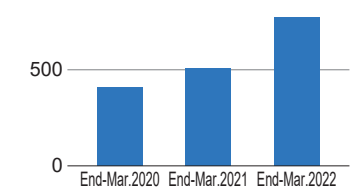
#### Mid- to Long-term Strategy

The Aozora Group is committed to achieving "Aozora's Sustainability Targets", which call for a cumulative total of 1 trillion yen in sustainable financing by FY2030, including 700 billion yen in environmental financing. In Japan, we will collaborate with regional financial institutions through syndicated and other loans in order to contribute to the expansion of clean energy, particularly solar power generation, and the development of local economies while broadening the scope of our business to include non-FIT\* projects, offshore wind power generation, and biomass power generation. Overseas, our aim is to accumulate knowledge by participating in financing projects in Europe and the United States, which are leading countries in environmental financing, and to expand our business in Asia while consolidating the wide breadth of information obtained through our overseas offices.

By taking on environmental financing in new areas such as plastic recycling and hydrogen plant facilities, we will continue to support innovations in decarbonization technology.

\* FIT: Feed-in Tariff

Domestic and Overseas Renewable Energy Project Finance Outstandings (JPY100M)



#### Environmental Finance Development Framework

As we focus on executing and originating sustainable finance to achieve Aozora's Sustainability Targets, the team in charge of environmental finance within the Acquisition & Structured Finance Division elevated to become a separate division, and the new Infrastructure and Environment Finance Division was established in January 2022. Furthermore, in April 2022, the Division was merged with the team with responsibility for overseas project finance within the International Business Division to create a more global framework.





## Structured Finance Group

### Special Situations Group (SSG)

#### Major Businesses

- Initiatives to address the recovery finance needs of regional financial institutions and their corporate customers
- Investments, loans, and recovery support for distressed companies
- Establishment and management of recovery funds focused on specific regions and industries

#### SSG's Advantages

- Over 20 years of experience in the recovery business
- Network consisting of over 80% of the nation's regional financial institutions

#### Mid- to Long-term Strategy

We will expand recovery finance support for companies and assets affected by the COVID-19 pandemic. We will also strengthen our recovery business initiatives for the next generation, including DX promotion and overseas expansion, as well as support the business revitalization of regional financial institutions' customers through our recovery funds.

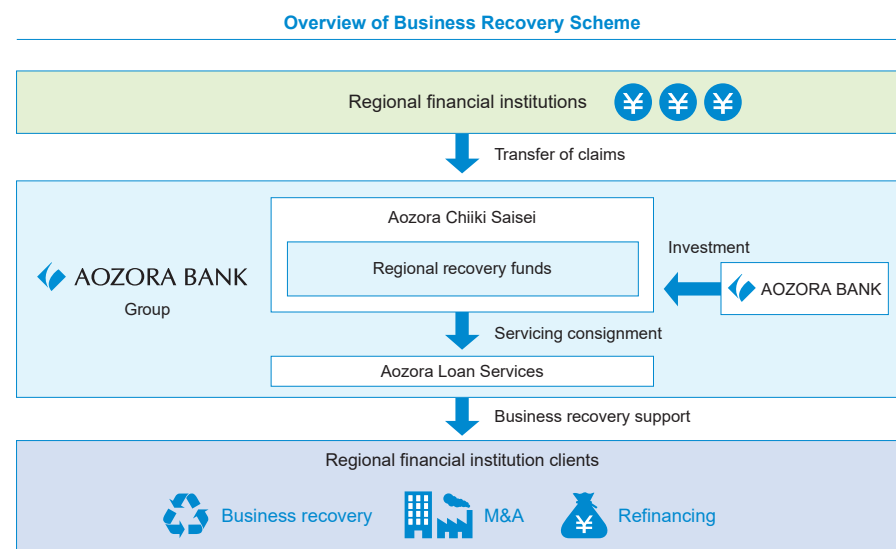


**Takashi Hagio**

Executive Officer  
Head of Special Situations Group

#### Business Recovery Focus

Through our subsidiary Aozora Loan Services, a leading company in the servicing industry, the Aozora Group has extensive expertise as well as the strengths of a comprehensive business recovery network. The Group is committed to contributing to the revitalization of regional economies and industries through its recovery business.



## Structured Finance Group

### Real Estate Finance Group (RFG)

#### Major Businesses

- Non-recourse loans secured by commercial real estate in Japan, North America, and London
- Loans to real estate development companies and REITs
- Investments in real estate funds focused on Japan, Europe, and the U.S. real estate markets



**Fumihiko Hirose**

Senior Managing Executive Officer  
Head of Real Estate Finance Group



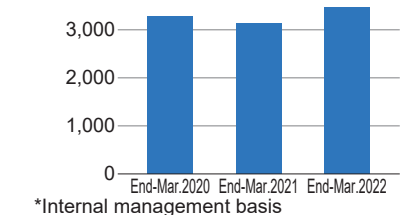
**Kouji Igarashi**

Executive Officer  
Deputy Head of Real Estate Finance Group

#### RFG's Advantages

- Ability to manage specialized real estate financing based on the experience, track-record, and expertise accumulated over the years since our establishment in 1957 as the Nippon Fudosan Bank, Limited

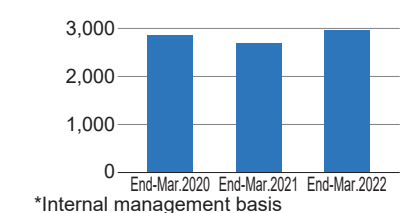
Domestic real estate non-recourse loan outstandings\* (JPY 100M)



#### Mid- to Long-term Strategy

In order to build a globally diversified commercial real estate loan and investment portfolio, we will target real estate for which demand is expected to continue to grow in line with social and economic changes, and will focus on real estate in regions and uses where potential growth is expected. We will further leverage our capabilities by collaborating with GMO Aozora Net Bank to provide new financial services to the real estate industry and will actively engage in real estate-related sustainable finance.

Overseas real estate non-recourse loan outstandings\* (JPY 100M)



#### Establishment of a Private Placement Real Estate Fund "Aozora Fund V"

Aozora Real Estate Investment Advisors ("AREIA") borrowed non-recourse loans from a regional bank and established the "Aozora Fund V", which invested in a retail and office complex located in Aichi Prefecture. As asset manager, AREIA strives to leverage the expertise developed by the Aozora Group through years of experience in real estate-related investments in order to stabilize and then improve performance of the fund.

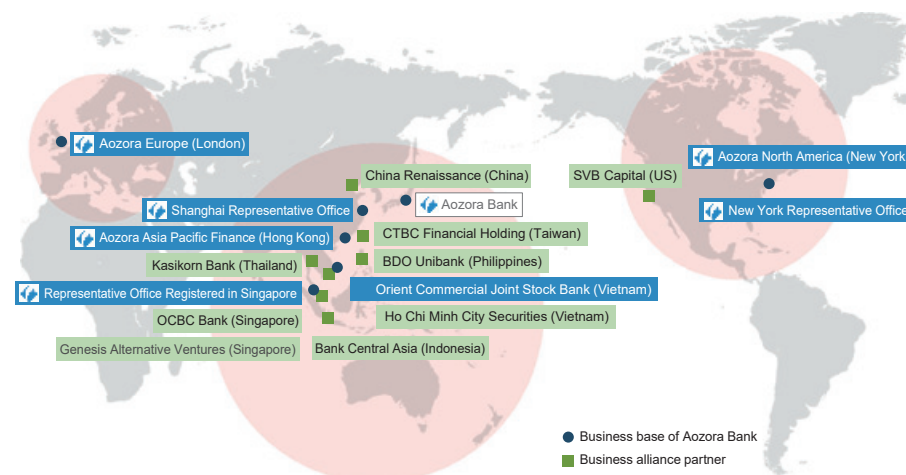


## International Business Group

### International Finance Group (IFG)

#### Major Businesses

- North American/European corporate finance
- Structured finance, aircraft finance
- Investments in U.S. and European debt funds, etc.



#### IFG's Advantages

- Globally diversified loan portfolio
- Flexible and timely responses to changes in credit conditions
- Centralized management of credit risk through the sharing of credit policies and governance of Aozora's subsidiaries

#### Mid- to Long-term Strategy

We will maintain and improve our seamless monitoring framework and risk management capabilities through close cooperation between local offices in North America and Europe and the Head Office in Tokyo, and flexibly manage our portfolio to diversify risks and maintain/improve credit quality.

In addition, we intend to keep abreast of cutting-edge financial expertise and new global financial trends in the U.S. and Europe, and promote investments and loans, including in new areas, in consideration of SDGs.

#### Developing Global Human Resources

Aozora conducts training to support employees in acquiring the skills necessary to engage in global business while hiring local professionals under its business management policy of contributing to the development of the global economy.

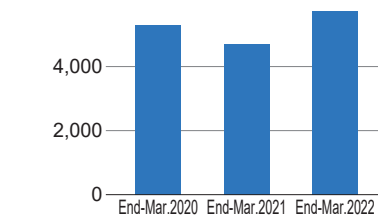
Aozora provides its employees in Japan with overseas business training sessions at overseas offices through its "Overseas Office Challenge Program" and "Short-term Overseas Trainee Program". The Bank also conducts international finance related training sessions at international business-related divisions in the Head Office for trainees from other divisions.



**Mitsuhiro Segawa**

Executive Officer  
Head of International Finance Group,  
Deputy Head of Asia Investment Group

Overseas corporate loan outstandings\*  
(JPY 100M)



\*North American/European corporate loan outstandings (internal management basis)

## International Business Group

### Asia Investment Group (AIG)

#### Major Businesses

- Fund LP investments mainly in the Asia-Pacific region
- Corporate lending in the Asia-Pacific region
- Support for cross-border M&A and overseas expansion of our customers through our network with local partners, such as financial institutions mainly in Asia
- Promotion of business in Vietnam — collaboration with Orient Commercial Joint Stock Bank (OCB)

#### AIG's Advantages

- Years of experience and results based on the consolidation of human resources, knowledge, information, networks, and other resources in our Asia-focused businesses
- Long-standing collaborations with local partners, including business alliance partners, and investments and loans by carefully selecting quality investments
- Long-term strategic partnership with OCB, offering unique and specialized financial services that incorporate the rapid economic growth in Vietnam

#### Mid- to Long-term Strategy

AIG will enhance its network that consists of the Head Office, our offices located in Asia, and local partners including business alliance partners as well as grow investments and loans while being conscious of product and country-specific allocations in order to work towards the sustainable development of the Aozora Group's Asian business.

Moreover, AIG will build and diversify its portfolio through Fund LP investments (in equity/debt funds) as well as loan initiatives, while paying attention to global trends and the market environment.

Through further collaboration with OCB, AIG will strive to contribute to the growth of OCB and the development of the Aozora Group by promoting its business in Vietnam with OCB as a platform.



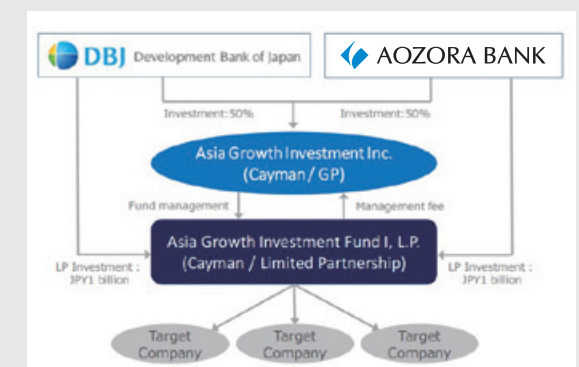
**Shin Kato**

Executive Officer  
Head of Asia Investment Group

#### Joint Establishment of Asia Investment Fund with Development Bank of Japan

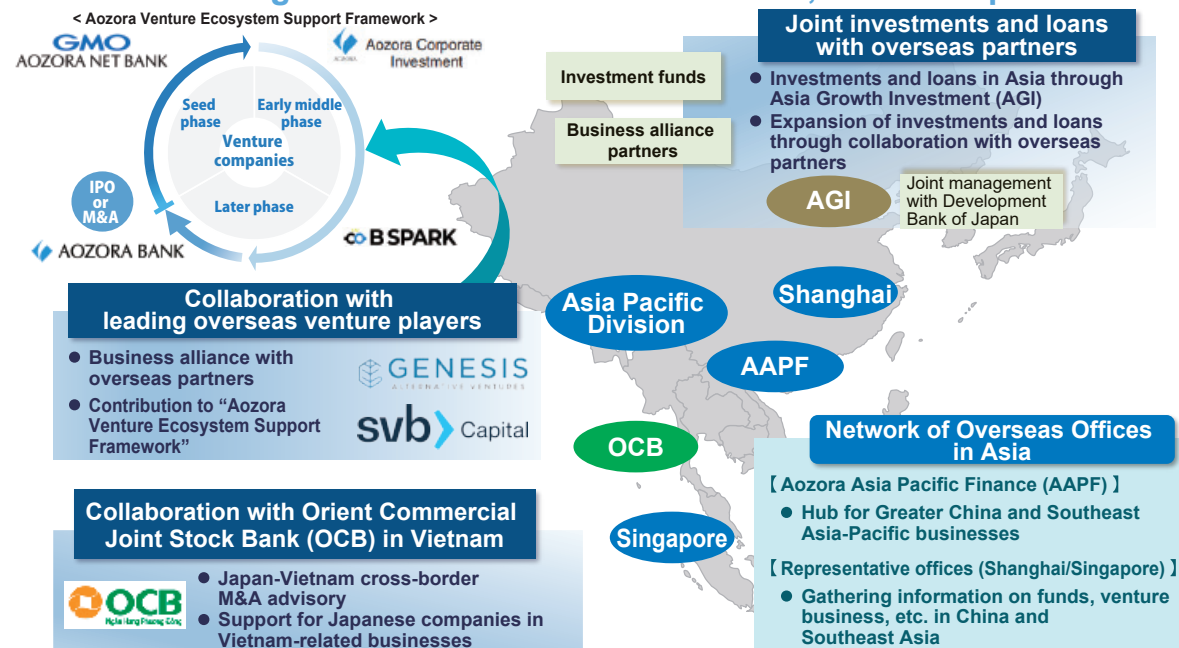
In July 2021, Aozora Bank, in collaboration with the Development Bank of Japan Inc. (DBJ), established the Asia Growth Investment Fund I, L.P., a jointly managed fund targeting investments in and loans to mid-sized companies and SMEs located in South East Asia.

Aozora's strategy for capitalizing on the rapid economic growth in South East Asia has been to develop business partnerships with major financial institutions in the region and to make investments in private equity funds. We intend to strengthen our financing initiatives through this opportunity to more closely partner with DBJ, which has considerable business experience in the region.



## Aozora's Asia Network

### –Launch of “Strategic Investments Business” in Asia, enhanced partner strategy–



## Collaboration with OCB in Vietnam

### Japan-Vietnam cross-border M&A advisory

Vietnam continues to be in high demand as a business expansion destination for Japanese companies, and there is a particularly strong demand for “In-Out” M&A transactions with local companies. Aozora Bank and OCB are actively supporting Japanese companies entering the Vietnamese market through joint M&A proposals.

In 2021, the number of Japan-Vietnam (In-Out) M&A transactions (on a publicly announced basis) was approximately 20, which is the second highest among ASEAN countries, after Singapore.

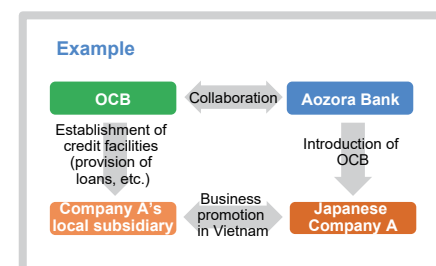
#### M&A transaction examples

	Sector	Form of investment
Project A	Solar power generation project	Capital participation
Project B	Real estate project	Capital participation
Project C	Industrial park	Acquisition
Project D	Warehouse for rent	Acquisition
Project E	Waste disposal	Capital participation

### Support for Japanese companies in Vietnam-related business

We are seeking to create synergy through our collaboration with OCB, which includes the provision of OCB's financial services, such as deposits, loans, trade finance, and foreign currency remittance, to the Vietnamese subsidiaries of our Japanese corporate clients, as well as business matching through our local network.

In addition, OCB Japan Desk staff members dispatched by Aozora Bank assist not only its clients but also the clients of regional financial institutions in their efforts to expand their business overseas.



## Market Group

### Financial Markets Group (FMG)

#### Major Businesses

- Derivatives sales & trading
- ALM/Securities investments

#### FMG's Advantages

- Delivery of a full suite of tailor-made financial products through direct consultations that meet a wide range of customer needs
- Risk-control through flexible portfolio management that responds promptly and decisively to emerging risks

#### Mid- to Long-term Strategy

We will strive to generate derivatives-related revenue by offering new products that correctly capture market trends and the needs of our retail, corporate, financial institution, and other customers, as well as sales support for our customer business groups and effective risk management. We will build well-diversified securities investment portfolios and secure stable revenue through investment and financing projects in line with “Aozora's Sustainability Targets” while maintaining proper risk control. We will continue to focus on balancing stability and cost control in our yen and foreign currency funding.



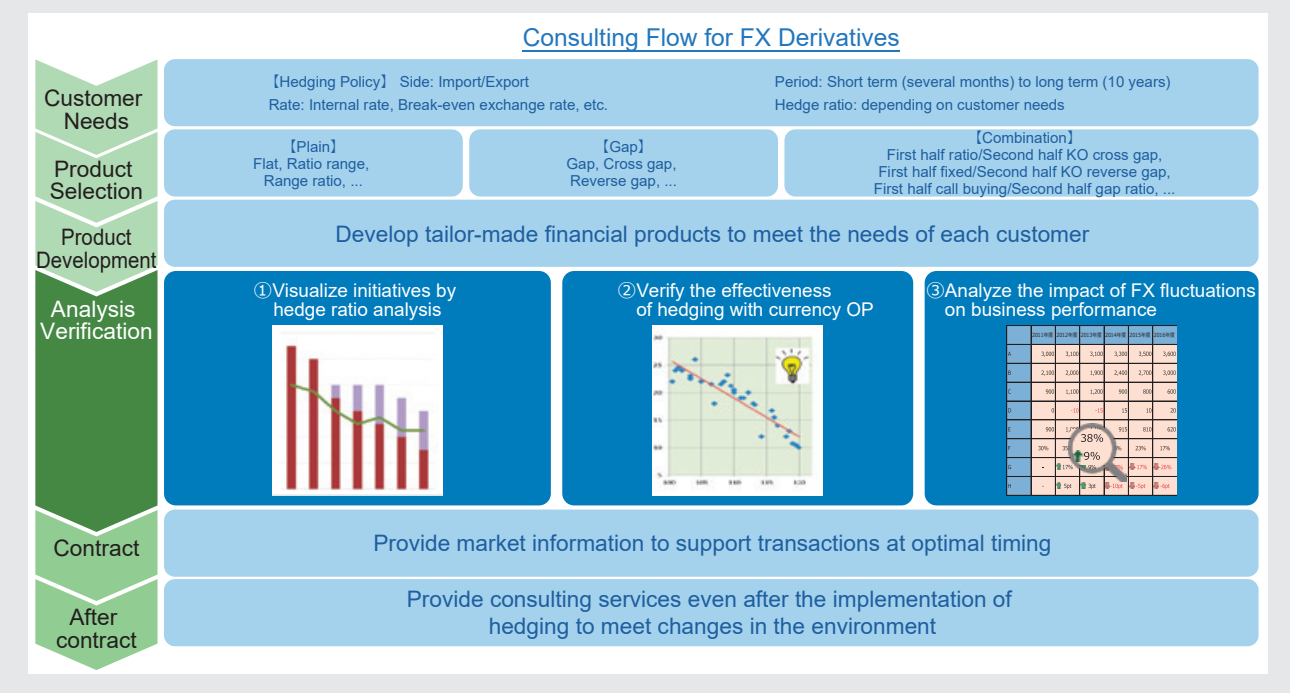
**Tetsuji Okuda**

Managing Executive Officer  
Head of Financial Markets Group

### Risk Consulting Services Using Derivatives (forex, interest rate, commodity, weather, etc.)

In addition to forex and interest rate derivatives, Aozora offers a wide range of derivative products, including commodity and weather derivatives, to meet the diverse hedging needs of our customers.

For example, for customers with forex hedging needs, we develop tailor-made financial products and provide consulting services even after putting in place hedge positions in order to respond to subsequent changes in the market environment.





## Promotion of Digitalization

Aozora Bank understands that the advancement of digital technologies and progress of digital transformation (DX) are irreversible trends that will create new business opportunities and, at the same time, have a wide-ranging impact on a broad array of corporate and personal activities, including the loss of existing business areas as well as the change of traditional business practices and lifestyles.

The Aozora Group supports its customers' DX initiatives through services backed by its network of IT companies as well as B Spark Inc.'s and GMO Aozora Net Bank's digital technologies, and also strives to further improve customer convenience mainly in the retail banking business by utilizing digital technologies.

The Bank's DX initiatives include further digital talents development and embarking on digital marketing and other business areas.

### Responding to Customers' DX Needs – B Spark Inc.

The Bank strives to meet the digitalization needs of customers through B Spark Inc., which is a DX support company established as a joint venture with B Dash Ventures Inc., a major independent IT venture capital firm.

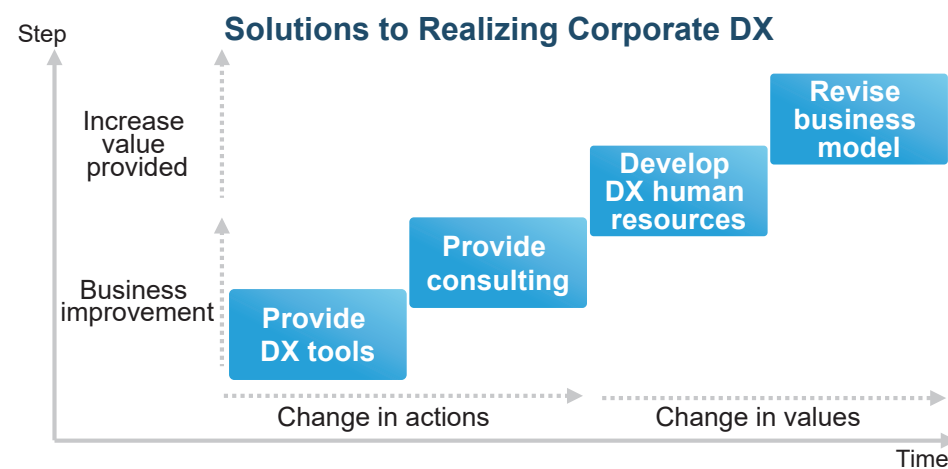
B Spark Inc. engages in cutting-edge DX support services and solutions by matching regional needs for digitalization with venture firms. It focuses particularly on providing DX services designed to streamline the operations of the real estate, construction and other sectors with high regional needs.



B Spark Inc.'s founding members including Mr. Zaitoku, Representative Director (center)

#### Strengths of B Spark Inc.

- B Dash Ventures' (the Bank's joint venture partner) start-up industry network
- Aozora's network of regional financial institutions
- Contribution to the development of regional economies and the business growth of start-ups through DX services by leveraging both parties' networks



#### Examples

- Provide DX tools: Provide DX services tailored to each industry and designed to rationalize operations  
Example industries: Real estate/construction, shipping, medical, e-commerce
- Provide DX consulting services  
Example: Refer medical institutions that seek business process re-engineering with digital tools to get rid of inefficient operations, including traditional administrative work, to cost-effective venture consulting firms

### Digital Talents Development / Framework Enhancement

In FY2021, the Bank launched its Digital Talents Development Program for all employees.

A range of training is available to support their proactive engagement in DX. This program also includes higher levels of training courses, which have been attended by many employees to date.

In FY2022, the Bank provides category-specific training to Digital Business Strategist, Service Designer (UI/UX) and Data Scientist.

<b>Digital Business Strategist</b> 	Manages overall business ideas/plans with a digital mindset. Works to start up businesses as proposed in initial ideas/plans while promoting relevant initiatives, including collaborations within the Bank and with non-financial sectors.
<b>Service Designer</b> 	Supports the Digital Business Strategist in implementing proposed ideas/plans and works to develop specific services/products based on initial ideas/plans from the perspective of customers.
<b>Data Scientist</b> 	Identifies and gathers data required to resolve issues, and processes such data for practical analysis. Also, performs data analysis by using the developed data infrastructure and hypothetical thinking to identify points to be improved.

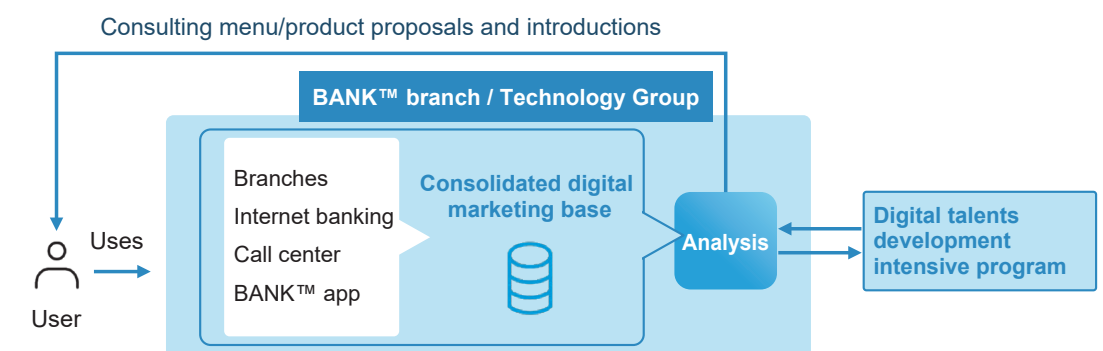
Please also refer to "Digital Talents Development Program" on page 74.

#### Extensive use in business operations

The Bank focuses on promoting data-driven business operations, starting from our retail banking business. It works to develop an integrated data infrastructure that allows for gathering and using a broad range of data in order for employees attending category-specific training under the Digital Talents Development Program to utilize data in the Technology Group.

In FY2022, the Bank intends to focus on digital talents development as a key approach to ensure a range of options for business transformation, such as shifting its thinking process to consideration/judgment based on quantitative data, as well as the sustainability of human capital from the perspective of managing the Aozora Group.

#### <Example: Use of data in the Retail Banking Group>





## GMO Aozora Net Bank Initiatives

### Overview of GMO Aozora Net Bank

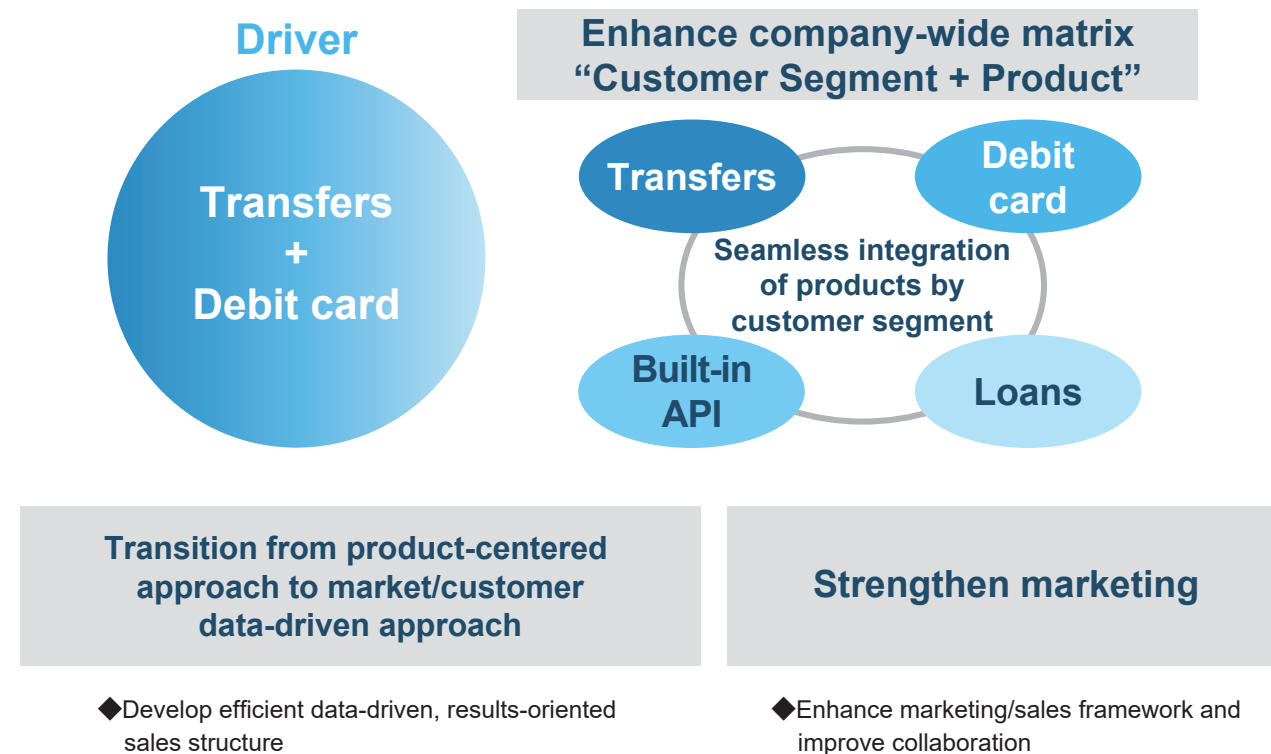
GMO Aozora Net Bank (“GANB”) was launched in July 2018 as an Internet Bank that leverages the strengths of both the Aozora Group and GMO Internet Group. Under its corporate vision of “All for our customers. Strive to be the No. 1 Tech Bank”, GANB aims to establish itself as a progressive bank that defies easy categorization through its expertise in “Banking and IT” while combining its technology, distinctive perspective, broad range of tools, knowledge and specialized network. As a bank with a next-generation tech-first approach, GANB has been developing and offering a range of services designed to support customers’ growth through providing the five values of “safety”, “speed”, “price competitiveness”, “convenience”, and “new experience”.

In July 2021, GANB announced its mid- to long-term strategies that focus on the three objectives of “No. 1 Bank among Small Businesses and Start-ups”, “No. 1 Embedded Finance Services” and “No. 1 Tech-first Banking Services” and continues to provide innovative services for corporate customers through leveraging in-house systems development backed by its technological capabilities.

### Concentration on Attracting New Start-ups and Small Companies + SMEs

GANB has seen a steady increase in its number of corporate accounts by focusing on new account openings for start-ups and small companies that need support in launching their businesses.

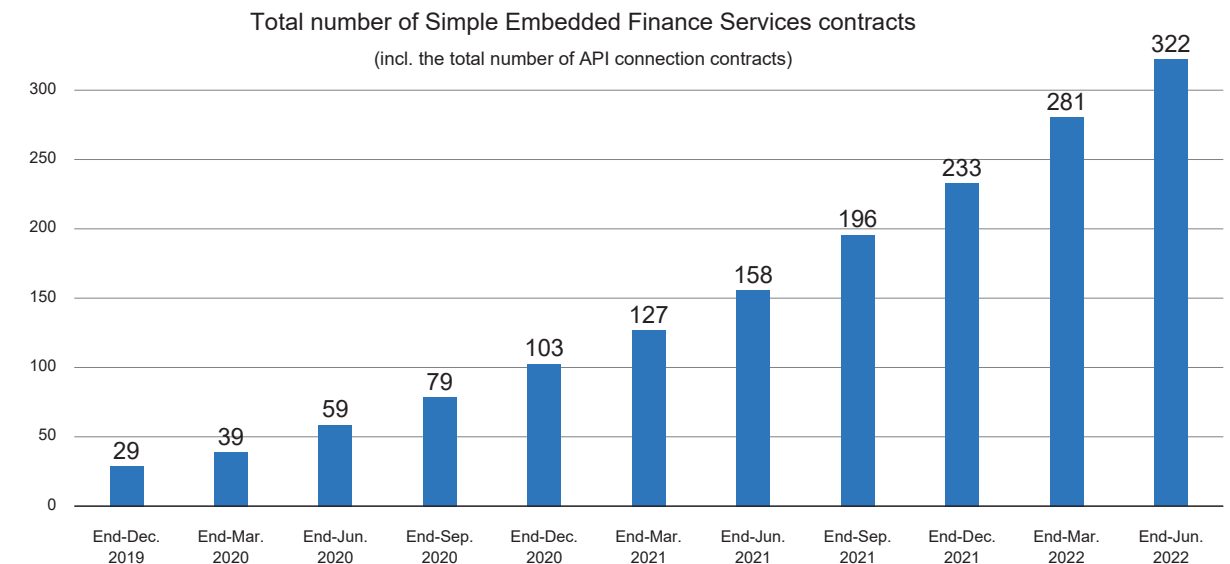
To flexibly respond to the specific needs of its corporate customer segments, including SMEs, GANB strives to propose best-suited products and services from its distinctive lineup, such as Bank APIs, “Simple Embedded Finance Services”, “Anshin 100,000 yen” (overdraft protection up to 100,000 yen as an automatic feature for corporate accounts) and “Anshin Wide” (corporate loan up to 10 million yen with no submission of financial statements for approval), in addition to transfer and debit card services as its major revenue growth drivers.



### Initiatives to Spread Embedded Finance

GANB is strongly promoting its “Simple Embedded Finance Services”, which offer each of its banking functions as a standalone service, to corporate customers pursuing growth in the digital business market. GANB’s broad range of banking service components, including Bank APIs, allow every user easy and smooth implementation of digital services embedded with banking functions.

Above all, GANB earns high praise from corporate customers who have succeeded in streamlining their operations using Bank APIs, including automated bank transfers and payment reconciliations. 322 companies have signed Simple Embedded Finance Services contracts with GANB (as of June 30, 2022).



### Features of Simple Embedded Finance Services



\* Data compiled by GMO Aozora Net Bank as of the end of August 2021

## Sustainability Promotion

### Sustainability Implementation

To proactively contribute to the sustainable development of society, the Aozora Group incorporates sustainability into the Group's financial services and activities as a business entity and promotes sustainability initiatives with the aim of contributing to all stakeholders, including society, customers, shareholders and employees, as well as the realization of a more sustainable society, while working closely with senior management.

The Bank has updated its Key Sustainability Issues (ESG Materiality) as established in its Mid-term Plan and designated eight items as having ESG Materiality, which includes responding to climate change and human rights issues in addition to "Aozora's Sustainability Targets", in light of double materiality, which takes into account the importance to both the Aozora Group's sustainable growth as well as the extent of their impact on impact on the Bank's stakeholders.

(For more information regarding ESG Materiality, please see page 10.)

**Aozora's Mission** Contribute to the development of society through the creation of new value-added financial services

Determine key challenge areas to realize the management philosophy in light of their importance to the Group's corporate management as well as expectations/demands from stakeholders and social trends

#### Key Sustainability Issues (ESG Materiality)

Response to climate change
Respect for human rights
Promoting industrial transition
Realizing financial inclusion
Promoting digitalization
Protecting and providing for the next generation
Sustainability of human capital
Governance/Compliance

### Sustainability Implementation Framework

In FY2021, the Aozora Group established the Sustainability Committee under the oversight of the Management Committee and with the CEO as Committee Chair-person as a way to discuss and find solutions to important sustainability-related issues across the entire Group. The principal discussion items from the committee are discussed with and reported/submitted for approval to the Board of Directors. In addition, the Bank took steps to improve the quality of its sustainability management framework by establishing the Liaison Meeting of Group Sustainability in order to promote Group governance of sustainability issues.

Established in April 2021, the Sustainability Management Division consists of full-time staff as well as additional members who serve concurrently in the Corporate Strategy Unit, Business Groups, Finance Group, Risk Management Groups, and Human Resources Unit. The Sustainability Management Division engages in cross-divisional activities as a vehicle to drive sustainability

#### Items discussed, decided, and reported

- Established the Business Operation Policy for sustainability promotion
- Established Aozora's "Sustainability Targets (to be added/ revised as appropriate)"
- Adopted the Equator Principles and the United Nations Global Compact
- Established the Aozora Bank Group Outsourcing Policy. Revised the Investment and Lending Policies regarding Environmental & Societal Issues
- Revise the ESG Materiality (plan)
- Adopt the Principles for Responsible Banking (plan)

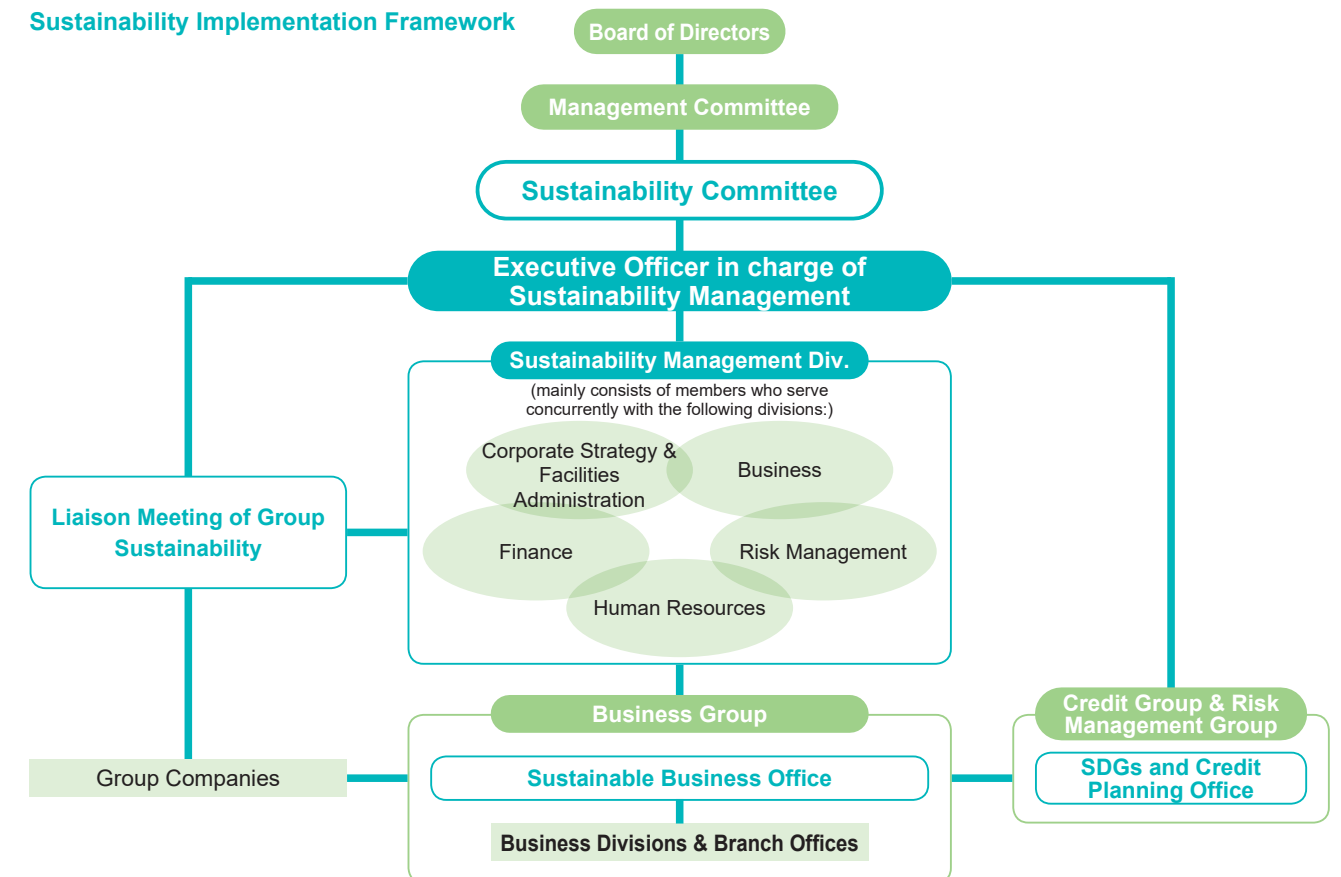
within the Aozora Group.

In addition, the SDGs/Credit Planning Office has been established within the Credit Risk Management Group and determines whether the Bank's investments and loans may have any risk or negative impact on the environment or society, and also shares examples of

specific initiatives alongside the formulation and dissemination of checklists in order to support the Business Groups in gathering information regarding the progress and status of environmental and social initiatives undertaken by their customers. The business groups have also established the Sustainable Business Office in order to provide comprehensive solutions based on the ESG support framework, including decarbonization consulting for SME

customers (please refer to page 60). In addition, the Infrastructure and Environment Finance Division was established as part of the business group and implemented a framework for proactively promoting environment-related project finance by combining Aozora's knowledge and experience regarding domestic and overseas project finance (please refer to pages 41 and 59).

#### Sustainability Implementation Framework



### Delivery of Sustainability Information across the Group

For a better understanding of sustainability issues across the Aozora Group, we actively deliver relevant information in-house.

The Sustainability Promotion Division publishes an internal SDGs e-newsletter which started in August 2020 and has covered approximately 30 sustainability-related topics. As a new challenge for FY2021, we began disseminating information from new perspectives, such as by having officers and employees from group companies take turns writing about their company's initiatives and introducing advanced examples from overseas.

In addition, we also provide a wide range of learning opportunities, such as e-learning for all Group officers and employees, basic courses at "Aozora University" where officers and employees can freely participate, and sustainable finance seminars conducted by outside lecturers.



(SDGs Newsletter created by our Singapore Office)



## Sustainability Policy Framework

A global trend has emerged where companies are expected to play an increasing role in developing environmental measures, protecting human rights, eliminating unfair labor practices, and preventing corruption. Society's demand for action, especially regarding climate and human rights issues, has become more widespread and the solutions to these issues encompass not only a company's activities as a business entity but also across the entire supply chain. The Aozora Group has incorporated guidelines designed to respond to sustainability issues into its Code of Ethics and Conduct, in which all Group officers and employees put into practice our corporate philosophy. Aozora has also developed an "Environmental Policy", "Human Rights Policy", and a set of "Investment and Lending Policies regarding Environmental and Societal Issues" in order to better inform all of our stakeholders

about our attitude and goals regarding this approach to sustainability management and further clarify our policy for responding to specific business operations. In FY2021, we developed our "Outsourcing Policy" in order to clarify our policy for handling purchasing and outsourcing as a business entity. All of these policies are available on Aozora's website. Aozora adopted both the United Nations Global Compact, an international initiative that seeks to address environmental and human rights issues, and the Equator Principles, a framework designed to avoid and mitigate the impact from environmental and social issues related to large-scale development project finance.



## Investment and Lending Policies regarding Environmental & Societal Issues

The Aozora Group intends to develop financing initiatives to support its customers' efforts to address environmental and social issues as well as new products and services. The Aozora Group also recognizes environmental and social risks and strives to make improvements through dialogue with customers whose businesses may have a negative impact on the environment and society and work to reduce environmental and social risks by restricting or cease to extend credit when no improvement can be made. In accordance with the investment and lending policies

approved by the Management Committee, the Aozora Group reviews all investment/loan transactions to assess any risk to or negative impact on the environment and society. If a risk or negative impact is identified, the transaction is screened in terms of risk/impact severity as well as the customer's efforts to resolve corresponding environmental and social issues, and then submitted to the Credit Committee or the Investment Committee for approval.

Investment and Lending Policies regarding Environmental & Societal Issues			
	Business Promotion	Risk Management	
Purpose	Promotion of investments and loans that support customers' initiatives to address environmental and social issues	Determine the feasibility of specific loans by verifying customers' business operations, including relevant supply-chains involved, from the perspective of environmental and social issues	
Specific Initiatives	(Examples of investment and lending) • Project finance for renewable energy • Financing for environmental innovations • Transition finance • Financing for green buildings • Green loans/bonds • Social loans/bonds • Sustainability-linked loans/bonds • Equity investments such as investments in funds whose goal is to solve environmental and social issues	Credit prohibited	Businesses, etc., deemed illegal Inhumane weapons Coal-fired Power Generation
		Credit restricted	Project Finance (Equator Principles) Coal Mining Oil & Gas Large-scale Hydroelectric Power Generation
			Deforestation Large-scale agriculture Palm oil Tobacco Manufacturing
			Shipping Mining
		Checklist-based information gathering	

### <Initiatives in sectors that have or may have a negative impact on the environment and society>

Credit prohibited on a cross-sectoral basis	
<b>Businesses, etc., deemed illegal</b>	<ul style="list-style-type: none"> <li>Illegal acts, acts violating international rules on environmental issues and human rights, customers associated with businesses involving acts against the public order/ conventional morality, customers indirectly assisting such acts, anti-social elements</li> <li>Businesses which have a negative impact on wetlands registered under the Ramsar Convention</li> <li>Businesses which have a negative impact on UNESCO World Heritage sites (with the exception of businesses that have received the advanced consent of the government of the relevant country and UNESCO)</li> <li>Businesses which violate the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) (in consideration of the reservation clause of each country)</li> <li>Customers that are associated with businesses involved in child labor or forced labor</li> </ul>

Cross-sectoral credit that requires close attention	
	<ul style="list-style-type: none"> <li>Businesses which have a negative impact on the regional societies of indigenous peoples</li> <li>Businesses that require the expropriation of land leading to the involuntary relocation of inhabitants</li> </ul>

Restricted or prohibited credit to specific sectors	
<b>Coal-fired Power Generation</b>	The Aozora Bank Group will not provide financing for the construction of new coal-fired power plants or expansion of coal-fired power generation facilities. Furthermore, the Group will proactively provide investments and loans to support its customers' initiatives that help contribute to the transition to a decarbonized society, including carbon dioxide capture, usage, and storage technologies.
<b>Coal Mining</b>	When considering making investments or loans for the development of a new coal mine, the Aozora Bank Group will verify the customer's consideration of environmental and social issues. The Aozora Bank Group will not make any investment or loan for mountaintop removal (MTR) coal mining which has a substantial impact on the environment, nor for the development of new coal mines that supply power generation operators with coal.
<b>Oil &amp; Gas</b>	When considering making investments or loans for oil sands, shale oil & gas, oil & gas pipelines, and development in the Arctic Circle (the area 66°33'north of the Equator), the Aozora Bank Group will verify the customer's consideration of environmental and social issues.
<b>Large-scale Hydroelectric Power Generation</b>	When considering making investments or loans for new large-scale hydroelectric power generation (with an embankment of 15 meters or higher, as well as output of 30,000KW or above), the Aozora Bank Group will verify the customer's consideration of environmental and social issues.
<b>Deforestation</b>	When considering making investments or loans for businesses involved in deforestation, the Aozora Bank Group will verify the customer's consideration of environmental and social issues.
<b>Large-scale agriculture</b>	When considering making investments or loans for businesses involved in large-scale agriculture in areas with inadequate legal systems regarding environmental/social issues, the Aozora Bank Group will verify the customer's attitude and efforts to address environmental and social issues.
<b>Palm Oil</b>	When providing investments or loans for the development of palm oil plantations, the Aozora Bank Group requests its customers to make an NDPE (No Deforestation, No Peat, No Exploitation) commitment. When considering making investments or loans for businesses associated with the distribution, etc., of palm oil, the Aozora Bank Group will verify the customer's consideration of environmental and social issues, including whether they have obtained RSPO (Roundtable on Sustainable Palm Oil) certification.
<b>Tobacco Manufacturing</b>	When considering making investments or loans related to tobacco manufacturing, the Aozora Bank Group will verify the customer's consideration of environmental and social issues, including health hazards as well as child and forced labor.
<b>Inhumane weapons</b>	The Aozora Bank Group will not make any investment or loan related to the manufacturing of inhumane weapons such as cluster munitions.
<b>Nuclear Power</b>	When considering investments or loans for nuclear power-related businesses, the Aozora Bank Group will gather information regarding the customer's consideration of and stance on addressing environmental and social issues.
<b>Plastics</b>	When considering investments or loans for plastic-related businesses, the Aozora Bank Group will gather information regarding the customer's consideration of and stance on addressing environmental and social issues.
<b>Shipping</b>	When considering investments or loans for ship-related businesses, the Aozora Bank Group will gather information regarding the customer's consideration of and stance on addressing environmental and social issues.
<b>Mining</b>	When considering investments or loans to the mining industry, the Aozora Bank Group will gather information regarding the customer's consideration of and stance on addressing environmental and social issues.

## Aozora Bank Group Outsourcing Policy

The Bank has developed a Sustainability Policy framework that clearly states our commitment to making society even better by communicating and working together with our customers and other stakeholders. To achieve this, the Aozora Group has developed an “Outsourcing Policy” in order to promote environmentally and socially responsible outsourcing activities throughout the supply chain that conform with international guidelines such as the “United Nations Global Compact” and “Guiding Principles on Business and Human Rights”.

### Overview of the Aozora Bank Group Outsourcing Policy

- Fairness in choosing suppliers
- Compliance with laws, regulations, and social norms
- Consideration of the importance of human rights and the environmental issues, such as climate change and biodiversity
- Collaboration and communication with suppliers

Based on this policy, Aozora will comply with all relevant laws and regulations in its outsourcing activities and implement fair, impartial, and transparent procedures based on the principle of free competition.

## Protection of Human Rights

### <Human Rights Policy>

The Aozora Group’s Code of Ethics and Conduct, in which Group officers and employees put into practice our corporate philosophy, states that “The Aozora Group understands and respects the dignity and human rights of all people, including its customers, officers, and employees, while striving to eliminate discrimination”.

We have also adopted the “United Nations Global Compact” international initiative and support its 10 principles concerning the areas of human rights, labor, the environment and anti-corruption while developing initiatives to address these issues with the full commitment of our management team. Aozora has also developed its “Human Rights Policy”, “Investment and Lending Policies regarding

Environmental and Societal Issues”, and “Outsourcing Policy” in order to better inform all of our stakeholders about our approach and goals regarding these initiatives and further clarify our policy for responding to specific business operations. The Aozora Group has stated on our website that it “intends to fulfill its responsibility in eliminating any business activities from its Group operations that are in opposition to the protection and promotion of human rights as well as any exploitative practices including slavery, forced labor, human trafficking, child abuse, etc., and is dedicated to complying with applicable local laws and regulations in the regions in which it conducts business”.

### <Human Rights Initiatives>

Aozora established a Human Rights Awareness Committee to incorporate human rights concept into its corporate culture in order to develop business activities and a workplace that more effectively respect human rights. Human rights seminars are held twice a year for all employees in order to increase their awareness of human rights issues. In FY2021, these seminars covered themes of “Thinking about Gender” and “Thinking about Business and Human Rights”.

We participate in annual human rights slogan campaigns sponsored by the Japanese Bankers Association and Industrial Federation for Human Rights (Tokyo) every year. In FY2021, out of 695 officers and employees that came up with 1,028 slogans, one received an honorable mention from the Japanese Bankers Association while another was given an “Excellence Award” by the Industrial Federation for Human Rights (Tokyo). Aozora strives to increase awareness about human rights issues by getting our employees to think about human rights as a familiar theme and delivering their own personal messages on the topic.



## Responding to Climate Change

Aozora recognizes that responding to climate change is a global issue that corporations must prioritize. As such, we are dedicated to leveraging our strengths in business operations as well as making continued efforts to reduce CO2 emissions as a business entity and developing a risk-focused business management platform.

As the global trend towards becoming carbon-neutral continues to accelerate, the Bank also recognizes that it must promote even more focused and effective initiatives. In line with this, we developed a set of new “Aozora Carbon Neutral Initiatives” as part of its FY2022 Business Plan.

April 2021 onwards		
<b>Business</b>	<ul style="list-style-type: none"> <li>• Project financing for renewable energy</li> <li>• Investments and loans in green buildings</li> </ul>	<ul style="list-style-type: none"> <li>• Sustainable Financing Target (1 trillion yen by FY2030)</li> <li>• Sustainable Financing (green loans, social loans, sustainability-linked loans)</li> <li>• Establishment of Environment Finance Division</li> <li>• Creation of “Aozora ESG Support Framework”</li> </ul>
<b>Business entity</b>	<ul style="list-style-type: none"> <li>• Relocation of the head office (to Sophia Tower in Yotsuya) (use of insulated glass, natural ventilation, roof greening, automatic dimming control and LED lighting)</li> </ul>	<ul style="list-style-type: none"> <li>• Use of green-sourced electricity at the Head Office and Fuchu Annex (completed at Head Office, study in process at Fuchu Annex)</li> <li>• Measure Scope 1 and 2 emissions across all Group companies (started)</li> </ul>
<b>Business base</b>	<ul style="list-style-type: none"> <li>• Support for TCFD recommendations</li> <li>• Creation of “Group Environmental Policy”</li> <li>• Creation of “Investment and Lending Policies regarding Environmental &amp; Societal Issues”</li> <li>• Recognition of climate change as a top-priority issue</li> </ul>	<ul style="list-style-type: none"> <li>• Quantitative scenario analysis regarding physical and transition risks, resilience checks</li> <li>• Begin measuring a portion of Scope 3 emissions (category 15)</li> <li>• Creation of “Group Outsourcing Policy”</li> <li>• Adoption of “Equator Principles”, review of “Investment and Lending Policies regarding Environmental &amp; Societal Issues”</li> </ul>



## Aozora Carbon Neutral Initiatives

In the FY2022 Business Plan, we announced the “Aozora Carbon Neutral Initiatives”, which consolidated all of our initiatives designed to address environmental issues and defined the Aozora Group’s role in realizing a decarbonized society.

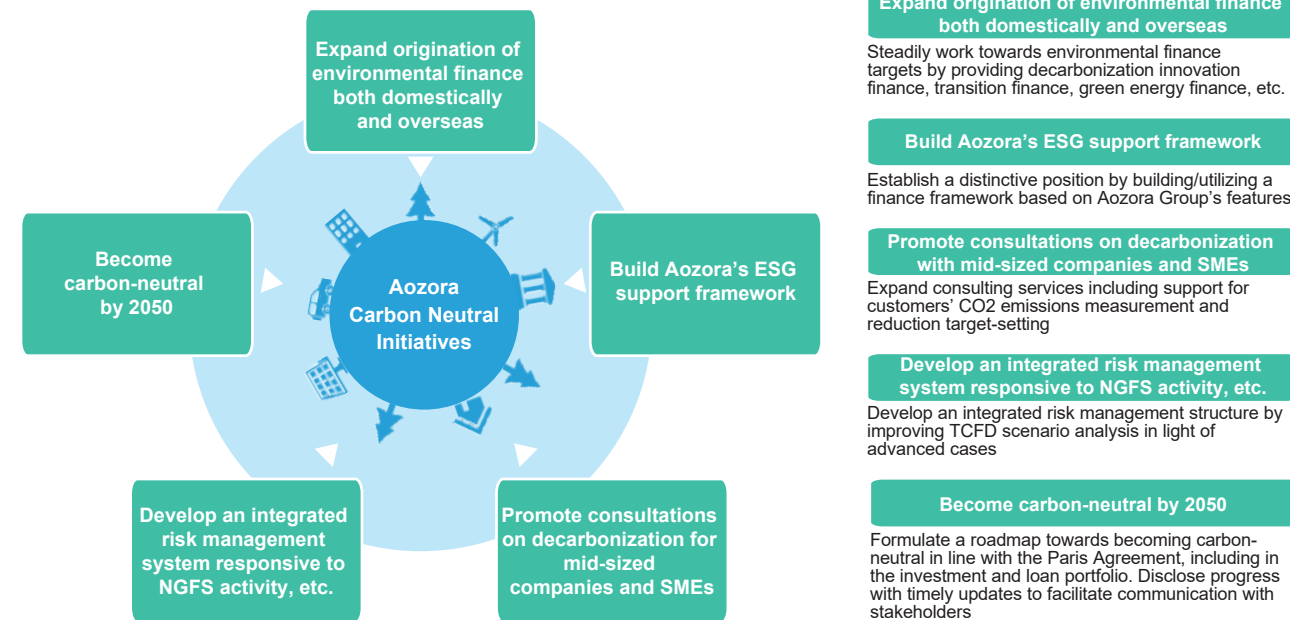
Within our business activities, our aim is to provide transition finance, clean energy finance, and decarbonization innovation finance, etc., by expanding the origination of environmental finance both domestically and overseas more than ever before. We are also working to contribute to our customers’ initiatives designed to address environmental issues by providing comprehensive solutions, including consulting, to our mid-sized and SME customers regarding their decarbonization efforts by collaborating with companies that specialize in environmental

consulting.

We will strengthen our scenario analysis in response to the TCFD recommendations, including the quantitative analysis of transition risk and physical risk associated with climate change, and review the calculation methods/measurements of our borrowers’ GHG emissions in order to quickly assess the Scope 3 emissions in our investment portfolio. Coupled with promoting decarbonization efforts as a business entity based on these initiatives, Aozora is also aiming to become carbon-neutral by 2050 while actively supporting our customers’ climate change initiatives and transition towards decarbonization through engagement.



## &lt;Aozora Carbon Neutral Initiatives&gt;



## Roadmap to Becoming Carbon-neutral

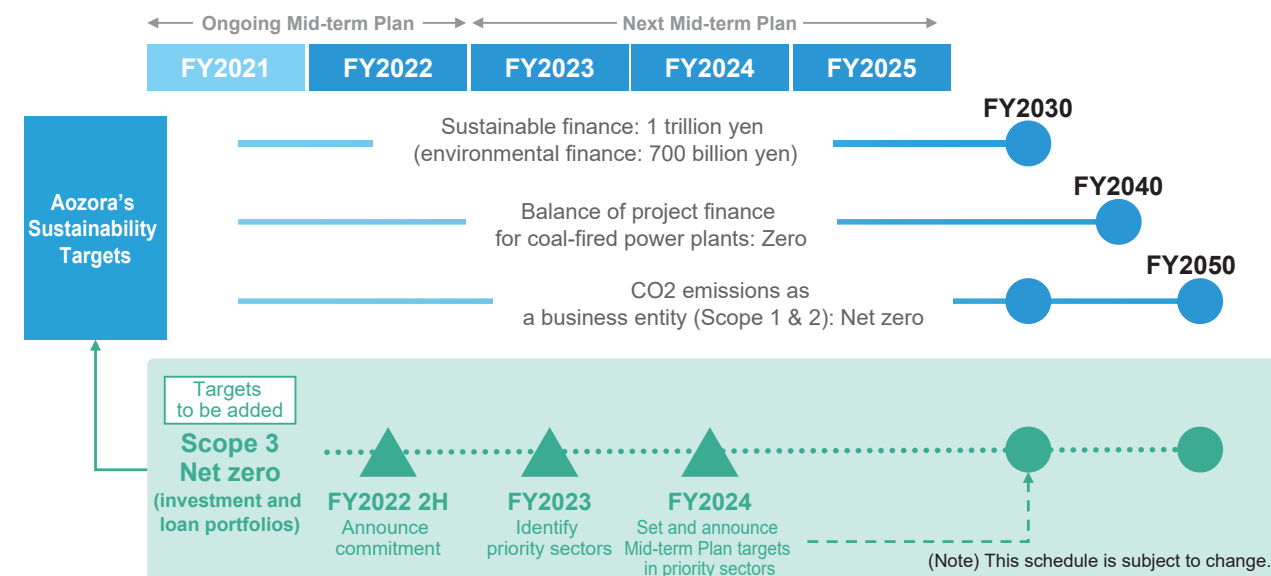
The Aozora Group has developed a roadmap to becoming carbon-neutral in line with the Paris Agreement and will work towards the creation of a concrete action plan.

Based on the "Aozora Sustainability Targets" we announced last year, the Bank has pledged 1 trillion yen in sustainable financing by FY2030, which includes environmental financing of 700 billion yen,

and to achieve net zero CO2 emissions as a business entity (Scope 1 and 2) by FY2050.

In addition, the Bank is also considering aiming for net zero CO2 emissions in its investment and loan portfolio (Scope 3) by 2050. We will continue to make periodic updates regarding these measurements and promote communication with our stakeholders through proper disclosures.

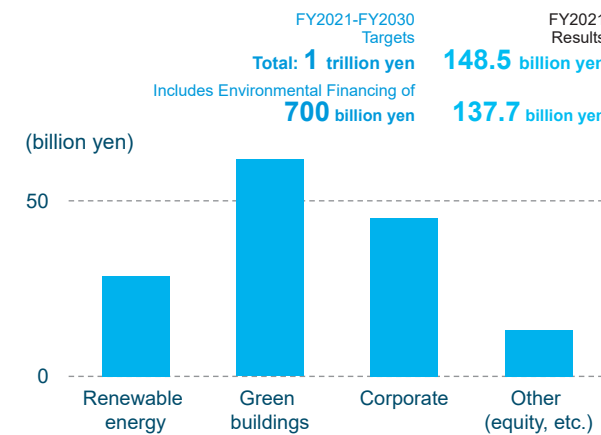
## &lt;Roadmap to become carbon-neutral&gt;



## Initiatives on Environmental Issues through Sustainable Finance

The Aozora Group understands that utilizing their financial intermediary function to provide finance for companies' initiatives to become carbon-neutral, expanding the use of green energy and technological innovation towards decarbonization is a mission-critical role for financial institutions to realize a decarbonized society. In FY2021, we set the sustainable financing amount of 1 trillion yen (including environmental financing of 700 billion yen) by FY2030 as part of Aozora's Sustainability Targets. We will strive to achieve these targets across the Group by continuing to proactively provide environment-related project finance and green building finance with a focus on renewable energy as well as by promoting corporate finance, including green loans and sustainability-linked loans.

## ◆ Sustainable Financing Amount



## ◆ Environment-related renewable energy project finance

- Establishment of the Infrastructure and Environment Finance Division that is positioned as a growth area
- Promotion of the further expansion of green energy finance inside and outside Japan, the transition of existing power-generating facilities, and the exploration of new areas of innovation towards becoming carbon-neutral by leveraging our domestic and overseas knowledge and experience

## ◆ Green building finance

- Proactive origination of loans and equity finance for certified green buildings inside and outside Japan

## ◆ Corporate finance

- In FY2021, origination of green loans, social loans and sustainability-linked loans led by the Bank
- Established Aozora's ESG Support Framework and started providing solutions, including consultations on decarbonization

## Domestic and Overseas Environment-related Renewable Energy Project Finance

The Aozora Group has been proactively providing renewable energy project finance in Japan, mainly for solar and wind power, since the introduction of the Feed in Tariff (FIT) in 2012. We remain committed to contributing to the expansion of green energy and the development of regional economies in Japan by collaborating with regional financial institutions, including through providing syndicated loans.

For the origination of project finance, we flexibly respond to emerging needs, including portfolio transactions with the consolidation of multiple small-sized solar power generation projects as well as secondary transactions, by leveraging our cutting-edge expertise, knowledge and network we have developed with a proven track record in structured finance domestically and overseas.



As the global trend towards realizing a decarbonized society gained momentum, Aozora Bank established the Infrastructure and Environment Finance Division in January 2022 by integrating domestic and overseas project finance teams with the aim of further promoting finance domestically and overseas by leveraging our collective knowledge and expertise. The Division is comprised of professionals from diverse backgrounds, including the banking sector, power generation business and third-party rating agencies.

The Aozora Group intends to expand its domestic business to offshore wind, geothermic and biomass power. It will also promote transition finance in Japan and Asia and take on new challenge areas, including innovation finance to support technological innovation towards decarbonization by building knowledge through its participation in infrastructure projects in environmental finance in developed countries, such as the U.S. and Europe (please refer to “Environment Business Group” in the Structured Finance Group section on page 41).

## Financing for Green Buildings

The Aozora Group actively provides green building finance that considers environmental impact. In Japan, Aozora provides finance for “A”-class buildings as rated in the CASBEE<sup>\*1</sup> Certification, a comprehensive building evaluation system largely based on environmental performance and environmental load reduction levels. In FY2021, we provided financing for advanced logistics facilities that offer services designed to improve the labor environment for people working inside and outside the building. For overseas lending, our investments and loans include North

American office buildings that are rated as “Platinum” or “Gold” according to the LEED<sup>\*2</sup> Certification, a U.S. system that comprehensively evaluates the environmental performance of buildings. We will continue to promote our debt and equity financing both domestically and overseas with the aim of achieving Aozora’s Sustainability Targets.

<sup>\*1</sup> CASBEE (Comprehensive Assessment System for Built Environment Efficiency)

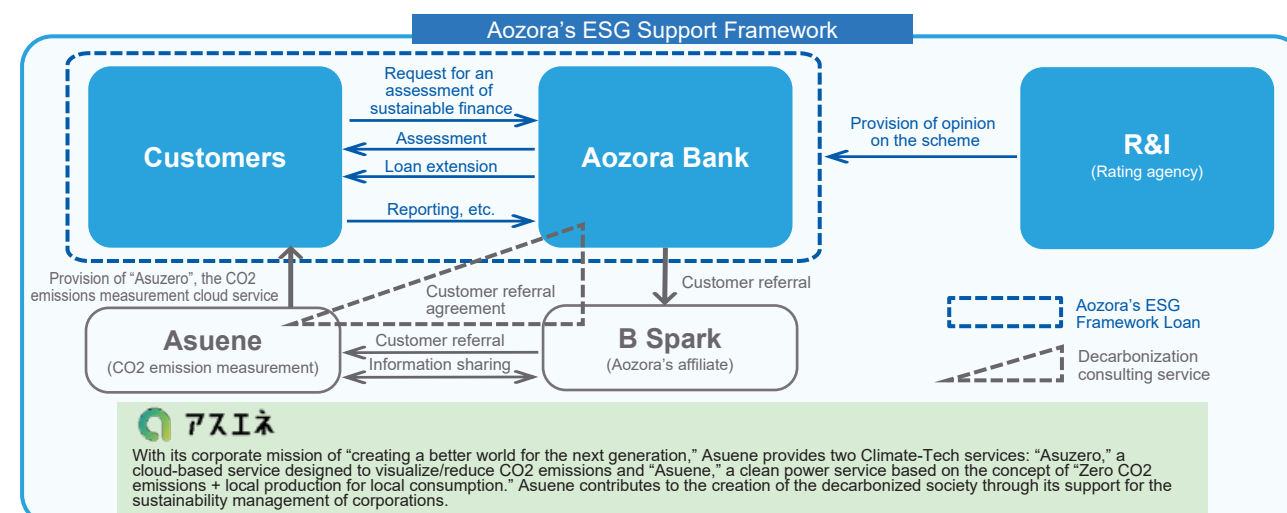
<sup>\*2</sup> LEED (Leadership in Energy and Environmental Design)

## Aozora’s ESG Support Framework

In FY2021, the Bank began to proactively provide sustainable finance tailored to corporations (corporate finance certified by a third-party body) and this approach has been steadily expanding, including the origination of green loans, social loans and sustainability-linked loans.

In June 2022, the Bank established Aozora’s ESG Support Framework to further support the decarbonization initiatives of its corporate customers. Based on this framework, we collaborate with Asuene

Inc. to provide the Bank’s corporate customers with consultations for their decarbonization initiatives by introducing “Asuzero”, a cloud-based service provided by Asuene Inc. that is designed to visualize and reduce CO2 emissions. The Bank also supports the efforts of its customers, mainly mid-sized companies and SMEs, through Aozora’s ESG Support Framework Loans where the Bank conducts its own assessment of their sustainable finance initiatives.



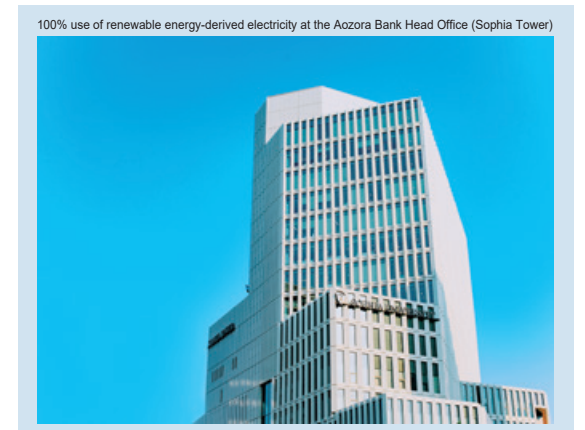
## Reduction of CO2 Emissions and Electricity Usage

Aozora's head office in Yotsuya is in the Sophia Tower which has been using only renewable energy-driven electricity since June 2020. In addition, the head office is equipped with highly insulated glass, a natural ventilation system and rooftop greenery. With office areas employing LED lighting with automatic dimming controls, the building also minimizes power consumption compared to the level of traditional equipment.

We remain focused on reducing greenhouse gas emissions at our Fuchu Annex, which also serves as a data center, and are studying the possibility of adopting and using renewable energy sources for electricity at the building in FY2024.

Since 2013, Aozora has been promoting the replacement of company cars used at its head office and branch locations to hybrid and other eco-friendly vehicles, which accounted for 93% of our fleet as of May 2022.

We will drive initiatives to reduce environmental load as a business entity by promoting the replacement to energy-saving equipment/devices as well as adopting self-supply sources and responding to vendors.



## Environmentally Aware Purchasing

Aozora works to reduce paper consumption in offices and promotes the use of eco-friendly paper. By collaborating with Daio Paper Corporation, one of our customers, we have introduced printing paper and business cards made from FSC (Forest Stewardship Council)\* materials to replace those the Bank had used during the course of its business. As a business entity, Aozora intends to contribute to forest preservation as well as the realization of a decarbonized society.

<sup>\*FSC®</sup> (Forest Stewardship Council®) A non-profit organization aimed to promote responsible forestry management on a global scale. The FSC label identifies responsibly managed forests and responsibly sourced forest products that are qualified in terms of environmental preservation, social benefits and economic sustainability.



## Recycling of Waste Material / Initiatives to Reduce Plastic Waste

Aozora recycles documents that have reached the end of their storage period rather than disposing of them by incineration (approximately 30 tons annually) and also converts data storage media that are no longer required into new energy sources in the form of solid fuel during the waste processing (approximately 300 kg annually). Through these and other measures, such as the 100% recycling of head office waste excluding burnable waste (approximately 25 tons annually), the Bank continues to be proactive in the recycling of waste materials.

As a way to actively promote a reduction of environmental load, the Bank introduced eco-friendly materials, such as environment-conscious plastic cups and biodegradable straws, and Rainforest Alliance Certified\* coffee beans to its cafeterias at the head office and Fuchu Annex in conjunction with their reopening in April 2021.

<sup>\*Certification</sup> verifying that products or raw materials are produced by using an approach that leads to the enhancement of three key sustainability elements (society, economy and environment)



## Response to Task Force on Climate-related Financial Disclosures (TCFD) Recommendations

The Aozora Group affirmed its support for the TCFD (Task Force on Climate-related Financial Disclosures) recommendations in March 2020. As one of the most important global issues, Aozora positions responding to climate change as a Key Sustainability Issue (ESG

materiality) and is developing initiatives based on the recommendations while taking steps to further enhance the quality of its climate change-related disclosures. The Bank's progress towards these initiatives in FY2021 is outlined as follows.

### Major Progress towards the TCFD Recommendations in FY2021

Governance	<ul style="list-style-type: none"> <li>Board of Directors' resolution to establish "Aozora's Sustainability Targets"</li> <li>Establishment of "Sustainability Committee" and "Liaison Meeting of Group Sustainability"</li> <li>Creation of "Aozora Group Outsourcing Policy"</li> </ul>
Strategy	<ul style="list-style-type: none"> <li>Establishment of Sustainable Finance Targets (1 trillion yen by FY2030 (including Environmental Financing Amount: 700 billion yen)</li> <li>Establishment of "Environment Finance Division", combining knowledge and experience regarding domestic and overseas project finance</li> <li>Creation of "Aozora's ESG Support Framework"</li> <li>Quantitative scenario analysis regarding physical and transition risks, resilience checks</li> </ul>
Risk Management	<ul style="list-style-type: none"> <li>Adoption of the "Equator Principles" (review of "Investment and Lending Policies regarding Environmental &amp; Societal Issues")</li> <li>Identification of climate change as materiality issue, clarify process for identifying materiality issues</li> </ul>
Metrics and Targets	<ul style="list-style-type: none"> <li>Establishment of net zero targets for Scope 1 and 2 emissions (aiming to become carbon-neutral by 2050)</li> <li>Begin measuring Scope 1 and 2 emissions across all Group companies</li> <li>Begin measuring/setting targets for Scope 3 emissions (category 15: investment and loan portfolio)</li> </ul>

### Governance: Establishment of Sustainability Targets, Sustainability Committee, and Group Outsourcing Policy

In FY2021, the Aozora Group announced the establishment of "Aozora's Sustainability Targets" based on the Board of Directors' resolution as a set of management targets within its specialty/focus areas. Aozora established the Sustainability Committee under the oversight of the Management Committee and with the CEO as Chairperson as a way to discuss and find solutions to important sustainability-related issues across the entire Group. The principal discussion items from the committee are discussed with and reported/submitted for approval to the Board of Directors as necessary. In addition, the Bank took

steps to improve the quality of its sustainability management framework by establishing the Liaison Meeting of Group Sustainability in order to promote Group governance of sustainability issues. Furthermore, the Aozora Group has developed an "Outsourcing Policy" and positioned it as one of its Sustainability policies in order to promote environmentally and socially responsible outsourcing activities throughout the supply chain that conform with international guidelines such as the "United Nations Global Compact" and "Guiding Principles on Business and Human Rights".

### Strategy: Quantitative scenario analysis regarding physical and transition risks, resilience checks

The TCFD recommends that companies perform analyses of multiple climate change scenarios in order to demonstrate the flexibility and resilience of their corporate planning and strategy.

The Aozora Group has performed quantitative scenario analysis of physical and transition risks up through 2050.

### Overview of Scenario Analysis Results

Identification of Important Sectors	<p>Performed analysis on the priority of risk to the Bank's credit portfolio based on the climate change impact information received from outside sources as well as a risk map of the exposure from each sector of the credit portfolio</p> <p>Based on the results of analysis, identified the real estate sector, in which the Bank has a large amount of exposure, and the raw materials sector (paper manufacturing, chemicals, etc.), which is heavily impacted by climate change and the Bank has material level of exposure as important sectors</p>
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	Transition Risk	Physical Risk
Scenario	<p>IEA (International Energy Association) World Energy Outlook 2021 STEPS/SDS</p> <p>STEPS (Stated Policy Scenario): Scenarios derived from the publically announced environmental policies of each country</p> <p>SDS (Sustainable Development Scenario): Scenarios consistent with the goals of the Paris Agreement</p>	<p>IPCC (Intergovernmental Panel on Climate Change) RCP 8.5 Scenario (4°C scenario)/ RCP 2.6 scenario (2°C scenario)</p> <p>RCP: Representative Concentration Pathways</p>
Method of analysis	Preliminary calculation of loss reserves increases after assessing the degree of effect on corporate customers' business results (damage to their creditworthiness) based on parameter changes	Preliminary calculation of loss reserves increases arising from damage to properties after assessing the rate of damage due to the properties inundated with floods/high tides (effects of direct harm and suspended business activities)
Subject of analysis	Domestic and overseas real estate sector (excluding non-recourse loans, REITs) as well as raw materials sector (accounted for 13.2% of total loans*) *as of March 31, 2021	Domestic and overseas non-recourse loans for security properties (non-recourse loans accounted for 15.1% of total loans*) *as of June 30, 2021
Results of analysis	Recognized that the raw materials sector is comparatively easily influenced by rising costs from carbon price increases expected by 2050	Limited number of properties with a risk of damage due to flooding/high tides as many are solid security properties and located in areas less susceptible to disasters
Additional credit costs	Total increase of 2-4 billion yen by 2050	Total increase of 1 billion yen by 2050

### Suggested Result

Limited impact on the Bank's credit portfolio

### Risk Management: Adoption of Equator Principles

The Equator Principles are a risk management framework for identifying, assessing, and managing environmental and social risks when financing projects are intended to serve as a common baseline for due diligence and monitoring in order to support the decision-making of financial institutions that have adopted them.

Large-scale development projects can have a significant impact on local ecosystems and communities. The Aozora Group has adopted the Equator Principles in order to take the appropriate precautions to avoid and mitigate this impact when providing financing designed to support societal development.

### Metrics and Targets: Steadily begin measuring/setting targets for Scope 3 emissions (category 15: investment and loan portfolio)

The Aozora Group is committed to working towards net zero Scope 3 greenhouse gas (GHG) emissions by 2050, and has begun measuring these emissions based on the target range recommended by the TCFD. In FY2021, we measured the GHG emissions from our coal-fired power generation project finance initiatives (five projects, 620 kT-CO<sub>2</sub>\* in GHG emissions). We will continue to make periodic updates regarding these measurements and promote communication with our

stakeholders through proper disclosures.

\* Annual GHG emissions are calculated based on actual values for projects in which a certain period of time has passed since the start of operation and are based on planned values for projects that are not in operation or have been in operation for only a short period of time. Aside from projects that are not in operation, GHG emissions from projects that have been in operation for only a short time are 153 kT-CO<sub>2</sub> when the planned values are apportioned over the actual operation period.

The TCFD recommends the disclosure of climate change-related risks and opportunities based on a framework of “governance”, “strategy”, “risk management”, and “metrics and targets”. The Aozora Group’s progress based on these metrics are as follows (as of June 2022).

#### Governance Disclose the organization’s governance around climate-related risks and opportunities

- Announced that Aozora will “actively contribute to the sustainable growth of society” in our management philosophy
- Created and updated our “Code of Ethics and Conduct”, “Aozora Bank Group Environmental Policy”, “Aozora Bank Group Outsourcing Policy”, and “Investment and Lending Policies regarding Environmental and Societal Issues” as Aozora Group’s sustainability policy as approved by the Board of Directors/Management Committee
- Incorporated climate change risks into each of the key risks, which were approved by the Board of Directors
- Established “Aozora’s Sustainability Targets” based on the Board of Directors’ resolution as a set of management targets within its specialty/focus areas
- Established the Sustainability Committee with our CEO as Chairperson, In addition, established the Liaison Meeting of Group Sustainability in order to promote Group sustainability initiatives
- Appointed an Executive Officer in charge of Sustainability Management. In addition, established the Sustainability Management Division as an independent division

#### Strategy Disclose the actual and potential impacts of climate-related risks and opportunities on the organization’s businesses, strategy, and financial planning

- Recognized SDG/ESG issues, including climate-related risks and opportunities, in the Mid-term Plan as economic and social challenges from an environmental perspective and identified focus SDG/ESG initiatives in each business group
- Established and announced sustainable financing targets (including environmental finance) for FY2030 as part of our climate-related targets
- Incorporated a “Sustainability Business Management Policy” into our business plan
- Recognized the following climate change-related business opportunities:
  - Develop domestic and overseas environmental finance initiatives, including clean-energy finance, transition finance, decarbonization innovation finance initiatives developed by our Infrastructure and Environment Finance Division
  - Provide comprehensive solutions, such as problem-solving consulting, to our SME customers regarding their decarbonization efforts based on “Aozora’s ESG Support Framework
  - Increase sales opportunities for socially important and environmentally friendly financial products, such as “Juunen Toiro” and “Manten Kansoku”
- Established a Green Bond Framework for renewable energy projects and green buildings, based on which a green bond was issued
- Carbon-related assets\* accounted for 4.0% of total loans
  - Secured credit exposure not heavily concentrated on carbon-related assets

\* Assets tied to the energy and utilities sectors based on the definition of carbon-related assets provided in the TCFD recommendations, excluding water utilities and renewable energy producers
- Recognized long-term opportunities
  - Increased financing opportunities for social infrastructure development that utilizes digital innovation and new technology developments related to controlling, collecting, and using CO2 emission as a way to enhance our ability to adapt to climate change
  - Increased diversity of transaction opportunities with retail customers who share our new value of “contributing to the realization of a low-carbon society”
- Recognized long-term risks
  - Transition risks: risks arising from a credit portfolio impacted by the effects on borrower’s business operations and financial conditions associated with the shift to a decarbonized society and the ongoing replacement of existing products and services in order to keep pace with new low-carbon technologies and customers’ changing preferences
  - Physical risks: risks arising from a credit portfolio impacted by the physical damage caused by natural disasters and/or abnormal weather associated with climate change, such as a greater frequency/scale of storm and flood damage, as well as risks and adverse impacts posed to the business operations of the Bank and its customers caused by a greater frequency of cases of heatstroke or viral pandemics arising as a result of progressive global warming

- Conducted scenario analysis based on the aforementioned factors in order to gauge the long-term impact on the Bank’s credit portfolio based on the hypothetical scenarios of a rise in global temperature of either 4°C or 2°C by 2050. Confirmed that the analysis shows that both the transition and physical risks will have a limited impact on the Bank’s credit portfolio (see pages 62-63)
- Plan to continue improving and expanding the scope of scenario analysis as well as strengthen our methods for reflecting the financial impact on the Bank’s credit portfolio

#### Risk Management Disclose how the organization identifies, assesses, and manages climate-related risks

- Recognized the need to manage climate change risk as a financial risk trigger within traditional financial risk categories, including credit risk, market risk, liquidity risk and operational risk, and integrate the management of this risk into our existing risk management framework
- Incorporated climate change risk into the Bank’s “Key Risks” and identified the following specific risks:
  - Deterioration of credit quality: an increase in the Bank’s credit costs due to the decreased corporate value of borrowers who are slow to respond to decarbonization efforts and human rights issues
  - Delay in Aozora’s structural/business model transformation: adverse impact to the Group’s reputation due to loss of sustainable financing opportunities and subordination to other companies in the Banking industry due to being seen as slow to respond to and reluctant to disclose decarbonization efforts
- Review Investment and Lending Policy regarding Environmental and Societal Issues in accordance with the current business environment, societal demands, and changes in business activities, etc.
  - For any credit transactions that are believed to fall under the “prohibited credit” category, forward them to the Credit Committee or Investment Committee, both of which are responsible for making credit decisions by comprehensively reviewing the background, features, and other factors of each transaction
  - Will avoid financing new projects which involve coal-fired thermal power stations as well as expansion of existing power generating facilities
  - Adopted the Equator Principles, a common framework to identify, assess and manage environmental and social risks when considering making investments or loans for projects involving any kind of development
- Plan to consider a framework to control risk through improved quantitative analysis of climate change scenarios

#### Metrics and Targets Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities

- Established targets (Aozora’s Sustainability Targets) (For our results, please refer to page 21.)
  - Sustainable Financing Amount: 1 trillion yen by FY2030 (including Environmental Financing Amount: 700 billion yen)
  - Amount of Project Financing for Coal-fired Power Plants: 0 by FY2040
  - CO<sub>2</sub> Emissions as a Business Entity (Scope 1 and 2): 50% reduction by FY2030 (compared to FY2020), 0 (net zero) emissions by FY2050
- Currently developing a roadmap towards eliminating GHG emissions (Scope 3: category 15) from the Bank’s investment and lending portfolio and becoming carbon-neutral by 2050
- Aozora currently monitors the following measurement metrics:

Units: t-CO2		FY2017	FY2018	FY2019	FY2020	FY2021 (preliminary basis)
CO2 Emissions	Scope 1* Direct Emissions	80	51	144	114	110
	Scope 2* Indirect Emissions	7,508	7,028	6,071	6,243	4,884
	Scope 3** Other forms of indirect emissions	—	—	—	64	64
	Total	7,588	7,079	6,215	6,421	5,058

\* Starting in FY2020, Scope 1 and Scope 2 measurements include emissions from overseas bank offices and major Group companies (consolidated subsidiaries including their overseas subsidiaries).

\*\* The Bank began measuring Scope 3 GHG emissions related to employees’ business trips in FY2020.

In addition, we have taken a step-by-step approach to measuring Scope 3 (category 15: investment and loan portfolio) emissions since FY2021. In FY2021, we measured emissions from our coal-fired power generation project finance initiatives (five projects, 620 kt-CO<sub>2</sub> in GHG emissions).



## Sustainability Integrated into Our Business

### Investments Designed to Support Structural Transformation

Amid the accelerating industrial transition on a global scale, Aozora understands that promoting “industrial transition” is one of its key business areas from the perspective of contributing to realizing a sustainable society through financial support for companies' efforts to address business environment changes. Based on this, we have set KPI targets for the number of equity investments with a primary focus on engagement. We intend to facilitate dialogue with our customers for a

deeper understanding of their business and serve as a financial partner that works in tandem with them towards the enhancement of corporate value through support by leveraging the Aozora Group's strengths. (Please refer to "A New Partnership with Our Customers through Equity Investments with a Primary Focus on Engagement" on page 30 and "Equity Investments with a Primary Focus on Engagement" on page 38.)

### Growth Support for Venture Companies

Aozora understands that realizing “financial inclusion” is one of its key business areas from the perspective of supporting the growth of promising companies. Based on this, we have set KPI targets for the number of venture-related investments and the number of account openings for small businesses and start-ups. Aozora's Venture Ecosystem Support Framework is designed to offer one-stop services for the entire Group to serve customer needs at each growth phase, including Aozora Corporate Investment's venture debt funds. GMO Aozora Net Bank develops systems in-house by leveraging its technology capabilities and provides a range of services that closely match the needs of its corporate customers in the start-up phase in pursuit of becoming “No. 1 Bank among small businesses and start-ups.” (Please refer to “Growth Support for Venture Companies” on page 31 and “Equity Investments” on page 32, “Venture Debt” on page 38 and “GMO Aozora Net Bank Initiatives” on page 50.)

### Contributing to Regional Communities through Business Recovery

Aozora has set KPI targets for the number of business recovery fund-based transactions. Recovery funds operated by Aozora Loan Services with an over-20-year business history have a high percentage of business continuity after business recovery and allow for realizing financial inclusion among a wide variety of customers. We remain committed to contributing to the invigoration and sustainable growth of regional communities through support for the business recovery and relaunch of mid-sized companies, SMEs and small business owners that perform actively in their regions. (Please refer to “Contributing to Regional Communities through Business Recovery” on page 31, “Online Seminar on Business Recovery during the COVID-19 Pandemic” on page 35 and “Business Recovery Focus” on page 42.)

#### Promoting “Industrial Transition”

##### ◆ Investments Designed to Support Structural Transformation

	FY2021-FY2025 Targets	FY2021 Results
Number of equity investments with a primary focus on engagement:	100 transactions	33

#### Realizing “Financial Inclusion”

##### ◆ Growth Support for Venture Companies

	FY2021-FY2030 Targets	FY2021 Results
Number of Venture-related Investments:	100 transactions	12
GMO Aozora Net Bank Small businesses & start-ups:	200,000 account openings	23,600 (approx.)

##### ◆ Contributing to Regional Communities through Business Recovery

	FY2021-FY2025 Targets	FY2021 Results
Number of Business Recovery Fund-based transactions:	100 transactions	21

## Protecting and Providing for the Next Generation

### Business/Asset Succession Consulting

In our aging society, seniors live a fulfilling 100-year life while having needs for asset succession and SMEs and small businesses, which underpin the competitiveness of Japanese industries, seek a way to identify a successor and quality personnel for smooth business succession. Aozora understands that providing support for their asset/business succession to the next generation is one of its key business areas. Based on this, we have set KPI targets for the number of asset/business succession consulting contracts. We will also further improve the quality of our business and services through research on financial gerontology

##### ◆ Business/Asset Succession Consulting

	FY2021-FY2025 Targets	FY2021 Results
Number of Consulting contracts:	1,800	314

in order to protect senior customers and serve their needs mentioned above. (Please refer to “Retail Banking Group” in the “Customer Relations Group” section on page 36 and “Business Succession Leveraging the Aozora Group's Strengths” on page 39.)

### Bequest Agreement/Partnership Regarding Testamentary Trust

The Aozora Group provides testamentary trust services as part of its asset succession consulting. Aozora has entered into an agreement or partnership with organizations serving as a bequest recipient. They offer a wide variety of options to our customers who wish to predetermine the distribution of monetary assets for a rainy day, consider using last money for a specific charitable project of interest or, despite their level of interest, have little knowledge about the details of the donation process and bequest recipients.

Alliance partners as bequest recipients	Examples of project themes and support through donation
Sophia School Corporation	<ul style="list-style-type: none"> <li>Support for the school attendance of students</li> <li>Support for educational research and related environmental improvement</li> </ul>
National Federation of UNESCO Associations in Japan	<ul style="list-style-type: none"> <li>Educational support for natural disaster areas</li> <li>Educational support for developing countries</li> <li>Medical, healthcare and food support</li> <li>Support for the Heritage for the Future project as well as World Heritage activities</li> <li>Educational support for the next generation</li> </ul>
The Nippon Foundation	<ul style="list-style-type: none"> <li>Kids support</li> <li>Support for persons with disabilities</li> <li>Support for disaster recovery</li> <li>Support for developing countries</li> <li>Support for cultural and educational activities</li> </ul>

### Support for Retail Customers' Mid- to Long-term Wealth Building

Among other investment trust funds, “Aozora Core Funds” are funds specifically selected by the Bank and available as a no-load product (0% purchase fee). Aozora New Global Core Fund (limited addition type) (also known as “Juunen Toiro”) offered since 2020 and Aozora Ultimate Diversified Global Sustainability Equity Fund (also known as “Manten Kansoku”) released in 2022 are designed for “long-term investment” and “asset diversification” purposes in line with Aozora's basic policy of “supporting customers' mid- to long-term wealth accumulation.” They are also aimed at



contributing to the environment and society, with sustainability taken into consideration as an influential factor for the mid- to long-term corporate stock value at the time of selecting investment targets.

#### Topics

##### Aozora Gallery

“Aozora Gallery” is now open at the Bank's Head Office. Based on the concept of “Art cheers up Japan,” the gallery is designed to offer customers an opportunity to feel “the healing power of art and the joy of visiting our office”. The inaugural event was held with the support of the NPO “Art de Vivre” under the title of “Art de Vivre Exhibition - A World of Artworks Created by People with Disabilities -”.



## Initiatives to Contribute to Society

The Aozora Group works to address social issues through both the provision of financial services and participation in CSR activities as a way to “contribute to the sustainable development of society” and “participate in society as a ‘good corporate citizen’” as stated in our Management Philosophy and Code of Ethics and Conduct.

### FY2021 CSR Activity

CSR activity expenses	35 million yen
No. of employee volunteers	248

## Donations to Support Countermeasures against the COVID-19 Pandemic

### FY2021 Donations

Medical Support	Donations to the All Japan Hospital Association, Vietnam National COVID-19 Vaccine Fund
Economic Support	Donations to Good Neighbors Japan, Second Harvest Japan

The long-term impact of the COVID-19 pandemic continues to have a profound effect on people’s lives and economic/employment conditions. In FY2021, Aozora provided support for families and children facing economic hardships through donations made to Good Neighbors Japan, which operates a single-parent family foodbank, and Second Harvest Japan, a food bank organization that provides food support for those in need. The Bank intends to offer continued support, including donations, to areas in urgent need of support that may be difficult to address through existing business operations or financial services.

## Participation in Volunteer Activities

At Aozora Bank, we believe it is important for each of our employees to participate in society as a “good corporate citizen” and be more mindful of social issues. To this end, we strive to provide our employees with opportunities to participate in volunteer activities. In October 2021, we began to organize trials for volunteer activities that could be done online or at home so that employees could participate regardless of what division or office they belong to without being concerned about COVID-19 risks. These volunteer initiatives included transcribing books into text data that can be read aloud by a synthetic voice for the visually impaired in addition to donating towels or cloths to flood victims who need them for restoration work, including daily cleaning. Employees from across the Aozora Group, including not only the head office but also overseas offices and branch locations throughout Japan, participated in these initiatives and were afforded the opportunity deepen their understanding of social issues.



Volunteers from the Kyoto Branch (towel and cloth volunteers)

## Regional/Community Contributions

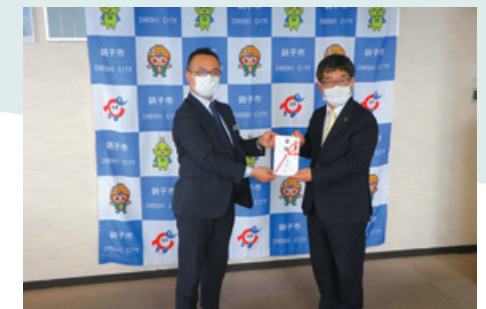
### Local Cleanup Efforts

Tokyo’s Chiyoda Ward, where our head office is located, designates June 6 and November 6 every year as the Chiyoda Ward cleanup days in an effort to promote cleaning and beautification activities. Volunteers from the Bank participated in a cleanup effort around the head office and Sophia University campus on November 8, 2021 as part of its environmental preservation and regional contribution activities after a long hiatus due to the COVID-19 pandemic. Employees and students of Sophia University also participated, leading to a total 62 volunteers who took precautionary measures against COVID-19 and assisted in the cleanup effort for the first time in over 2 years.



### Support for Regional Revitalization Projects

Aozora supports regional revitalization projects designed to address regional issues by utilizing mechanisms such as the corporate version of the hometown tax payment system. These donations are an opportunity to deepen our relationship with local residents, and our aim is to contribute to solutions for social issues through our financial business outside of our CSR activities.



Ceremony to commemorate Aozora’s financial donation at the Choshi City Hall

### Donations to Cities/Prefectures

City/Prefecture	Organization/Cause
Sapporo City, Hokkaido	Sapporo City Development through the Support Hotto Fund
Miyagi Prefecture	New energy/environment-related industry creation/development “Driving Miyagi” Program
Choshi City, Chiba	“Learning” Creation Program utilizing the Choshi City assets and facilities
Aichi Prefecture	Demonstration Research Area Management Program, PRE-STATION AI Program
Kyoto City	Donation of a rest tent to the Kyoto City Zoo
Osaka Prefecture	Osaka Smart Senior Life Program
Kobe City	“Children’s Book Forest” Support Project
Hiroshima City	Construction of a soccer stadium
Kagawa Prefecture	Kagawa Health Point Program
Fukuoka Prefecture	Bio-industry base promotion program

## Joint Projects with Sophia University

In 2017, we relocated our head office to the Sophia Tower on the Sophia University Campus. We take this opportunity to strengthen our collaboration by providing finance-themed lectures as well as conducting joint research and social contribution activities with Sophia University.

### Basic Banking Seminar in collaboration with Sophia University

Since 2017, we have held a Basic Banking Seminar as a formal course in collaboration with the Faculty of Economics, Sophia University. Aozora’s officers/employees with years of experience in the banking operations conduct lectures with a focus on the role of banks and their relationship with the economy and society as a way to support the enhancement of financial literacy among the next-generation of students. The Seminar was held 14 times in FY2021 and attended by 367 students, mainly juniors from the Faculty of Economics. Thus far, 14 Aozora employees have given guest lectures on a wide range of themes including “People’s Lives and Banks” and “New Investment Opportunities and Banks”.



### Support for Creating Learning Spaces for New Members of Society through Industry-Academia Collaboration

Sophia University’s Professional Studies program is a new form of industry-academia collaboration that allows businesses and the university to work together to create learning spaces. In its role as an advisory partner, Aozora offers advice regarding topics such as the needs of companies and the acceptable international standards required on the frontlines of business.

### Working with the “+Re” Volunteer Community

Aozora supports Sophia University’s volunteer community, “+RE”, in their efforts to collect disposable contact lens cases. By recycling the collected lens cases, the group is able to contribute to the reduction of CO2 emissions released when the cases are burned along with normal garbage. In September 2021 the Bank placed a disposable contact lens recycle box in its head office and collected 10,712 contact lens cases in FY2021.



## Sustainability of Human Capital

**Hiroshi Kaneko**  
Executive Officer  
Head of Human  
Resources Unit

### Aozora Group's HR Strategy

The Aozora Group is a manageably sized entity with approximately 2,400 employees, consistently working hard to create added value and offering highly specialized financial services. The composition of Aozora's workforce is unique, with a mid-career hire rate that is relatively high for a domestic bank: new grad hires represent only 60% of new employees while mid-career hires account for 40%. As a result of our unique composition, we are able to provide our customers with financial services by leveraging our skill base and organizational flexibility. Aozora strives to

promote a workplace environment that always respects individual viewpoints and working styles, encourages employees to freely express opinions, and prioritizes teamwork, as demonstrated by the small gap in average length of tenure between male and female employees. We have established three basic policies for HR strategy to successfully leverage these advantages and features, and implemented HR measures that help employees perform well and promote organizational growth while responding to generational and environmental changes.

#### Aozora Bank's basic data (non-consolidated)

	Total	Male	Female
Number of employees	1,966	1,056	910
Average age	43	44	43
Average tenure (year)	15.1	14.6	15.8
Average annual income (1,000 yen)	8,232	10,073	6,203
Workforce composition	New grad: 59%, Mid-career: 41%		

As of March 31, 2022

#### Basic policies for HR strategy and main features of the HR framework

1. Performance-based HR system	Main features
We strive to establish a consistent HR system based not on seniority but capabilities and job responsibilities	Offer three career courses: Global Professional, Regional Professional, and IT Professional
	Employ contract employees with a high level of expertise who can play active roles regardless of age
2. Professionalism and skills enhancement	
We encourage employees to improve their professional skill sets	Establish a compensation system that incentivizes employees to take on new challenges
	Implement a unique competency assessment system that accurately assesses and works to develop an employee's expertise, teamwork, and a willingness to take on new challenges
3. Diversity and Inclusion	
We strive to build a dynamic organization where employees with diverse backgrounds can play important roles	Promote fairness, equity, and transparency in the performance evaluation system by clarifying the rules for promotions/salary increases and disclosing the Bank's salary structure
	Prioritize ability and performance when considering promotions, not seniority



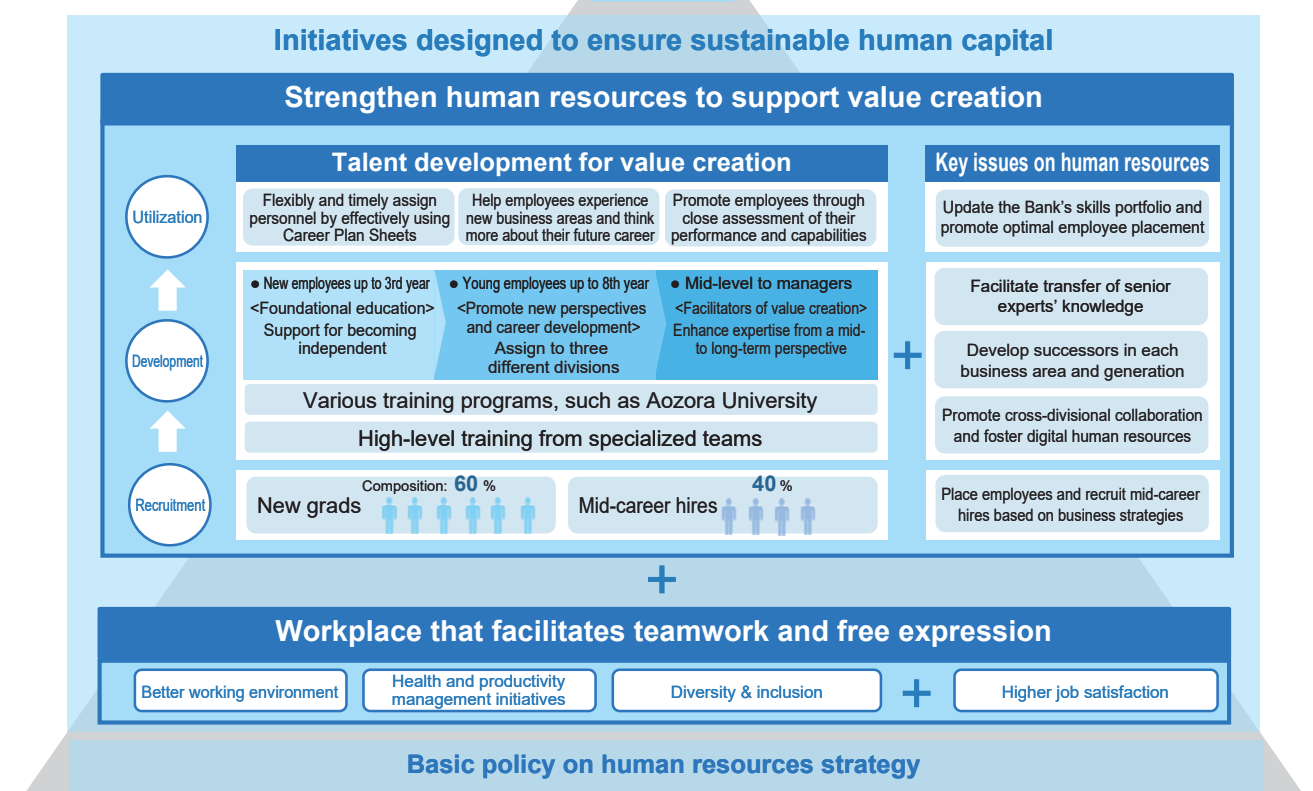
### Ensuring Sustainability of Human Resources

Amid rapid changes in the business environment, we have continued to improve our HR system by closely aligning our human resources strategy with Aozora Group's management strategy and business model. In FY2020, Aozora started working on HR Reform designed to help Aozora grow into a financial group that facilitates teamwork and further encourages employees to accept new challenges, and established a new HR system that facilitates teamwork and further encourages employees to accept new challenges, and established a new HR system that will turn the Bank into a more sustainable organization.

In FY2021, we reviewed our senior employee programs as a way to ensure that the Aozora Group continues to be a dynamic financial institution even five or 10 years in the future. For example, we have established new positions for those 55 or over, such as the Professional Fellow, emphasizing the important role of sharing experience and expertise with the next generation. We have also introduced new work schedules, including the "4 days on, 3 days off" and "short time work" systems,

which enables senior employees to choose a working style suitable for their individual life and career plans. Ensuring the sustainability of human capital is the business foundation of the Aozora Group, and we are focused on encouraging our senior employees to pass on their knowledge and expertise, fostering successors in each business area/generation, and transferring employees to other divisions/recruiting mid-career hires based on business strategy as key topics regarding ensuring sustainability across the Group. We position human capital as the main source of the Group's competitive advantage, and will continue to further enhance our working environment that enables employees to play active roles with a high level of job satisfaction. We have developed systems to aid in the visualization of employees' skill sets, experience levels, and career orientations by compiling a database based on Career Plan Sheets created by each employee. We will also seek to better understand the Bank's skill portfolio and promote the optimum placement of employees by using this database.

Grow into a financial group that facilitates teamwork and encourages employees to take on new challenges



## Recruitment and Development of Human Resources that Support Value Creation

Aozora's recruitment strategy targets both new grads and mid-career hires. We have successfully recruited mid-career hires with high potential and expertise. New grads are placed into a three-year "foundational education" period, during which they participate in HR-sponsored position-specific training and receive guidance from more experienced employees in their workplace under a unique employee support framework entitled "OJT Trainer" and "Follower". Junior employees learn business basics and experience various operations at three different divisions, in principle, during their first eight years, which enables them to develop a wider perspective and obtain more opportunities in their career path as prospective upper-management candidates.

Mid-level employees and managers in their 30s and 40s, who support core management functions, are placed in positions that enable them to strengthen their management capabilities and expertise in the mid- to long-term, and also encourage them to pass on their knowledge of specialized financial services, one of

Aozora's strengths, and create new added-value. Aozora strives to promote employees to higher positions through assessment of their abilities and performance. While accounting for 41% of Bank employees, the percentage of managers that are mid-career hires is 44%. Employees with diverse backgrounds have the opportunity to play active roles at the Bank, regardless of their status as a mid-career hire. Attracting superior talent that supports value creation is one of the major strengths of Aozora's HR strategy.

Data	2020	2021
Number of recruited employees	New grad	65
	Mid-career	46
Employee ratio	New grad	58%
	Mid-career	42%
Manager ratio	New grad	57%
	Mid-career	43%
Retirees (not mandatory retirement)	47(2.4%)	47(2.4%)

## Aozora's Human Resources Development

We believe that employee development is an important investment for ensuring the sustainability of human capital. Aozora's human resources development strategy is based on offering of a wide range of training programs to encourage employees to take on new challenges while respecting their diverse career plans and individual initiatives. For example, Aozora University, which was launched over 10 years ago, offers training seminars open to all employees, and the Bank's skill-building support initiative encourages employees to freely select from a wide range of subjects and also provides financial support of up to 50,000 yen a year. Our aim is to encourage employees to take charge of their own growth and development based on their own needs and aspirations.

We conduct a combination of on-line and in-person training programs, and the Yotsuya Head Office is equipped with a lecture hall which can seat up to 120 participants. Furthermore, the majority of these lectures are developed in-house; the Human Resources Division

sponsors seminars for each role and experience level, from new hires to senior employees, and the Business Groups, such as the Corporate Banking Group and Retail Banking Group, have specialized development teams that offer presentations on high-level business topics. These development teams are comprised of employees with coaching and other teaching certifications as well as experienced specialists in order to provide practical and high quality training.

Data	2020	2021
Number of participants	5,184	11,393
Total training hours	59,533	63,951
Training hours per employee	30.8	32.5
Training cost per employee*	26,300 yen	27,300 yen

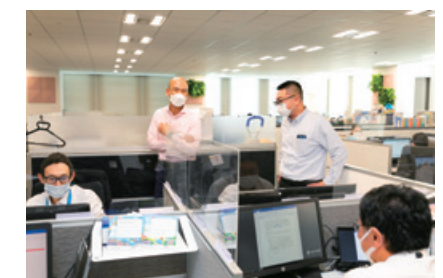
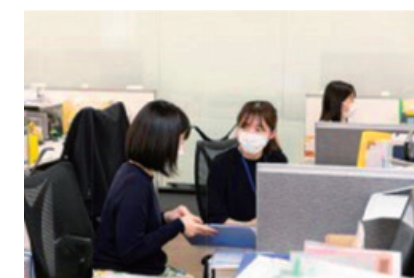
\*Cost for external instructors and financial support for self-development

### Key initiatives

Area	Contents	FY2021
<b>Training for junior employees</b>	Basic training for junior employees during their first three years	27 days 317 participants
<b>Support for OJT</b>	OJT Trainers training, Followers training	18 days in total 97 participants
<b>Management capability building</b>	New Managers Training, New GMs Training Managers Training (360 degree feedback, coaching)	5 days 99 participants
<b>Experience expansion, career design</b>	Internal short-term trainee program, qualification programs such as Real Estate Appraiser Career training for Regional Professional, Career Ownership Training	Trainee: 20 participants/6 divisions Career training and Career Ownership Training: 5 days 111 participants
<b>Global talent development, business management skills development</b>	English proficiency enhancement program, such as support for English lessons Overseas Trainee Program (assign trainees to Aozora Group's overseas offices) Advanced Education Program (send employees to domestic graduate schools and companies)	English proficiency enhancement program: 31 participants Overseas trainee program: 3 participants Dispatch to Graduate school: 2 participants Companies: 3 participants
<b>Digital talents development</b>	IT literacy enhancement program by literacy level (details are explained on the next page) Support for IT Passport Qualification	Advance course: 66 participants IT Passport: 291 holders
<b>Communication Forum</b>	Online forum where employees in Japan can develop closer communication and stronger teamwork	20 days 604 participants
<b>Aozora University</b>	Internal and external specialists give lectures on a wide range of topics, including investment banking business, business recovery support, DX, and SGDs	Lectures: 40 sessions 4,592 participants
<b>Skill-building support initiatives</b>	Financial support to encourage employees to acquire any of 60 qualifications useful for banking business. Additional financial support of up to 50,000 yen per year is offered when employees complete self-development programs	459 applicants

### Specialist Training Teams

<b>ACATS (Aozora Credit Analysis Training School)</b>	ACATS consists of four members from the Corporate Banking Group. The team teaches junior employees and mid-career hires the basics of sales activities for our corporate clients while offering updated information on new focus areas, such as the investment banking business, in order to foster high-level financial professionals ●FY2021: 29 seminars, 110 days and 2,457 participants
<b>AAaA (Aozora Academy at Aoyama)</b>	AAaA (also known as "Quattro A") is a training center where a team of specialized training staff in charge of RBG human resource development is stationed. In order to implement customer-oriented business management, the team provides sales staff with the skills necessary to deliver consulting services based on life planning so that they can meet a wide range of customer needs as consultants. AAaA also works as a key platform for sales activities for financial institutions, as the team trains the sales staff and training staff of financial institution customers. ●FY2021: 12 seminars, 86 days and 578 participants
<b>AFITs (Aozora Financial Institutions' Training school)</b>	AFITs belongs to the business group in charge of sales planning and supervision for regional financial institutions. The team fosters employees' ability to create a solid, long-term network with regional financial institutions by sharing the knowledge of a wide range of financial services including provision of asset management products and solutions to business challenges and also conducts role playing exercises. ●FY2021: 41 seminars, 42 days and 615 participants





## Creation of Training Platform

To create unique financial services in the midst of the diversification and specialization of banking business, Aozora emphasizes “co-work”, close employee collaboration that transcends business divisions and operations. We believe that employees should look beyond their own direct responsibilities and seek to more broadly understand the Bank’s business areas and their peers’ work as a whole.

In FY2021, the Bank established a “training platform” in its portal site. This enables all employees to easily and freely access and review the Business Groups’ training menus, training menus, materials, and knowledge as a means to facilitate voluntary study of various topics. About 30 divisions distribute approximately 100 material

sets via the platform, and training materials remain fresh by including video, audio, and training/seminar materials of in-person trainings. Using this platform, those who have no experience in certain business areas can easily acquire elementary and mid-level skills, and employees in the Regional Professional career path are encouraged to take on tasks in areas where they are inexperienced. Junior employees are advised to take courses to meet the minimum number of credits during their first three years. Since its introduction in October 2021, the number of views has reached 2,000 per month. The Bank will further utilize the platform as an effective tool to prioritize teamwork, encourage employees to take on new challenges, and support each employee’s career plan.

## Digital Talents Development Program

Aozora believes that the voluntary study of digitalization can change an individual’s thinking process and increase opportunities for business reform. Accordingly, in FY2021, the Bank introduced the Digital Talents Development Program which is designed to enhance all employees’ IT literacy. This program offers opportunities to all employees by developing courses suitable for the roles and operations of a wide range of staff members from junior to the management-level, not just core IT professionals. In FY2022, we added three courses to

enhance the program.

We send employees who have completed an Intensive Course on promoting digitalization in FY2021 to divisions with strong needs for IT skills to enable the participants to apply what they learned to actual operations. We have found this to be an effective approach to developing core IT professionals while solving IT issues within each division. We will further strengthen this approach in the hope that our small and large achievements across all groups will lead to business reform.

FY2022 Digital Talents Development Program

Course	Participant	Detail
【Existing】Management course ① (for the management-level)	Executive Officer President of subsidiaries	Study sessions are regularly held. External experts talks about timely topics, such as global trend and long-term big pictures in the financial industry.
【New】Management course ② (for managers)	Managers	External instructors teach mindset for DX and basic skills to foster bridge persons who link IT with businesses. To accept as many participants as possible, 2-day hands-on workshops on weekends are planned.
【Existing】Advance course ① (for applicants)	75 (1st half) 40 (2nd half)	This intensive course aims at fostering DX leaders for each Group. External lecturers explain topics, such as DX business strategist, service designer (UI/UX) and data science.
【New】Advance course ② (for applicants)	50	This is a one-year e-learning course on AI use, aiming at fostering DX leaders for each Group. The course has three steps of Elementary, Basic and Practical. It was developed by Kwansei Gakuin University and IBM
【Existing】Standard course ① (all employees)	All employees	This course consists of three components to enhance employees’ IT literacy. ① Support for IT Passport acquisition ② Aozora University ③ Udem’s e-learning program
【New】Standard course ② (young employees)	30 (1st half) to be decided (2nd half)	Workshops (4-day seminars + team activities) on new businesses and service planning are held for young employees. Seminars on social issues and information on DX and team activities on business framework will be offered.

## Support for Career Development

Another benefit of Aozora’s manageable size is that officers and employees generally know one another quite well. The HR Division and Group Heads closely monitor employees’ preferences, capabilities, and aptitude before deciding on transfers based on the Career Plan Sheets, which are submitted by each employee annually. This process has resulted in strong support for career development and flexible transfers.

The Bank also has training programs, such as the Regional Professional Career Training and Short-term Internal Trainee Program, as well as other programs, such as the Job-posting Program (internal recruitment system) and Job Support Program (temporarily assigning applicants to their preferred divisions). Employees can effectively combine training and business experience to achieve their career plans.

In FY2021, we established the Real Estate Appraisers Development Program as part of the employee training and expert career development support framework as way to foster the next generation of employees engaged in the real estate business, one of the Aozora Group’s strengths. Two applicants are working in the Appraisal Division in order to acquire the Real Estate Appraiser

qualification.

Under the Job Support Program, employees who work at branch offices are also assigned to support the operations at the Yotsuya Head Office. This program is designed to create new opportunities for career development by leveraging Aozora’s strengths, such as its comfortable working environment and infrastructure. To aid employees in playing active roles outside of the Bank and to achieve the goals of their individual life plans, we have established the Secondary Employment Guidelines and Career Support Leave Program. Obtaining a second job is a useful way to enhance job satisfaction at the Bank through developing employees’ abilities and second career opportunities, as well as enhancing their self-fulfillment.

Data	2020	2021
Participants in career development programs	110	131
Users of career support programs	45	90
Applicants for second jobs	16	31

### Career Support Training/ Initiatives

Program	Overview
<b>Regional Professional Career Training</b>	Training for Regional Professional to clarify their personal strengths and values in order to further demonstrate leadership, and rethink about future career path
<b>Career Ownership Program</b>	Training that urges employees aged around 50 to proactively think their career design their life plan
<b>Short-term Internal Trainee Program</b>	Intensive program that allows employees to learn unexperienced businesses in other divisions for short periods
<b>Job-posting</b>	Internal job-posting program that supports employees in realizing their career aspirations. Approximately 50 positions posted a year
<b>Career Course Conversion</b>	Program that allows Global Professional, Regional Professional and IT Professional to change their career track
<b>Job Support</b>	Career development system where employees can temporarily take on new job responsibilities in their preferred division while staying in their current position
<b>Overseas Trainee Program</b>	Internal job-posting program that dispatches young or mid-level employees to work at an overseas office for two years so that they can gain experience working overseas
<b>Mushashugyo</b>	Program that dispatches young or mid-level employees to work at other business entities to enhance their creativity and expertise
<b>【New】Real Estate Appraiser Program</b>	Program that allow employees to work at Appraisal Division while studying to acquire Real Estate Appraiser qualification. The Bank pays all fees for school, exam and intern training
<b>Aozora Career Support Leave Program</b>	Program that supports flexible working styles to match employees’ life plans. Employees may apply for leaves when they study abroad, have to relocate due to their spouse’s transfer or have fertility treatment
<b>Lifting restrictions on second employment</b>	The Bank lifted restrictions on second employment (only when self-employed or serving as external companies’ officer) in FY2020. The Bank has established Second Employment Guidelines
<b>Job Return Program</b>	Program to re-employ the Bank’s retirees

## Positive Workplace and High Job Satisfaction

To ensure the sustainability of our human capital and enhance corporate value, we believe that it is important to foster a comfortable working environment where employees can pursue long careers. It is also necessary to enhance job satisfaction by respecting employees' diverse values and career plans. We have implemented several programs for flexible working schedules and a better work-life balance. About 80% of employees use the Flextime Program, which lacks a defined core time, and over 60% efficiently make use of the Work-from-Home/Mobile Work Program. This combination of programs has been well received as the new working style within the "New Normal" that arose as a result of the COVID-19 pandemic. We have also begun improving our programs and infrastructure even before the pandemic started, and these efforts have led to 80% of Employee Satisfaction Survey respondents agreeing that "Aozora is a comfortable workplace."

On the other hand, only 60% of respondents selected

positive answers regarding job satisfaction. We learned from the Survey that measures need to be taken to improve job satisfaction and ensure the sustainability of our workforce. Since FY2021, we have encouraged supervisors and their employees to have periodic 1-on-1 meetings. We will plan additional initiatives and workplace management configurations through seeking to understand the key factors that lead to greater individual job satisfaction and utilizing these findings.

Data	2020	2021
Flextime Program users	1,570	1,615
Work-from-home ratio	62%	60%
Average days of paid leave used	13.3	14.4

(Note) Please refer to page 118 for more information regarding initiatives to increase job satisfaction.

## Health and Productivity Management Initiatives

Aozora and the Aozora Bank Health Insurance Society have worked closely to improve the Bank's working environment so that employees can pursue long careers. For example, we offer financial support for health checkups and gynecological exams for employees and their families, and implement stress checks, regular health checkups, and Occupational Health Physician follow-up sessions for employees. The Health Management Office, located in the Head Office, has medical staff trained in internal medicine and dentistry who can respond to employees' needs for physical/mental health management and medical services.

In FY2021, the Health Management Office implemented three workplace vaccination programs for employees and their families. In total, 6,942 people received COVID-19 vaccinations. The goal of this initiative was to support the operation of financial services indispensable for maintaining society by protecting employees from becoming infected.

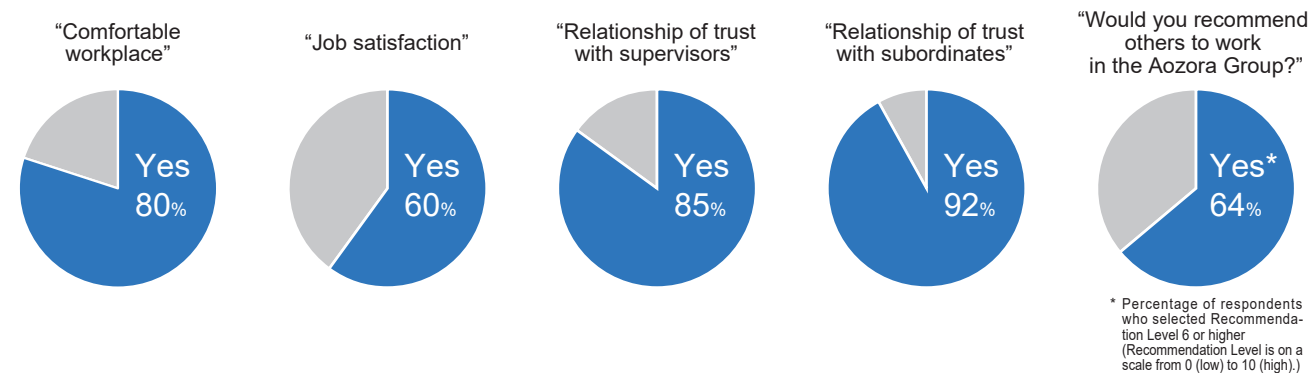
Aozora regularly monitors its employees working hours

through objective attendance data, such as PC logs, and our Occupational Health Physician gives guidance on reducing overtime work. In FY2021, our employees' average monthly overtime was 11 hours and 50 minutes, higher than the result from FY2020. We have strengthened initiatives designed to require managers to set targets for the "reduction of overtime as a means of health management by encouraging employees to prioritize tasks for greater efficiency".

Data	2020	2021
Applicants for financial support for full-scale health checkups (employees)	1,499	1,487
Applicants for financial support for full-scale health checkups (family members)	329	335
<Ref> Average financial support: Male 49,500 yen, Female 71,500 yen		
Covid-19 workplace vaccinations (3 shots): 6,942 recipients		
Average monthly statutory overtime hours per employee*	10 hours, 20 minutes	11 hours, 50 minutes

\*Non-statutory overtime hours of employees except those in supervisory or managerial positions

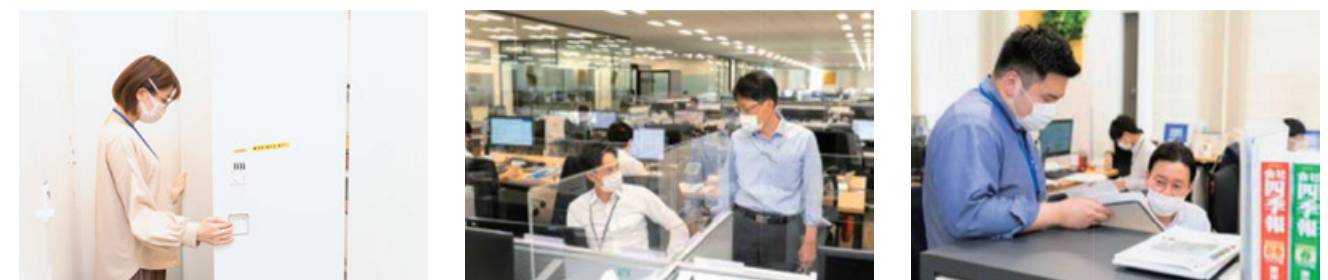
### Aozora Group Employees Survey Results



### Evaluation by Third Parties



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## Diversity & Inclusion

Amid rapid changes in the business environment, establishing a working environment where employees with diverse backgrounds can play important roles is essential for enabling the Bank's sustainable growth.

The Aozora Group strives to enhance diversity & inclusion by respecting each employee's values and career plans while supporting employees' flexible working styles in addition to further encouraging employees to respect diversity and strengthen the sense of unity within the Group. In order to achieve these goals, we have implemented a wide range of employee training programs, including unconscious bias training.

### Initiatives for Diversity-oriented Career Support of Core Talent

We believe that securing diversity in the managers who play core roles in business management is important. Since FY2021, we have established HR development policies and set target ratios of female managers, non-Japanese managers, and mid-career managers.

#### 1. Human Resource Development Policies

Polices	Actions
<b>[Policy 1] Diversity-oriented recruitment and consistent merit-based evaluation</b>	<ul style="list-style-type: none"> <li>Continue to employ mid-career hires as well as new graduates</li> <li>Hold recruitment events for women</li> </ul>
<b>[Policy 2] Support female employees' career development</b>	<ul style="list-style-type: none"> <li>Encourage female employees to gain experience in new business areas by implementing a wide range of training programs</li> <li>Improve development programs, such as the internal short-term trainee program</li> </ul>
<b>[Policy 3] Improve Aozora's working environment in order to support employees with diverse backgrounds</b>	<ul style="list-style-type: none"> <li>Promote flexible working styles and use of paid leave for better work-life balance</li> <li>Hold interview sessions and seek feedback from domestic and overseas employees to consistently improve the working environment</li> </ul>

#### 2. Goals and Progress

Categories	Current ratios	Ratios to be achieved	Target
<b>Female managers</b>	11.8% → 12.5%	13% or over	March 31, 2023
<b>Female deputy managers</b>	33.5% → 37.1%	35% or over	
<b>Non-Japanese managers</b>	2.9% → 2.9%	3% or over	
<b>Mid-career managers</b>	42.5% → 43.7%	40% or over	Ongoing

(Note)

- Managers are designated as those in a position of supervision or management as stated in the Labor Standards Act: Total of general managers and group managers
- Deputy Managers are one position below managers
- Non-Japanese managers: including those working in domestic/overseas subsidiaries excluding GMO Aozora Net Bank
- "Current ratios" shows the change from March 31, 2021 to March 31, 2022

### Creating Opportunities for Female Employees

We believe in the importance of creating an organization that promotes female empowerment and enables anyone to play active roles regardless of gender in order to recruit and retain excellent female employees in light of expected workforce shortages. As stated above, we are working to strengthen our initiatives designed to achieve target ratios for female managers and managerial candidates in addition to the recruitment, training, and utilization of female employees in order to expand the core talent pool.

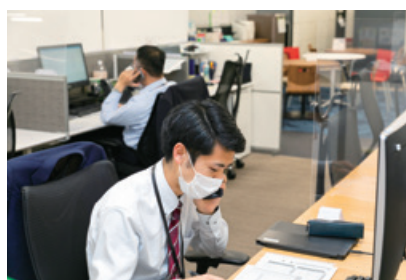
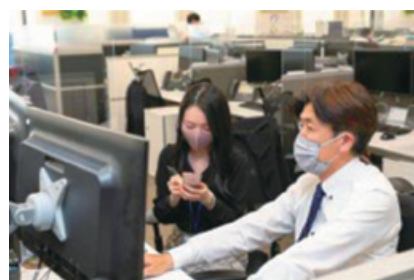
In FY2020, we abolished "Ippan-shoku (non-professional career category)" and eliminated career course-based limitations on roles and responsibilities. This has further enabled our female employees to pursue their career goals.

Based on the current HR system, we have expanded our core talent pool by hiring female employees with

high potential and expertise. We have created the Professional Career Training and Short-term Internal Trainee Program for employees whose positions are classified as "Professional" based on their current career course, which has enabled our female employees to gain a wider range of job experience in order to strengthen their business skills and mindset. Some female employees who were engaged in back office work as sales assistants have started to work as front sales staff while assisted by supervisors and peers. We carefully assess each employee's efforts and assign them to other divisions as a way to broaden their expertise. We will continue to promote effective recruitment, training, and assignment approaches in order to steadily encourage female employees to play leading roles.

#### Female employees' data

	July 2018	July 2019	July 2020	July 2021	July 2022
① Executive officers	1 (4.8%)	2 (9.1%)	2 (9.1%)	4 (16.7%)	5 (18.5%)
	March 2018	March 2019	March 2020	March 2021	March 2022
② General managers	10 (11.2%)	10 (11.4%)	11 (11.3%)	11 (11.5%)	11 (9.6%)
③ Group managers	55 (10.7%)	60 (11.7%)	64 (12.1%)	64 (11.8%)	71 (13.2%)
④ Total of (② + ③)	65 (10.8%)	70 (11.6%)	75 (12.0%)	75 (11.8%)	82 (12.5%)
⑤ Deputy managers	89 (31.2%)	98 (32.9%)	105 (33.3%)	107 (33.5%)	123 (37.1%)
⑥ Female employees	837 (46.8%)	896 (47.7%)	904 (47.0%)	899 (46.5%)	910 (46.3%)





## Creating a Comfortable Working Environment for Employees with Disabilities

The Bank has developed a safe working environment where employees with disabilities have important responsibilities across a wide range of operations based on their aptitude, such as handling deposits, lending and foreign exchange operations, document management and IT, as well as playing active roles in a variety of divisions. In FY2021, the percentage of Bank employees with disabilities was 2.4%. In FY2021, we became the first bank to receive the Tokyo Metropolitan Government's "Excellent Company Award for the Employment of People with Disabilities". Our efforts such as "taking the views of employees with disabilities into account" and "providing a working environment where anyone can work comfortably regardless of disability status" have been highly praised.

### Creating a comfortable workplace

Many staff members, including Occupational Health Physicians, nurses, public health nurses, mental health & welfare counselors, and job coaches, assist employees with disabilities to meet their individual needs. For example, when an employee with vision impairment joined the Bank, we consulted with the employees to develop accommodations for them before they began working, such as introducing

reading and text resizing software as well as enhanced vision equipment. The Bank strives to flexibly respond to the individual needs of those with either physical or mental disabilities by creating an environment in which they feel comfortable expressing their views, such as during regularly held communication sessions.

### Raising awareness of disabilities

The Bank holds Small Meetings, as we did in FY2021, designed to promote close communication between our CEO (as well as other executive officers) and employees with disabilities. The participants have active discussions around improving the workplace. Those with hearing impairments often depend on clear enunciation and reading other people's mouth movements in order to understand conversations. Currently, this has been made difficult, as wearing masks in order to prevent the spread of COVID-19 has become commonplace. We are

working to further improve the workplace by soliciting ideas from employees. The Bank encourages employees with disabilities to discuss disability-related issues and their personal viewpoints via our intranet in order to raise awareness Bank-wide.

### Initiatives for employees with disabilities

We are striving to proactively listen to the concerns of employees with disabilities. For example, we introduced the "UD Talk®" app, which translates speech into text for people with hearing impairments, and electronic memo pads based on the requests of employees with hearing impairments.

Employees with hearing

impairments played a leading role in producing tools such as the Aozora Ear Mark and Communication Support Board. The Bank works closely with employees with disabilities to address any issues they encounter, even in their daily life. We also take into account the feelings of individual employees who do not wish to disclose their disabilities. Our goal is to take into account the unique perspectives of employees with disabilities, and this section of the Annual Report was also created based on their feedback.



### Opinions from employees with disabilities

#### Q. Has the Bank provided a comfortable working environment?

When I joined the Bank, my office introduced reading and text resizing software as well as enhanced vision equipment. I still sometimes struggle to see certain things, but I feel comfortable continuing to discuss the matter with the Bank.

I'm happy about step-free floors and barrier-free bathrooms in my office.

Aozora Ear Mark

I communicate closely with my supervisors about my conditions. When I'm having a rough day, I take more frequent breaks and adjust my workload, if needed. I feel like I can work while properly managing my health.

An article I wrote was posted on the Bank's portal site. I'm happy because it was an opportunity to raise awareness of disabilities and hopefully everyone will read it and learn more about me.

Thanks to the Aozora Ear Mark, more employees recognize my difficulties, and try to communicate with me by using tools, such as the Communication Support Board, electronic memo pad, and UD Talk® app. I don't have a problem talking to just one person, but in group conversations I sometimes cannot communicate smoothly. I hope to keep sharing tips for communicating smoothly with those who have hearing disabilities.

My division has senior employees with disabilities, and they perform just as well as people without disabilities. I was surprised because I only realized after they disclosed their conditions to me. One of the good things about working at Aozora is that everyone can work together regardless of their health status.

### CSR Initiatives

In order to address disability-related issues from a societal perspective, Aozora conducts programs at mental healthcare facilities and employment transition support centers that are designed to support people with disabilities in maintaining stable employment. We also gave presentations on the Bank's disability-related initiatives at various workshops, including the Vocational Rehabilitation Workshop sponsored by the Japan Organization for Employment of the Elderly, Persons with Disabilities and Job Seekers. Having direct conversations with people with disabilities and their supporters has led to new discoveries and changed the way we think about these issues. We will continue our efforts to contribute to a society where people with disabilities can work comfortably.



UD Talk®



Electronic memo pad



Meeting led by employees with disabilities



## Corporate Governance

### Corporate Governance Philosophy

The objective of establishing Aozora's corporate governance policy is to ensure management discipline and create a framework for checks and balances in order to continue reflecting our management philosophy in the execution of daily business operations. For this purpose, the Bank continues to work toward a more transparent corporate governance structure by focusing on the proper establishment and operation of its governance framework as one of the primary management initiatives.

Management adheres to compliance with laws and regulations in all areas of business execution. Management identifies a broad range of risks that regularly occur in business operations and assesses their potential impact on the Bank's business in order to ensure optimal transparency, maintain strong internal controls and strengthen a framework for the effective balancing of risk and return.

In order to improve efficiency through the separation of management oversight and business execution as well

as transparency by establishing an appropriate corporate governance system, the Board of Directors, including multiple outside directors, determines basic management policy and management strategies, and oversees the execution of business operations. Executive officers, including the Representative Directors, conduct daily business operations with authority delegated by the Board of Directors. The Management Committee is the highest decision-making body for the execution of daily business, and is comprised of members from among the Executive Officers, who are approved and appointed by the Board of Directors. This structure improves the speed of decision-making, while at the same time the Executive Officers' Meeting, which comprises all Executive Officers, is held in order to exchange important information. Sub-committees are also established to improve efficiency of the execution of business operations.

### Aozora Bank's Corporate Governance Structure

The Audit and Supervisory Board (ASB) and its members monitor and verify the execution of director duties, mainly from a legal perspective. Board-level committees, such as the Nomination and Remuneration Committee and the Audit and Compliance Committee, both of which are mainly comprised of outside directors, are entrusted by the Board of Directors to perform supplementary supervision of representative directors and executive officers and function as a check and balance on management.

#### <Board of Directors>

The Board of Directors establishes important basic policies for business operations and oversees the execution of duties by executive officers entrusted with daily business operations. Moreover, the outside directors' meetings are comprised of only the four outside directors and are convened multiple times throughout the year to allow for the discussion and exchange of views on topics, including Aozora's executive structure, key business issues and the operation of the Board of Directors, from an independent outside director's perspective.

#### <Audit and Supervisory Board>

The Bank operates under the Audit and Supervisory Board (ASB) system. The ASB performs business and accounting audits regarding the execution of duties by directors and executive officers in accordance with relevant laws and regulations. The ASB convenes all ASB members to receive reports on important audit matters and discuss or resolve them as needed.

#### <Nomination and Remuneration Committee>

The Nomination and Remuneration Committee, the majority of which comprises outside directors, provides the Board of Directors with recommendations, including prospective candidates for Board and ASB members as well as other important employees. In addition, the Nomination and Remuneration Committee determines the remuneration of directors and executive officers and makes recommendations to each ASB member regarding their remuneration.

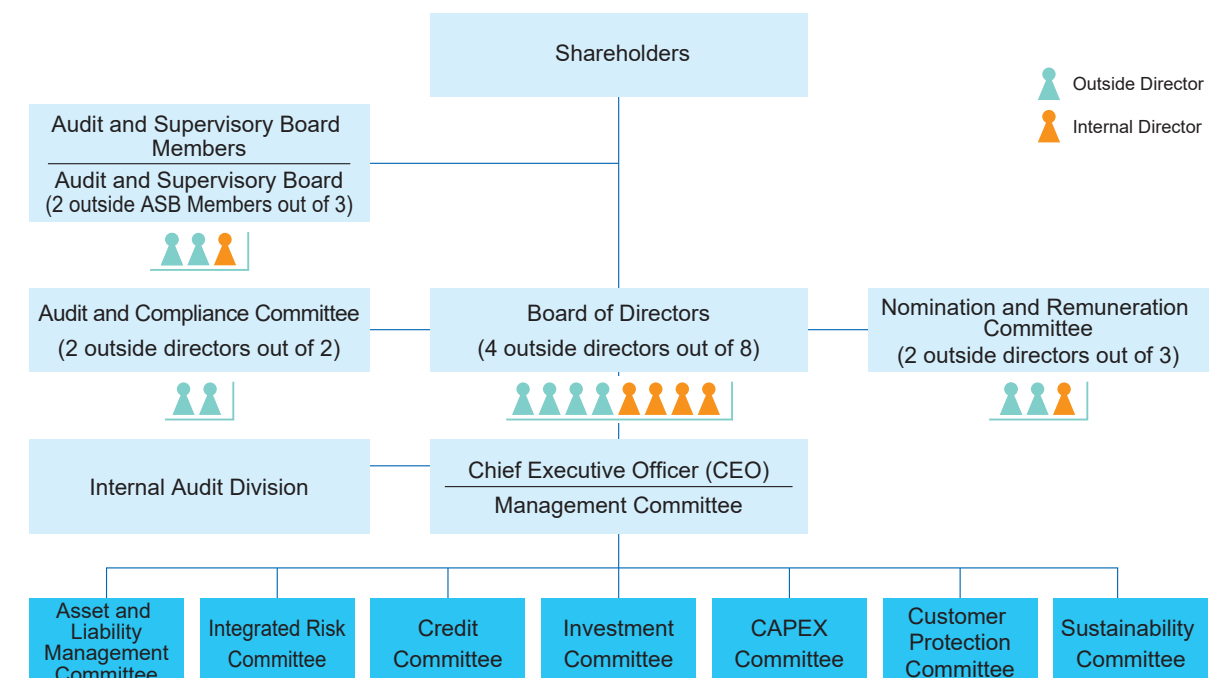
#### <Audit and Compliance Committee>

The Audit and Compliance Committee, which is comprised of outside directors, reviews the adequacy

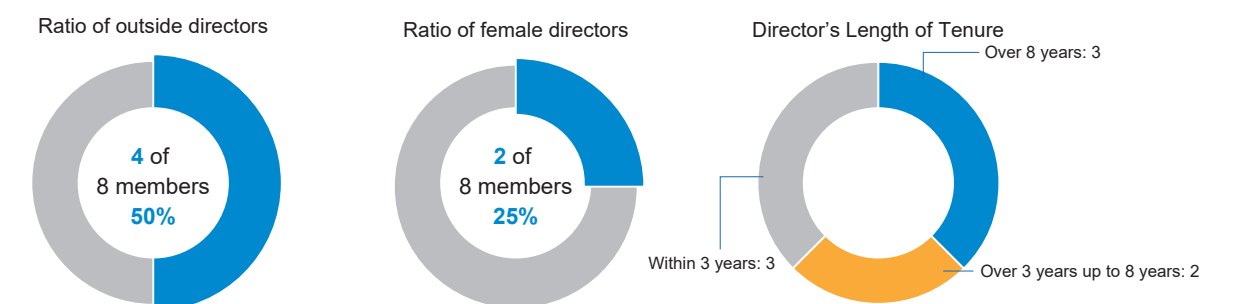
and effectiveness of matters relevant to the establishment of internal control systems, including internal and external audits, risk management, compliance, and credit audits.

For the execution of business below the Management Committee level, the Aozora Group is committed to developing proper and efficient operations through the development of internal rules and material revisions to them, enhancement of the risk management structure, and internal audits by the Internal Audit Division, in accordance with the basic policy for building the internal control system approved by the Board of Directors, the basic policy for compliance with laws and

regulations, and the basic policy for risk management. The Management Committee convenes weekly and determines important matters related to the Bank's execution of daily business in accordance with the policies set forth by the Board. The Management Committee has the following sub-committees to which it delegates authority: ALM Committee, Integrated Risk Committee, Credit Committee, Investment Committee, CAPEX Committee, Customer Protection Committee and Sustainability Committee. Sub-committees are comprised of members with substantive knowledge and experience in various aspects of the Bank's business operations, as well as sound decision-making capabilities.



#### <Board of Directors' Membership Structure>




(As of July 1, 2022)

## Board of Directors, Audit and Supervisory Board Members


All the outside directors and outside Audit & Supervisory Board Members satisfy the requirements for independence set forth by the Tokyo Stock Exchange and the Bank's "Independence Criteria for Outside Directors and Outside Audit & Supervisory Board Members".

All qualified outside directors and outside Audit & Supervisory Board Members are designated as independent.


### Outside Director (4 members)

	Title:	Outside Director (Independent)
	Name:	<b>Hiroyuki Mizuta</b>
	Length of tenure:	9 years
	Board meeting attendance:	100%
	Aozora shares owned:	4,831


**Reason for appointment and expected role**  
Mr. Hiroyuki Mizuta has served as Director, President and Representative Executive Officer of Resona Holdings, Inc. and Representative Director and Chairman of TOKYO TOWER Co., Ltd and he has a wealth of experience, credentials and deep insight as a top management of corporate institutions in the banking and non-financial sectors, as well as extensive knowledge of banking retail business and corporate finance business. He has appropriately supervised the management of the Bank as an Outside Director since June 2013. The Bank has high regard for his experience and capabilities and expects him to provide overall oversight and advice on the execution of duties by executive officers, from an objective perspective, toward the enhancement of the Bank's corporate value over the mid- to long-term.

	Title:	Outside Director (Independent)
	Name:	<b>Ippei Murakami</b>
	Length of tenure:	8 years
	Board meeting attendance:	100%
	Aozora shares owned:	9,651

**Reason for appointment and expected role**  
Mr. Ippei Murakami has served as President and Representative Director of Nisshin Seifun Group Inc. and Chair of the Board of Trustees of Kwansai Gakuin and he has a wealth of experience, credentials and deep insight as a top management of corporate institution and educational institution, as well as extensive knowledge of corporate finance and accounting. He has appropriately supervised the management of the Bank as an Outside Director since June 2014. The Bank has high regard for his experience and capabilities and expects him to provide overall oversight and advice on the execution of duties by executive officers, from an objective perspective, toward the enhancement of the Bank's corporate value over the mid- to long-term.


	Title:	Outside Director (Independent)
	Name:	<b>Tomonori Ito</b>
	Length of tenure:	8 years
	Board meeting attendance:	100%
	Aozora shares owned:	2,000

**Reason for appointment and expected role**  
Mr. Tomonori Ito, after having experience with domestic and global financial institutions, has served as Professor of Department of International Corporate Strategy at Hitotsubashi University Business School and Professor of Institute for Business and Finance at Waseda University Business School and he has a wealth of experience and credentials in the global finance business and deep insight as Professor of a business school, as well as extensive knowledge of investment banking business including M&A. He has appropriately supervised the management of the Bank as an Outside Director since June 2014. The Bank has high regard for his experience and capabilities and expects him to provide overall oversight and advice on the execution of duties by executive officers, from an objective perspective, toward the enhancement of the Bank's corporate value over the mid- to long-term.


	Title:	Outside Director (Independent)
	Name:	<b>Sakie Tachibana Fukushima</b>
	Length of tenure:	–
	Board meeting attendance:	–
	Aozora shares owned:	–

**Reason for appointment and expected role**  
Ms. Sakie Tachibana Fukushima has served as Director of Korn/Ferry International (U.S. Headquarters), a U.S. listed firm, as well as President and Chairman of Korn/Ferry Japan. She has also served as an outside director of several Japanese listed companies and she has a wealth of experience, credentials and deep insight as a top management of corporate institutions, as well as extensive knowledge of the management of global human resources and corporate governance. The Bank has high regard for her experience and capabilities and expects her to provide overall oversight and advice on the execution of duties by executive officers, from an objective perspective, toward the enhancement of the Bank's corporate value over the mid- to long-term.

### Outside ASB Member (2 members)


	Title:	ASB Member (Independent)
	Name:	<b>Kiyoto Hagiwara</b>
	Length of tenure:	7 years
	Board meeting attendance:	100%
	ASB meeting attendance:	100%
	Aozora shares owned:	4,390

**Reason for appointment**  
Mr. Kiyoto Hagiwara has served as an Auditor at the Bank of Japan and is qualified for the responsibilities as an outside Audit and Supervisory Board Member because he has substantial experience and expertise in the finance and banking business, and his position is independent from the day-to-day management responsibilities of the operations and activities of the Bank.


	Title:	ASB Member (Independent)
	Name:	<b>Toraki Inoue</b>
	Length of tenure:	6 years
	Board meeting attendance:	100%
	ASB meeting attendance:	100%
	Aozora shares owned:	–

**Reason for appointment**  
Mr. Toraki Inoue was formerly a Worldwide Partner at Arthur Andersen and is qualified for the responsibilities as an outside Audit and Supervisory Board Member because he has substantial experience and expertise as a public accountant and accounting expert, and his position is independent from the day-to-day management responsibilities of the operations and activities of the Bank.


### Internal Director (4 members)

	Title:	Representative Director and President, Chief Executive Officer (CEO)
	Name:	<b>Kei Tanikawa</b>
	Length of tenure:	4 years
	Board meeting attendance:	100%
	Aozora shares owned:	17,208


**Reason for appointment**  
Mr. Kei Tanikawa has been engaged in a broad range of banking businesses such as corporate banking and financial institutions and has made a considerable contribution to the corporate management as an Executive Officer (since July 2012), supervising multiple groups/divisions. He has deep insight in financial businesses as well as extensive experience and sound judgment.

	Title:	Representative Director and Deputy President
	Name:	<b>Koji Yamakoshi</b>
	Length of tenure:	2 years
	Board meeting attendance:	100%
	Aozora shares owned:	3,559

**Reason for appointment**  
Mr. Koji Yamakoshi has been engaged in a broad range of banking businesses such as specialty finance and has made a considerable contribution to the corporate management as an Executive Officer (since July 2012) and subsequently Head of Specialty Finance Group and Head of Corporate Banking Group. He has deep insight in financial businesses as well as extensive experience and sound judgment.


	Title:	Representative Director and Deputy President
	Name:	<b>Hideto Oomi</b>
	Length of tenure:	1 year
	Board meeting attendance:	100%
	Aozora shares owned:	6,807

**Reason for appointment**  
Mr. Hideto Oomi has been engaged in a broad range of banking businesses such as corporate banking and corporate strategy and has made a considerable contribution to the corporate management as an Executive Officer (since July 2016), supervising multiple groups/divisions. He has deep insight in financial businesses as well as extensive experience and sound judgment.

	Title:	Director, Senior Managing Executive Officer
	Name:	<b>Tomomi Akutagawa</b>
	Length of tenure:	3 years
	Board meeting attendance:	100%
	Aozora shares owned:	5,746

**Reason for appointment**  
Ms. Tomomi Akutagawa has been engaged in a broad range of banking businesses such as financial management and has made a considerable contribution to the corporate management as an Executive Officer and Deputy CFO (since July 2014) and subsequently Head of Corporate Strategy Unit and CFO. She has deep insight in financial businesses as well as extensive experience and sound judgment.

### Standing ASB Member (1 member)

	Title:	Standing ASB Member
	Name:	<b>Satoshi Hashiguchi</b>
	Length of tenure:	4 years
	Board meeting attendance:	100%
	ASB meeting attendance:	100%
	Aozora shares owned:	1,766

**Reason for appointment**  
Mr. Satoshi Hashiguchi has been engaged in a broad range of banking businesses such as corporate banking, financial management and markets and became General Manager of the Internal Audit Division in October 2013. With his extensive experience and deep insight, he has been verifying internal controls from an objective standpoint independent of business execution as a General Manager of the Internal Audit Division.

(Note)

- Length of tenure refers to service as of June 22, 2022
- Board meeting and ASB meeting attendance refers to meetings held during FY2021
- Number of Aozora shares owned as of March 31, 2022



## Messages from Outside Directors

### Hiroyuki Mizuta

Chairperson of Audit and Compliance Committee



What is your opinion of Aozora Bank's internal control system, starting with the Bank's audit and compliance framework?

Banking operations are based fundamentally on being entrusted with deposits received from customers, and so I think ensuring management transparency is extremely important. In that sense, I think Aozora's hybrid internal control system, which includes the Board of Directors, Audit & Supervisory Board members, and the Audit and Compliance Committee, is functioning quite well. Of course, this is the result of frank discussions held among those who hold each of these positions. As the current business environment continues to change rapidly, invalidating much of the conventional knowledge and experience, it takes a great deal of effort to stay ahead of the times. We believe that it is more important than ever for all of our officers and employees to maintain a strong will that does not fear change.

We are currently doing everything we can to establish a new image of Aozora Bank, and I hope to continue doing so as one of its members.

#### <Brief Personal History and Concurrent Major Posts>

Nov. 2003	President and Representative Director, The Kinki Osaka Bank, Ltd. (currently Kansai Mirai Bank, Limited)
June 2006	Director, President and Representative Executive Officer, Resona Holdings, Inc.
June 2007	President and Representative Director, Resona Bank, Limited Executive Officer, Group Strategy Dept., Resona Holdings, Inc. (in charge of Corporate Management of Resona Bank, Limited)
Oct. 2008	President, the Resona Foundation for Small and Medium Enterprise Promotion
June 2010	Outside Director, Nippon Dentsu Co., Ltd. Director, Nippon Television City Corporation (currently TOKYO TOWER Co., Ltd.)
June 2011	Representative Director and Chairman, TOKYO TOWER Co., Ltd.
June 2013	Director, Aozora Bank, Ltd. (current)
June 2016	Executive Advisor, Nippon Dentsu Co., Ltd.
June 2022	Adviser, TOKYO TOWER Co., Ltd. (current)

### Ippei Murakami

Audit and Compliance Committee Member



What is your opinion of establishing a framework for ensuring the effectiveness of the Board of Directors?

I believe that President Tanikawa and his management team have worked hard to put a system in place to ensure the effectiveness of the Board of Directors, and this system is being managed to make sure it functions properly. However, I sometimes feel that there is a disconnect between the Board of Directors and the business groups when it comes to issues such as the process for taking the discussions held at the Board of Directors meetings and implementing them on the ground, tracking their progress, and the pace of changes being made within the indirect groups that support the business groups in charge of execution. I think that, going forward, there will be many situations that will require quick responses to changes in the business environment that deviate from the conventional banking system, and so it is crucial for us to improve our ability to properly convey management's intentions and other important information.

At the same time, we must also improve our ability to gather information. I think the Group companies we have established both in Japan and overseas now need to display real value, and it is urgently necessary to rebuild our information gathering system integrated with the Head Office that specializes in handling information separately from our sales activities. In my view, Aozora Bank will be able to demonstrate the indispensable role it plays and continue to exist within society by maintaining a flexible management/corporate structure that can deftly respond to any societal changes.

#### <Brief Personal History and Concurrent Major Posts>

Oct. 2007	President and Representative Director, Nisshin Seifun Group Inc.
Apr. 2011	Director and Senior Consultant
June 2011	Special Advisor (current)
June 2014	Director, Aozora Bank, Ltd. (current)
Apr. 2021	Chair of the Board of Trustees, Kwansei Gakuin (current)

### Tomonori Ito

Chairperson of Nomination and Remuneration Committee



What are some of the key priorities and potential issues regarding the implementation of Aozora's Strategic Investments Business?

Aozora's Strategic Investments Business can be rephrased as "Japanese-style investment banking". "Japanese-style" here refers to how, after World War II, the main Japanese banks provided companies with funds in order to facilitate their growth (through lending and shareholding) which led to industrial development, and our intent is to perform this role once again. In Japan, there is a limited supply of equity as risk capital, but in Aozora's Strategic Investments Business, We will focus on equity-related business including equity investments with a primary focus on engagement, private equity, and M&A. Risk is an inherent aspect of equity investment, and so it is essential to train experienced bankers that can properly identify risks. Within our newly launched equity investments with a primary focus on engagement, we will invest in corporate equities from a long-term perspective, but unlike cross-shareholdings, we will also become "involved" investors similar to the Japanese banks of yore. We will firmly propose strategies to the management of companies we invest in that drive corporate growth and build business models that increase the rate of return on equity investments through that growth.

#### <Brief Personal History and Concurrent Major Posts>

Mar. 1990	Vice President of Investment Banking Group, Bank of Tokyo, Ltd. (currently MUFG Bank, Ltd.) Trust Company, New York
Aug. 1997	General Manager of Tokyo Branch and Head of Investment Banking, Union Bank of Switzerland (currently UBS)
June 1998	Head of Investment Banking and Managing Director, UBS Securities Japan Co., Ltd.
Apr. 2011	Visiting Professor, Graduate School of International Corporate Strategy, Hitotsubashi University
May 2012	Outside Board Member of PARCO CO., LTD.
Oct. 2012	Professor, Graduate School of International Corporate Strategy, Hitotsubashi University (currently Department of International Corporate Strategy, Hitotsubashi University Business School)
July 2013	Outside Corporate Auditor, AIN PHARMACIEZ INC.
June 2014	Director, Aozora Bank, Ltd. (current)
June 2016	Outside Director, Electric Power Development Co., Ltd. (current)
Apr. 2020	Adjunct Professor, Department of International Corporate Strategy, Hitotsubashi University Business School
Sept. 2021	Professor, Institute for Business and Finance, Waseda University Business School (current) Visiting Lecturer, Department of International Corporate Strategy, Hitotsubashi University Business School (current)
Apr. 2022	Specially-appointed Professor, Graduate School of Business Administration, Kyoto University of Advanced Science (current)
June 2022	Outside Director, Mitsui Sumitomo Insurance Co., Ltd. (current)

### Sakie Tachibana Fukushima

Nomination and Remuneration Committee Member



Image taken during her remote address at the General Meeting of Shareholders in June 2022

#### A Message to our shareholders

I have been involved in Corporate Governance (CG) in the United States since 1995, when I became a member of the board of directors of the headquarters of the American company for which I was working. Since 2002, I have served as an outside director of 12 Japanese corporations, and so have experienced first-hand the changes in CG in both countries. Both governance structure and its implementation/operation are key for effective CG. In Japan, CG has been enhanced by the provision of more options for governance structure and by introducing the CG Code for its effective operation. This is the first time for me to work as an outside director of a financial institution, so I am now in a learning mode. A crucial role for an outside director in a Japanese company is to introduce benchmarks from outside to avoid management that "appears to be common sense by those in the company but appears devoid of common sense when viewed from outside." Based on my over 30-year experience engaged in the business strategies of various global companies and in human capital consulting, I have found that providing benchmarks from other companies is critical for Japanese companies because their top management often has experience working in only one company. In the midst of a drastically changing world environment including in the financial industry, I will do my best to maximize the Bank's corporate value by supervising the execution of offensive and defensive strategies from the perspective of our shareholders.

#### <Brief Personal History and Concurrent Major Posts>

Sept. 1974	Instructor, Department of East Asian Languages and Civilizations, Harvard University
June 1980	Braxton International
Sept. 1987	Bain & Company, Inc.
Aug. 1991	Korn/Ferry International-Japan (currently Korn/Ferry Japan)
May 1995	Member of the Board of Directors, Korn/Ferry International (U.S. Headquarters)
Sept. 2000	Regional Managing Director, Korn/Ferry International-Japan
July 2001	President and Representative Director, Korn/Ferry International-Japan
May 2009	Chairman and Representative Director, Korn/Ferry International-Japan
July 2010	President and Representative Director, G&S Global Advisors Inc. (current)
Apr. 2011	Vice Chairperson, Japan Association of Corporate Executives
June 2016	Outside Director, Ushio Inc. (current)
June 2019	Outside Director, Konica Minolta Inc. (current)
June 2020	Outside Director, Kyushu Electric Power Company, Incorporated (current)
June 2022	Director, Aozora Bank, Ltd. (current)

## Skill and Expertise of Directors and Audit & Supervisory Board Members

(Note) Not all of the expertise that each Director or Audit & Supervisory Board Member possesses

		Committee members		Expertise of Directors and Audit & Supervisory Board Members						
		Nomination and Remuneration Committee	Audit & Compliance Committee	Corporate management	Banking and finance	Financial accounting	Legal, Compliance/Risk Management	Global Affairs	IT/DX	Sustainability
Outside Directors	Hiroyuki Mizuta		Chairperson	○	○		○			
	Ippei Murakami		○	○		○	○			
	Tomonori Ito	Chairperson			○			○		○
	Sakie Tachibana Fukushima	○		○				○		○
Internal Directors	Kei Tanikawa	○		○	○		○			
	Koji Yamakoshi				○		○	○		
	Hideto Oomi				○			○	○	
	Tomomi Akutagawa				○	○	○			○
Outside ASB Members	Kiyoto Hagiwara		Observer		○		○			
	Toraki Inoue		Observer	○		○	○	○		
Standing ASB Member	Satoshi Hashiguchi		Observer		○		○	○		

## Analysis and Evaluation of Board Effectiveness

The Bank works to further enhance the effectiveness of its Board of Directors through a continuous process (PDCA cycle) of analyzing and evaluating Board effectiveness each fiscal year as well as considering and providing solutions to new and existing issues. In light of its fiduciary duties and accountability to the Bank's shareholders, the Board of Directors continues to perform self-evaluations of its effectiveness with the aim of promoting sustainable growth and enhancing the Bank's corporate value over the mid- to long-term based on the assessment of and views on its management and oversight functions that leverage directors' and Audit and Supervisory Board members' knowledge, experience and capabilities. The results of these self-evaluations are shared in thorough Board discussions.

The Bank's Board of Directors ensures objectivity and transparency as 50% of the Board are outside members.

In addition to retaining an Audit and Supervisory Board, the Bank also has a Nomination and Remuneration Committee, which is mainly comprised of outside directors and is also chaired by an outside director, as well as an Audit and Compliance Committee, which is comprised of only outside directors. Both committees act to complement the oversight of executive officers including representative directors and conduct checks and balances of them.

Three outside directors' meetings were convened throughout FY2021 to allow for the discussion and exchange of views on topics, including Aozora's executive structure, key business issues in light of the

changing business environment, and the operation of the Board of Directors, from an independent outside director's perspective. The Board of Directors confirmed the progress of the current Mid-term Plan and received reports mainly on ongoing initiatives in each area of business, including Aozora's Strategic Investments Business, as well as the newly established Aozora's Sustainability Targets. Following this, those topics discussed at the Board of Directors were incorporated into the Bank's management, and substantive discussions regarding the development of the Business Plan for FY2022, the final year of the Mid-term plan, took place over the course of several sessions. The Board of Directors also discussed and considered a clearer description of the composition of the Board of Directors and the independence criteria for outside directors. Furthermore, the Board approved the candidate for independent outside director that the Nomination & Remuneration Committee recommended after discussions.

In FY2021, the Board assessed that its roles and responsibilities continued to be properly fulfilled under the aforementioned framework through constructive discussions and exchange of ideas on important issues, including business strategy, as well as the highly effective oversight and monitoring of management executives. The Board also assessed that overall Board management was proper and effective. Going forward, the Bank will strive to make the Board's roles and responsibilities more effective and proper by utilizing committees under the Board as well as the outside directors' meeting.

## Composition of the Board of Directors

1. The Board of Directors shall not have more than 12 Directors, which is the maximum number of Directors stipulated in the Articles of Incorporation.
2. Nomination of Director candidates shall be based on "Basic Policy for Nominating Directors and Audit & Supervisory Board Member Candidates, and Appointing and Dismissing Senior Management Including the CEO".
3. The Composition of the Board of Directors shall take into consideration its diversity of knowledge and expertise in areas including banking and finance, financial accounting, risk management, legal and

- compliance and other areas in addition to deep insight into the Aozora Group's business.
4. The Board of Directors shall be comprised of internal directors who possess extensive knowledge and experience in business execution and outside directors who supervise management from an independent perspective. Judgement of outside director's independence shall be made based on "Independence Criteria for Outside Directors and Outside Audit & Supervisory Board Members" and the percentage of independent outside directors, in principle, shall be half or more.



## Board of Directors, Audit and Supervisory Board, and Committee Meetings

Name of Committee	Chaired by	Members	Meetings held in FY2021	Attendance
Board of Directors	President	Directors, Audit and Supervisory Board Members	15	100%
Audit and Supervisory Board (ASB)	Standing ASB Member	ASB Members	13	100%
Nomination and Remuneration Committee	Outside Director	Directors (Outside Directors comprise majority)	6	100%
Audit and Compliance Committee	Outside Director	Outside Directors	6	100%

Name of Committee	Chaired by	Members	Meetings held in FY2021	Purpose
Management Committee	CEO	Executive Officers appointed by the Board of Directors	54	Determine important matters related to daily business operations
Asset and Liability Management Committee	CFO	President, Executive Officers in charge	13	Determine important matters regarding asset and liability management
Integrated Risk Committee	CRO	President, Executive Officers in charge	19	Establish risk management policies, monitor risk management framework, maintain proper internal governance, launch new businesses/products
Credit Committee	CCRO	President, Executive Officers in charge	86	Approve credit transactions and related business policies
Investment Committee	CCRO	President, Executive Officers in charge	44	Approve individual investment transactions, establish appropriate investment policies, ensure accurate understanding of the Bank's overall investment portfolio, build and maintain a secure and profitable portfolio
CAPEX Committee (approval and management of IT-related proposals)	CTO	President, Executive Officers in charge	14	Approve and monitor IT projects required to realize Management Committee-approved business plans and strategies
CAPEX Committee (approval and management of facilities-related proposals)	Head of Corporate Strategy Unit	President, Executive Officers in charge	7	Approve and monitor facilities-related proposals required to realize Management Committee-approved business plans and strategies
Customer Protection Committee	Head of Compliance and Governance Unit	Executive Officers in charge	22	Review customer protection framework in five areas: customer explanation management, customer support management, customer information management, outsourcing management and conflict of interest management
Sustainability Committee *	CEO	Executive Officers in charge	1	Deliberate on and determine basic matters of sustainability promotion as well as important matters regarding sustainability promotion in the Bank's business and initiatives as a business entity

\*The Sustainability Committee was established in January, 2022

## Basic Policy for Nominating Directors and Audit & Supervisory Board Member Candidates, and Appointing and Dismissing Senior Management Including the CEO

<Basic Guidelines for Nominating Director Candidates>  
Candidates should:

1. Possess substantial management knowledge and expertise
2. Have superior insight, be able to make management decisions and exercise sound judgment
3. Be committed to the duties of the Bank's director
4. Be able to earn the trust of the Bank's stakeholders, including shareholders
5. In the case of outside directors, be able to conduct management oversight and offer appropriate advice

The Composition of the Board of Directors shall take into consideration its diversity of knowledge and expertise in areas including banking and finance, financial accounting, risk management, legal and compliance and other areas in addition to deep insight of the Aozora Group's business.

<Basic Guidelines for Nominating Audit & Supervisory Board Member Candidates>

Candidates should:

1. Possess substantial management knowledge and expertise
2. Have knowledge of important financial rules and regulations, finance and accounting
3. Be objective, impartial, and able to perform duties from an independent standpoint
4. Be able to earn the trust of the Bank's stakeholders
5. Have the ability to communicate effectively with shareholders, the Board of Directors, and senior management to ensure management soundness and transparency

<Reappointment of Directors and Audit & Supervisory Board Members>

For reappointment of Directors and Audit & Supervisory Board Members, in addition to the above basic guidelines, performance of his/her duties and contribution to the Bank's management as Director/Audit & Supervisory Board Member during his/her term of office as well as the number of years since such candidate assumed the office of a Director/Audit & Supervisory Board Member shall be considered.

<Basic Guidelines for Appointing and Dismissing Senior Management (Executive Officers)>

(1) Basic Guidelines for Appointing Senior Management

1. Possesses substantial knowledge and expertise required for proper business operations
2. Has superior insight, ability to make decisions on business operations and exercise sound judgment
3. Demonstrates leadership skills and ability to assume responsibility for important management functions related to the Bank's business strategy

(2) Basic Guidelines for Dismissing Senior Management

1. Acts against the public interest
2. Becomes unable to perform duties due to health problems
3. Causes serious damage to the Bank's corporate value due to negligence

<Basic Guidelines for Appointing and Dismissing the CEO>

(1) Basic Guidelines for Appointing the CEO

In addition to the Basic Guidelines for Appointing Senior Management:

1. Has superior top management leadership skills
2. Has substantial management experience and achievements
3. Optimal candidate for the continued improvement of the Bank's corporate value

(2) Basic Guidelines for Dismissing the CEO

In addition to the Basic Guidelines for Dismissing Senior Management:

1. Fails to exercise top management leadership
2. Determined to be unqualified as CEO due to failure in fulfilling shareholders' mandate

## Procedure for Nominating Directors, etc.

<Procedure for Nominating Directors, and Appointing and Dismissing Senior Management Including the CEO>  
The Nomination & Remuneration Committee, of which the majority comprises outside directors, deliberates on the nomination of director candidates as well as the appointment and dismissal of the CEO and other senior management, and makes recommendations to the Board of Directors.

The Board of Directors determines whether or not to accept the recommendations of the Nomination & Remuneration Committee for nominating Directors as well as appointing the CEO and other senior management in accordance with the basic guidelines for such nomination or appointment.

In cases where the CEO or other senior management falls under any of the above basic guidelines for dismissal, in principle, the Board of Directors will

determine whether or not to dismiss them in accordance with the recommendations of the Nomination & Remuneration Committee.

<Procedure for Nominating Audit & Supervisory Board Members>

The Nomination & Remuneration Committee, of which the majority comprises outside directors, deliberates on the nomination of the Audit & Supervisory Board candidates and makes recommendations to the Board of Directors, taking into consideration the views of Audit & Supervisory Board Members.

The Board of Directors determines whether or not to accept the recommendations of the Nomination & Remuneration Committee with the consent of the Audit & Supervisory Board in accordance with the relevant basic guidelines.

## Independence Criteria for Outside Directors and Outside Audit & Supervisory Board Members

Outside Directors, Outside Audit & Supervisory Board Members and its candidates who do not fall under any of the following categories shall be deemed to be independent.

- (1) A person who currently is, or has been during the last 10 years prior to his/her taking office, an Executive (Executive Director, Executive Officer or other employee) of the Bank or its subsidiaries.
- (2) A person who had served as a Director, Accounting Advisor and/or Audit and Supervisory Board Member (excluding a person who served as an Executive) of the Bank or its subsidiaries at some time during the 10 years prior to his/her taking office, had also served as an Executive of the Bank or its subsidiaries in the 10 years prior to his/her taking office as such Director, Accounting Advisor and/or Audit and Supervisory Board Member.
- (3) A person who is a major business partner (2% or more of consolidated net revenue of the Bank or consolidated net sales of the said major business partner) or an Executive thereof of the Bank or its subsidiaries.
- (4) A consultant, accounting expert and/or legal expert, who has received large amounts of money or other assets (more than an average of JPY 10 million per year over the last three years) from the Bank or its subsidiaries in addition to any compensation received as a director/an Audit & Supervisory Board Member, and/or a person who belongs to a consulting firm, accounting firm and/or legal firm, etc. which has received large amounts of money or

other assets (2% or more of consolidated sale revenue of the said firm) from the Bank or its subsidiaries.

- (1) A person who has been any of the following (1) to (3) during the last 10 years prior to his/her taking office.
  - (1) A person who has been an executive and/or non-executive director of the parent company of the Bank
  - (2) An Audit & Supervisory Board Member of the parent company of the Bank (limited to cases when the Audit & Supervisory Board Member shall be designated as Independent)
  - (3) A person who has been an executive of any subsidiaries of the Bank
- (2) A person who has "recently" fallen under any of 1 through 4 above. ("recently" means where a time can be deemed to be substantively the same as the present. For example, a person is not independent if that person was a major business partner at the time when a matters to be proposed to the shareholders meeting regarding his/her appointment was decided.)
- (3) A close relative (a spouse or family member within the second degree of kinship, excluding those who is not an "important person") falls under any of 1 through 5 above ("important person" means, for example, an executive officer/manager-level employee of a company, and in the case of 3 above, a holder of professional qualification such as a Certified Public Accountant and Attorney-at-Law). In the case of 1 above, those who fall under each item at present.

## Policy and Procedure for Determining Director/Executive Officer Remuneration

<Basic Policy for Determining Remuneration for Directors>

In order to pursue its mission to "contribute to the development of society through the creation of new value-added financial services," Aozora recognizes the necessity of providing proper incentives and a work environment that allows successful and high-potential human resources to perform their duties consistently while maintaining high morale, motivation, and pride. To this end, the Bank has designed a remuneration system based on the following basic policy.

1. Remuneration framework in line with the Bank's vision

The Bank aims to build a compensation framework which reflects business performance in line with its objectives and values.

2. Remuneration framework appropriately reflecting the Bank's performance

The Bank's remuneration framework is based on "pay for performance" and reflects the Bank's commitment to sustainable growth, sound risk-taking through appropriate risk management, compliance, and customer protection.

3. Remuneration framework serving the interests of shareholders and other stakeholders

The Bank has adopted a remuneration framework that is consistent with the values of its shareholders and other stakeholders.

4. Remuneration methodology that supports effective governance

The Bank ensures that remuneration decisions are made with full transparency and free from any specific influence.

<Policy on Determination of the Amount or Calculation Method of Remuneration for Directors>

In order to ensure that the process for determining individual directors' remuneration is transparent, independent, and impartial, the Nomination and Remuneration Committee, which the Bank voluntarily established and mainly comprises outside directors entrusted by the Board of Directors, determines the amounts payable to each director in accordance with the Bank's policy of deciding the remuneration of individual directors as approved by the Board based on the Committee's recommendation.

The members of the Nomination and Remuneration Committee are as follows:

Chairperson of the Committee: Tomonori Ito, Outside Director

Member: Sakie Tachibana Fukushima, Outside Director

Member: Kei Tanikawa, Representative Director and President

The Nomination and Remuneration Committee members in charge of determining the amount of each director's remuneration for FY2021 were as follows:

Chairperson of the Committee: Shunsuke Takeda, Outside Director

Member: Tomonori Ito, Outside Director

Member: Kei Tanikawa, Representative Director and President

In principle, the Bank pays base remuneration (fixed remuneration), bonus (performance-based remuneration), and equity compensation type stock options (non-cash remuneration) to full-time directors and only base remuneration (fixed remuneration) to outside directors.

### Base Remuneration (Fixed Remuneration)

Base remuneration, which comprises a fixed amount that varies by type of position (full-time or part-time), job title, and responsibilities, is paid on a monthly basis during the tenure of each director. Data from an outside specialized agency is used to determine whether the level of base remuneration is appropriate. For President and Deputy President, base remuneration is determined within a range of remuneration predetermined by the type of position while taking into consideration factors including the levels of their responsibilities and experience.



#### Bonus (Performance-based Remuneration)

Bonuses (performance-based remuneration) are initially set at the equivalent of 40% of the basic remuneration amount (the "Base Bonus Amount"), and the Nomination and Remuneration Committee determines the exact amount of bonus for individual full-time directors by applying a rate within a predetermined range of 0% to 250% of the Base Bonus Amount while considering the key performance indicators of the fiscal year as shown below. Bonuses are paid within a specific period following the end of each fiscal year. Specifically, the rate and bonus amount for each director are determined primarily based on the following key performance indicators, and also in consideration of the Bank's overall performance during the relevant fiscal year.

- Achievement rates of Business Profit and Net Earnings
- Achievement rates of KPIs (Key Performance Indicators) such as OHR (Over-head Ratio), ROA (Return on Assets) and ROE (Return on Equity)
- Achievement and maintenance of the Capital Adequacy Ratio
- Assessment of undue risk and occurrence of serious compliance violations
- Implementation and introduction of initiatives and strategies from a mid- to long-term perspective, including the launch of new businesses
- Progress and achievement of the Bank-announced sustainability initiative targets

Among the aforementioned performance indicators, the fundamental indicators of the Bank's business results are business profit and net earnings, while the key performance indicators, namely OHR, ROA, ROE and Capital Adequacy Ratio, are the main indexes for tracking the progress of the Bank's Mid-term Plan. The achievement rates of these indicators, therefore, are taken into account as quantitative evaluation criteria for determining bonus amounts. In order to encourage not just short-term results but also mid- to long-term business initiatives, the Bank also fully considers qualitative evaluation criteria for determining bonus amounts such as undue risk-taking, the occurrence of serious compliance violations, and the implementation/introduction of initiatives and strategies from a mid- to long-term perspective, including the launch of new businesses, as well as the progress and achievement of the Bank-announced sustainability initiative targets.

The targets and results of indicators tied to performance-based remuneration are stated below.

	FY2020 Announced Forecast	FY2020 Results	(Reference) FY2021 Announced Forecast (*4)	(Reference) FY2021 Results
Business profit	34.5 billion yen	42.6 billion yen	42.5 billion yen	47.8 billion yen
Net earnings (*1)	28.5 billion yen	28.9 billion yen	30.0 billion yen	35.0 billion yen

	Mid-term Plan Targets (*3)	FY2020 Results	(Reference) FY2021 Results
OHR	Below 55%	57.0%	56.1%
ROA (*2)	1%	0.8%	0.8%
ROE	8% or higher	6.3%	7.2%
Capital adequacy ratio	9% or higher	11.03%	10.37%

(\*1) Profit attributable to owners of parent

(\*2) Business profit ROA including gains/losses on equity method investments

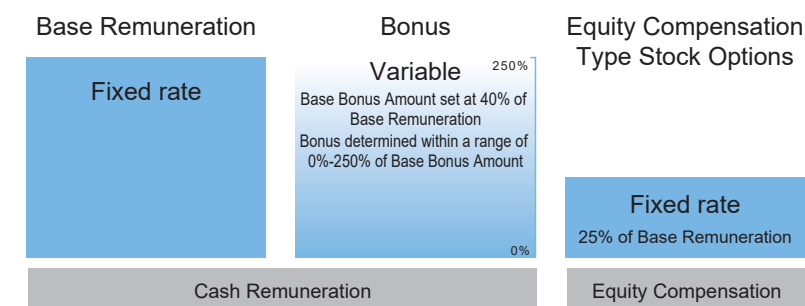
(\*3) Mid-term Plan "Aozora 2022" (FY2020-22)

(\*4) Original forecast announced in May 2021, which was revised in January 2022

#### Equity Compensation Type Stock Options (Subscription Rights to Shares as Non-cash Remuneration)

The Nomination and Remuneration Committee discusses and sets the proper ratio of cash remuneration to equity compensation type stock options (subscription rights to shares as non-cash remuneration) in order for stock options to be one of the longer term incentives to promote sustainable growth, and determines the exact number of stock options at the equivalent of 25% of base remuneration amount based on a resolution by the Board of Directors in accordance with the Equity Compensation Type Stock Options Manual. Equity compensation type stock options are granted within a specific period following the end of each fiscal year.

#### Full-time Director Remuneration Structure



<Reasons for the Board of Directors' Judgment that Remuneration for Individual Directors in FY2021 was in Accordance with the Above Policy>

The Nomination and Remuneration Committee determined the details of remuneration for individual directors from a multilateral perspective, including the analysis of business target achievements and each director's contribution to the Bank's business operations, while ensuring consistency with its policy of determining remuneration. The Board of Directors respected such determination while judging that it was made in accordance with the determination policy.

<Policy on Determination and Calculation of ASB Member Remuneration>

ASB members discuss and determine their individual remuneration amounts in consideration of deliberations and proposals made at Nomination and Remuneration Committee meetings. ASB members only receive base remuneration (fixed remuneration), which is paid on a monthly basis during their tenure in accordance with the policy below.

#### Base Remuneration (Fixed Remuneration)

Base remuneration comprises a fixed amount which is determined mainly in consideration of the type of position (full-time or part-time), assigned audit duties and details of director remuneration. Before determining base remuneration, data from an outside specialized agency is used to determine whether the level of base remuneration is appropriate.

<Remuneration of Directors and ASB Members (April 1, 2021-March 31, 2022)>

Category	#	Remuneration in total	Base	Bonus	(million yen) Non-cash (stock options)
Directors (excl. outside directors)	5	285	171	70	43
ASB member (excl. outside ASB members)	1	29	29	—	—
Outside directors	4	56	56	—	—
Outside ASB members	2	24	24	—	—

(Note) 1. This includes one director who retired at the close of the 88th General Meeting of Shareholders on June 24, 2021.

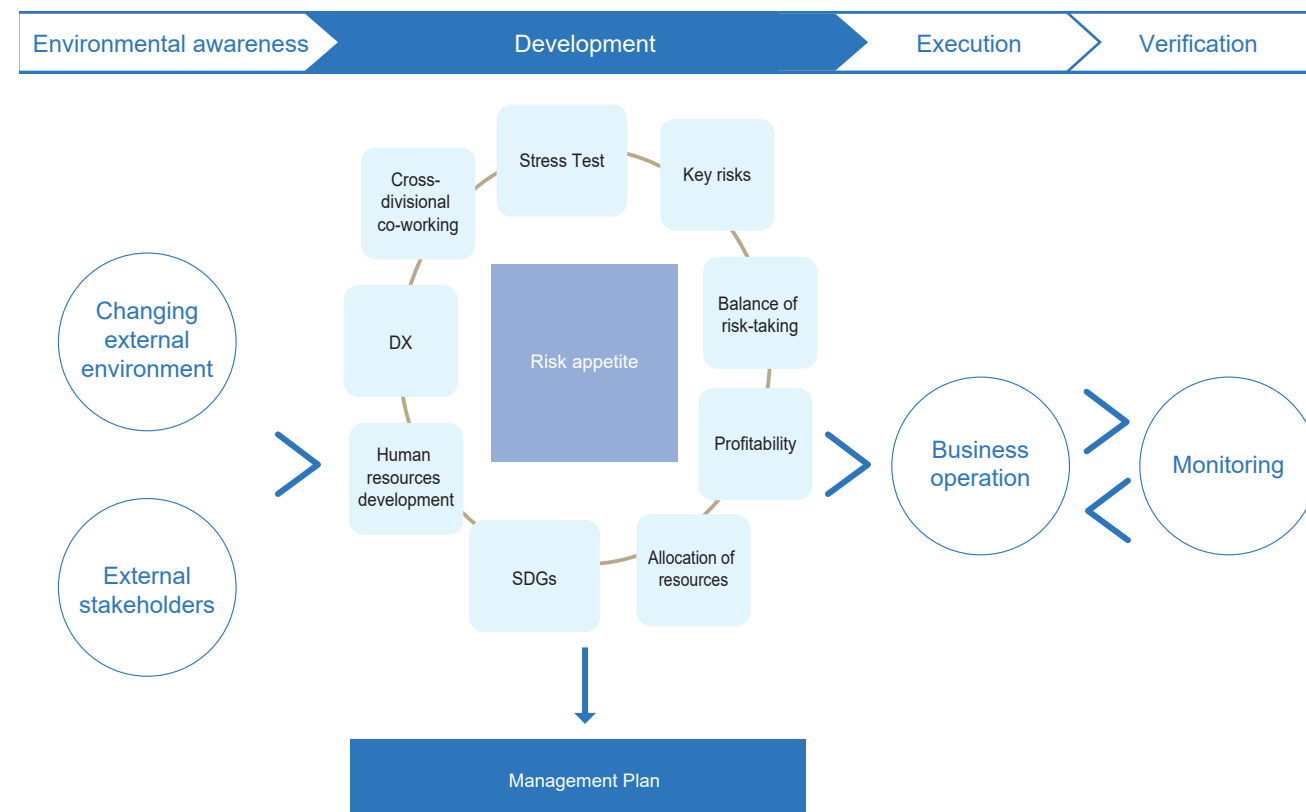
2. In FY2020, provision for directors' bonuses was 64 million yen. In June 2021, the Bank paid 56 million yen as bonuses to four directors (excluding outside directors) for their execution of duties during FY2020.

3. The bonus of 70 million yen is actually the provision for directors' bonuses recorded in FY2021. Following the determination of bonus (performance-based remuneration) amounts at the Nomination and Remuneration Committee on May 23, 2022, the Bank paid 105 million yen in June 2022 to four directors (excluding outside directors) for their execution of duties during FY2021.

## Risk Appetite Framework

While the banking sector continues to experience significant changes in the operating environment, Aozora remains committed to the sustainable enhancement of its corporate value. In keeping with this commitment, the Bank continues to promote sound risk-taking through proper awareness of its business environment, including potential risks and the implementation of effective risk controls. The Aozora Group has established a risk appetite framework for business management that clearly identifies the type and level of risks (risk appetite) the Bank assumes to achieve its business strategies and financial plan. In recognition of the expectations of the Aozora Group's

stakeholders, including its shareholders and customers, as well as changes in the external operating environment, the Bank's Mid-term Plan and annual business plans are developed in consideration of a range of factors including the Bank's profitability, balance of risk-taking, resource allocation, and the results of stress tests. Business operations are based on the Bank's management plan under the oversight of the Management Committee and multiple other committees. These committees conduct monitoring of business operations while considering the progress against plan and awareness of the operating environment, which is also considered in subsequent business operations.



## Internal Audit Management

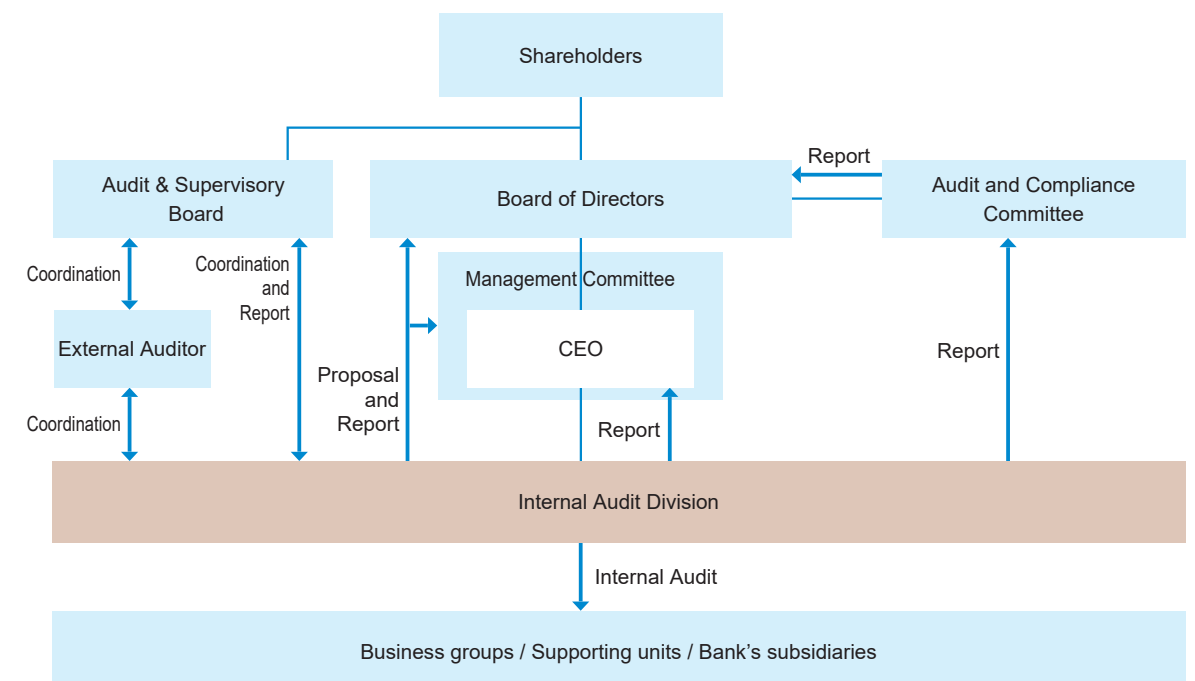
### Role and Function

In order to add value to the Aozora Group's operations and help achieve its goals, the Bank's Internal Audit Division (IAD) operates independently from all other units/groups and objectively examines and evaluates whether the Group's internal controls are functioning properly and effectively while offering constructive and practical recommendations for business improvement. As of March 31, 2022, 29 employees were engaged in internal audits. Internal audits are conducted in line with the audit plans, which are formulated according to the Annual Internal Audit Plan approved by the Management Committee and the Board of Directors each fiscal year. When formulating the audit plan, IAD considers the frequency, complexity and available resources of audits based on the type and degree of inherent risk within each business/supporting unit and group companies as well as the status of internal controls. In consideration of the importance of risk management, IAD also conducts system audits and cross-sectional target audits as well as J-SOX audits that examine the effectiveness of internal controls related to financial reporting. IAD reports directly to the Chief Executive Officer and shares the status of the Group's internal controls mainly through periodic reporting. IAD also provides an independent evaluation of internal controls by presenting audit results to the Management Committee monthly and a summary of the audits directly to the Audit and Compliance Committee and the Board of Directors semi-annually. In order to better fulfill its mission, IAD cooperates with the Audit and Supervisory Board and its members by directly exchanging information and opinions, including the aforementioned audit reports and audit schedules. Furthermore, IAD strives to work closely with Audit & Supervisory Board members and the external Accounting Auditor by holding periodic group audit meetings where they exchange information and opinions.

### Efforts to Improve Audit Quality and Effectiveness

The Bank's internal audits are conducted on a risk basis in accordance with the IIA's (Institute of Internal Auditors) international standards. In addition to an annual internal quality assessment, IAD periodically undergoes an external quality assessment by a third-party organization in order to further improve the Bank's internal audit. In order to improve the effectiveness of its internal audits, IAD conducts ongoing external recruitment of auditors with a high level of expertise. In addition, IAD supports and encourages its internal auditors to obtain professional certifications, such as Certified Internal Auditor (CIA) and Certified Information System Auditor (CISA).

### Internal Audit System





## Risk Governance

### Basic Policy on Risk Management

The Aozora Group's basic policy is to leverage its financial intermediary function as a financial institution by strengthening its business groups' business operations while promoting our Strategic Investments Business which is designed to foster new business and support for industrial transition and our customers' growth, and business recovery initiatives. We prioritize strong risk management as a critical foundation for our group-wide value creation activities. Based on our corporate principles, the Aozora Group conducts sound risk-taking within a scope set by the

**Masayoshi Ohara**  
Senior Managing  
Executive Officer  
Chief Risk Officer (CRO)



**Masaki Onuma**  
Managing Executive Officer  
Chief Credit Risk Officer  
(CCRO)

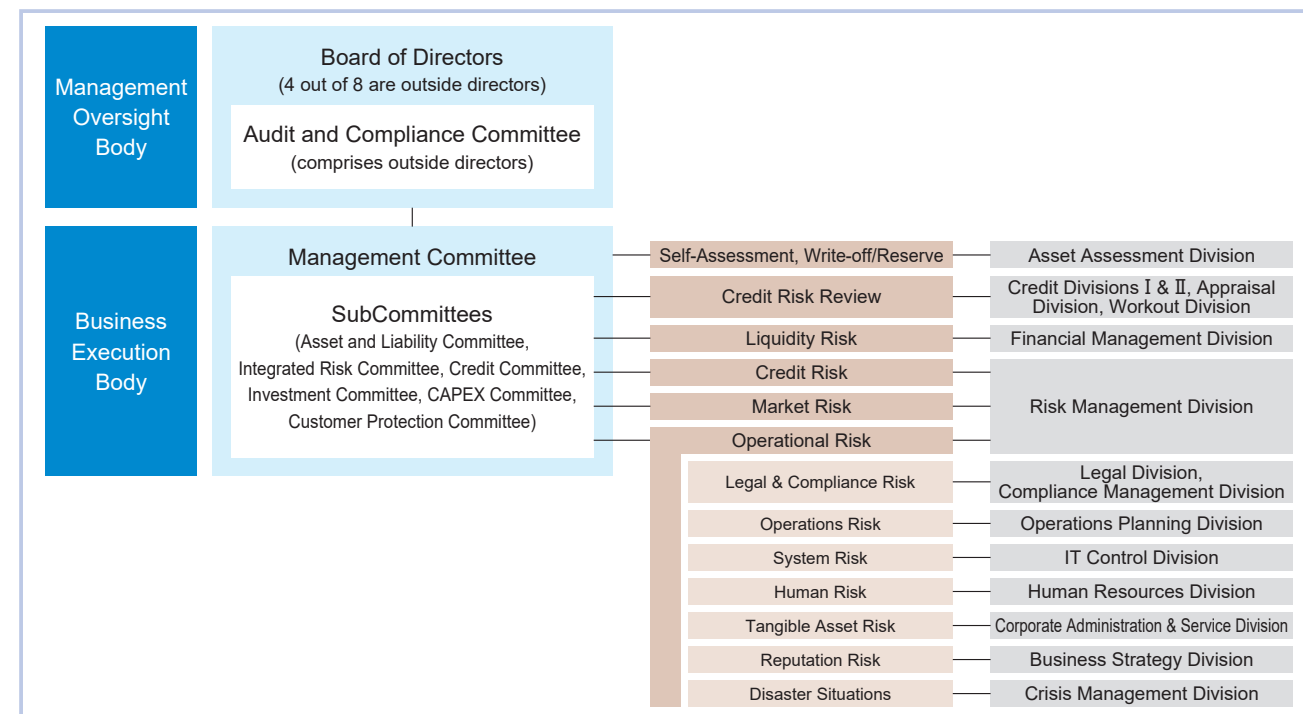


Board of Directors in order to enhance corporate value by balancing value creation with financial soundness while also recognizing the diverse risks associated with the execution of its operations as well as taking into consideration risks which may arise from new business. We also strive for a higher level of risk management through the establishment of a framework designed to properly identify and control individual and aggregate risks and appropriate management based on internal rules established by risk type.

### Risk Governance Structure

The Aozora Group's risk governance structure is organized into two major groups. The first is the Board of Directors and the Audit and Compliance Committee which are primarily comprised of outside directors. The second major group is the Management Committee, which is mainly comprised of Aozora's executive officers, and subcommittees to which it delegates authority. In the normal course of business, the Management Committee and sub-committees analyze and take into consideration risks arising from the origination of loans and

investments and the delivery of services to customers as well as relevant business operations from a broad perspective. In addition, the status of risks is monitored and reported regularly or as needed, which leads to our flexible and timely responses. The status of risks is also regularly reported to the Board of Directors and the Audit and Compliance Committee where the appropriateness and effectiveness of risk management are discussed and reviewed mainly by outside directors in order to ensure the effectiveness of risk governance.



### Key Risks

The Aozora Group recognizes the following items in its FY2022 business operations as its most significant risks (i.e. risks that pose the highest risk and potential impact for management in the coming year) among multiple risk factors identified in our business environment. We focus on key risks when discussing our risk appetite and in business planning, and also develop countermeasures that enable effective monitoring and flexible responses.

Key Risks	Countermeasures
Decrease in value of held securities due to market volatility	Despite growing uncertainties due to rising inflation and emerging geopolitical risk, Aozora has developed a risk management framework that allows for an appropriate response before issues, including losses, become serious by establishing various points regarding risk levels and losses. The Aozora Group also strives to maintain an efficient portfolio with high liquidity comprised of a balanced mix of risks, in addition to flexible risk control in light of market conditions and the financial environment through discussions of its policies as appropriate, rebalancing and resizing of its securities position, as well as hedging.
Deterioration in credit quality	The Aozora Group conducts disciplined investment and loan operations by originating individual investments in line with established loan management policies and investment plans while also conducting regular monitoring and reporting in addition to carefully observing the impact of supply chain disruptions and long-term inflation on business activity. The Aozora Group also maintains its selective origination regarding investment/loan transactions while carefully analyzing business risk and considering the diversification of its borrowers and investment/loan volumes. In addition, the Aozora Group conducts capital control, including stress testing, based on a set of established guidelines designed to limit credit concentration risk.
Unstable foreign currency funding	The Aozora Group has worked to develop a framework that ensures a sufficient level of liquidity available under stressed conditions along with monitoring and verification through periodic stress testing. The Aozora Group also continues to work towards long-term and stable foreign currency funding, including the ongoing issuance of foreign currency-denominated bonds, and diversifies its countermeasures, such as by establishing an emergency-use foreign currency funding facility.
IT Risks	The Aozora Group works to improve the awareness of all officers and employees regarding the ever-increasing threat of cyberattacks while maintaining and enhancing cyber-security tolerance across the Group through the evolution of multi-layered technical defense measures, enhancement of its detection capabilities, including monitoring, and response/recovery drills involving business groups. The Aozora Group also strives to maintain and enhance the effectiveness of its system failure response through measures such as the close sharing of information and conducting of drills.
Delay in the Aozora Group's structural/business transformation	For further details, please refer to "Strategic Investments Business" (page 30-) and "Sustainability Promotion" (page 52-).
Anti-money laundering, anti-terrorism financing and transactions with anti-social elements, insider trading	As part of its annual compliance program, the Aozora Group develops plans for and checks the status of its training programs, monitoring, dissemination of laws, regulations, and internal Bank rules as well as other activities. The Aozora Group also works to further establish and instill its Code of Ethics and Conduct through initiatives such as ongoing messages from top management in addition to requests for written pledges. The Aozora Group intends to develop an anti-money laundering customer management system and ensure the ongoing effectiveness of its response to the targets of economic sanctions as well as promote the further enhancement of these systems based on the revised Anti-Money Laundering Guidelines and Foreign Exchange Inspection Guidelines. The Aozora Group also continues to promote awareness of insider trading prevention among its officers and employees through the implementation of alerts, trainings, e-learning, and other measures.
Sustainability of human resources	The introduction of a new human resources system enables the Aozora Group to eliminate the barriers of age and restrictive career courses and appoint specialized personnel as a financial group that continues to take on new challenges as one unified team.

## Compliance

### Compliance Structure

Aozora Bank's Compliance Management and Legal Divisions are responsible for supervising compliance and developing internal rules regarding compliance while working to maintain and raise compliance awareness through a wide range of training and e-learning courses at regular intervals. As a specific action plan to realize our compliance framework, the Compliance Management Division annually develops compliance programs that are designed to deepen compliance awareness among the Aozora Group's officers and employees. The progress and achievement status is reported to the Audit and Compliance Committee and the Board of Directors on a semi-annual basis. In addition, Aozora has established a "Code of Ethics and Conduct" (page 129 in the Reference Part) that every officer and employee must comply with. Aozora's officers and employees, including group companies, all pledge on an annual basis that they understand and comply with the Code of Ethics and Conduct.

Social norms, common sense and expectations of

financial institutions are constantly evolving due to the impact of the prolonged COVID-19 pandemic and the expansion of digitalization. In addition to responding to changes in the external environment, the Aozora Group continues its operational initiatives to develop new products and services designed to achieve sustainable growth. If the Aozora Group fails to properly respond to changes in the external environment and business conditions, its business operations and transactions may be deemed to be in violation of laws and regulations, social norms, business practices and market conventions, or regarded as corporate activities lacking common sense, including from the perspective of customers, which could damage the Group's corporate value. To avoid any damage to our corporate value, the Aozora Group will continue to comply with all the laws and regulations applicable to all business operations, conduct sensible corporate activities based on social norms and common sense, and strive to further improve its compliance/risk management framework to respond to a wide range of changes in the environment.

### Elimination of Anti-Social Elements

The Aozora Group clearly states in "Aozora Bank Group Basic Policy on the Elimination of Anti-Social Elements" (page 141 in the Reference Part) that the Group steadfastly confronts any anti-social elements that pose a threat to public order and safety while ensuring that it categorically blocks any relationship with such elements. Aozora has established and maintains close cooperative relationships with external specialist organizations,

including law enforcement agencies, Anti-Organized Crime Campaign Center of Tokyo, and attorneys. In addition, we refuse to perform any action that may serve to provide income/funding for anti-social elements, including but not limited to backdoor transactions, monetary contributions/membership fees, and subscribing to informational magazines.

### Anti-Money Laundering Initiatives

The Aozora Group is aware that preventing financial crimes, including money laundering, financing of terrorism and proliferation financing, and responding to economic sanctions under the Foreign Exchange and Foreign Trade Act ("Anti-Money Laundering Measures") are important issues facing the global financial system. We have established a framework to comply with domestic and international laws, regulations and rules, while also making an on-going effort to further strengthen our Anti-Money Laundering Measures. For example, Aozora has developed internal policies and an organizational structure, which includes the establishment of a Financial Crime Management Office as a department overseeing anti-money laundering

issues, while conducting a review as needed to ensure their effectiveness. We also provide training for officers and employees regarding the prevention of financial crimes and the response to economic sanctions under the Foreign Exchange and Foreign Trade Act. In addition, we ensure that we verify the identity of customers and their transaction purpose at the time of account opening, which is followed by the ongoing monitoring of our customer transactions. We have also developed an internal structure that allows for immediate reporting to the relevant authorities regarding any suspicious transactions detected by our daily monitoring processes.



**Toru Takahashi**  
Executive Officer  
Head of Compliance &  
Governance Unit

### Anti-Bribery Initiatives

The Aozora Group has announced the "Basic Policy on Anti-bribery" (page 143 in the Reference Part), which prohibits all of Aozora's officers and employees from giving, offering or promising improper corporate hospitality, gifts and other benefits to public officials, etc.

in any country as well as from giving or receiving excessive corporate hospitality, gifts or other benefits beyond socially-acceptable limits. In addition, we continue to provide opportunities for all officers and employees to learn more about our anti-bribery policy.

### Whistle-Blower Program

By exercising the Aozora Group's self-monitoring function, the Bank works to ensure early detection and correction of legal violations and misconduct to prevent the occurrence of any scandal. To this end, in addition to the job-related reporting line, we have established a whistle-blower program called "Aozora Hotline Program" in order to foster a clean, open, and fair corporate culture within the Aozora Group.

The Aozora Hotline Desk inside the Compliance Management Division and the HR Division's dedicated point of contact for harassment serves as the internal contact for whistle-blowers, while an outside law firm acts as the outside contact. It is also possible to make reports to our Standing Auditor & Supervisory Board member. This program is available to all officers and employees working for the Bank or its group companies (including rehired retirees, contract employees, part-timers, and temporary staff) as well as to all officers and employees within one year of retirement.

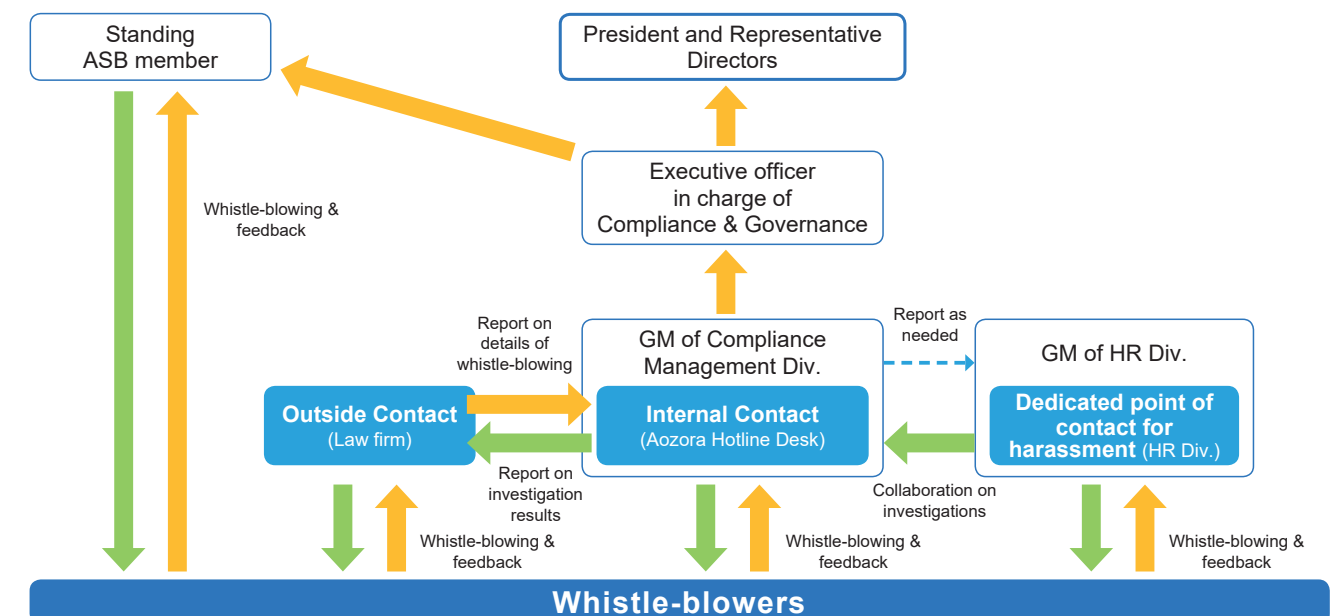
The Bank strives to create an easy-to-use environment regarding the whistle-blower program. It allows for anonymous reporting. In addition, all officers and

employees are provided with a small-sized card that includes the dedicated e-mail address and telephone number of the contact point and instructions on how to make a report, as well as a special postal envelope addressed to the contact point outside the Bank. The identity of a whistle-blower is kept strictly confidential, and any information that is related to the whistle-blower's complaint or could identify the whistle-blower is tightly controlled. Those who divulge such secrets are subject to disciplinary action and other strict measures in accordance with the Human Resources Manual. Whistle-blowers do not receive any unfavorable treatment because of making a report.

If any violation of the law or misconduct is confirmed as a result of whistle-blower investigations, the Bank will promptly take corrective and preventive measures. All officers and employees are obligated to cooperate with investigations.

In FY2021, there were no whistle-blower cases that had a significant impact on the management of the Aozora Group.

### Whistle-Blower Reporting and Processing System



• Insider Trading Prevention • Customer Protection Management  
• Tax Compliance

For more details, please see page 127.



# IT Strategy and Information Security

## Promoting Digitalization

### Development of System Infrastructure to Promote Digitalization

In order to respond to future business developments as well as accelerate productivity and operational efficiency improvements, the Bank has developed a roadmap to system renewal and is working on system development in stages. We now position the core banking system as a non-strategic area and intend to develop unique and new functions in our peripheral systems outside of the core banking system, with the aim of more flexibly responding to changing business requirements. Based on this policy, as a framework for creating unique and new functions in our peripheral systems, we are considering and introducing an API integration platform that enables us to build a linkage between internal systems, including our core banking system, and external systems, as well as BPM (Business Process Management). We are also striving to develop a data infrastructure to promote data-driven business and data utilization as well as to create a data management and data governance system/framework to support the expanded use of our changing infrastructure.

### Human Resource Development / Framework Enhancement

The Bank is focusing on improving the IT literacy of all officers and employees in order to accelerate

digitalization. We have prepared a Digital Talents Development Program, which is comprised of training courses designed for junior/mid-career employees, managers, and executives, and every year many officers and employees learn practical methods such as data utilization. Those who have completed the Digital Talents Development Program with an increased focus on digitalization, for example, work in marketing, business management and other areas for a period of time to build on-the-job experience for data utilization such as data analysis and data mart construction. We also promote initiatives to have them return their knowledge and experience to their own divisions. By collaborating with the Technology Group, they play a core role in driving our organization towards further digitalization. In the Technology Group, in order to secure and train talented IT engineers necessary for promoting DX (Digital Transformation), we have established an "IT Professional" position focused on an IT- and technology-oriented career plan and also set up a "DX Course" within our "Global Professional" position. We treat highly skilled personnel at an appropriate level commensurate with the market evaluation and develop an environment that fosters IT professionals over the long term and enables them to demonstrate their abilities regardless of their positions.

## Cybersecurity

### Environmental Awareness / Risk Awareness

Cybersecurity is one of Aozora's main focuses as a bank that has a responsibility for its customers' important assets and information. Security-related incidents such as information leaks or service outages caused by cyberattacks would not only have a significant impact on the Bank's management, including damages to our customers and affecting business continuity, but also may have a material impact on society as a whole. In order to provide reliable financial services, the Bank considers the stable operation of information systems to be one of its most important management issues. Based on this, we have established a security policy and system risk management policy, and with the active engagement of senior management, we work to maintain the cybersecurity framework and reduce risks across the Aozora Group.

### Cybersecurity Management

The Bank's Chief Technology Officer (CTO) has responsibility for cybersecurity, regularly reports to the Board of Directors and management meetings regarding

the status and evaluation of risks as well as the progress of risk reduction plans, and establishes a framework that enables appropriate management decisions. When system vulnerability information is released on a daily basis or an incident that has a significant effect on society occurs at other companies, we promptly investigate its impact on the Bank, incorporate the details into our plan as appropriate, and report it to management. In addition, we also conduct cybersecurity exercises which include members of our management team.

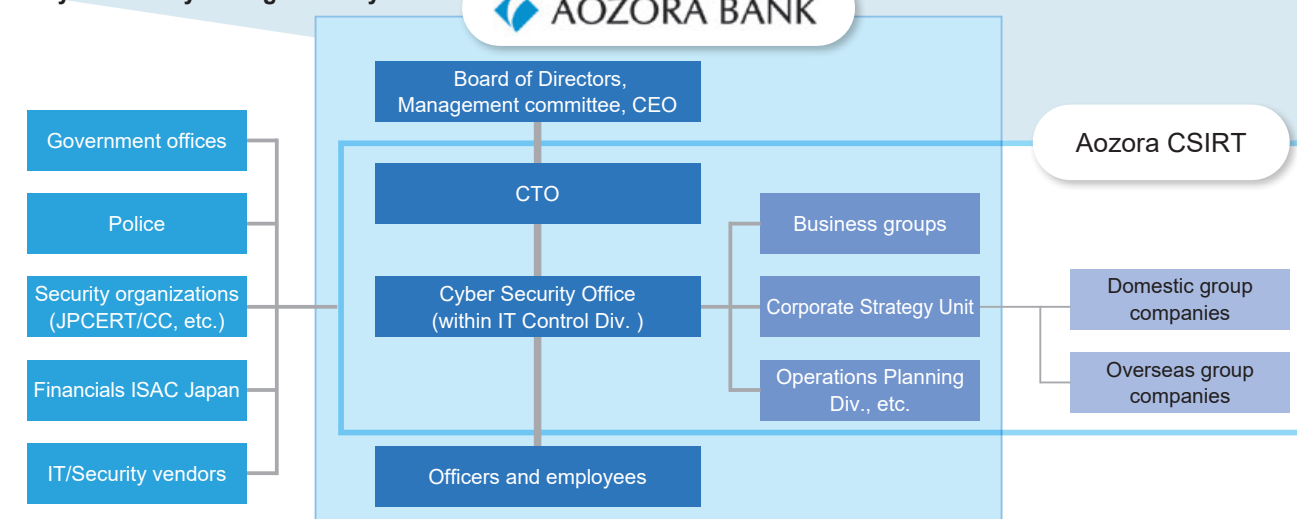
### Aozora Computer Security Incident Response Team (CSIRT)

Aozora has established a framework in which the IT Control Division headed by the CTO is designated as the control division for overall system risks, and the Cyber Security Office established within the IT Control Division is designated as the cybersecurity department. The Cyber Security Office is staffed with specially trained personnel and manages systems development, monitoring and emergency responses. Aozora has also established a Cyber Security Incident Response Team (Aozora CSIRT), which spans across Aozora's related



**Tomoyuki Yamada**  
Managing Executive Officer  
Chief Technology Officer  
(CTO)

### <Cybersecurity Management System>



divisions and Group companies with the CTO as the chairperson and the IT Control Division's Cyber Security Office as the supervising department. By sharing risks inherent in the Bank and other companies' cybersecurity incidents within the Aozora Group and conducting ongoing cybersecurity training, we can prepare more effective emergency responses for the entire Group.

### Ongoing Enhancement of Security

Aozora has implemented multi-layered technical countermeasures, including entrance measures that prevent unauthorized network intrusion, internal measures such as a detection system that presumes internal network attacks, and exit measures to prevent information leakage. The effectiveness of those measures is verified by penetration testing and other security assessments conducted by external experts. In addition, we continue working to raise security awareness mainly by conducting e-learning education for all officers and employees, online seminar-style

training based on employees' job duties and targeted email training. We are committed to strengthening the cyber-resilience of the entire Aozora Group in order to respond flexibly in the event of an incident by conducting system recovery training that presumes damage from ransomware attacks. We have been actively engaged in promoting work-from-home prior to the COVID-19 pandemic, and have implemented the necessary authentication systems in consideration of the balance between security and convenience.

### Cooperation with Outside Parties

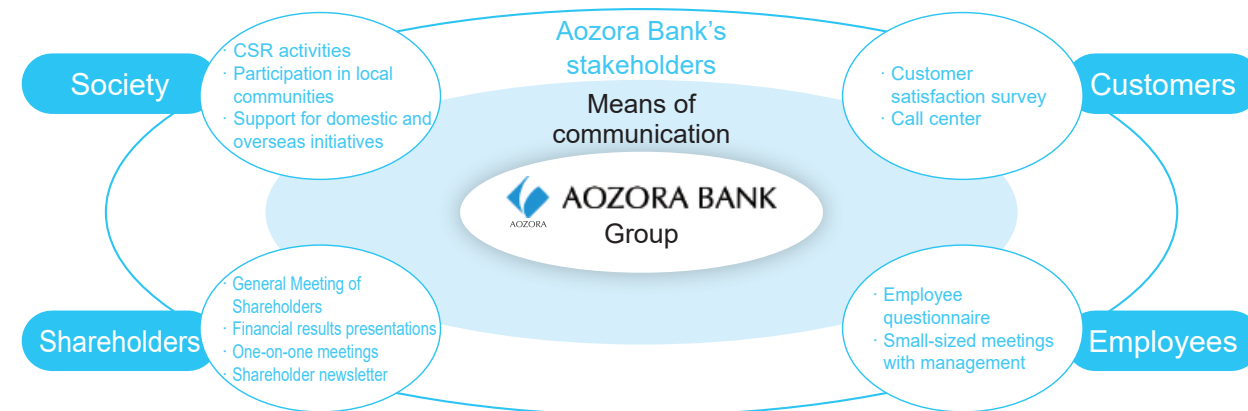
In addition to prompt reporting to the FSA and police in the event of an incident, we cooperate with government offices and related organizations, such as Financials ISAC Japan and JPCERT/CC (Japan Computer Emergency Response Team Coordination Center), while proactively transmitting and sharing incident information in order to improve the security of the Bank as well as society as a whole.

## Preparing for Potential Large-scale System Failures

We believe that proper management of customer and confidential information as well as the stable operation of information systems are important management issues in order to prevent disruption in provision of financial services due to system issues, such as information system breakdowns or malfunctions, as well as information leaks caused by unauthorized access to our system. We will continue to develop necessary countermeasures in order to properly protect information assets and ensure the stable operation of information systems within the Bank. As a general rule, we conduct load tests in a systems environment equivalent to our production environment where software and other products are actually put into operation, including processing method and system updates, in order to prevent large-scale system failures, especially when executing large system changes such

as introducing new services and functions. We also determine operational rules to ensure a schedule with sufficient time for system updates. In order to detect potential system problems at an early stage, we conduct provisional initial operational checks immediately after the start of services when updating them for customers. When these services are affected by system failures, our Operations Group, Technology Group, and other related divisions work closely to promptly disclose information while recognizing the importance of providing appropriate responses for customers in addition to working on early system recovery. We are committed to improving Aozora's systems so as to provide appropriate guidance and responses to our customers.

## Stakeholder Communication



### Communication with Customers

#### Customer Questionnaire

Aozora strives to provide financial products and services that best suit the needs of its customers through clear explanations as well as highly specialized and customized consulting services in accordance with Aozora's "Basic Policy for Customer-Oriented Business Management".

We regularly conduct customer surveys regarding the Bank's "customer-oriented business management" and receive direct feedback from customers which allows us monitor the status of initiatives at our sales branches and improve our operations.

In addition, Aozora conducts a "Customer Satisfaction Survey" every year. The Bank takes customer feedback seriously and utilizes it to improve our services in order to increase customer satisfaction.

#### Customer Seminar

Aozora holds multiple seminars for its customers every year. In January 2022, the Bank held an online seminar for regional financial institutions in the Chugoku region as part of a project to celebrate the 60th anniversary of the opening of the Hiroshima Branch. Mr. Yanagiya, Chairman of Aozora Investment Management, spoke to the attendees on the topic "The Direction of the Japanese and World Economy and the Role of Finance in the Future". Many participants commented that they were very pleased by the energetic, content-rich discussions and appreciated the clear explanations of important issues and wished to attend an in-person seminar next time.



Mr. Shibasaki, General Manager, Hiroshima Branch

Mr. Yanagiya, Chairman, Aozora Investment Management

### Communication with Shareholders

#### General Meeting of Shareholders

The 89<sup>th</sup> Ordinary General Meeting of Shareholders was held on June 22, 2022 (starting at 10:00 am) at the Tokyo Garden Terrace Kioi Conference hall located in Tokyo's Chiyoda ward.

As with last year, Aozora offered a livestream of the Ordinary General Meeting of Shareholders in addition to the in-person event, which allowed for the participation of shareholders who resided in remote areas or did not wish to attend in person. Of the total participants, 27 shareholders attended the event in person and approximately 150 attended via livestream.

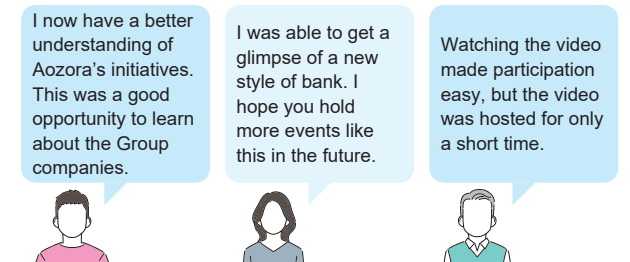
During the Q&A session, management answered questions from those in attendance and responded to some of the comments left by those viewing the livestream. Sakie Tachibana Fukushima, a newly appointed Board Member, attended the meeting via video conference and delivered a message to all of the shareholders in attendance.



#### Video Streaming Event for Shareholders

In April 2022, Aozora held an online video streaming event as a way to show our gratitude for the daily support of our shareholders. During the event, we streamed a video which explained more about the Aozora's growth areas and gave our shareholders a clear image of Aozora's growth and a deeper understanding of our unique initiatives.

The following feedback was received via questionnaire from shareholders who watched the video.



#### Investors Meetings

Aozora strives for the timely and appropriate disclosure of information to enable all shareholders and investors to acquire deeper understanding of our management strategy and financial results. Following the release of our financial results, we actively conduct a series of investor relations events, such as investors meetings, one-on-one meetings and retail investors meetings, both in person and online.

<IR events conducted in FY2021>

Teleconferences and presentation meetings with institutional investors and analysts	Number of meetings held: 6
One-on-one IR meetings with domestic/overseas institutional investors and analysts	Total number of participating companies: 124
Retail investors meetings	Number of meetings held: 5 Number of participants: 2,064

### Communication with Employees

#### Small-sized Meetings

Aozora holds small-sized meetings as a way to foster better communications between employees and management by leveraging our manageable size. The Bank holds approximately 200 small meetings annually that are made up of around 10 Group executives and employees each (approx. 1,500 participants total) which are designed to facilitate communication. A variety of topics are actively discussed at the meetings, including "Career motivation in the Aozora Group", "the Mid-term Plan", "Unconscious bias", "Talking about experiences with equities investment", and "Operational efficiency".

#### Employee Questionnaire

Since 2017, Aozora has conducted a voluntary employee questionnaire for all Group employees with the aim of improving its work environment. 1,745 Group employees answered the questionnaire sent out in November 2021 (a response rate of 76.2%).

Please see page 76, "Aozora Group Employees Survey Results".

#### Aozora Photo News

Numerous Aozora Group events are showcased (including customer seminars, donations to various organizations, employees who appear on TV) through photos displayed on the internal Aozora portal website. Aozora Photo News releases approximately 150 articles annually, and is a useful communication tool.

#### Aozora 1-on-1

As part of the Aozora HR reform as announced in our Mid-term Plan, "Aozora 2022", the Bank introduced the "Aozora 1-on-1" program in order to improve communication between supervisors and their employees. "Aozora 1-on-1" consists of regular 1-on-1 meetings between supervisors and their direct reports which are led by the employees. Meeting agendas include a wide-range of topics such as jobs, career and skills development, as well as daily feedback. In FY2021, approximately 450 employees began participating in "Aozora 1-on-1".

#### Message from management

Aozora's Chief Executive Officer (CEO) and the management team regularly communicate with Aozora Group's officers and employees as a way to make them better aware of our management philosophy and to also share corporate views and thoughts on business policy in a timely manner.



FY2022 entrance ceremony featured in Aozora Photo News

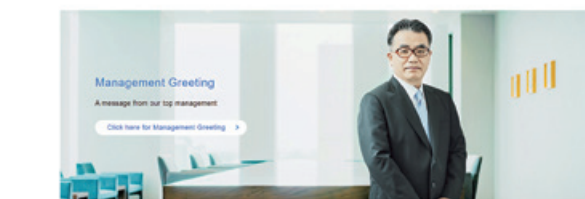


# Aozora Bank Website

<https://www.aozorabank.co.jp/english/>

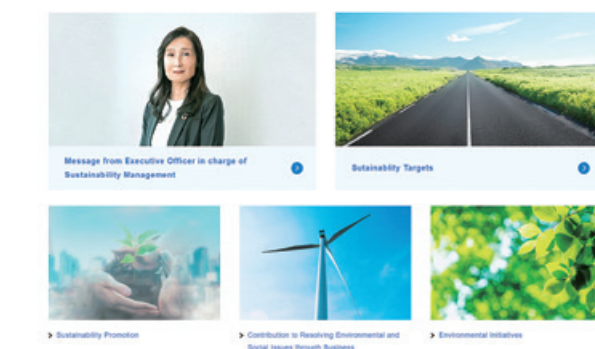
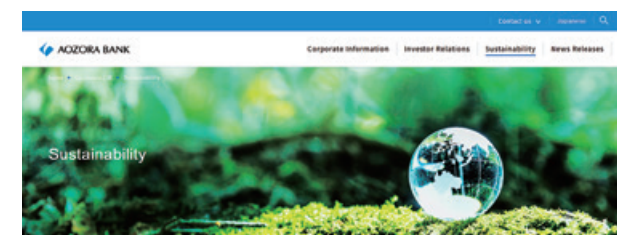
## Corporate Information

<https://www.aozorabank.co.jp/english/company/>



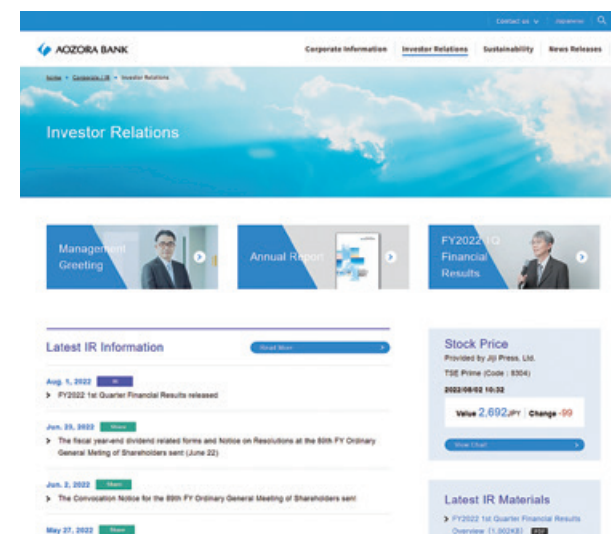
## Sustainability

<https://www.aozorabank.co.jp/english/sustainability/>



## Investor Relations

<https://www.aozorabank.co.jp/english/ir/>



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Corporate History

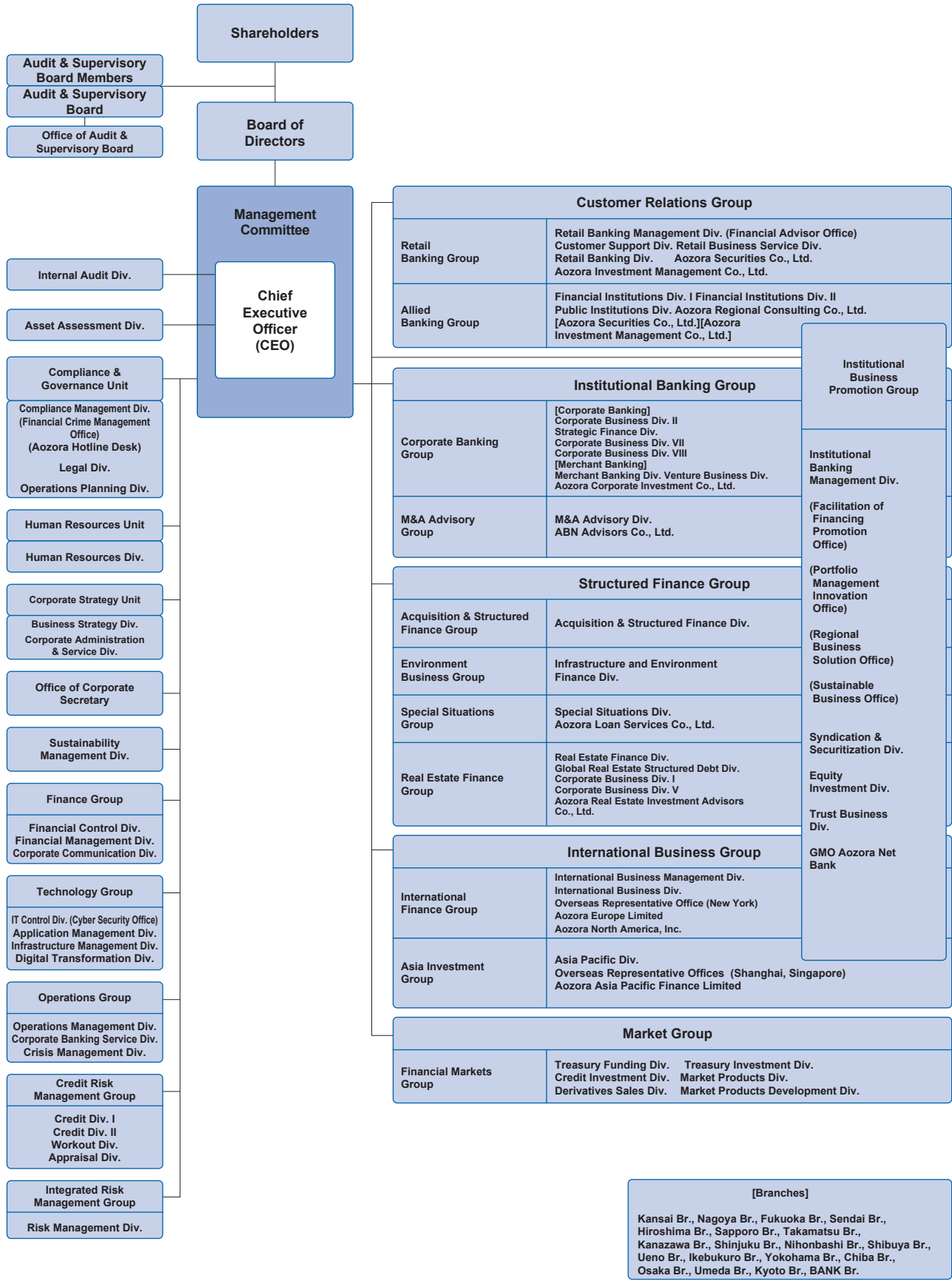
April	1957	Established as the Nippon Fudosan Bank, Limited (capital: ¥1 billion) in accordance with the Long-Term Credit Bank Law
July	1964	Started foreign exchange business as an authorized foreign exchange bank
September		Listed stock on the Tokyo Stock Exchange
February	1970	Listed stock on the Osaka Securities Exchange
October	1977	Changed name to the Nippon Credit Bank, Ltd.
February	1994	Established the Nippon Credit Trust Bank, Ltd. (currently GMO Aozora Net Bank, Ltd.)
December	1998	Started special public management and terminated listing of stock on the Tokyo Stock Exchange and the Osaka Securities Exchange
September	1999	NCB Servicer Co., Ltd. (currently Aozora Loan Services Co., Ltd.), commenced servicer operations
September	2000	Ended special public management
January	2001	Changed name to Aozora Bank, Ltd.
June	2005	Established a subsidiary, Aozora Asia Pacific Finance Limited, in Hong Kong
July		Established New York Representative Office
April	2006	Converted from “Long-Term Credit Bank” to an “Ordinary Bank”
		Established Aozora Securities Co., Ltd.
November		Listed on the First Section of the Tokyo Stock Exchange
May	2007	Established Shanghai Representative Office
April	2009	Established Internet Branch (currently BANK Branch) and commenced Internet banking services
August	2012	Announced the Comprehensive Recapitalization Plan
March	2013	Launched Aozora Cash Card Plus (Visa debit)
		Established Aozora Regional Consulting Co., Ltd.
February	2014	Established Aozora Investment Management Co., Ltd.
May		Established Singapore Representative Office
January	2015	Established Aozora Real Estate Investment Advisors Co., Ltd.
June		Full repayment of public funds
December		Established a subsidiary, Aozora Europe Limited, in London
May	2016	Completed conversion to new Kanjo-kei core banking system
May	2017	Moved headquarters
		Established ABN Advisors Co., Ltd.
April	2018	Established Aozora Corporate Investment Co., Ltd.
July		GMO Aozora Net Bank, Ltd. commenced Internet banking services
October		Completed transfer of trust operations from GMO Aozora Net Bank, Ltd. and started concurrent trust operations
June	2020	Purchased an ownership stake in Orient Commercial Joint Stock Bank, a commercial bank based in Vietnam (making it an equity method affiliate of Aozora)
September		Aozora North America, Inc., the Bank’s New York subsidiary, commenced finance operations
April	2022	Listed on the Prime Market segment of the Tokyo Stock Exchange following the restructuring of its market segments

Business Activities (As of July 1, 2022)

- **Deposits**  
*Deposits*  
Checking accounts, savings accounts, time deposits, deposits-at-notice, non-residents’ deposits in yen and deposits in foreign currencies  
*Negotiable certificates of deposit*
- **Lending**  
*Loans*  
Loans on deeds, loans on notes and overdraft  
*Discount on promissory notes*  
Bankers’ acceptances and discounts on commercial bills
- **Securities investment business**  
Public bonds, local bonds, corporate bonds, equity and other securities for cash reserves for payment of the deposit and fund management
- **Domestic exchange**  
Such services as money orders between branches of the Bank and those of other banks, collection of payments, etc.
- **Foreign exchange**  
Remittance to foreign countries and other foreign currency-related businesses
- **Consignment of bonds**  
Consignment business for soliciting or managing public bonds and issue agent or payment agent
- **Trust operations**  
Management of various trust assets including cash, securities, monetary claims and real estate
- **Other services**
  1. Guarantee of liabilities (acceptances and guarantees)
  2. Lending of securities
  3. Underwriting of public bonds
  4. Over-the-counter sales of securities investment trusts
  5. Trust business for secured corporate bonds
  6. Agency business
    - ① Revenue agency for Bank of Japan
    - ② Handling of funds for regional public entities, including those in Tokyo
  7. Custody services
  8. Interest rate, currency and other derivative transactions
  9. Over-the-counter sales of insurance products
  10. Financial instruments intermediary business
  11. Business matching services



Organization Chart (As of July 1, 2022)



Directors, Audit & Supervisory Board Members and Executive Officers (As of July 1, 2022)

Directors and Audit & Supervisory Board Members		Executive Officers	
Representative Director and President	Kei Tanikawa*	Senior Managing Executive Officers	Akira Sakai
			Masayoshi Ohara
Representative Directors and Deputy Presidents	Koji Yamakoshi* Hideto Oomi*		Fumihiko Hirose
		Takashi Kato	
Director and Senior Managing Executive Officer	Tomomi Akutagawa*	Managing Executive Officers	Masaki Onuma
			Tomoyuki Yamada
Directors	Hiroyuki Mizuta Ippei Murakami Tomonori Ito Sakie Tachibana Fukushima		Kazuhiro Yasuda
		Tetsuji Okuda	
		Jun Shinozaki	
		Akemi Hashimoto	
Standing Audit & Supervisory Board Member	Satoshi Hashiguchi	Executive Officers	Toru Takahashi
			Hiroki Nakazato
Audit & Supervisory Board Members	Kiyoto Hagiwara Toraki Inoue	Hiroshi Suzuki	
		Shu Takahashi	
*Serving as Executive Officer concurrently		Yukiko Morita	
		Naoko Tanaka	
		Takashi Hagio	
		Jun Nakashima	
		Hiroshi Kaneko	
		Shin Kato	
		Mitsuhiro Segawa	
		Mayumi Takada	
	Kouji Igarashi		

Staff Profile (As of March 31, 2022)


Number of Employees	Average Age	Average Years of Service	Average Yearly Salary
1,966 (117)	43.3	15.1	8,232 thousand yen

Notes: 1. The number of employees includes executive officers and locally hired staff overseas, but excludes temporary employees.  
2. The figure in parentheses is the average number of temporary employees for the year.  
3. The average yearly salary includes bonuses and pay other than fixed wages.

Executive Officers



**Toru Takahashi**  
Executive Officer  
Head of Compliance & Governance Unit



**Akira Sakai**  
Senior Managing Executive Officer  
Chief Financial Officer (CFO)



**Kei Tanikawa**  
Representative Director and President,  
Chief Executive Officer (CEO)



**Hiroshi Kaneko**  
Executive Officer  
Head of Human Resources Unit




**Tomoyuki Yamada**  
Managing Executive Officer  
Chief Technology Officer (CTO)



**Koji Yamakoshi**  
Representative Director and Deputy President



**Hiroshi Suzuki**  
Executive Officer  
Head of Corporate Strategy Unit and in charge of Office of Corporate Secretary



**Yukiko Morita**  
Executive Officer  
Head of Operations Group



**Hideto Oomi**  
Representative Director and Deputy President, Head of Institutional Business Promotion Group




**Tomomi Akutagawa**  
Director, Senior Managing Executive Officer in charge of Sustainability Management



**Mayumi Takada**  
Executive Officer  
Deputy in charge of Sustainability Management



**Masaki Onuma**  
Managing Executive Officer  
Chief Credit Risk Officer (CCRO)



**Masayoshi Ohara**  
Senior Managing Executive Officer  
Chief Risk Officer (CRO)

**Customer Relations Group**



**Takashi Kato**  
Senior Managing Executive Officer  
Head of Allied Banking Group



**Naoko Tanaka**  
Executive Officer  
Deputy Head of Allied Banking Group



**Jun Nakashima**  
Executive Officer  
Head of Retail Banking Group

**Institutional Banking Group**



**Kazuhiro Yasuda**  
Managing Executive Officer  
Head of Corporate Banking Group [Corporate Banking]



**Akemi Hashimoto**  
Managing Executive Officer  
General Manager of Kansai Branch



**Jun Shinozaki**  
Managing Executive Officer  
Head of Corporate Banking Group [Merchant Banking]



**Shu Takahashi**  
Executive Officer  
Head of M&A Advisory Group

**International Business Group**



**Mitsuhiro Segawa**  
Head of International Finance Group, Deputy Head of Asia Investment Group



**Shin Kato**  
Head of Asia Investment Group

**Structured Finance Group**




**Hiroki Nakazato**  
Executive Officer  
Head of Acquisition & Structured Finance Group, Head of Environment Business Group



**Fumihiko Hirose**  
Senior Managing Executive Officer  
Head of Real Estate Finance Group



**Takashi Hagio**  
Executive Officer  
Head of Special Situations Group



**Kouji Igarashi**  
Executive Officer  
Deputy Head of Real Estate Finance Group

**Market Group**



**Tetsuji Okuda**  
Managing Executive Officer  
Head of Financial Markets Group



Office Directory (As of July 1, 2022)

Overseas Network

● Representative Offices

New York Representative Office

Chief Representative  
Takashi Kometani

Address

1270 Avenue of the Americas, Suite  
#1040, New York, NY 10020, U.S.A.  
Tel: +1-212-830-1680  
Fax: +1-212-314-3124

Shanghai Representative Office

Chief Representative  
Shigeru Tanaka

Address

27F, Hang Seng Bank Tower,  
1000 Lujiazui Ring Road,  
Pudong New Area,  
Shanghai 200120,  
People's Republic of China  
Tel: +86-21-3899-6288  
Fax: +86-21-6841-2882

Representative Office Registered in  
Singapore

Chief Representative  
Shingo Sawada

Address

50 Raffles Place,  
#16-05A Singapore Land Tower,  
Singapore 048623  
Tel: +65-6221-9221  
Fax: +65-6221-9421

Domestic Network

● Head Office

6-1-1, Kojimachi,  
Chiyoda-ku, Tokyo 102-8660,  
Japan  
Tel: +81-3-6752-1111  
SWIFT: NCBTJPJT

Ikebukuro

2-28-13, Minami-Ikebukuro,  
Toshima-ku, Tokyo 171-0022  
Tel: 03-3988-0911

Chiba

2-15-11, Fujimi, Chuo-ku,  
Chiba 260-0015  
Tel: 043-227-3111

Yokohama

1-1-1, Minamisaiwai, Nishi-ku,  
Yokohama 220-0005  
Tel: 045-319-1588

Kanazawa

2-37, Kamitsutsumicho,  
Kanazawa 920-0869  
Tel: 076-231-4151

Nagoya

3-28-12, Meieki, Nakamura-ku,  
Nagoya 450-6404  
Tel: 052-566-1900

Kyoto

79, Kankobokocho,  
Muromachi-Higashiiru, Shijo-dori,  
Shimogyo-ku, Kyoto 600-8009  
Tel: 075-211-3341

Kansai

1-12-12, Umeda, Kita-ku,  
Osaka 530-0001  
Tel: 06-4799-3541

(Kansai Branch deals solely with corporate clients.)

● Branch Offices

Sapporo

4-1-1, Kita Sanjo-nishi,  
Chuo-ku, Sapporo 060-0003  
Tel: 011-241-8171

Sendai

3-2-1, Chuo, Aoba-ku,  
Sendai 980-0021  
Tel: 022-225-1171

Shinjuku

3-37-11, Shinjuku,  
Shinjuku-ku, Tokyo 160-0022  
Tel: 03-3354-1600

Nihonbashi

2-2-1, Nihonbashi-muromachi,  
Chuo-ku, Tokyo 103-0022  
Tel: 03-3517-7888

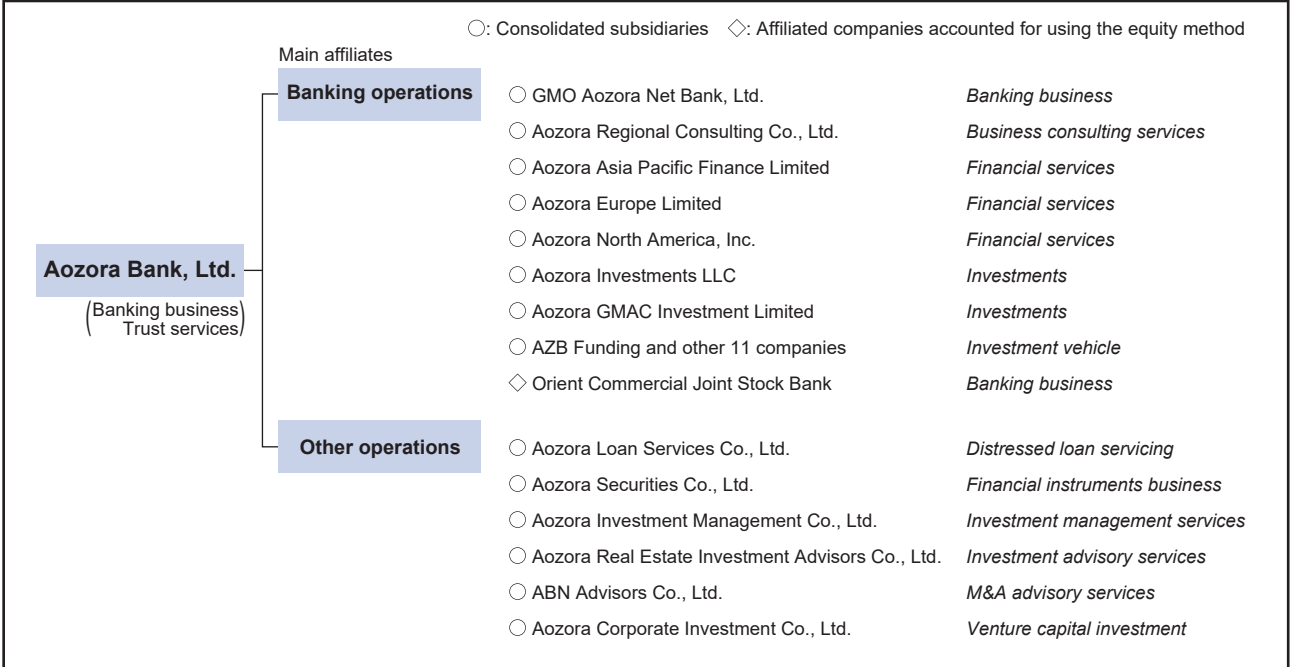
Shibuya

1-7-7, Shibuya, Shibuya-ku,  
Tokyo 150-0002  
Tel: 03-3409-6411

Ueno

2-2-1, Nihonbashi-muromachi,  
Chuo-ku, Tokyo 103-0022  
Tel: 03-5202-6602

Business Network (As of March 31, 2022)



Subsidiaries and Affiliated Companies (As of March 31, 2022)

Consolidated Subsidiaries

(%)						
Company Name	Location	Business Activities	Established	Capital	Aozora Bank Shareholding	Group Shareholding
GMO Aozora Net Bank, Ltd.	Shibuya-ku, Tokyo	Banking business	February 28, 1994	17,290 millions of JPY	85.1	—
Aozora Loan Services Co., Ltd.	Chiyoda-ku, Tokyo	Distressed loan servicing	June 18, 1996	500 millions of JPY	67.6	—
Aozora Securities Co., Ltd.	Chiyoda-ku, Tokyo	Financial instruments business	January 23, 2006	3,000 millions of JPY	100.0	—
Aozora Regional Consulting Co., Ltd.	Chiyoda-ku, Tokyo	Business consulting services	March 21, 2013	10 millions of JPY	100.0	—
Aozora Investment Management Co., Ltd.	Chiyoda-ku, Tokyo	Investment management services	February 4, 2014	450 millions of JPY	100.0	—
Aozora Real Estate Investment Advisors Co., Ltd.	Chiyoda-ku, Tokyo	Investment advisory services	January 6, 2015	150 millions of JPY	100.0	—
ABN Advisors Co., Ltd.	Chiyoda-ku, Tokyo	M&A advisory services	May 24, 2017	200 millions of JPY	100.0	—
Aozora Corporate Investment Co., Ltd.	Chiyoda-ku, Tokyo	Venture capital investment	April 24, 2018	15 millions of JPY	100.0	—
Aozora Asia Pacific Finance Limited	Hong Kong, People's Republic of China	Financial services	June 29, 2005	100,000 thousands of USD	100.0	—
Aozora Europe Limited	London, United Kingdom	Financial services	December 15, 2015	1,000 thousands of GBP	100.0	—
Aozora North America, Inc.	New York, USA	Financial services	November 21, 2006	411 thousands of USD	100.0	—
Aozora Investments LLC	Delaware, USA	Investments	November 22, 2006	485,282 thousands of USD	—	100.0
Aozora GMAC Investment Limited	London, United Kingdom	Investments	November 6, 2006	30,070 thousands of USD	100.0	—
AZB Funding	Cayman Islands, British West Indies	Investment vehicle	June 1, 2012	0 thousands of USD	—	—
Other 11 companies						

Affiliated Companies Accounted for Using the Equity Method

(%)						
Company Name	Location	Business Activities	Established	Capital	Aozora Bank Shareholding	Group Shareholding
Orient Commercial Joint Stock Bank	Ho Chi Minh City, Vietnam	Banking business	May 10, 1996	15,401 billions of VND	15.0	—

Management Support and Efforts for Regional Economic Revitalization

Prolonged COVID-19 pandemic not only gives a significant negative impact on regional economies but also changes the way in which people live their life by a changed work style centered around development of information management society accelerated by digitalization and a shift to teleworking, which in turn significantly affect our customers including SMEs.

Aozora provides financing support to customers that have been impacted by the COVID-19 pandemic in cooperation with public institutions. In addition, Aozora continues to fully leverage Aozora Group's competencies and effectively uses a high degree of expertise and abundant know-how in order to respond to SME customers' business succession and business recovery needs in cooperation with regional financial institutions.

To contribute to our customers' management support and regional economic revitalization, Aozora actively works on the following initiatives:

- ① Support for customers impacted by the COVID-19 pandemic
- ② Provide solutions for business succession issues
- ③ Promotion of business recovery support
- ④ Solutions for issues of regional financial institutions

- ① Support for customers impacted by the COVID-19 pandemic

Aozora established a “loan consultation desk” in March 2020 for corporate customers that have been impacted by the prolonged COVID-19 pandemic.

Moreover, to focus on cash management support, we began providing agency services for customers' payments by utilizing trust functions as well as provide optimal solutions to our customers in collaboration mainly with public institutions.

We intend to continuously support customers affected by the prolonged COVID-19 pandemic in their efforts for stabilization of cash management and finances as well as business recovery/restructuring.

- ② Provide solutions for business succession issues

For business succession issues, Aozora placed “Financial Advisor Office” aimed to provide SME owners with professional consulting services and meets various needs.

We continue to fully leverage Aozora Group's competencies represented by “ABN Advisors, Co., Ltd.” registered as an M&A support institution of Small and Medium Enterprise Agency and “AJ Capital Co., Ltd.” running business succession funds in order to provide various solutions to customers and address business succession issues faced by SMEs also in cooperation with regional financial institutions across Japan.

- ③ Promotion of business recovery support

We promote support for management improvement and business recovery based on customers' reality by providing our consulting function through utilizing our specialty in tailor-made sales activities. Further, Aozora provides support for business recovery of customers including SMEs by providing loans, DIP finance or borrowing recognizable as capital to a customer having filed for civil rehabilitation proceedings in the past to repay the rehabilitation loan in a lump sum.

Additionally, Aozora intends to contribute to the business recovery of SME customers and the regional economic revitalization through establishing and operating business recovery funds in collaboration with regional financial institutions also in the future.

- ④ Solutions for issues of regional financial institutions

Aozora assists regional financial institutions and their clients in solving sophisticated and diversified issues faced by them by fully leveraging Aozora Group's competencies as a regional finance partner bank. Aozora has formed alliances with several regional financial institutions to provide solutions to such financial institutions' clients, building also a cooperative relationship toward business solutions for regional core companies and SMEs.

Aozora intends to continuously contribute to the regional revitalization and the development of local economies and industries through working closely with more regional financial institutions to provide tailor-maid solutions specifically focused on the business challenges faced by their customers.



Programs and Initiatives for a Better Working Environment

Program	Overview
Flextime Program	System that allows employees to alter their start and finish times as long as they achieve a certain number of hours-worked per month.
Work from Home and Mobile Work Program	System that allows employees to work outside of the office based on their personal work style.
Staggered Work Hours	System that allows employees to alter their workday start and finish times in order to avoid rush-hour commutes while maintaining their regular number of daily hours-worked.
Short Time Work Program	Program that shortens working hours of employees who are pregnant or need to provide child or nursing care.
Exemption of Overtime, Late-night, and Holiday Work	Program that allows exemption of overtime, late-night and holiday work for employees who are pregnant, within one year of giving birth, on maternity leave, or need to provide nursing care.
Maternity Leave	Leave granted 6 weeks prior and 8 weeks after giving birth.
Childcare Leave	Leave granted when an employee's child is under 1 and half years old, or until the end of April past the child's first birthday.
Childcare Leave <Special case>	Paid leave is granted up to 5 days when male employees takes Child Care Leave within 8 weeks after childbirth.
Child Nursing Care Leave	5 days of leave granted per year, or 10 days in the case of more than one child, for use when their pre-elementary school age child is sick or injured.
Nursing Care "Kyuka" leave	Leave granted when an employee must provide nursing care to family members. 10 days per year, or 20 days in the case of more than one family member.
Nursing Care "Kyugyou" Leave	Leave granted when an employee must provide daily nursing care to family members. 365 days in total, possible to divide this leave into up to 12 parts if necessary.

Risk Governance

Risk Definition

The Group defines “risks” as factors that could cause it to suffer unexpected losses in the course of its operations and

impair its capital position, and classifies and defines those “risks” according to their different risk attributes as follows:

Credit Risk	Credit Risk is defined as the risk of incurring losses due to the impairment or loss of asset values (including off-balance-sheet assets) as a result of deterioration in the credit standing of counterparties (including the government of a country or region)												
Market Risk	Market Risk refers to the risk of incurring losses due to fluctuations in the value of the Group's assets and liabilities caused by market movements.												
Liquidity Risk	Liquidity Risk refers to the risk of losses resulting from the Group's inability to secure sufficient liquid assets for liabilities and to meet repayment obligations caused by an unexpected outflow of funds or due to extremely high funding costs (Funding Liquidity Risk). The other type of Liquidity Risk is the potential for losses caused by the Group's inability to execute market transactions as a result of market turbulence and thin trading and also by our being forced to make transactions at extremely unfavorable prices (Market Liquidity Risk).												
Operational Risk	Operational Risk is the risk of losses resulting from inadequate or failed internal procedures, officers and employees or systems, or from external events. <table><tr><td>Legal and Compliance Risk</td><td>Legal and Compliance Risk is the risk of the Group incurring losses from the payments of criminal fines/charges, the payments and compensation of settlement packages, fines, forfeits and damages for civil lawsuits, receipt of administrative sanctions as supervisory action or failure to protect the Group's profits caused by (1) illegal conduct arising from fraud or errors committed by officers and employees and violation of legal compliance including the Group's internal rules; (2) breaches/failures of duties and obligations to the Group and third parties including customers resulting from malicious and negligent conduct by officers and employees; (3) the Group's defective or undeveloped internal rules (policies and procedures, etc.) on legal requirements and their procedures or compliance with legal and regulatory requirements; or (4) third parties' illegal activities/errors or breaches of contracts, etc.</td></tr><tr><td>Operations Risk</td><td>Operations Risk refers to the risk of losses resulting from the failure of officers and employees to properly conduct administrative work due to human error or processing deficiencies, or as a result of accidents they have caused.</td></tr><tr><td>System Risk</td><td>System Risk is the risk of losses due to a breakdown or malfunctioning of the Group's or external computer systems, or a system deficiency, or improper use of the systems by officers, employees or third parties. (including system risk to respond to cyber security)</td></tr><tr><td>Human Risk</td><td>Human Risk is the risk of losses caused by claims for damages against the Group arising from labor disputes over matters such as remuneration, benefits or dismissal.</td></tr><tr><td>Tangible Asset Risk</td><td>Tangible Asset Risk refers to the risk of the Group suffering losses from the retirement of fixed assets or from the failure to capitalize assets due to external factors, such as a natural disasters and third parties, or human error by officers and employees.</td></tr><tr><td>Reputation Risk</td><td>Reputation risk refers to the risk of the Aozora Group incurring losses due to inadequate handling by the Group or its directors/officers/employees, risk events that arise in connection with business operations, rumors/negative reputation that are not based on facts or the deterioration of the Group's reputation.</td></tr></table>	Legal and Compliance Risk	Legal and Compliance Risk is the risk of the Group incurring losses from the payments of criminal fines/charges, the payments and compensation of settlement packages, fines, forfeits and damages for civil lawsuits, receipt of administrative sanctions as supervisory action or failure to protect the Group's profits caused by (1) illegal conduct arising from fraud or errors committed by officers and employees and violation of legal compliance including the Group's internal rules; (2) breaches/failures of duties and obligations to the Group and third parties including customers resulting from malicious and negligent conduct by officers and employees; (3) the Group's defective or undeveloped internal rules (policies and procedures, etc.) on legal requirements and their procedures or compliance with legal and regulatory requirements; or (4) third parties' illegal activities/errors or breaches of contracts, etc.	Operations Risk	Operations Risk refers to the risk of losses resulting from the failure of officers and employees to properly conduct administrative work due to human error or processing deficiencies, or as a result of accidents they have caused.	System Risk	System Risk is the risk of losses due to a breakdown or malfunctioning of the Group's or external computer systems, or a system deficiency, or improper use of the systems by officers, employees or third parties. (including system risk to respond to cyber security)	Human Risk	Human Risk is the risk of losses caused by claims for damages against the Group arising from labor disputes over matters such as remuneration, benefits or dismissal.	Tangible Asset Risk	Tangible Asset Risk refers to the risk of the Group suffering losses from the retirement of fixed assets or from the failure to capitalize assets due to external factors, such as a natural disasters and third parties, or human error by officers and employees.	Reputation Risk	Reputation risk refers to the risk of the Aozora Group incurring losses due to inadequate handling by the Group or its directors/officers/employees, risk events that arise in connection with business operations, rumors/negative reputation that are not based on facts or the deterioration of the Group's reputation.
Legal and Compliance Risk	Legal and Compliance Risk is the risk of the Group incurring losses from the payments of criminal fines/charges, the payments and compensation of settlement packages, fines, forfeits and damages for civil lawsuits, receipt of administrative sanctions as supervisory action or failure to protect the Group's profits caused by (1) illegal conduct arising from fraud or errors committed by officers and employees and violation of legal compliance including the Group's internal rules; (2) breaches/failures of duties and obligations to the Group and third parties including customers resulting from malicious and negligent conduct by officers and employees; (3) the Group's defective or undeveloped internal rules (policies and procedures, etc.) on legal requirements and their procedures or compliance with legal and regulatory requirements; or (4) third parties' illegal activities/errors or breaches of contracts, etc.												
Operations Risk	Operations Risk refers to the risk of losses resulting from the failure of officers and employees to properly conduct administrative work due to human error or processing deficiencies, or as a result of accidents they have caused.												
System Risk	System Risk is the risk of losses due to a breakdown or malfunctioning of the Group's or external computer systems, or a system deficiency, or improper use of the systems by officers, employees or third parties. (including system risk to respond to cyber security)												
Human Risk	Human Risk is the risk of losses caused by claims for damages against the Group arising from labor disputes over matters such as remuneration, benefits or dismissal.												
Tangible Asset Risk	Tangible Asset Risk refers to the risk of the Group suffering losses from the retirement of fixed assets or from the failure to capitalize assets due to external factors, such as a natural disasters and third parties, or human error by officers and employees.												
Reputation Risk	Reputation risk refers to the risk of the Aozora Group incurring losses due to inadequate handling by the Group or its directors/officers/employees, risk events that arise in connection with business operations, rumors/negative reputation that are not based on facts or the deterioration of the Group's reputation.												

Comprehensive Risk Management

The Board of Directors approves the business operations plan proposed by the Management Committee and determines the risks acceptable to the Group in view of the Bank's capital and profit targets to be achieved. The Bank's risk management operations are conducted by the

Management Committee, the Asset and Liability Committee, the Integrated Risk Committee, the Credit Committee and the Investment Committee. The Board of Directors is committed to maintaining appropriate corporate governance and business operations by approving material decisions of subcommittees and receiving regular reports on risk management.

Risk management is the process of controlling risks associated with the Bank's business operations within the Bank's capital, as determined by the Board of Directors.

Acknowledging the importance of risk management activities, the Aozora Group has established a basic policy on comprehensive risk management designed to properly identify and control individual and aggregate risks. As the core components of the Group's risk management structure, we have established several risk management committees that have been delegated authority by the Board of Directors to implement risk management activities, and any important matters concerning risk management are determined and responses implemented.

The basic policy on comprehensive risk management sets out the scope of target risk categories such as credit risk, market risk and operational risk, and their definitions. The policy also defines the risk management procedures, which consist of the identification, assessment, monitoring and control of the target risks.

**Capital Management System**

One of the most important challenges for the Aozora Group is increasing capital efficiency while securing financial soundness. Therefore, the establishment of an appropriate capital management system is one of our top priorities.

Capital management comprises risk capital management, namely economic capital management and regulatory capital management. The objective of risk capital management is to control the Bank's business size by allocating economic capital to individual business lines according to their characteristics and risk categories after setting certain limits on the total amount of capital from the perspective of maintaining the financial soundness of the Bank. This allocation is also carried out to continuously secure adequate capital commensurate with the risk involved. Regulatory capital management is intended to ensure the minimum required capital for regulatory capital purposes and to conduct comparative verifications against the target capital ratios.

<Internal Capital Adequacy and Assessment Process>

An internal capital adequacy and assessment process is in place to ensure the adequacy of capital reserves against risk by monitoring the total capital amount for the fiscal year and the actual risk profile.

The Group assesses its internal capital adequacy by periodically monitoring the risk capital and the risk capital usage through a comparison with capital for the year and also by conducting stress tests to estimate the Bank's potential losses, risk and possible capital requirements in the event that economic and market environments, the conditions for assessments of credit risk, market risk, operational risk, etc., undergo stressed conditions. Aozora Bank estimates risk capital for major risks, i.e., credit, market and operational risks, using the following methodologies.

Our approach for measuring the risk capital of credit risk is based on the concept of unexpected loss (credit value at risk). First, we estimate probability of default (PD) rates based on our internal ratings transition analyses, non-recovery rates of loss given default (LGD) by collateral type and default correlations, and then calculate credit value at risk with a confidence interval of 99.9%, and a one-year holding period. The calculated credit value at risk corresponds to risk capital.

We employ the VaR approach for the measurement of risk capital for market risk. Risk capital is estimated with a confidence level of 99.9% and the holding period depends on the business characteristics and liquidity of the asset.

Our approach to estimating the risk capital for operational risk is based on both an operational risk measurement approach and a loss distribution approach. Among the operational risk measurement approaches, we adopt the Standardized Approach (TSA). Under the loss distribution approach, we estimate the risk capital for operational risk by inferring the frequency and severity of loss events based on actual loss data and scenarios assuming potential risk events. In this approach, we estimate the risk capital with a confidence interval of 99.9% and a one-year holding period.

<Risk Capital Allocation>

Risk capital is allocated to business groups according to their risk tolerance and expected income with the goal of improving the profitability and efficiency of the Bank as a whole. The Board of Directors initially determines unallocated capital, i.e., the amount of capital required for continued business growth and future capital policies that will not be allocated, and subsequently allocates credit risk capital, market risk capital and operational risk capital (limited to the amount of capital remaining after subtraction of unallocated capital) to business groups in line with management and business strategies. Business groups are responsible for conducting operations within their risk capital allocation, and capital usage is reported approximately monthly to senior management.

Credit Risk Management

Credit risk is the risk of incurring losses due to the impairment or loss of asset value, including off-balance sheet assets, as a result of deterioration in the credit standing of counterparties (including the government of a country or region).

Aozora is committed to safeguarding its balance sheet against potential problem loans through the accurate identification, measurement and pricing of credit risk as well as the provision of useful financial solutions to our clients.

(1) Credit Risk Management System

Our approach to managing credit risk is both at the transaction level and at the portfolio level. The Bank maintains a sound asset portfolio for the Aozora Group through strict credit screening and ex post facto management of transactions including the predictive control of our clients, as well as a focus on eliminating credit risk concentration at the portfolio level.

Approval Authority for investment and loan transactions resides with the Credit Committee or Investment Committee, whose members include Representative Directors, Chief Risk Officer and Chief Credit Risk Officer, and deliberations for investment and loan transactions are made at the respective Committees.

The Credit Committee and Investment Committee delegate part of Approval Authority to Chief Credit Risk Officer, who, in turn, re-delegates the authority delegated by the respective Committees to individuals in Credit Divisions or Business Divisions, within certain limits.

The Group's credit portfolio is carefully monitored and reported to the Board of Directors and the Management Committee on a regular basis.

(2) Credit Rating System

Credit ratings are subject to review on a regular basis based on the updated financial results of our clients and, where appropriate, when changes are identified in the quality of their credit.

Business unit analysts recommend a rating at the inception of a credit relationship, and these recommendations are approved by our credit divisions.

The Asset Assessment Division has the authority to perform ratings examinations and to make necessary amendments.

The Bank examines its credit rating system through benchmarking (comparative verification of our ratings with those assigned by rating agencies or external models) and back testing (assessment of significance of the credit rating system based on past default).

<Obligor Rating>

Ratings for each borrower are assigned based on the probability of default. The rating is determined after passing through the process of a quantitative and qualitative evaluation of each borrower.

<Facility Rating>

Each credit transaction also receives facility ratings, which consider collectability with collateral and/or guarantee, and a tenor of credit facility, so that the Bank is able to assess their risk/return profile and quantify credit risks. We recognize the credit risk mitigation effect of collateral while taking into consideration the level of correlation between deterioration of credit and collateral values. In addition, we assign credit ratings to guarantors to recognize the credit risk mitigation effect.

<Expected Loss Grade>

An expected loss grade is assigned to transactions, such as non-recourse real estate loans, securitization of monetary claims and structured bonds in senior/junior tranches, by ranking the occurrence of loss.

<Utilization of Credit Ratings>

Credit ratings are an integral component of the approval system for credit assessment, interest rate spread, etc. Ratings are also used to conduct self-assessment and are employed as benchmarks to quantify credit risks.

(3) Quantification of Credit Risk

Our understanding of the credit risk exposure of our clients and their groups is the starting point for credit risk management. We centrally manage all assets with credit risk such as loans, securities, equities, funds, securitized transactions and off-balance-sheet transactions (including commitment lines, derivative transactions, etc.). With regard to counterparty risk for derivative transactions, we take the market value at the time of measurement and market value fluctuation risk in the future as the exposure, and manage this by setting a credit line (credit limit) for the relevant counterparty.



# Risk Governance

In our portfolio management, unexpected loss is calculated and analyzed on a monthly basis, and the comparisons between the derived unexpected loss and allocated capital are regularly reported to the Board of Directors and Management Committee. The Bank's internal model employs a holding period of one year and a confidence interval of 99.9%. Unexpected loss is measured using parameters such as PD, LGD, intra-sector correlation, inter-sector correlation and parent/subsidiary correlation of the borrower group.

## (4) Credit Portfolio Management

We seek management of our credit portfolio with an emphasis on adequate risk/return, based on credit rating, etc.

For concentration risk, we manage this by setting guidelines on exposure by country/region or by the rating of borrowers. For example, concentration risk is managed by establishing the credit limit by credit ratings, and establishing additional concentration limits on the portfolio related to real estate risks. For status on the credit portfolio and those sectors to which we have a particularly large credit exposure, we provide the Bank's senior management with reports on a regular basis.

## Market Risk Management

Market risk is the risk of incurring losses due to fluctuations in the value of the Group's assets and liabilities caused by market movements. The Bank performs a comprehensive analysis of the market risk affecting all assets, liabilities and off-balance-sheet transactions for its trading and banking businesses. We manage market risk appropriately through the documentation of our management of products, risk management methods and market price valuation methods.

## (1) Procedures for Market Risk Management

The Board of Directors and the Management Committee determine the economic capital allocation for the entire Aozora Group including front-office business units and divisions, commensurate with market risk exposure. Market risk and loss limits are set in accordance with capital allocation.

The usage of and compliance with these limits are centrally monitored by the Risk Management Division, which is independent from the front offices in terms of organization and human resources. The Risk Management Division monitors the market risk and profit/loss (P/L) for the trading businesses daily and for the banking businesses on a daily or monthly basis.

The division makes periodic reports to the Chief Risk Officer and the Executive Officers in charge of the front offices, as well as to the Board of Directors, the Management Committee, and the Asset and Liability Committee.

## (2) Overview of Market Risk Measurement Methods

Aozora Bank uses VaR to quantify the market risk for the trading and banking businesses and as a basis for setting market risk limits and for monitoring risk. VaR is a statistical measure of estimated maximum losses that could arise for a defined period at a given confidence interval, and serves as a common standard of measurement for estimating maximum losses that could arise as a result of fluctuations in risk factors such as interest rates of various countries, stock prices and exchange rates. The Bank's VaR is calculated using an internal model utilizing historical simulation.

## >> Market risk for the entire bank

### 1. The Value at Risk (VaR) number at term-end

(100 Millions of Yen)

	March 2021				
	Interest rate	Equity	Forex	Others	Total
Trading	2	6	1	0	10
Banking	45	46	0	70	88
Total	47	53	2	70	98

Notes: 1. "Others" includes hedge funds and credit derivatives, etc.  
2. The above figures are based on a 1-day holding period and a 99% confidence level.  
3. The figures for total VaR do not represent the sum of individual components, due to correlations.

(100 Millions of Yen)

	March 2022				
	Interest rate	Equity	Forex	Others	Total
Trading	3	8	2	0	13
Banking	57	33	1	26	77
Total	60	41	3	26	91

### 2. The highest, lowest and average VaR number during the disclosure period

(100 Millions of Yen)

	March 2021			
	Average	Maximum	Minimum	as of Mar. 2021
Trading	9	25	6	10
Banking	77	93	58	88

(100 Millions of Yen)

	March 2022			
	Average	Maximum	Minimum	as of Mar. 2022
Trading	11	16	7	13
Banking	74	78	69	77

### 3. The stressed Value at Risk (stressed VaR) number at term-end and the highest, lowest and average stressed VaR number during the disclosure period

(100 Millions of Yen)

March 2021			
Average	Maximum	Minimum	as of Mar. 2021
15	45	9	15

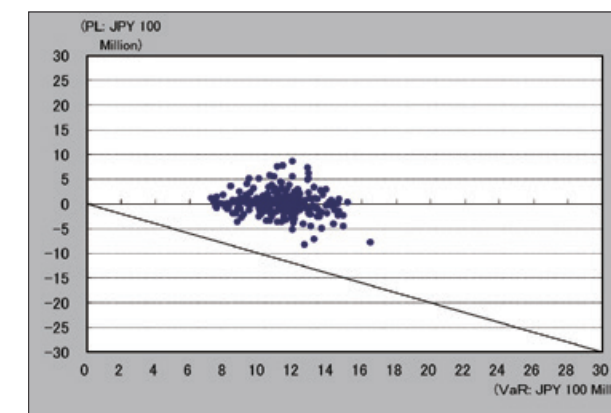
(100 Millions of Yen)

March 2022			
Average	Maximum	Minimum	as of Mar. 2022
17	30	8	30

## (3) Back Testing

The Bank verifies the reliability of its VaR through back testing that compares its daily VaR and profits/losses.

The graph represents the results of back testing for trading businesses with internal models over the 244 business days from April 1, 2021 through March 31, 2022. As a result of the back testing, the daily losses did not exceed daily VaR. This result supports the reliability of the Bank's VaR.



## (4) Stress Testing

To complement VaR, Aozora Bank regularly conducts stress tests to assess the potential impact of volatile market movements that could exceed statistical estimates. The Bank sets stress scenarios that simulate the impact of the largest fluctuations in market risk factors equivalent to past market turbulence, including those in interest rates, stock prices and foreign exchange rates, on the Bank's current positions, and market situations that influence the slope of the yield curves. The anticipated amount of loss in such hypothetical circumstances is reported to the Asset and Liability Committee.

(5) Amount of Regulatory Capital for Market Risk  
In the calculation of the capital adequacy ratio as of

March 31, 2021 and March 31, 2022, the regulatory capital for market risk and its breakdown are as follows:

(Millions of Yen)				
	March 2021		March 2022	
	Consolidated	Non-Consolidated	Consolidated	Non-Consolidated
Internal Models Approach	13,070	13,070	15,116	15,116
Standardized Approach	1,160	1,142	1,196	1,181
Interest Rate Risk	487	487	515	515
Equity Risk	134	134	211	211
Foreign Exchange Risk	17	0	14	0
Commodities Risk	519	519	454	454
Options Transactions	—	—	—	—
Total	14,230	14,212	16,313	16,298

Note: The calculation methods are as follows:  
1. Internal Model Approach  
General market risk for the interest rates, foreign exchange (major currencies), equity and CDS trading  
2. Standardized Approach  
General market risk not applicable to the internal model and specific risk for CDS trading, etc.

- (6) Market Liquidity Risk Management  
Market liquidity risk is the potential for losses caused by the inability to execute market transactions as a result of market turbulence and thin trading, or by the necessity to carry out transactions at extremely unfavorable prices. The Risk Management Division monitors the Bank’s position relative to market size to ensure that the position does not become excessive.
- (7) Funding Liquidity Risk Management  
The Financial Management Division centrally monitors the funding liquidity risk of yen- and foreign currency-denominated funds and ensures that the Bank’s funding capabilities are sufficient to meet its contractual obligations by holding a sufficient level of securities with high liquidity. The Board of Directors and other management bodies approve the Sources and Uses Plan on a monthly and annual basis. The Financial Management Division reports the liquidity status directly to the Bank’s senior management on a daily basis.

Operational Risk Management

Operational risk is the risk of loss resulting from inadequate or failed internal procedures, officers and employees or systems, or from external events. The Bank recognizes the importance of appropriate operational risk management and conducts management operations in compliance with risk management policies approved by the Board of Directors.

Risk management policies include comprehensive management policies for operational risk as well as individual policies for operations risk, system risk, legal and compliance risk, human risk, tangible asset risk, reputation risk and disaster situations. The Bank has established organizational units in relevant divisions responsible for each type of operational risk as well as the Risk Management Division, which is responsible for the comprehensive control of operational risk such as understanding materialized risk, risk assessment and risk measurement.

- (1) Comprehensive Management of Operational Risk  
The Bank manages operations risk, system risk and other operational risks comprehensively through integrated methods. In addition to the occurrence of realized loss, potential risks are also addressed. The Bank manages operational risks primarily through monitoring of materialized loss incidents and assessment of risks.
- Actual loss events arising from operation errors, compliance incidents, system trouble, disasters/accidents, damage to tangible assets, external fraudulent acts, etc., are monitored by each risk management division. Occurrences of loss events are reported and managed within the system in an integrated fashion, and appropriate analyses/ measures are done. Any significant loss events must be individually reported to management according to risk management policies. Potential risks are identified and assessed through risk mapping and risk control self-assessment (RCSA). Risk mapping is a top-down approach in which risk management divisions assess material risks borne by the Group, as well as its strength in managing such risks, based on survey results from business divisions.
- RCSA is a bottom-up approach for risk assessment conducted in all operational units individually to identify/assess the material risks they face and the system to manage such risks. Through these assessments, the Bank’s business operation system is checked and reviewed on an ongoing basis.

The Group’s operational risk amount is estimated using internal model simulations, based on loss events and scenarios devised based on assessments, and capital is allocated in consideration of this operational risk amount and regulatory capital.

Operational risks will change in accordance with factors such as the Aozora Group’s commitment to new business and changes in the external environment. The Bank strives to maintain an appropriate management system so it is able to handle such changes while making efforts such as utilizing information on external loss incidents.

(2) Operations Risk Management  
Aozora Bank has documented operations risk management policy and rules. The Operations Planning Division, which is independent of business divisions, handles operations risks. It strives to enhance routine procedures by documenting all administrative procedures in the form of manuals for each business operation as well as providing guidance and training on specific processes. It is also responsible for building an effective administrative system by monitoring organizational structure. Further methods to more efficiently perform routine procedures are being discussed and implemented to mitigate human error arising from administrative processes.

(3) System Risk Management  
We believe that it is an important management issue to properly manage customer information and confidential information as well as stably operate the information system so that the provision of financial services is not confused due to system troubles such as information system breakdowns or malfunctions, and information leaks due to unauthorized access to our system. In the Bank, in order to properly protect information assets and ensure stable operation of information systems, we have established the following system and are continuously implementing necessary measures.

In the internal regulations (security policy and system risk management policy), we designate the Chief Technology Officer (CTO) as the person in charge of control and management of overall information system security, and assign a data administrator, system administrator, and network administrator for each system, striving for protecting data, managing to prevent unauthorized use, and preventing the emergence of system risks.

As our efforts on enhancing information management, we set access rights to information systems to limit access to information to the minimum necessary. In addition, regarding the use of new external systems and services using the cloud, etc., we assess the security measures, access control and status of monitoring prior to the introduction, and regularly assess after the introduction as well. By regularly conducting trainings such as e-learning, we continuously educate officers and employees on the importance of information management.

For information systems and infrastructure, according to the importance, we take measures such as redundancy of computer equipment/lines, backup device installation, and obtaining a backup. For system implementation, change or migration, we provide adequate verification to prevent incidents, as well as maintain coordinated framework and schedule with sufficient time. In preparation for the event of an incident, we have established the IT-BCP and emergency contact system to promptly report to the business divisions and management, and have carried out trainings on system restoration and emergency contact.

(4) Other Operational Risk Management  
To manage operational risk comprehensively, the Bank also defines legal and compliance risk, human resource risk, tangible asset risk and reputation risk as operational risks.

As for the legal and compliance risk that may result in damages arising from illegal activities, the violation of internal rules, and issues such as lawsuits, the Legal Division and the Compliance Management Division monitor legal risks and compliance risks, respectively, in an integrated manner, conduct investigation and analysis, and implement measures to mitigate the occurrence or recurrence of incidents.

Human risk may result in losses caused by labor disputes, etc. To mitigate such risk, the Human Resources Division appropriately operates the HR framework and takes actions based on monitoring results of human risk at each branch/division.

The tangible asset risk, which describes loss resulting from damage to fixed assets caused by external factors such as natural disasters or accidents, is mitigated by the Corporate Administration & Service Division through monitoring of the inventories and losses of tangible assets and implementing of disaster and crime-prevention measures.



# Risk Governance

The Bank analyzes potential reputation risk when planning new business and/or products, and makes efforts to identify and prevent the spread of adverse rumors that may occur through the daily monitoring of information sources such as the media. Officers and employees are obliged to report any reputational risk they detect to the Business Strategy Division, which then reports to management as necessary.

- (5) Crisis Management
- The Aozora Group has consistently developed and improved its crisis management system, so as to secure officers' and employees' safety and minimize impact on business operations and minimize impact on the financial and other key systems even when the Bank's infrastructure, system and human resources are affected by earthquakes, typhoons or other natural disasters, system failures, cyber-attacks, terrorism or armed attacks, radioactive contamination, or spreading infections.
- In normal times, the Bank's all business units and Group companies develop business continuity plans (BCP), which describe responses and business continuity processes, by assessing impact from the assumption that the infrastructure, systems and personnel for major operations are not available in crisis times, and have the latest BCP on hand. The Bank has conducted various drills and training sessions to enhance officers' and employees' awareness on crisis management and their abilities to effectively implement BCP when needed.

When a crisis occurs, Command Center, consisting of the Bank President, Executive Officers, and General Managers of Crisis Management Division and other major divisions, is established to lead and supervise BCP implementation, information collection and start of restoration processes. The President takes responsibility in decision-making as Head of the Command Center.

The Bank has also strengthened the business continuity framework by preventing COVID-19 in-office and cluster infections. For example, we have promoted basic measures, such as indoor mask-wearing and securing physical distance while facilitating the work-from-home program, Web meetings and split-shift and staggered-commuting arrangements, and conducting the workplace vaccination program.

# Compliance

## Insider Trading Prevention

To prevent insider trading by officers and employees, Aozora Group has defined a procedure to manage insider information learned in the course of duty in its Internal Rules and strictly manages such information. In addition, all officers and employees including those of Group Companies pledge every year to comply with Internal Rules on insider trading prevention.

## Customer Protection Management

Aozora Bank continuously reviews and improves its operations in order to respect customer's intension, to protect customers' assets and information held at the Bank, and to improve customer's convenience.

The Board of Directors appoints the Director in charge of customer protection management, who supervises customer protection management in general. The Head of Compliance and Governance Unit supervises customer explanation management, customer information management, customer support management, outsourcing management and conflict of interest management, as Head of Supervisors.

As for customer information management, Aozora Group believes it is an important business responsibility to appropriately manage customer information and to stably operate the information systems designed to provide reliable financial services to our customers. In light of these responsibilities, we have developed internal rules (Security Policy), which determine the basic policy and organizational structure regarding the protection of all information assets held by the Group.

In addition, Aozora has developed its Privacy Policy and Basic Policy, which determines the basic concept and policy to safely manage personal information and data acquired and held by Aozora and prevent unauthorized access causing damage, falsification and leakage of customer information, and has disclosed them at sales branches and on the website.

With respect to customer support management, the Bank has determined basic policies on receiving customer's voice, including complaints, and responding to them, and processes keeping records and managing reports/responses. We ensure prompt and attentive responses to customer's voice, including complaints, and precise reporting to the management. As to customers' inquiries, contacts for advice, requests and complaints that business branches, Call Center and the Customer Service Office receive, the Bank makes the best efforts to properly respond so that satisfy customers. We identify and analyze backgrounds or causes of customer's voice.

The status of customer protection management is verified and deliberated by the Customer Protection Committee, and the results are reported to the Management Committee, the Audit and Compliance Committee, and the Board of Directors.

To timely respond to customers' complaints and solve disputes with them, the Bank offers information on ADR institutions, such as the Japanese Bankers Association (JBA), Trust Companies Association of Japan and the Financial Instruments Mediation Assistance Center (FINMAC), to customers.

The Bank has concluded a contract with the following ADR institutions:

Japanese Bankers Association  
Contact : JBA Consultation Desk  
(Tel : 0570-017109 or 03-5252-3772)  
Trust Companies Association of Japan  
Contact : Trust Counseling Center  
(Tel : 0120-817-335 or 03-6206-3988)

## Tax Compliance

The Aozora Group recognizes that complying with tax laws and properly paying tax liabilities in all countries where it conducts business are part of our social responsibilities as a business entity. As such, we have developed the "Aozora Bank Group Tax Compliance Policy" (page 144 in the Reference Part) based on the "Code of Ethics and Conduct" (page 129 in the Reference Part), which incorporates Aozora's management philosophy, as a way to raise awareness of tax compliance among the Group's officers and employees.

- Code of Ethics and Conduct
- Aozora Bank Group Environmental Policy
- Aozora Bank Group Human Rights Policy
- Investment and Lending Policies regarding Environmental & Societal Issues
- Aozora Bank Group Outsourcing Policy
- Aozora Bank Group Basic Policy on the Elimination of Anti-Social Elements
- Aozora Bank Group Basic Policy on Anti-Money Laundering
- Aozora Bank Group Basic Policy on Anti-bribery
- Aozora Bank Group Tax Compliance Policy
- ” Basic Policy on Customer-Oriented Business Management” in the Aozora Bank Group

Aozora Bank Group Code of Ethics and Conduct

Preamble

The mission of the Aozora Bank Group as finance professionals is to contribute to the development of society through the creation of new value-added financial services and, through the contribution to the well-being of all of our stakeholders including customers, shareholders, society and our officers and employees, seek to achieve sustainable growth and the creation of mid- to long-term corporate value, with the vision of adapting to a rapidly changing world while remaining a trusted, valued and specialized financial service provider.

- We contribute to the development of society through the creation of new value-added financial services (Aozora Mission (Core Purpose)).
- We adapt to a rapidly changing world while remaining a trusted, valued and specialized financial service provider (Aozora Vision (Ideal State)).

Code of Conduct As a Company

1. The Bank's Public Mission

The Aozora Bank Group recognizes the public nature of banking operations, including fund settlement and intermediary functions that are indispensable for economic activities, and through sound business management, strives to gain the unwavering trust of all of our stakeholders including customers, shareholders, society and our staff.

- Recognizing our responsibility to support the financial infrastructure that is indispensable for maintaining society, we strive to establish a system to continue important operations without interruption even in the event of a disaster or cyberattack.
- In order to maintain and improve trust, our management takes the initiative in building corporate ethics and strives to permeate and establish it throughout the organization with various initiatives.
- After carefully assessing the economic, market, investment and lending targets and customer conditions, we appropriately exercise the financial intermediary function, which is the role of the financial industry, through sound risk taking.

2. Providing High-Quality Services that Meet Customers' Needs

The Aozora Bank Group strives to improve its expertise, and develops and provides products and services with high customer convenience and customer satisfaction that meet customers' needs and profits always from the customer's point of view, in order to contribute to sustainable development of our customers (Customer-Oriented Business Management).

- As an intermediary in the financial market, we always put the needs and interest of our customers first, and protect their rights from the customer's point of view by fully understanding their financial knowledge, experience, property, purpose, etc., and execute our duties with fairness and integrity.
- We improve the convenience of our customers by developing and providing sophisticated financial services that respond to changes in the social and economic environment and the diversification of customer needs, and at the same time, we provide support from financial aspect for efforts on sustainable growth of society and on resolving environmental and social issues.
- In the provision and transactions of individual financial services, we provide appropriate information not only on the benefits for customers but also on the risks and costs for customers according to their financial knowledge, experience and proficiency.
- We take customer consultations, opinions, requests and complaints seriously and respond to them in good faith.
- We strive to ensure fair and impartial business management by appropriately managing transactions performed in Aozora that may cause any conflicts of interest so as not to unduly harm the interests of our customers.



3. Legal Compliance

The Aozora Bank Group complies with all applicable laws and regulations in all businesses, conducts sensible corporate activities in conformity with social norms and common sense, and thoroughly eliminates fraudulent activities such as bribery, illegal political or other donations, illegal supply of profits, etc.

- In order to ensure the protection and fairness of investors, we correctly understand the laws and regulations and all rules related to financial instruments transactions and strictly comply with them, and at the same time, we respond even the parts not foreseeable by the laws and regulations in accordance with general social norms and ethical sense.
- In order to prevent insider trading by the officers and employees, we strictly manage insider information that the officers and employees have obtained in the course of duties.
- We establish and observe rules based on laws and regulations or others and implement safety management measures such as responding to systems, in order to safely manage customer information including personal information and prevent unauthorized access, unauthorized use, leakage, falsification, etc.
- We maintain appropriate business relationships with customers and normal relationships with civil services, and act so as not to violate the National Civil Service Ethics Code, etc., and not to be accused of crimes of bribery or breach of trust.
- We eliminate any act of abusing our superior position as a lender, such as concluding an unfair tie-in contract against the background of a business relationship with a customer, forcing the purchase of goods and services, and binding deposits that have not been officially acquired as collateral.

4. Communication with Society

We proactively, effectively and fairly disclose information of management or others, and strive to secure understanding and trust through constructive communications with a wide range of stakeholders surrounding the Aozora Bank Group.

- We strive to disclose information in a timely and appropriate manner, and act with awareness of our social mission to maintain and improve the soundness, reliability and transparency of the capital market.

5. Respect for Human Rights

The Aozora Bank Group understand and respect the dignity and human rights of everyone including customers and our officers and employees while eliminating any discrimination.

- We develop a corporate culture that respects human rights in each workplace by conducting such as in-house training for all officers and employees on the theme of human rights issues.
- We seek for respecting human rights through communications with customers, suppliers, outsourcees, etc., and take appropriate action when improvements are needed.

6. Improving the Working Environment for Officers and Employees

The Aozora Bank Group supports the sustainable growth of officers and employees, respects the diversity of them, and creates a comfortable working environment that takes into consideration health and safety free from improper handling and discrimination, so that they can fully demonstrate their abilities through work, and at the same time, provides fair employment management and treatment.

- Our officers and employees work, with a sense of unity, to create a workplace that supports the growth of colleagues while respecting the diverse ways of life, ways of thinking, and working styles of their colleagues

- Our officers and employees respect each other's gender, personality, individuality, privacy, and different values, and work to create a workplace free of harassment such as sexual harassment and power harassment.
- We value work-life balance by striving to support officers and employees involved in childbirth, childcare, and nursing care, and work to create an efficient and comfortable workplace where each officer and employee can feel motivated to work and live.
- We work to maintain and improve the physical and mental health of all officers and employees and their families.

7. Responding to Environmental Problems

The Aozora Bank Group is actively committed to environmental problems. In addition to reducing the environmental burden of its business activities such as efficient use of its own resources and reduction of waste, we support, through providing financial services, customers' efforts to address environmental issues such as climate change.

- As a business operator, we work to reduce greenhouse gas emissions and power consumption, as well as reduce waste by recycling it.
- We support our customers in promoting the transition to a low-carbon and decarbonized society through project finance for renewable energy businesses such as solar power generation and wind power generation, and through sustainable finance such as sustainability linked loans.
- We establish the investment and loan policy that takes the environment and society into consideration, and for customers who engage in businesses that may have a negative impact on the environment, we strive to make improvements through communications with them. If there is no improvement, credit will be restricted or prohibited.

8. Contribution to Society

The Aozora Bank Group participates in society as a "good corporate citizen" and proactively engages in activities that contribute to its development.

- The Aozora Bank Group strives to improve the environment in terms of providing opportunities for social participation such as volunteer activities, introducing a support system for social participation and so on while respecting the self-motivation of individual officers and employees.

9. Blocking Relationships with Antisocial Forces, Preventing Financial Crimes

The Aozora Bank Group firmly confronts any antisocial forces that threaten social order and safety, and completely blocks relationships with them. In addition, we thoroughly prevent crimes related to deposit accounts and enhance measures against money laundering and terrorist financing.

- At the start of a continuous business relationship or when conducting a large cash transaction, we work to prevent money laundering and terrorist financing by way of thoroughly confirming personal identification items such as name and address as well as customer management items such as transaction purpose and occupation.
- We resolutely eliminate forces and groups engaged in antisocial activities, and block all relationships including transactions with them. We firmly confront all other violent or unjustified demands such as donations, membership fees, subscription to information magazines that may provide unreasonable supply of profits or funds.

- We collaborate with relevant authorities as well to establish a framework to prevent financial crimes such as fraud that abuses deposit accounts. In addition, we strive to improve the level of security such as Internet banking in order to ensure the security of deposits and other transactions, which is the basis of trust in banks and financial systems.

Behavior As Individuals

- The officers and employees of the Aozora Bank Group is always committed to practicing the "Aozora Action (Action Agenda)".
  1. Provide specialized and value-added financial services
  2. More quickly, while responding patiently and politely
  3. Prioritize teamwork and provide a more comfortable working environment
  4. Respect one's colleagues and support professional growth of all team members
  5. Learn from the past while adapting to and focusing on the future
  6. Take smart risks in new areas based upon our skills and experience
  7. Actively contribute to the sustainable growth of society
- The officers and employees of the Aozora Bank Group always act placing priority on the best interests of customers and the Aozora Bank Group (even if the personal interests of the officers and employees conflict with the interests of customers or the Aozora Bank Group).
- The officers and employees of the Aozora Bank Group are fully aware that they are required to be socially and economically virtuous and sound due to the nature of their profession, understand that the following transactions are prohibited, and pledge not to breach such rules.
  - In personal investment behavior, trading of securities for the purpose of exclusively pursuing speculative profits or highly speculative trading such as margin trading and futures trading
  - Pursuing personal profits using information or others obtained in the course of duties
  - Private loaning between the officers or employees and external business partners such as customers and vendors. Private loaning between individuals of the officers and employees (excluding small amounts or temporary payment for someone else)
- The officers and employees of the Aozora Bank Group do not accept entertainment or gifts that exceed the socially acceptable range.
- The officers and employees of the Aozora Bank Group pay close attention to the management of information obtained in the course of duties, and properly manage information that shall be protected as confidential.
- The officers and employees of the Aozora Bank Group respect the human rights and different values of people inside and outside the company related to corporate activities, and do not discriminate on the basis of race, ethnicity, religion, nationality, social status, gender, age, sexual orientation, disability, etc.
- Aiming to “never do harassment or have someone do harassment in the workplace”, the officers and employees of the Aozora Bank Group proactively and continuously work to maintain and improve the work environment as the own task of each and every one.
- The officers and employees of the Aozora Bank Group comply with laws and regulations and the Bank's rule, and if they recognize an act that violates them as well as any act that is suspected of deviating from general social norms, social common sense or ethical standards, they will respond in a timely and appropriate manner, such as reporting to seniors or headquarters without overlooking.

Aozora Bank Group Environmental Policy

1. Basic Philosophy

Mankind's economies and societies are dependent on the multiple benefits bestowed by nature and the Earth's ecological system. The Aozora Bank Group recognizes that the well-being of the environment is a critical issue facing the entire globe. The Aozora Bank Group intends to actively contribute to the sustainable development of society by assisting its customers' efforts regarding environmental issues, such as climate change, by providing financial services and reducing the environmental impact of its business activities.

2. Role of Environmental Policy

The Aozora Bank Group recognizes its environmental initiatives as a set of important business challenges. The “Aozora Bank Group Environmental Policy” outlines the Bank's environmental initiatives based on the Bank's “Code of Ethics and Conduct”, in accordance with its management philosophy.

3. Aozora Bank Group Environmental Policy

- 1) Provide assistance to the Bank's customers in addressing environmental issues including the transition to a low-carbon/decarbonized society, by providing products and services that are able to contribute to the solutions for these issues.
- 2) Recognize environmental risks while striving to make improvements through dialogue with customers whose businesses may have a negative impact on the environment and work to reduce environmental risks by restricting or prohibiting credit when no improvement can be made.
- 3) Conduct resource/energy conservation and waste-reduction initiatives as part of the Bank's regular operations.
- 4) Comply with environment-related laws and regulations.
- 5) Distribute environmental information within as well as outside the Bank and promote environmental conservation activities.



Aozora Bank Group Human Rights Policy

1. Basic Philosophy

The Aozora Bank Group intends to fulfill its responsibility in eliminating any business activities from its Group operations that are in opposition to the protection and promotion of human rights as well any exploitative practices including slavery, forced labor, human trafficking, child abuse, etc., and is dedicated to complying with applicable local laws and regulations in the regions in which it conducts business.

2. Role of Human Rights Policy

The Aozora Bank Group recognizes that its business activities are likely to have a direct impact on the issue of human rights. The “Aozora Bank Group Human Rights Policy” outlines the Bank’s initiatives for upholding the sanctity of human rights based on the Bank’s “Code of Ethics and Conduct”, in accordance with its management philosophy.

3. Aozora Bank Group Human Rights Policy

- 1) Aozora provides its officers and employees with a workplace free from human rights abuses including discrimination or harassment based on race, ethnicity, religion, nationality, social Identity, gender, age, sexual orientation, or disability, etc.
- 2) Aozora strives to raise its officers and employee’s awareness of human rights issues by providing training sessions regarding diversity, people with disabilities, LGBTQ+ issues, workplace harassment, etc.
- 3) Furthermore, Aozora has a vested interest in any negative impact on human rights caused by the corporate activities of its customers and suppliers/contractors (supply chain), and in the event that their activities are in conflict with established laws and regulations, the Bank will take necessary countermeasures.

Investment and Lending Policies regarding Environmental & Societal Issues

Today’s global society is increasingly focused on initiatives designed to respond to environmental issues, protect human rights, eliminate unfair labor practices, and prevent corruption as means to achieve Sustainable Development Goals (SDGs) and become carbon neutral.

Regarding environmental issues, it has become imperative to consider issues of biodiversity, including preventing the destruction of natural ecosystems, as we become more aware of the associated physical risks which arise from the increase in natural disasters resulting from climate change as well as transition risks including the development of new technology and changes in laws and regulations regarding the transition to a carbon neutral society. The need to respond to social issues such as the growing focus on human rights, improving of our basic living infrastructure, as well as providing higher quality education and medical services, is increasing more than ever.

Under these conditions, it is important for corporations to fulfill their responsibilities to the environment and society by focusing not only on their own business activities, but also their involvement in the broader supply-chain network. Financial institutions are expected to contribute to solutions for environmental & social issues across their entire investment and loan portfolios.

The Aozora Bank Group has pledged to “Contribute to the development of society through the creation of new value-added financial services” in its management philosophy, and to “Actively contribute to the sustainable growth of society” is one of its key priorities.

In order to fully realize its management philosophy, the Aozora Bank Group focuses on “climate change,” “human rights”, and “promoting industrial transition” as key issues (ESG Materiality) in light of social trends, expectations/requests from stakeholders, and the importance of corporate management in the Aozora Bank Group.

In order to contribute to the solutions for these issues, the Aozora Bank Group has established the “Aozora Bank Group Environmental Policy”, which defines the Aozora Bank Group’s policy towards environmental issues, and the “Aozora Bank Group Human Rights Policy”, which defines the Aozora Bank Group’s policy towards human rights issues. Based on these policies, the Aozora Bank Group also has established a set of “Investment and Lending Policies regarding Environmental & Societal Issues” as a way to work towards sustainable growth in tandem with its customers through investments and loans that contribute to the sustainable development of society.

The Aozora Bank Group expects these efforts to contribute to the realization of a sustainable society.

1. Basic approach

The Aozora Bank Group will proactively develop various financing initiatives to support its customers’ efforts to address environmental and social issues as well as new products and services.

The Aozora Bank Group recognizes environmental and social risks and strives to make improvements through dialogue with customers whose businesses may have a negative impact on the environment and work to reduce environmental and social risks by restricting or prohibiting credit when no improvement can be made.

2. Investment and Lending Policy Governance

(1) Governance

The Aozora Bank Group has established its “Investment and Lending Policies regarding Environmental & Societal Issues” and implements its investment and lending business based on these policies as part of its management philosophy. To better facilitate this goal, the Aozora Bank Group reviews its Policies in response to the demands of the business environment/society and changes in business activity through discussions at Sustainability Committee Meetings following the decisions of the Management Committee.

(2) Application to Individual Cases

The approval of specific loans is made by the Credit Committee or Investment Committee based on the results of a customer hearing that verifies (1) the customer’s credit worthiness, (2) the loan’s profitability given its level of risk, and (3) its impact on the environment and society (a positive or negative change to the environment or society arising from the investment or loan). For achievement of carbon neutral, the Aozora Bank Group obtains as much information as possible regarding the amount of greenhouse gas (GHG) emissions produced by the customer and uses this information when verifying the above criteria.

3. Specific activities

(1) Promotion of investments and loans that support initiatives to address environmental & societal issues

The Aozora Bank Group strives for the creation of social value in its financial business and proactively contributes to its customers' efforts to develop solutions to environmental & societal issues through investments and loans as a means to realize environmental sustainability and societal growth.

The Aozora Bank Group categorizes its financing initiatives according to a set of criteria that determines whether an initiative is designed to address environmental or social issues, as well as whether the use of proceeds is specified or unspecified, as seen in the examples below. For financing where the purpose is specified, the Aozora Bank Group verifies the customer's efforts to quantify and disclose its performance, and for financing where the purpose is unspecified, the Aozora Bank Group verifies whether the customer's strategy and governance initiatives are consistent with its goal to address environmental & social issues.

[Environmental/specified fund usage] Project finance for renewable energy:  
Project finance for renewable energy business, etc., including solar and wind power

[Environmental/specified fund usage] Financing for green buildings:  
Financing for buildings designed with special consideration towards enhancing environmental performance.

[Environmental/specified & unspecified fund usage] Financing for environmental innovations:  
Financing for initiatives that aim to reduce environmental load, including the development, implementation, and dissemination of innovative and transition technology, etc., in order to substantially reduce greenhouse gas emissions.

[Society/specified & unspecified fund usage] Financing for initiatives to address social issues:  
Financing (including social bonds) for initiatives (including social projects) that aim to address social issues, such as regional revitalization, urban renewal, child-care support, measures to benefit senior citizens, health, and employment.

[Environmental & Societal/unspecified fund usage] Sustainability-linked loans/bonds:  
Loans & bonds whose stated purpose is consistent with the borrower's sustainability strategy and whose lending conditions can be changed based on the achievement thereof.

[Environment/specified & unspecified fund usage] Transition Finance:  
Financing to help existing carbon-intensive businesses or companies with a high environmental load transition into low-carbon or decarbonized organizations.

(2) Initiatives regarding sectors that may have a negative impact on the environment or society

Regarding business activity that may have a negative impact on the environment or society, the Aozora Bank Group differentiates between "cross-sectoral" and "specific sector" initiatives in its "Investment and Lending Policies regarding Environmental & Societal Issues".

The Aozora Bank Group verifies specific loans from the perspective of environmental and social issues by researching the negative impact and associated risks of the customer's business (including relevant supply-chains involved) on the environment and society based on information provided by the customer as well as publically-available/disclosed information and confirms the implementation of the customer's initiatives to mitigate/avoid such impacts and risks.

①[Cross-sectoral] Businesses, etc., deemed illegal

The Aozora Bank Group will not provide any investment or loan to any entity involved in the following material risks to or negative impact on the environment or society:

- Illegal acts which violate the laws/regulations of a country to which a customer belongs, acts violating international rules on environmental issues and human rights, customers associated with businesses involving acts against the public order/conventional morality, customers indirectly assisting such acts, as well as anti-social elements
- Businesses which have a negative impact on wetlands registered under the Ramsar Convention
- Businesses which have a negative impact on UNESCO World Heritage sites (with the exception of businesses that have received the advanced consent of the government of the relevant country and UNESCO)

- Businesses which violate the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) (in consideration of the reservation clause of each country).
- Customers that are associated with businesses involved in child labor or forced labor.

②[Cross-sectoral] Businesses, etc., requiring attention

As the following cases involve risk to or negative impact on the environment and society, the Aozora Bank Group confirms the implementation of its customers' initiatives to mitigate/avoid these risks and makes deliberate determinations in light of these factors when considering providing loans to customers.

- Businesses which have a negative impact on the regional societies of indigenous peoples
- Businesses that require the expropriation of land leading to the involuntary relocation of inhabitants

③[Cross-sectoral] Project Finance (Equator Principles)

When considering providing financing or project finance advisory services (commissioned to the Bank) for projects which fall into the scope of the Equator Principles, the Aozora Bank Group will verify the customer's adherence to the requirements set out in the Principles.

Also, when considering providing financing or project finance advisory services for projects which do not fall into the scope of the Equator Principles but are nonetheless considered to have a negative impact on the environment/society, or the risk thereof, as determined by the Principles, the Aozora Bank Group will confirm any initiatives developed by the customer in consideration of environmental and social issues as appropriate.

④[Specific Sector] Coal-fired Power Generation

Coal-fired power generation emits more greenhouse gases than other power generation measures, and as such, it draws concerns regarding climate change and air pollution. There are also fears that it may disrupt the smooth transition to a decarbonized society, one of the main goals of the Paris Agreement.

The Aozora Bank Group will not provide financing for the construction of new coal-fired power plants or expansion of coal-fired power generation facilities.

Furthermore, the Group will proactively provide investments and loans to support its customers' initiatives that help contribute to the transition to a decarbonized society, including carbon dioxide capture, usage, and storage technologies.

⑤[Specific Sector] Coal Mining

The Aozora Bank Group recognizes the need to consider the impact of hazardous waste discharged from coal mines on local ecosystems.

When considering making investments or loans for the development of a new coal mine, the Aozora Bank Group will verify the customer's consideration of environmental and social issues.

The Aozora Bank Group will not make any investment or loan for mountaintop removal (MTR) coal mining which has a substantial impact on the environment.

The Aozora Bank Group will not make any investment or loan for the development of new coal mines that supply power generation operators with coal, as this may increase the amount of greenhouse gas emissions in the future.

⑥[Specific Sector] Oil & Gas

While oil and gas are indispensable sources of energy for society, the Aozora Bank Group needs to carefully consider its impact on climate change via greenhouse gas emissions.

Regarding oil sands, shale oil & gas, oil & gas pipelines, and development in the Arctic Circle (the area 66°33' north of the equator), the Aozora Bank Group needs to consider soil and water contamination as well as the impact on local ecosystems and indigenous peoples.

When considering making investments or loans for oil sands, shale oil & gas, oil & gas pipelines, and development in the Arctic Circle (the area 66°33' north of the Equator), the Aozora Bank Group will verify the customer's consideration of environmental and social issues.



⑦[Specific Sector] Large-scale Hydroelectric Power Generation

While hydroelectric power generation contributes to the clean energy supply, the Aozora Bank Group needs to take into account the impact of dam construction on regional ecosystems and local residents' living environment.

When considering making investments or loans for new large-scale hydroelectric power generation (with an embankment of 15 meters or higher, as well as output of 30,000KW or above), the Aozora Bank Group will verify the customer's consideration of environmental and social issues.

⑧[Specific Sector] Deforestation

Forests are important for the protecting biodiversity and also play an important role in mitigating climate change through their natural ability to capture and store carbon dioxide.

Unregulated and large-scale deforestation will cause substantial negative impact on the environment.

When considering making investments or loans for businesses involved in deforestation, the Aozora Bank Group will verify the customer's consideration of environmental and social issues.

⑨[Specific Sector] Large-scale agriculture

Large-scale agriculture may have a negative impact on the environment or society in areas with inadequate legal systems. These risks include deforestation, damage to biodiversity, and water pollution associated with the inappropriate use of agricultural chemicals and fertilizers.

When considering making investments or loans for businesses involved in large-scale agriculture in these areas, the Aozora Bank Group will verify the customer's attitude and efforts to address environmental and social issues.

⑩[Specific Sector] Palm Oil

Human rights issues may arise in the production and processing of palm oil, such as infringement on indigenous peoples' rights, child labor, and environmental issues including deforestation, the burning of natural forests, and loss of biodiversity.

When providing investments or loans for the development of palm oil plantations, the Aozora Bank Group requests its customers to make an NDPE (No Deforestation, No Peat, No Exploitation) commitment.

When considering making investments or loans for businesses associated with the distribution, etc., of palm oil, the Aozora Bank Group will verify the customer's consideration of environmental and social issues, including whether they have obtained RSPO (Roundtable on Sustainable Palm Oil) certification.

⑪[Specific Sector] Tobacco Manufacturing

The Aozora Bank Group must consider the relevant human rights issues related to the cultivation of tobacco plants, such as the abolishment of child/forced labor.

Moreover, smoking tobacco may cause health issues such as lung cancer and impaired respiratory function.

When considering making investments or loans related to tobacco manufacturing, the Aozora Bank Group will verify the customer's consideration of environmental and social issues, including health hazards as well as child and forced labor.

⑫[Specific Sector] Inhumane weapons

Cluster munitions, which are a form of air-dropped explosive weapons that release smaller submunitions over a wide area, and their undetonated submunitions have caused substantial damage to civilians. The international community, as well as Japan, has recognized cluster munitions as inhumane weapons and ratified the "Convention on Cluster Munitions."

Similar to cluster munitions, nuclear, biological, and chemical weapons, as well as antipersonnel land mines, that have been manufactured to be used for military purposes have a non-discriminatory and substantial impact on civilians and are recognized within the international community as an important humanitarian concern.

The Aozora Bank Group will not make any investment or loan related to the manufacturing of inhumane weapons such as cluster munitions.

⑬[Specific Sectors] Nuclear Power

Fears that nuclear power-related technologies, equipment, and nuclear materials may be diverted for military use as well as concerns arising from the impact of a potential nuclear incident on the environment or society are wide-spread and have a long history.

When considering investments or loans for nuclear power-related businesses, the Aozora Bank Group will gather information regarding the customer's consideration of and stance on addressing environmental and social issues.

⑭[Specific Sectors] Plastics

While plastics contribute to the reduction of food loss, etc., the effective usage rate of recycled and reused plastic materials is low compared to other materials such as metal, and there are concerns about environmental contamination caused by plastic waste flowing into the ocean as a result of inadequate processing.

When considering investments or loans for plastic-related businesses, the Aozora Bank Group will gather information regarding the customer's consideration of and stance on addressing environmental and social issues.

⑮[Specific Sectors] Shipping

While ships emit less CO<sub>2</sub> per unit of transportation compared to other means of transportation, they still cause other environmental issues, including the emission of sulfur oxides, greenhouse gases, ballast water, ocean plastic waste, and oil spills.

When considering investments or loans for ship-related businesses, the Aozora Bank Group will gather information regarding the customer's consideration of and stance on addressing environmental and social issues.

⑯[Specific Sectors] Mining

The Aozora Bank Group must consider the impact of the development of mines, such as the effect of deforestation and hazardous waste on local ecosystems, the forced displacement of inhabitants, child and forced labor, and corruption in politically unstable regions.

When considering investments or loans to the mining industry, the Aozora Bank Group will gather information regarding the customer's consideration of and stance on addressing environmental and social issues.

4. Measures to promote these initiatives

- (1) **Internal training**

The Aozora Bank Group conducts educational training seminars and disseminates information in order to deepen the understanding of its officers and employees regarding risks to the environment and society as well as promote compliance with relevant rules and procedures.
- (2) **Engagement**

The Aozora Bank Group works to make sure its investments and loans that take into consideration environmental and social issues are in line with common sense and societal expectations by communicating with its customers (engagement).
- (3) **Disclosure**

Aozora Bank has affirmed its support of the Task Force on Climate-related Financial Disclosure (TCFD) recommendations and will improve its disclosure of information in line with the TCFD recommendations.

Aozora Bank Group Outsourcing Policy

1. Basic Philosophy

Our economy and society are built on a foundation of various mutually beneficial transactions with other parties and supported through collaborations with suppliers who facilitate the purchase of goods and the subcontracting of services (hereinafter referred to as "outsourcing") required for business operations, including IT systems and facilities. The Aozora Bank Group will actively contribute to the sustainable development of society by promoting responsible outsourcing activities that take into consideration environmental and social issues, such as human rights, in collaboration with its suppliers.

2. Role of Outsourcing Policy

In addition to its in-house initiatives, the Aozora Bank Group recognizes that environmental and human rights initiatives conducted throughout the supply chain are an important management issue. The "Aozora Bank Group Outsourcing Policy" outlines the Bank's outsourcing initiatives based on the "Aozora Bank Group Environmental Policy" and "Aozora Bank Group Human Rights Policy", which were both developed based on the Bank's "Code of Ethics and Conduct" in accordance with its management philosophy.

3. Aozora Bank Group Outsourcing Policy

- 1) Fairness in choosing suppliers
- When choosing suppliers, the Aozora Bank Group considers factors such as proper quality and service, adherence to delivery deadlines, economic rationality, compliance with laws and regulations, information management, as well as respect for human rights and the environment. In the case of an ongoing business partnership, including operations subcontracting, the Group will monitor the supplier as necessary.
- 2) Compliance with laws and regulations
- The Aozora Bank Group conducts outsourcing in compliance with all applicable laws and regulations as well as in adherence with social norms.
- The Aozora Bank Group firmly confronts any antisocial forces that threaten social order and safety, and completely blocks relationships with them.
- The Aozora Bank Group maintains a fair and transparent relationship with its suppliers. To that end, the Group prohibits all officers and employees from giving and receiving corporate hospitality or gifts with suppliers beyond socially-acceptable limits.
- 3) Consideration of the importance of human rights and the environment
- The Aozora Bank Group strives to respect human rights and reduce its potential impact on environmental factors, such as climate change and biodiversity, when conducting outsourcing activities.
- 4) Collaboration with Suppliers
- The Aozora Bank Group publically discloses its Outsourcing Policy and communicates closely with suppliers in consideration of environmental and human rights issues in order to develop a mutual understanding between the Group and its suppliers that contributes to the sustainable development of society.

Aozora Bank Group Basic Policy on the Elimination of Anti-Social Elements

The Aozora Bank Group (the Group) has introduced the following initiatives in order to confront anti-social elements that pose a threat to public order and safety while ensuring that the Group categorically blocks any relationship with such elements.

(1) Institutional response

The Group has produced an institutional response to anti-social elements, starting with management, through the clear statements found in its ethical behavior criteria and internal rules. The Group also ensures the safety of its employees from anti-social elements.

(2) Cooperation with external specialized organizations

The Group always strives to establish and maintain close cooperative relationships with external specialist organizations, including law enforcement agencies, the Tokyo Center for Removal of Criminal Organizations, and attorneys.

(3) Blocking all relationships (including transactions)

The Group strives to prevent any and all relationships with anti-social elements, including transactions.

The Group refuses to perform any action that may serve to provide income/funding for anti-social elements, including but not limited to backdoor deals, monetary contributions/membership fees, and subscribing to informational magazines.

(4) Civil and criminal legal response in case of an emergency

The Group thoroughly rejects any unreasonable demands made by anti-social elements and takes the necessary civil and criminal legal actions in response.



Aozora Bank Group Basic Policy on Anti-Money Laundering

The Aozora Bank Group is aware that preventing money laundering and combating the financing of terrorism are two of the most important issues facing the global financial system. The Bank has established a framework to comply with domestic and international laws, regulations, and rules while also making an on-going effort to further strengthen its preventive measures against money laundering and the financing of terrorism (hereafter “anti-money laundering”).

(1) Organizational structure

The Aozora Bank Group has developed internal regulations and an organizational structure, which includes the establishment of an Anti-Money Laundering Centralized Management Division, in order to properly implement the following management measures/initiatives while conducting an on-going review to ensure their effectiveness.

(2) Customer management policy

The Aozora Bank Group takes a risk-based approach to customer verification at the time of transaction by conducting preventative measures based on customer characteristics, type of transaction, county/region, and products/services. The Aozora Bank Group also utilizes the results of its periodic monitoring and analysis (including profiling) of customer transactions in order to conduct a review of its preventative measures.

(3) Management policy for correspondent counterparties

The Aozora Bank Group collects information and performs appropriate evaluations regarding its correspondent counterparties and takes appropriate measures based on their risk-profiles.

(4) Employee training policy

The Aozora Bank Group provides timely and on-going financial crime prevention training for its employees that consists of knowledge acquisition as well as learning methods for the proper management of customers, such as verification at the time of transaction and the creation of transaction records.

(5) Internal audit policy

The Aozora Bank Group regularly conducts internal audits regarding anti-money laundering and works to further improve its anti-money laundering framework and policies based on the results of these audits.

(6) Reporting of suspicious transactions

The Aozora Bank Group has developed a system for conducting daily monitoring of its customers’ transactions, including new account openings, and ensuring the proper handling as well as immediate reporting to the relevant authorities of any suspicious customers or transactions detected as a result of said monitoring.

Aozora Bank Group Basic Policy on Anti-bribery

Based on its mission; “to contribute to the development of society through the creation of new value-added financial services”, the Aozora Bank Group (the “Group”) aims to “adapt to a rapidly changing world while remaining a trusted, valued and specialized financial service provider”. The Group believes that in order for a company to fulfill its social responsibility while promoting sustainable growth, it is necessary to earn the trust of its customers and society with high ethical standards. The Group shall observe all applicable laws and regulations in the countries/regions where it conducts business, and strive to eliminate any fraudulent activities including bribery and corruption.

For prevention of bribery, the Group shall take the following actions:

(1) Prohibition of bribery of public officials, etc.

The Group shall prohibit all officers and employees from offering or promising to offer improper entertainment, gifts, and other benefits, either directly or indirectly, to public officials, etc. in any country in association with their duties.

(2) Prohibition of offering excessive entertainment and gifts

The Group shall prohibit all officers and employees from offering or accepting excessive entertainment or gifts beyond the socially accepted limits, even if it is permissible under applicable laws and regulations.

(3) Implementing risk assessment on bribery

The Group shall constantly implement risk assessment on bribery and adequately review its approach to anti-bribery based on the result of such assessment.

(4) Preparation and retention of records

With respect to offering or accepting entertainment and gifts, the Group shall prepare records promptly and accurately.

(5) Training

The Group shall constantly provide training on the prevention of bribery to all officers and employees.

(6) Whistle-blower system

Any violation of laws, regulations, and internal rules pertaining to bribery shall be subject to reporting in the whistle-blower system. Under the system, no adverse dispositions against a person who makes such a report in good faith shall be allowed.

(7) Disciplinary procedures

Any violation of laws, regulations, and internal rules pertaining to bribery shall be subject to disciplinary actions including punitive dismissal.

(8) Monitoring

The Group shall constantly perform risk-based monitoring including internal auditing concerning the operation of the anti-bribery system.

Aozora Bank Group Tax Compliance Policy

1. Basic Philosophy

The Aozora Bank Group is committed to complying with the tax laws of all countries where it conducts businesses and enhancing tax compliance in recognition of its responsibility to fulfill tax liabilities as one of its corporate social responsibilities.

2. Role of Tax Compliance Policy

The “Aozora Bank Group Tax Compliance Policy” outlines the Bank’s tax initiatives based on the Bank’s “Code of Ethics and Conduct”, in accordance with its management philosophy.

3. Aozora Bank Group Tax Compliance Policy

1) Legal Compliance

The Aozora Bank Group will comply with laws of each jurisdiction, tax treaties, as well as the tax-related standards published by international organizations such as the OECD Transfer Pricing Guidelines and the BEPS Action Plan, while also properly completing all statutory procedures, including the filing of tax returns and tax payments.

2) Tax Planning

The Aozora Bank Group recognizes the importance of tax compliance and making tax payments as appropriate, and will not engage in any business activities where the sole aim is to achieve tax avoidance or develop tax avoidance structures outside of normal business operations. The Bank also seeks to appropriately manage tax costs by eliminating double taxation as well as by utilizing incentives, reliefs and exemptions in order to improve corporate value.

3) Relationship with Tax Authorities

The Aozora Bank Group strives to establish good relationships with tax authorities by disclosing all relevant information in a timely and appropriate manner. The Bank also endeavors to settle disagreements with tax authorities regarding tax-related issues, if applicable, through discussions of the most appropriate interpretations of available decrees, precedent cases, etc.

4) Tax Risk Management

The Aozora Bank Group aims to resolve various tax issues appropriately by obtaining the opinion of external tax advisors and/or seeking advices for rulings from the tax authorities in advance which have jurisdiction where the Bank’s Finance Group manages its tax compliance framework. The Bank also strengthens its tax governance through the increase of tax literacy among executives and regular employees through internal education and training about taxes.

”Basic Policy on Customer-Oriented Business Management” in the Aozora Bank Group

With the management philosophy of “contributing to the development of society through the creation of new value-added financial services” as well as “adapting to a rapidly changing world while remaining a trusted, valued and specialized financial service provider”, the Aozora Bank Group has autonomously taken the customer-oriented business attitude with the aim of growing into a new distinctive Partner Bank within Japan, offering its customers with high-quality financial products and services based on ideas drawn from our experienced staff members.

The Bank Group and its staff are committed to contributing to the sustainable growth and development of society and economy by carrying out our business in a fair and sincere manner, while maintaining the customer-oriented business attitude recognizing the importance of “helping our customers through specialized financial services that take into consideration of not only asset management needs but also wealth transfer needs and business succession needs in pursuit of the best interests of the customers”.

1. Formulation and disclosure of basic policy regarding customer-oriented business management

- Recognizing the importance of instilling and establishing our customer-oriented business management further in the Bank Group, we will strengthen our efforts to realize it while the Management Committee, where we decide important matters in daily business execution, will report and hold discussions on the status of activities according to the basic policy. In addition, we will disclose the status of those efforts every six months.
- The Bank Group is engaged in activities to realize customer-oriented business management aiming to offer sophisticated financial products and services that truly benefit our customers’ asset formation. We will thus review the basic policy on a regular basis for better business management.

2. Pursuit of the best interests of customers

- The Bank works on the following activities to pursue the best interests of its customers by carrying out business in a fair and sincere manner while maintaining its high-level expertise and advanced professional ethics.
  - We formulated the “Code of Ethics and Conduct” that stipulates the basic policy of the Bank Group’s Corporate Code of Conduct as well as Principles of Conduct for Officers and Employees. We carry out in-house training to instill the policy, and officers and employees are obliged to submit a “Written Confirmation/Pledge” to ensure compliance.
  - We established the “Sales Qualification System” for the sale of financial products, and strive to maintain a high level of expertise by conducting qualification renewal tests every year.
- In order to confirm the realization status of the “best interests of the customers”, the Bank will carry out a “Customer Satisfaction Survey” on a regular basis and will announce the results in the “Status of Activities” as a result index.
- The Bank believes it will lead to our growth that having many customers deal with us and satisfying the customers by increasing the balance of assets entrusted by them. We will thus provide financial products and services suitable for its customers. In addition to face-to-face services, we also provide BANK™, a smartphone app-enabled banking service, that is not restricted by time and place.
- When providing consultations for customers on asset management, the Bank will make diversified investment proposals after accurately recognizing the customers’ needs and fully understanding the customers’ financial knowledge, investment experience, transaction purpose, asset status, risk tolerance, life plan, etc. The positioning of the main products is as follows.
  - We propose investment trusts as the core product of diversified investment. In addition, our proposals focus on “Aozora Core Funds”, which are designed to meet the mid-to long-term stable asset management needs.
  - Structured bonds are not suitable for customers who aim for long-term stable asset building. We offer structured bonds to customers who accept early redemption with early redemption clauses and customers who accept high risk in order to obtain high yields for the purpose of earning and improving income returns.
- The Bank will not make proposals that do not match the customers’ wishes, or will not make proposals by reviewing products in a short period of time that will not suit the interests of the customers. In addition, a dedicated division at the headquarters monitors whether confirmation of the customer’s intension and explanation to the customer have been properly performed.
- In order to instill the “corporate culture” that aims for the “best interests of customers”, the Bank has discussions at office managers’ meetings held every half year and strives to instill it through various training and study sessions at all business offices.
- The Bank will constantly verify and evaluate the results and progress of the above activities, and will announce some of the results in the “Status of Activities”.

3. Appropriate management system for conflict of interest

- To accurately understand the possibility of conflict of interest with customers in transactions and the possibility of conflict of interest when developing and launching products, the Bank set up the Conflicts of Interest Management Control Division, which is independent of the Business Divisions, where we determine and identify whether transactions in which conflict of interest may exist do not unreasonably damage interests of customers, and strive to manage the transactions appropriately to prevent conflict of interest.
- When proposing financial products and services, the Bank will not select products by considering fees paid by the company that provides the product or will not prioritize products of our Group companies, but always will make proposals from the customer’s point of view.

#### 4. Fees to be borne by customers

- The Bank will consider fees charged for services to customers as one of the important information to make their decision on transactions. We will thus strive to ensure transparency as well as provide easy-to-understand explanations, including presenting comparisons with similar products and alternative products. In addition, we will also post the fees to be borne by customers on the Bank's website and BANK app for easy confirmation.
- Regarding the details of fees and other costs, when proposing products and services, the Bank will ask customers to check with the Important Information Sheet, the documents delivered prior to the conclusion of the contract, or the prospectus, and after the transaction, ask them to check with the reports and others.
- The Bank will explain in an easy-to-understand manners using materials such as "Aozora Fund Line-up" so that customers can select products that meet their needs. In addition, for the contents of the materials to be used, we will announce them in the "Status of Activities".

#### 5. Providing important information in an easy-to-understand manner

- The Bank will explain important information about financial products and services in an easy-to-understand manner in order to propose those suitable for customers. The major "important information" we provide is as follows.
    - Risks, returns, and transaction conditions of the products and services we propose
    - Attributes of potential customers for sale of the products
    - Reasons for selecting the products and services we propose
    - Fees received as compensation for services to customers as well as fees received from third parties (Even in the same products, if the fee varies depending on the quantity, currency, course, etc., such information will be included.)
  - When providing important information, the Bank will explain in an easy-to-understand manner using the Important Information Sheet, sales materials, legal documents, and materials presenting easy comparison for each product (such as "Aozora Fund Line-up" for investment trusts). In addition, we will also post important information on the Bank's website and BANK app for easy confirmation.
  - The Bank will constantly verify and evaluate our activities to provide important information in an easy-to-understand manner, and will announce the results in the "Status of Activities".
- \* Regarding Principle 5 (Note 2) of the "Principles for Customer-Oriented Business Conduct" published by the Financial Services Agency (FSA), the Bank does not implement it as we discontinued the sales of foreign currency denominated single premium policies aimed at asset formation, in March 2021.

#### 6. Providing services suitable for customers

##### <Maintenance of branches and infrastructure>

- The Bank will provide customers with the same services anytime, anywhere, by combining branches and smartphone application-enabled banking services, and by conducting sales activities beyond the boundaries of branches and areas through the use of shared offices and the introduction of online interview tools.
- At branch locations, the Bank will strive to conduct business management with the highest priority on the health and safety of its customers, in addition to providing services that allow customers to consult in a bright and relaxed atmosphere.
- The Bank will provide "BANK<sup>TM</sup>" services for customers who do not have a branch nearby. We offer "Bank The Debit" and "Bank The Savings" as services for "Spending" and "Saving", and "BANK The Teiki (time deposit)" as a service for "Increasing", as well as financial products such as investment trusts and structured bonds.
- The Bank will also strengthen security to protect our customers' valuable assets.

##### <Providing comprehensive consulting>

- For providing courteous and specialized consulting, the Bank will develop highly skilled sales personnel through training as well as acquisition of financial planner qualifications, and will offer financial products and continued services that are truly beneficial to its customers' asset formation.
- By assigning experienced financial planners to each branch and utilizing a dedicated team consisting of certified tax accountants, the Bank will provide extensive consulting services in consideration of not only customers' asset management needs but also wealth transfer needs and business succession needs.
- In order to help protect and pass on our customers' accumulated assets to the next generation, the Bank will strive to develop and provide products and services that meet the needs of our elderly customers, such as asset management with an eye on the future.

##### <Providing financial products>

- After accurately recognizing the customers' needs and fully understanding the customers' financial knowledge, investment experience, transaction purpose, asset status, risk tolerance, life plan, etc., the Bank will carefully consider the target asset amount, study appropriate asset ratio using "Aozora Model Portfolios", and select and propose the product suitable for each and every customer from the diverse product line-up. We will also post the product line-up and other information on the Bank's website and BANK app for easy confirmation.
- The Bank has created various information materials to provide basic knowledge about financial transactions according to the customers' financial knowledge, investment experience, etc. Some of the materials such as the "Basic knowledge of asset management" are available on the Bank's website.

- The Bank will coordinate with a wide range of domestic and international asset management companies and insurance companies, and based on the attributes of the target potential customers, we will improve our product line-up that will contribute to our customers' mid-to long-term asset management needs by introducing financial products and services and reviewing their handling. In addition, in order to understand customers' diverse needs, we will conduct regular surveys to customers, and make good use of the results to improve our product line-up, and at the same time, when the Bank Group develops financial products, we will work as a unified group to enhance the product line-up, such as by developing products based on the attributes and needs of customers.
  - When introducing new financial products and services, the Business Divisions validate whether they are suitable for the target potential customers, and the related business group investigates, analyzes and examines various issues and problems such as product risks and provision systems for customers. Then, the Integrated Risk Committee, the Customer Protection Committee, etc. have discussions as necessary and finally the Group Head decides the introduction.
  - When introducing a new financial product, the Bank will announce the target customers for sale of products and the reason for selection of the product on the Bank's website.
  - In preparation for introducing complicated or high-risk financial products to customers or providing information for those with little experience in asset management, the Bank will create solicitation rules such as suitability judgment and solicitation start criteria, and we will thus provide services more carefully. Regarding the sale of investment products, we will monitor whether confirmation of the customer's intension and explanation to the customer were properly performed, and will provide instructions and training to sales personnel in order to improve and enhance the explanation to customers.
- \* Regarding Principle 6 (Note 2) of the "Principles for Customer-Oriented Business Conduct" published by the FSA, the Bank does not implement it as we discontinued the sales of foreign currency denominated single premium policies aimed at asset formation, in March 2021. In addition, for (Note 3) in the said Principle 6, it is not applicable to the Bank because we are not a financial business operator involved in the establishment of financial products.

##### <Detailed follow-up services>

- The Bank will make proposals while giving due consideration to the customer's life stage and life plan, and after the sale of financial products and services as well, we will regularly provide information such as the status of customer's owned products and market trends, and also provide information from a long-term perspective in response to changes in the customer's life stage. Through those efforts, we will contribute to the asset formation of our customers for a long time.
- For customers who own investment products, the Bank will strive to provide timely and appropriate information when the market conditions are uncertain, and especially when there is a significant impact on the products owned by customers due to sudden changes in the market, we will promptly inform customers of accurate information and give advice on market prospects, etc. We will thus contribute to our customers' asset management decisions paying attention to provide detailed follow-up services. In addition, even in normal times, we will conduct follow-up activities at least once a year for customers who own investment products, and will explain the investment status, merchantability, market conditions, contract details, etc.
- Based on the opinions received from customers through follow-up services, the Bank will review whether the products and services we proposed to our customers are suitable for them, in a bid to make better proposals.
- The Bank will constantly verify and evaluate the results and progress of the above activities, and will announce the results in the "Status of Activities".

##### <Responding to Customers' Voice>

- The Bank will take the "Customer's Voice" received in the branches and call center seriously and make good use of their feedback for service improvement and product design. In addition, we will regularly conduct customer satisfaction surveys to understand the diverse needs of our customers.

#### 7. Consultant training policy and appropriate motivational framework

- To appropriately evaluate the customer-oriented sales attitude with highly specialized and courteous consulting services, in the results assessment of offices and the personnel evaluation of sales personnel, the Bank built the assessment framework from the viewpoint of aiming to expand assets under custody and also the framework with a degree of freedom in accordance with the expansion of business areas. We abolished personnel evaluation based on the amount of revenue.
- To instill the customer-oriented sales management, the Bank will develop professional sales personnel with advanced skills by formulating the "Specialized Retail Training Program" that fully considers enhancement of consulting skills and improvement of compliance awareness.
- Regarding the framework for consultant training and appropriate motivation, such as training implementation and its understanding level, performance evaluation system, the Bank will regularly check, verify and evaluate the results and progress status. For the implementation status of training, we will announce the results in the "Status of Activities".
- The Bank introduced the "Skill Chart" to visualize the strengths and weaknesses of respective sales personnel's skills (response manners to customers, product knowledge, communication, legal compliance status, etc.), and the business group and business office work together on human resource development for sales personnel.
- For realizing highly specialized consulting services, the Bank encourages the acquisition of financial planner qualifications for all sales personnel, and will announce the holding status of qualifications.



# Consolidated Business Results

## Consolidated Financial Highlights [Five-Year Summary]

Years Ended March 31

	2022	2021	2020	2019	2018
Ordinary income	134,737	155,755	184,406	160,136	148,819
Trust fees	444	386	462	372	426
Ordinary profit	46,294	38,982	43,330	47,796	57,984
Net income attributable to owners of the parent	35,004	28,972	28,142	36,130	43,064
Comprehensive income (loss)	13,611	79,781	(6,437)	30,923	38,609
Share capital	100,000	100,000	100,000	100,000	100,000
Total equity	487,265	490,006	424,758	448,710	437,234
Total assets	6,728,653	5,916,866	5,299,815	5,255,048	4,912,792
Debentures and Bonds payable	168,959	198,365	259,935	283,946	257,563
Deposits <sup>(Note 1)</sup>	4,871,556	4,012,506	3,396,899	3,230,731	2,970,938
Loans and bills discounted	3,317,125	2,948,808	2,954,122	2,779,894	2,611,278
Securities	1,478,178	1,393,357	1,073,670	1,240,838	1,139,803
Net assets per share (yen)	4,222.79	4,233.53	3,659.84	3,844.08	3,735.00
Basic net income per share (yen)	299.81	248.27	241.18	309.67	369.16
Diluted net income per share (yen)	299.38	247.90	240.92	309.42	368.89
Consolidated capital adequacy ratio (domestic standard) (%)	10.37	11.03	10.29	10.27	10.39
Net cash provided by (used in) operating activities	253,900	728,732	(286,284)	147,285	227,599
Net cash provided by (used in) investing activities	(23,830)	(223,529)	121,823	(55,862)	(211,578)
Net cash provided by (used in) financing activities	(16,059)	(14,882)	(17,871)	(19,710)	(21,990)
Cash and cash equivalents, end of year	1,061,743	847,732	357,411	539,743	468,031
Trust assets <sup>(Note 2)</sup>	879,535	730,209	835,481	797,320	760,074

Notes: 1. Deposits include negotiable certificates of deposit (NCDs).

2. 'Trust assets' is assets in trust pertaining to trust business under the Act on Engagement in Trust Business by a Financial Institution (the Concurrent Business Act). The company operating the trust business among the Bank and its subsidiaries is GMO Aozora Net Bank, Ltd. until September 30, 2018, and the Bank since October 1, 2018.

# Consolidated Financial Review

## 1. Consolidated and Equity-Method Companies

Years Ended March 31	2022	2021	Change
Consolidated subsidiaries	25	25	0
Subsidiaries and affiliated companies accounted for using the equity method	1	1	0

The consolidated financial statements include the accounts of the Bank, its significant subsidiaries and affiliated companies.

The numbers of consolidated subsidiaries were 25 as of March 31, 2022 and 2021, respectively.

The numbers of subsidiaries and affiliated companies accounted for using the equity method were 1 as of March 31 2022 and 2021, respectively.

There was no change in the numbers of consolidated and equity-method companies from March 31, 2021.

## 2. Analysis of Business Results

### (1) Income

Years Ended March 31	2022	2021	Change
<b>Total income</b>	<b>¥134,738</b>	<b>¥155,755</b>	<b>¥(21,017)</b>
Interest income	66,141	67,807	(1,665)
Interest on loans and discounts	44,737	45,600	(862)
Interest and dividends on securities	20,283	21,234	(950)
Interest on due from banks	11	29	(17)
Other interest income	1,109	943	165
Fees and commissions income (including trust fees)	17,744	14,938	2,806
Gains on trading account transactions	16,642	32,723	(16,081)
Other ordinary income	28,066	35,495	(7,428)
Gains on sales of bonds and other securities	9,408	18,357	(8,948)
Gains on foreign exchange transactions	2,961	—	2,961
Gains on derivatives	1,082	182	899
Other	14,614	16,955	(2,340)
Other income	6,142	4,790	1,351
Gains on sales of stocks and other securities	2,034	2,400	(366)
Gains on investments in money held in trust	328	513	(185)
Equity in earnings of associates	2,620	1,111	1,509
Recoveries of written-off receivables	156	240	(83)
Reversal of provision for credit losses on off-balance-sheet instruments	205	—	205
Gains on disposal of fixed assets	0	—	0
Other	796	524	272

- Total income was ¥134.7 billion, a decrease of ¥21.0 billion year-on-year
- Interest income was ¥66.1 billion, a decrease of ¥1.6 billion year-on-year
- Fees and commissions income were ¥17.7 billion, an increase of ¥2.8 billion year-on-year
  - Loan-related fee income increased by ¥0.2 billion year-on-year, mainly as a result of buyout finance activity
  - Fee income from the internet banking business of GMO Aozora Net Bank (GANB) was ¥3.2 billion, an increase of ¥1.6 billion year-on-year
- Gains on trading account transactions were ¥16.6 billion, a decrease of ¥16.0 billion year-on-year
  - Earnings from investment product sales to retail customers increased by ¥2.6 billion compared to the previous year
- Other ordinary income was ¥28.0 billion, a decrease of ¥7.4 billion year-on-year
  - Gains from limited partnerships were ¥9.1 billion, an increase of ¥0.8 billion compared to the previous year, representing a continued level of stable gains

# Consolidated Financial Review

## (2) Expenses

(Millions of Yen)			
Years Ended March 31	2022	2021	Change
<b>Total expenses</b>	<b>¥88,762</b>	<b>¥116,778</b>	<b>¥(28,015)</b>
Interest expenses	14,529	17,717	(3,188)
Interest on deposits	6,183	5,655	528
Interest on debentures and bonds payable	1,957	2,285	(328)
Interest on borrowings and rediscounts	1,195	1,779	(583)
Other interest expenses	5,193	7,997	(2,804)
Fees and commissions expenses	3,720	2,457	1,262
Losses on trading account transactions	—	19,322	(19,322)
Other ordinary expenses	7,334	14,920	(7,586)
Amortization of bond issuance costs	182	191	(9)
Losses on foreign exchange transactions	—	477	(477)
Losses on sales of bonds and other securities	4,908	9,340	(4,432)
Losses on redemption of bonds and other securities	—	794	(794)
Losses on devaluation of bonds and other securities	—	68	(68)
Other	2,243	4,048	(1,804)
General and administrative expenses	57,490	56,128	1,362
Other expenses	5,687	6,231	(543)
Losses on sales of stocks and other securities	1	—	1
Losses on devaluation of stocks and other securities	—	25	(25)
Write-off of loans	1,367	174	1,192
Provision of allowance for loan losses	2,702	767	1,935
Provision of allowance for credit losses on off-balance-sheet instruments	—	49	(49)
Losses on disposition of loans	33	3,596	(3,563)
Losses on disposal of fixed assets	49	4	44
Losses on impairment of fixed assets	269	—	269
Other	1,264	1,613	(349)

- Total expenses were ¥88.7 billion, a decrease of ¥28.0 billion year-on-year
- Interest expenses were ¥14.5 billion, a decrease of ¥3.1 billion year-on-year
- Other ordinary expenses were ¥7.3 billion, a decrease of ¥7.5 billion year-on-year
  - The Bank recorded ¥1.3 billion in losses on bond transactions in 4Q as a result of rebalancing its U.S. government bond and foreign currency ETF positions in light of current economic conditions
- General and administrative expenses were ¥57.4 billion, an increase of ¥1.3 billion year-on-year
  - Personnel expenses increased due to the hiring of additional staff in the Bank's business areas of focus
  - IT-related expenses increased mainly for cybersecurity, infrastructure development, and compliance regulations related to the Bank's market operations

## (3) Net income

(Millions of Yen)			
Years Ended March 31	2022	2021	Change
<b>Income before income taxes</b>	<b>¥45,975</b>	<b>¥38,977</b>	<b>¥6,997</b>
<b>Income taxes</b>	<b>12,937</b>	<b>12,230</b>	<b>706</b>
Current	13,110	13,680	(569)
Deferred	(173)	(1,449)	1,275
<b>Net income</b>	<b>33,038</b>	<b>26,746</b>	<b>6,291</b>
<b>Net loss attributable to non-controlling interests</b>	<b>(1,966)</b>	<b>(2,226)</b>	<b>259</b>
<b>Net income attributable to owners of the parent</b>	<b>¥35,004</b>	<b>¥28,972</b>	<b>¥6,031</b>

- Income before income taxes was ¥45.9 billion, an increase of ¥6.9 billion year-on-year
- Consolidated net income attributable to owners of the parent was ¥35.0 billion, an increase of ¥6.0 billion
- Net income per share was ¥299.81

## 3. Analysis of Financial Condition

### (1) Loans and bills discounted

(Millions of Yen)			
Years Ended March 31	2022	2021	Change
<b>Total loans</b>	<b>¥3,317,125</b>	<b>¥2,948,808</b>	<b>¥368,317</b>
Domestic loans	2,127,502	1,934,572	192,929
Overseas loans	1,189,623	1,014,235	175,388
<b>Ratio of overseas loans</b>	<b>35.9%</b>	<b>34.4%</b>	<b>1.5%</b>

### Breakdown of Loans and Bills Discounted by Industry (Consolidated)

(Millions of Yen)		
Years Ended March 31	2022	2021
<b>Domestic offices (excluding Japan offshore market accounts)</b>	<b>¥2,545,736</b>	<b>¥2,329,336</b>
Manufacturing	236,800	212,283
Agriculture, forestry and fisheries	4,129	4,501
Mining, quarry and gravel extraction	—	—
Construction	10,311	12,228
Electricity, gas, heat supply and water	87,017	49,788
Information and communications	102,695	113,121
Transport and postal service	40,379	35,778
Wholesale and retail trade	77,982	71,899
Finance and insurance	352,055	363,597
Real estate	715,081	626,079
Leasing	100,517	75,701
Various services	153,857	186,045
Local government	16,980	21,115
Others	647,928	557,195
<b>Overseas offices (including Japan offshore market accounts)</b>	<b>771,389</b>	<b>619,471</b>
Government	—	—
Financial institutions	—	—
Others	771,389	619,471
<b>Total</b>	<b>¥3,317,125</b>	<b>¥2,948,808</b>

Notes: 1. 'Domestic offices' includes the Bank (except foreign branches) and consolidated subsidiaries in Japan.  
 2. 'Overseas offices' includes foreign branches of the Bank and consolidated subsidiaries based overseas.

### Disclosed Claims under the Financial Reconstruction Law ("FRL Credit") and Risk-Monitored Loans (Consolidated)

(Millions of Yen)			
Years Ended March 31	2022	2021	Change
Bankrupt and similar credit	¥2,822	¥2,145	¥677
Doubtful credit	16,201	20,790	(4,589)
Special attention credit	2,392	4,447	(2,054)
Loans overdue for three months or more	—	1,577	(1,577)
Restructured loans	2,392	2,869	(476)
<b>Total</b>	<b>21,416</b>	<b>27,382</b>	<b>(5,966)</b>
Normal credit	3,346,004	2,966,643	379,360
<b>Total credit</b>	<b>¥3,367,420</b>	<b>¥2,994,026</b>	<b>¥373,394</b>
<b>FRL ratio</b>	<b>0.6%</b>	<b>0.9%</b>	<b>(0.3%)</b>

- Loans and bills discounted were ¥3,317.1 billion, an increase of ¥368.3 billion compared to March 31, 2021
- Domestic loans increased by ¥192.9 billion
- Overseas loans were ¥1,189.6 billion, an increase of ¥175.3 billion from March 31, 2021 (an increase of \$556 million)
- The ratio of FRL credit to total credit (consolidated) was 0.6%, a decrease of 0.3% from March 31, 2021
  - FRL credit (consolidated) decreased by ¥5.9 billion compared to March 31, 2021 mainly due to progress in the work-out of non-performing loans. FRL credit increased by ¥5.0 billion compared to December 31, 2021

## Consolidated Financial Review

### (2) Securities

(Millions of Yen)			
Years Ended March 31	2022	2021	Change
<b>Japanese debt securities</b>	<b>¥413,563</b>	<b>¥300,750</b>	<b>¥112,813</b>
Japanese national government bonds	76,367	37,775	38,592
Japanese local government bonds	164,282	145,136	19,145
Japanese short-term corporate bonds	34,998	29,998	5,000
Japanese corporate bonds	137,915	87,841	50,074
<b>Japanese stocks</b>	<b>31,534</b>	<b>27,416</b>	<b>4,118</b>
<b>Other securities</b>	<b>1,033,080</b>	<b>1,065,190</b>	<b>(32,110)</b>
Foreign securities	876,571	927,540	(50,968)
Others	156,508	137,650	18,858
<b>Total</b>	<b>¥1,478,178</b>	<b>¥1,393,357</b>	<b>¥84,820</b>

- Securities were ¥1,478.1 billion, an increase of ¥84.8 billion compared to March 31, 2021
- The Bank flexibly managed its U.S. government bond and U.S. mortgage-backed securities positions throughout the fiscal year in response to U.S. interest rate trends
- Limited partnership investments increased due to the promotion of Aozora's Strategic Investments Business
- Total unrealized gains were a net gain of ¥5.8 billion, a decrease of ¥37.5 billion from March 31, 2021

### (3) Deposits and bonds payable

(Millions of Yen)			
Years Ended March 31	2022	2021	Change
<b>Deposits</b>	<b>¥4,871,556</b>	<b>¥4,012,506</b>	<b>¥859,049</b>
Time deposits	2,456,663	2,406,650	50,012
Liquid deposits	2,288,275	1,484,554	803,720
Other	126,618	121,301	5,316
<b>Bonds payable</b>	<b>¥168,959</b>	<b>¥198,365</b>	<b>¥(29,405)</b>

Note: Total of deposits and time deposits include negotiable certificates of deposit (NCDs).

- Total core funding (deposits and bonds payable) was ¥5,040.5 billion, an increase of ¥829.6 billion from March 31, 2021
- The number of customers for our retail internet banking platform, BANK™, almost doubled to approximately 400,000 as of March 31, 2022 (compared to approximately 220,000 in the previous year)

### (4) Equity

- Equity was ¥487.2 billion, a decrease of ¥2.7 billion from March 31, 2021
- Net assets per common share were ¥4,222.79

## Consolidated Financial Statements

### Consolidated Balance Sheet

Aozora Bank, Ltd. and Consolidated Subsidiaries  
March 31, 2022

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2022	2021	2022
<b>Assets</b>			
Cash and cash equivalents (Notes 3 and 27)	¥1,061,743	¥847,732	\$8,672,246
Due from banks (Note 27)	80,203	102,376	655,099
Call loans and bills bought (Note 27)	122,243	41,000	998,473
Monetary claims bought (Note 27)	101,687	74,506	830,576
Trading account assets (Notes 4, 12, 27 and 28)	133,021	154,616	1,086,509
Money held in trust (Notes 6 and 27)	20,930	33,521	170,960
Securities (Notes 5, 7, 12 and 27)	1,478,178	1,393,357	12,073,661
Loans and bills discounted (Notes 7, 12 and 27)	3,317,125	2,948,808	27,094,059
Foreign exchange (Notes 7, 8, 12 and 27)	63,878	58,154	521,752
Other assets (Notes 7, 12, 16 and 27)	306,215	232,409	2,501,146
Tangible fixed assets (Note 9)	21,785	23,311	177,942
Intangible fixed assets (Note 9)	20,140	20,133	164,502
Retirement benefit asset (Note 17)	4,964	5,740	40,550
Deferred tax assets (Note 25)	31,729	16,984	259,163
Customers' liabilities for acceptances and guarantees (Notes 7 and 10)	14,038	15,773	114,667
Allowance for loan losses (Note 11)	(48,677)	(50,886)	(397,596)
Allowance for investment losses	(553)	(674)	(4,521)
<b>Total</b>	<b>¥6,728,653</b>	<b>¥5,916,866</b>	<b>\$54,959,188</b>

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2022	2021	2022
<b>Liabilities and Equity</b>			
<b>Liabilities:</b>			
Deposits (Notes 13 and 27)	¥4,871,556	¥4,012,506	\$39,790,546
Call money and bills sold (Note 27)	16,121	15,536	131,679
Securities sold under repurchase agreements (Notes 12 and 27)	69,876	56,750	570,750
Cash collateral received for securities lent (Notes 12 and 27)	356,956	431,673	2,915,593
Trading account liabilities (Notes 4, 27 and 28)	129,227	140,451	1,055,520
Borrowed money (Notes 12, 15 and 27)	432,342	349,767	3,531,345
Bonds payable (Notes 14 and 27)	168,959	198,365	1,380,052
Other liabilities (Notes 16 and 27)	170,441	194,120	1,392,156
Retirement benefit liability (Note 17)	10,974	10,844	89,639
Provision for retirement benefits for directors (and other officers)	—	4	—
Provision for credit losses on off-balance-sheet instruments	407	612	3,327
Provision for contingent loss	453	421	3,701
Reserves under special laws	8	8	67
Deferred tax liabilities (Note 25)	23	24	190
Acceptances and guarantees (Note 10)	14,038	15,773	114,667
<b>Total liabilities</b>	<b>6,241,387</b>	<b>5,426,859</b>	<b>50,979,232</b>
<b>Equity:</b>			
Shareholders' equity:			
Share capital (Note 18)	100,000	100,000	816,793
Capital surplus (Note 18)	87,476	87,412	714,506
Retained earnings (Notes 18 and 33)	301,700	283,464	2,464,273
Treasury stock—at cost (Note 18)	(3,117)	(3,260)	(25,465)
Total	486,060	467,615	3,970,107
Accumulated other comprehensive income (loss):			
Valuation difference on available-for-sale securities	3,985	27,196	32,555
Deferred gains or losses on hedges	(157)	(750)	(1,284)
Foreign currency translation adjustment	3,450	(971)	28,181
Remeasurements of defined benefit plans (Note 17)	(233)	974	(1,907)
Total	7,045	26,449	57,545
Share acquisition rights (Notes 18 and 19)	390	482	3,188
Non-controlling interests	(6,229)	(4,541)	(50,884)
<b>Total equity</b>	<b>487,265</b>	<b>490,006</b>	<b>3,979,956</b>
<b>Total</b>	<b>¥6,728,653</b>	<b>¥5,916,866</b>	<b>\$54,959,188</b>

See the accompanying notes to consolidated financial statements.



Consolidated Financial Statements

Consolidated Statement of Income

Aozora Bank, Ltd. and Consolidated Subsidiaries  
Year Ended March 31, 2022

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2022	2021	2022
Income:			
Interest income:			
Interest on loans and discounts	¥44,737	¥45,600	\$365,413
Interest and dividends on securities	20,283	21,234	165,677
Interest on due from banks	11	29	92
Other interest income	1,109	943	9,061
Trust fees	444	386	3,630
Fees and commissions income	17,300	14,552	141,308
Gains on trading account transactions	16,642	32,723	135,934
Other ordinary income (Note 20)	28,066	35,495	229,244
Other income (Note 21)	6,142	4,790	50,172
Total income	134,738	155,755	1,100,531
Expenses:			
Interest expenses:			
Interest on deposits	6,183	5,655	50,504
Interest on debentures and bonds payable	1,957	2,285	15,988
Interest on borrowings and rediscounts	1,195	1,779	9,767
Other interest expenses	5,193	7,997	42,418
Fees and commissions expenses	3,720	2,457	30,386
Losses on trading account transactions	—	19,322	—
Other ordinary expenses (Note 22)	7,334	14,920	59,909
General and administrative expenses (Note 23)	57,490	56,128	469,579
Other expenses (Note 24)	5,687	6,231	46,457
Total expenses	88,762	116,778	725,008
Income before income taxes	45,975	38,977	375,523
Income taxes (Note 25):			
Current	13,110	13,680	107,087
Deferred	(173)	(1,449)	(1,417)
Total income taxes	12,937	12,230	105,670
Net income	33,038	26,746	269,853
Net loss attributable to non-controlling interests	(1,966)	(2,226)	(16,061)
Net income attributable to owners of the parent	¥35,004	¥28,972	\$285,914

	Yen		U.S. Dollars (Note 1)
	2022	2021	2022
Per share information:			
Basic net income per share of common stock (Note 30)	¥299.81	¥248.27	\$2.45
Diluted net income per share of common stock (Note 30)	299.38	247.90	2.45
Cash dividends applicable to the year:			
Common stock	149.00	124.00	1.22

See the accompanying notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Aozora Bank, Ltd. and Consolidated Subsidiaries  
Year Ended March 31, 2022

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2022	2021	2022
Net income	¥33,038	¥26,746	\$269,853
Other comprehensive income (loss) (Note 29):			
Valuation difference on available-for-sale securities	(23,233)	51,535	(189,770)
Deferred gains or losses on hedges	593	(980)	4,844
Foreign currency translation adjustment	2,322	207	18,967
Remeasurements of defined benefit plans	(1,208)	2,644	(9,868)
Share of other comprehensive income (loss) in associates	2,099	(372)	17,148
Total other comprehensive income (loss)	(19,427)	53,035	(158,679)
Comprehensive income (Note 29)	¥13,611	¥79,781	\$111,174
Comprehensive income (loss) attributable to:			
Owners of the parent	¥15,600	¥82,009	\$127,421
Non-controlling interests	(1,989)	(2,227)	(16,247)

See the accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Aozora Bank, Ltd. and Consolidated Subsidiaries  
Year Ended March 31, 2022

	Millions of Yen												
	Shareholders' equity					Accumulated other comprehensive income (loss)					Share acquisition rights	Non-controlling interests	Total equity
	Share capital	Capital surplus	Retained earnings	Treasury stock—at cost	Total	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total			
Balance, April 1, 2020	¥100,000	¥87,388	¥269,545	¥(3,297)	¥453,635	¥(24,340)	¥229	¥(806)	¥(1,669)	¥(26,587)	¥444	¥(2,734)	¥424,758
Net income attributable to owners of the parent			28,972		28,972								28,972
Cash dividends paid			(15,053)		(15,053)								(15,053)
Purchase of treasury stock (Note 18)				(0)	(0)								(0)
Disposal of treasury stock (Note 18)		23		37	60								60
Net changes in items during the year						51,537	(980)	(164)	2,644	53,036	37	(1,807)	51,267
Balance, March 31, 2021	¥100,000	¥87,412	¥283,464	¥(3,260)	¥467,615	¥27,196	¥(750)	¥(971)	¥974	¥26,449	¥482	¥(4,541)	¥490,006
Cumulative effects of accounting change			(657)		(657)		(1)			(1)			(659)
Restated balance	100,000	87,412	282,806	(3,260)	466,958	27,196	(752)	(971)	974	26,447	482	(4,541)	489,346
Net income attributable to owners of the parent			35,004		35,004								35,004
Cash dividends paid			(16,109)		(16,109)								(16,109)
Purchase of treasury stock (Note 18)				(0)	(0)								(0)
Disposal of treasury stock (Note 18)		64		142	207								207
Net changes in items during the year						(23,210)	595	4,421	(1,208)	(19,402)	(91)	(1,688)	(21,182)
Balance, March 31, 2022	¥100,000	¥87,476	¥301,700	¥(3,117)	¥486,060	¥3,985	¥(157)	¥3,450	¥(233)	¥7,045	¥390	¥(6,229)	¥487,265

	Thousands of U.S. Dollars (Note 1)												
	Shareholders' equity					Accumulated other comprehensive income (loss)					Share acquisition rights	Non-controlling interests	Total equity
	Share capital	Capital surplus	Retained earnings	Treasury stock—at cost	Total	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total			
Balance, March 31, 2021	\$816,793	\$713,976	\$2,315,318	\$(26,632)	\$3,819,455	\$222,140	\$(6,128)	\$(7,934)	\$7,960	\$216,038	\$3,937	\$(37,091)	\$4,002,339
Cumulative effects of accounting change			(5,373)		(5,373)		(16)			(16)			(5,389)
Restated balance	816,793	713,976	2,309,945	(26,632)	3,814,082	222,140	(6,144)	(7,934)	7,960	216,022	3,937	(37,091)	3,996,950
Net income attributable to owners of the parent			285,914		285,914								285,914
Cash dividends paid			(131,586)		(131,586)								(131,586)
Purchase of treasury stock (Note 18)				(0)	(0)								(0)
Disposal of treasury stock (Note 18)		530		1,167	1,697								1,697
Net changes in items during the year						(189,585)	4,860	36,115	(9,867)	(158,477)	(749)	(13,793)	(173,019)
Balance, March 31, 2022	\$816,793	\$714,506	\$2,464,273	\$(25,465)	\$3,970,107	\$32,555	\$(1,284)	\$28,181	\$(1,907)	\$57,545	\$3,188	\$(50,884)	\$3,979,956

See the accompanying notes to consolidated financial statements.

Consolidated Financial Statements

Consolidated Statement of Cash Flows

Aozora Bank, Ltd. and Consolidated Subsidiaries  
Year Ended March 31, 2022

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2022	2021	2022
<b>Cash flows from operating activities:</b>			
Income before income taxes	¥45,975	¥38,977	\$375,523
Adjustments for:			
Depreciation and amortization	6,461	5,827	52,775
Losses on impairment of fixed assets	269	—	2,205
Equity in losses (earnings) of associates	(2,620)	(1,111)	(21,405)
Increase (decrease) in allowance for loan losses	(2,284)	(2,933)	(18,658)
Increase (decrease) in allowance for investment losses	(121)	275	(990)
Decrease (increase) in retirement benefit asset	(904)	441	(7,390)
Increase (decrease) in retirement benefit liability	69	632	569
Increase (decrease) in provision for retirement benefits for directors (and other officers)	(4)	0	(33)
Increase (decrease) in provision for credit losses on off-balance-sheet instruments	(205)	49	(1,678)
Interest income (accrual basis)	(66,141)	(67,807)	(540,243)
Interest expenses (accrual basis)	14,529	17,717	118,678
Losses (gains) on securities	(6,533)	(10,529)	(53,369)
Losses (gains) on money held in trust	(328)	(513)	(2,681)
Foreign exchange losses (gains)	(141,148)	(36,174)	(1,152,892)
Losses (gains) on disposal of fixed assets	49	4	403
Net decrease (increase) in trading account assets	21,595	104,761	176,391
Net increase (decrease) in trading account liabilities	(11,223)	(70,772)	(91,675)
Net decrease (increase) in loans and bills discounted	(301,040)	18,850	(2,458,880)
Net increase (decrease) in deposits	859,049	615,607	7,016,660
Net increase (decrease) in debentures	—	(44,660)	—
Net increase (decrease) in borrowed money (excluding subordinated borrowings)	82,574	(77,842)	674,464
Net decrease (increase) in due from banks (excluding due from the Bank of Japan)	25,112	5,159	205,115
Net decrease (increase) in call loans and bills bought and others	(108,424)	22,283	(885,602)
Net increase (decrease) in call money and bills sold and others	13,711	5,800	111,995
Net increase (decrease) in cash collateral received for securities lent	(74,717)	150,347	(610,291)
Net decrease (increase) in foreign exchange—assets	(6,685)	8,094	(54,607)
Increase (decrease) in straight bonds—issuance and redemption	(29,405)	(16,909)	(240,186)
Interest and dividends received (cash basis)	65,583	69,772	535,683
Interest paid (cash basis)	(14,088)	(19,164)	(115,075)
Other, net	(105,186)	36,225	(859,153)
Subtotal	263,916	752,410	2,155,653
Income taxes paid	(10,016)	(23,677)	(81,813)
Net cash provided by (used in) operating activities	253,900	728,732	2,073,840
<b>Cash flows from investing activities:</b>			
Purchase of securities	(678,529)	(1,154,429)	(5,542,183)
Proceeds from sales of securities	442,358	783,026	3,613,152
Proceeds from redemption of securities	205,959	160,234	1,682,262
Increase in money held in trust	(143,232)	(111,959)	(1,169,917)
Decrease in money held in trust	155,181	106,194	1,267,515
Purchase of tangible fixed assets	(592)	(1,596)	(4,841)
Purchase of intangible fixed assets	(4,975)	(4,842)	(40,638)
Proceeds from sales of tangible fixed assets	0	0	0
Settlement of asset retirement obligations	—	(157)	—
Net cash provided by (used in) investing activities	(23,830)	(223,529)	(194,650)
<b>Cash flows from financing activities:</b>			
Repayments of lease obligations	(249)	(249)	(2,038)
Proceeds from stock issuance to non-controlling interests	304	427	2,488
Cash dividends paid	(16,109)	(15,053)	(131,586)
Cash dividends paid to non-controlling interests	(4)	(6)	(34)
Purchase of treasury stock	(0)	(0)	(0)
Proceeds from sales of treasury stock	0	0	1
Net cash provided by (used in) financing activities	(16,059)	(14,882)	(131,169)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>214,010</b>	<b>490,320</b>	<b>1,748,021</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>847,732</b>	<b>357,411</b>	<b>6,924,225</b>
<b>Cash and cash equivalents, end of year (Note 3)</b>	<b>¥1,061,743</b>	<b>¥847,732</b>	<b>\$8,672,246</b>

See the accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Aozora Bank, Ltd. and Consolidated Subsidiaries  
Year Ended March 31, 2022

1. Basis of Presentation of Consolidated Financial Statements

The accompanying consolidated financial statements of Aozora Bank, Ltd. (the ‘Bank’) and consolidated subsidiaries (together, the ‘Group’) have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act, the Banking Act of Japan and other related accounting regulations, and in accordance with accounting principles generally accepted in Japan (‘Japanese GAAP’), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

2. Summary of Significant Accounting Policies

(1) Use of Estimates

The preparation of consolidated financial statements in accordance with Japanese GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change in the near term include, but are not limited to, those that are related to the determination of the allowance for loan losses, deferred tax assets, and the valuation of financial instruments.

(2) Consolidation

The consolidated financial statements include the accounts of the Bank, its significant subsidiaries and affiliated companies. The number of consolidated subsidiaries was 25 as of March 31, 2022 and 2021, respectively. The number of subsidiaries and affiliated companies accounted for using the equity method was 1 as of March 31, 2022 and 2021, respectively.

Under the control and influence concepts, those entities in which the Bank, directly or indirectly, is able to exercise control over finance and operations are fully consolidated, and those entities over which the Group has the ability to exercise significant influence should be accounted for by the equity method.

Practical Issues Task Force (‘PITF’) No. 20, ‘Practical Solution on Application of Control Criteria and Influence Criteria to Investment Associations,’ issued by the Accounting Standards Board of Japan (‘ASBJ’), provides additional guidance on how the control and influence concepts should be practically applied to investment vehicles, such as limited partnerships, *Tokumei Kumiai* arrangements (a silent partnership under the Commercial Code of Japan),

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Bank is incorporated and operates. Japanese yen figures of less than one million yen are truncated, except for per share data. As a result, the totals do not necessarily equal the sum of the individual amounts. The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at the rate of ¥122.43 to \$1.00, the rate of exchange at March 31, 2022. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

and other entities with similar characteristics in order to prevent these investment vehicles from being inappropriately excluded from consolidation.

The consolidated financial statements do not include the accounts of certain subsidiaries such as Aozora Chiiki Saisei Co., Ltd., because the combined total assets, total income, net income (loss) and retained earnings, etc. of such subsidiaries would not have a material effect on the accompanying consolidated financial statements.

Investments in unconsolidated subsidiaries and affiliated companies, such as AJ Capital Co., Ltd., AZ-Star Co., Ltd. and B Spark Inc. are generally stated at cost. These companies are not accounted for using the equity method of accounting because the effect on the accompanying consolidated financial statements would not be material even if the equity method of accounting had been applied to the investments in these companies.

Goodwill is amortized over an appropriate period not to exceed 20 years under the straight-line method. Immaterial goodwill is expensed as incurred. A bargain purchase gain is charged to operations on the acquisition date after reassessing the procedures to allocate the acquisition price and ensure that an acquirer has correctly identified all of the assets acquired and all of the liabilities assumed with a review of such procedures used.

All significant intercompany balances and transactions are eliminated in consolidation. All material unrealized profits resulting from transactions within the Group are also eliminated.

# Consolidated Financial Statements

The Group applies the ASBJ Implementation Guidance No. 22, 'Implementation Guidance on Determining a Subsidiary and an Affiliate for Consolidated Financial Statements', which clarifies the conditions where a company does not regard an entity as a subsidiary and an affiliated company even if the company holds the controlling interest of the entity or exercises significant influence on the entity.

CRE HOLDINGS SUB 1 LLC is not treated as an affiliated company even though the Group owns 20% to 50% of its voting rights, because the Group obtains the voting rights primarily to benefit from the appreciation of the investment resulting from growth or restructuring the investee's businesses and the investment meets the conditions of the Paragraph 24 of the ASBJ Implementation Guidance No.22.

In accordance with PITF No. 18, 'Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements,' foreign subsidiaries' financial statements prepared in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States are used for the consolidation process with certain limitations.

## (3) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and due from the Bank of Japan.

## (4) Trading Account Assets/Liabilities

Transactions for trading purposes (for the purpose of seeking to capture gains arising from short-term changes in interest rates, currency exchange rates or market prices of securities and other market-related indices or arbitrage opportunities) are included in 'Trading account assets' or 'Trading account liabilities,' as appropriate, on a trade-date basis. Trading account assets and liabilities are stated at fair value.

Profits and losses (interest received and paid, dividend, gains and losses on sales, and valuation gains and losses) on transactions for trading purposes are shown as 'Gains on trading account transactions' and 'Losses on trading account transactions,' as appropriate.

## (5) Securities

All securities are classified and accounted for, depending on management's intent, as follows:

- 1) Trading securities which are held for the purpose of earning capital gains in the near term (other than securities booked in trading accounts) are reported at fair value, and the related unrealized gains and losses are recognized in the consolidated statement of income.
- 2) Held-to-maturity debt securities which are expected to be held to maturity with the positive intent and ability to hold them to maturity are reported at amortized cost.
- 3) Stocks in unconsolidated subsidiaries and affiliated companies which are not accounted for by the equity method are reported at acquisition cost (using the moving-average method).

- 4) Available-for-sale securities are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported within accumulated other comprehensive income as a separate component of equity. The cost of sale of these securities is determined mainly by the moving-average method.

Non-marketable equity securities are measured at cost. The cost of non-marketable equity securities stated at cost is determined by the moving-average method.

For other-than-temporary declines in fair value, the cost of securities is reduced to fair value and the impairment losses are recognized by a charge to operations.

The Group records its interests in investment limited partnerships, associations under the Civil Code of Japan, and *Tokumei Kumiai* arrangements, based on its proportionate share of the net assets in such entities, and recognizes its share of profits or losses in a manner similar to the equity method of accounting. The Group records such interests in 'Securities.'

Securities included in money held in trust on behalf of the Group are accounted for in the same manner as the securities mentioned above.

## (6) Derivatives and Hedging Activities

Derivative financial instruments (other than derivatives booked in trading accounts) are classified and accounted for as follows:

- 1) All derivatives other than those used for hedging purposes are recognized as either assets or liabilities and measured at fair value, with gains or losses recognized currently in the consolidated statement of income.
- 2) Derivatives used for hedging purposes, if they meet certain hedging criteria, including high correlation of fair value movement and effectiveness between the hedging instruments and the hedged items and the assessment of its effectiveness, are recognized as either assets or liabilities and measured at fair value. Valuation gains or losses on derivatives used for hedging purposes are primarily deferred over the terms of the hedged items within accumulated other comprehensive income as a component of equity and are charged to operations when the gains and losses on the hedged items are recognized.

### (a) Hedges of Interest Rate Risk

The Bank applies deferral hedge accounting to hedges of interest rate risk associated with financial assets and liabilities, principally by portfolio hedging, in accordance with 'Accounting and Auditing Treatments on the Application of Accounting Standards for Financial Instruments in the Banking Industry' (the Japanese Institute of Certified Public Accountants ('JICPA') Industry Committee Practical Guideline No.24, March 17, 2022), or partly by individual hedging.

Under the JICPA Industry Committee Practical Guideline No.24, portfolio hedges to offset changes in fair value of fixed-rate instruments (such as loans or deposits) ('fair value hedges') are applied by grouping hedging instruments and hedged items by their maturities. The assessment of hedge effectiveness is generally based on the consideration of

interest rate indices affecting the respective fair values of the group of hedging instruments and hedged items.

With regard to an individual hedge to offset changes in fair value of fixed-rate instruments, since principal conditions underlying in bonds payable as hedged items and interest rate swaps as hedging instruments are substantially on the same terms, the hedge is deemed highly effective.

### (b) Hedges of Foreign Currency Risk

The Bank applies deferral hedge accounting to hedges of foreign currency risk associated with foreign currency-denominated financial assets and liabilities in accordance with 'Accounting and Auditing Treatments for Foreign Currency Transactions in the Banking Industry' (the JICPA Industry Committee Practical Guideline No. 25, October 8, 2020).

In accordance with the JICPA Industry Committee Practical Guideline No. 25, the Bank designates certain currency swaps and foreign exchange swaps for the purpose of funding foreign currencies as hedges for the exposure to changes in foreign exchange rates associated with foreign currency-denominated assets or liabilities when the foreign currency positions on the hedged assets or liabilities are expected to exceed the corresponding foreign currency positions on the hedging instruments. Hedge effectiveness is reviewed by comparing the total currency position of the hedged items with that of the hedging instruments by currency.

For hedging the foreign currency exposure of foreign currency-denominated available-for-sale securities (other than debt securities), which were designated in advance, fair value hedge accounting is adopted on a portfolio basis when the cost of the hedged securities is covered with offsetting liabilities denominated in the same foreign currency as the hedged securities.

### (c) Hedges of Stock Price Risk

The Bank designates available-for-sale securities (stock, etc.) as hedged items and total return swaps as hedging instruments and applies individual deferral hedge accounting.

The assessment of hedge effectiveness is generally based on the comparison of changes in fair value of the hedged item and hedging instruments.

### (d) Intercompany and Intracompany Derivative Transactions

For intercompany and intracompany derivative transactions for hedging purposes ('Internal derivatives'), including currency and interest rate swaps, the Bank currently charges gains and losses on internal derivatives to operations or defers them within accumulated other comprehensive income as a component of equity without elimination in accordance with the JICPA Industry Committee Practical Guidelines No. 24 and No. 25. These reports permit a bank to retain the gains and losses on internal derivatives in its consolidated financial statements without elimination if the bank establishes and follows strict hedging criteria by entering into mirror-image offsetting transactions with external third parties within three business days after the designation of internal derivatives as hedging instruments.

## (7) Tangible Fixed Assets and Intangible Fixed Assets

Tangible fixed assets and intangible fixed assets are stated at cost.

Depreciation of tangible fixed assets of the Group is computed primarily by the declining-balance method at rates based on the estimated useful lives of the assets, while the straight-line method is applied to buildings, including structures and equipment attached to buildings, of the Bank. The ranges of useful lives are principally from 15 years to 50 years for buildings and from 5 years to 15 years for other tangible fixed assets.

Amortization of intangible fixed assets of the Group is computed by the straight-line method over the estimated useful lives of the assets. Costs of software developed or obtained for internal use are amortized over the estimated useful lives of the software (principally from 5 years to 11 years).

Lease assets under finance lease transactions, in which substantial ownership is not deemed to be transferred, are depreciated by the straight-line method over the lease term. The salvage value is zero or the guaranteed amounts if specified in the lease contracts.

## (8) Long-Lived Assets

The Group reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or asset group or the net selling price at disposition.

## (9) Deferred Charges

Corporate bond issuance expenses are deferred and amortized by the straight-line method over the terms of the corporate bonds.

## (10) Write-Off of Loans and Allowance for Loan Losses

Loans to borrowers who are assessed as 'Bankrupt' (in the process of legal proceedings for bankruptcy, special liquidation, etc.) or 'De facto bankrupt' (in serious financial difficulties and are not deemed to be capable of restructuring) under the Bank's self-assessment guidelines are written off to the amounts expected to be collected through the disposal of collateral or execution of guarantees, etc. The amounts deemed to be uncollectible and written off were ¥24,065 million (\$196,569 thousand) and ¥19,107 million at March 31, 2022 and 2021, respectively.



For loans to borrowers who are assessed as ‘In danger of bankruptcy’ (not yet bankrupt but are in financial difficulty and are highly likely to go bankrupt in the foreseeable future), a specific allowance is provided for the loan losses at an amount considered to be necessary based on an overall solvency assessment of the borrowers and expected collectible amounts through the disposal of collateral or execution of guarantees, etc. For loans whose future cash flows of principal and interest are reasonably estimated, the difference between the discounted cash flows and the carrying amount is accounted for as an allowance for loan losses (the ‘DCF method’).

For other loans, the Bank provides the expected loan loss for the average remaining period of loans (almost three years respectively), after classifying the loans into three groups of corporate loans in North America/Europe, Asia and other loans, based on the characteristics of risk. The expected loan loss is determined based on the average rates of loan loss experience or bankruptcy, over a certain period of time in the past, responding to the average remaining period with certain adjustments, such as future prospects by considering the latest trend of loan loss experience. However, for borrowers with a large credit exposure, categorized as ‘Need attention,’ under the internal credit rating system, the loan loss amount estimated by the DCF method is reflected as an addition to the allowance for loan losses determined based on the estimated loan loss ratio, if necessary. For certain borrowers other than those mentioned above that have a large credit exposure over a certain amount, an allowance is provided in addition to an amount determined based on an expected loan loss rate, according to the above method.

The allowance for loans to restructuring countries is provided for the amount of expected losses based on an assessment of political and economic conditions in their respective countries.

All loans are monitored in accordance with the internal self-assessment standard and other guidance on an ongoing basis. The operating divisions or branches review the internal credit ratings of borrowers (‘Borrower Ratings’) which also determines the borrower categories. The internal credit ratings are then approved by the divisions in charge of credit. The division in charge of asset assessment, which is independent of the operating divisions or branches and the divisions in charge of credit, reviews the appropriateness of the internal credit ratings on a sample basis.

Based on the borrower categories as of year-end determined by the aforementioned process, the operating divisions or branches initially determine write-offs and the allowance for loan losses, and the division in charge of asset assessment verifies and determines the final amounts.

With regard to the allowance for loan losses of consolidated subsidiaries, a general allowance is determined for the amount of estimated loan losses using historical loan loss data over a defined period in the past. For loans to ‘In danger of bankruptcy’ borrowers and ‘De facto bankrupt’ and ‘Bankrupt’ borrowers, a specific allowance is provided or the uncollectible amount is written off based on an assessment of collectability of individual loans.

The independent internal audit divisions periodically audit the appropriateness of the write-offs and allowances based on the self-assessment on a regular basis.

(11) Allowance for Investment Losses

Allowance for investment losses is provided for estimated losses on certain investments based on an assessment of the issuers’ financial condition and uncertainty about future recoverability of the decline in realizable values of the investments.

(12) Asset Retirement Obligations

Asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the normal operation of a tangible fixed asset and is associated with the retirement of such a tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

(13) Provision for Credit Losses on Off-Balance-Sheet Instruments

Provision for credit losses on off-balance-sheet instruments is provided for credit losses on commitments to extend loans and other off-balance-sheet financial instruments based on an estimated loss ratio or individually estimated loss amount determined by the same methodology used in determining the amount of allowance for loan losses.

(14) Provision for Contingent Loss

Provision for contingent loss is maintained for possible losses from contingencies, which are not covered by other reserves.

(15) Reserves under Special Laws

Reserves under special laws are reserves for financial products’ transaction liabilities which are provided for compensation for losses from securities brokering in consolidated domestic subsidiaries in accordance with the Financial Instruments and Exchange Act, Article 46-5 and the Cabinet Office Ordinance on Financial Instruments Business, Article 175.

(16) Retirement and Pension Plans

The Group accounts for retirement benefit liabilities (assets) based on the defined retirement benefit obligations and plan assets at the consolidated balance sheet date. The defined retirement benefit obligations are calculated based on the benefit formula attribution of the expected benefit over the service period of employees. Prior-service cost is amortized using the straight-line method over a period (nine years) within the employees’ average remaining service period at incurrence. Net actuarial gain and loss are amortized using the straight-line method over a period (five years) within the employees’ average remaining service period commencing from the next fiscal year after incurrence.

Some consolidated subsidiaries adopt a simplified method based on the defined retirement benefit obligations for each retirement plan that would be required if all employees retired voluntarily at the consolidated balance sheet date.

(17) Lease Transactions

All finance lease transactions are capitalized to recognize lease assets and lease obligations on the consolidated balance sheet.

All other leases are accounted for as operating leases.

(18) Income Taxes

Deferred income taxes are recorded to reflect expected future consequences of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. These deferred taxes are measured by applying currently enacted tax rates to the temporary differences. The Bank assesses the realizability of deferred tax assets based on consideration of the available evidence, including future taxable income, future reversals of existing temporary differences, and tax-planning strategies. The Bank reduces the carrying amount of a deferred tax asset to the extent that it is not probable that sufficient taxable income will be available to allow the benefit of part or all of that deferred tax asset to be realized. Such reduction may be reversed to the extent that it becomes probable that sufficient taxable income will be available and warrant the realization of tax benefits.

(19) Foreign Currency Items

Assets and liabilities denominated in foreign currencies held by the Bank are translated into Japanese yen at the exchange rates prevailing at the consolidated balance sheet date except for investments in equity securities of unconsolidated subsidiaries or affiliated companies, which are translated at historical rates.

Assets and liabilities denominated in foreign currencies which are held by consolidated subsidiaries are translated into Japanese yen at the exchange rates as of their respective balance sheet dates, while equity accounts are translated at historical rates. Differences arising from such translations are shown as ‘Foreign currency translation adjustment’ within accumulated other comprehensive income as a separate component of equity.

Revenue and expense accounts of consolidated foreign subsidiaries are translated into Japanese yen at the average exchange rate. Differences arising from such translation are included in ‘Non-controlling interests’ or ‘Foreign currency translation adjustment’ as a separate component of equity in the consolidated balance sheet.

(20) Per Share Information

Basic net income (loss) per share is computed by dividing net income (loss) attributable to common stockholders by the weighted-average number of shares of common stock outstanding for the period, retroactively adjusted for stock splits or reverse stock splits.

Diluted net income per share reflects the potential dilution that would occur if dilutive options and warrants were exercised or the securities were converted into common stock, also retroactively adjusted for stock splits or reverse stock splits. Diluted net income per share of common stock assumes full conversion of the preferred stock at the beginning of the year (or at the time of issuance) with an applicable adjustment for related dividends to preferred stock, unless the preferred stock has an antidilutive effect.

Net assets per share of common stock are computed by dividing net assets attributable to common stockholders by the number of shares of common stock outstanding at the end of the fiscal year.

Cash dividends per share presented in the accompanying consolidated statement of income are dividends applicable to the respective periods including dividends to be paid after the end of the fiscal years.

(21) Change in Accounting Policies

(Application of ‘Accounting Standard for Revenue Recognition’, and other guidance)  
The ‘Accounting Standard for Revenue Recognition’ (ASBJ Statement No. 29, March 31, 2020; hereinafter referred to as the ‘Accounting Standard for Revenue Recognition’), and other guidance have been applied from the beginning of the fiscal year ended March 31, 2022. The Group recognizes revenue at the amount expected to be received in exchange for the promised goods or services when control of the goods or services is transferred to the customer hence revenues from certain transactions are recorded net of related expenses.

The Group has applied this in accordance with the transitional treatment prescribed in the proviso of Paragraph 84 of the Accounting Standards for Revenue Recognition. The cumulative effect of applying the new accounting policy retrospectively prior to the beginning of the fiscal year ended March 31, 2022 was added to or subtracted from retained earnings at the beginning of the fiscal year ended March 31, 2022, and the new accounting policy was applied from the beginning balance of the current fiscal year.

As a result, total income and total expenses for the fiscal year ended March 31, 2022 decreased by ¥1,659 million (\$13,551 thousand). There is no effect on the balance of retained earnings at the beginning of the fiscal year.

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In accordance with the transitional treatment stipulated in Paragraph 89-3 of the Accounting Standard for Revenue Recognition, comparative information for the current fiscal year is not described in Note 31, 'Segment Information' which includes detailed information on revenue recognition.

(Application of 'Accounting Standard for Fair Value Measurement', and other standards and guidance)  
The 'Accounting Standard for Fair Value Measurement' (ASBJ Statement No. 30, July 4, 2019; hereinafter referred to as the 'Accounting Standard for Fair Value Measurement') and other standards and guidance have been applied from the beginning of the fiscal year ended March 31, 2022. In accordance with Paragraph 8 of the Accounting Standard for Fair Value Measurement, the Group has revised its fair value adjustment method for calculating the fair value of derivative transactions to a method that maximizes the use of observable inputs estimated from derivatives traded in the market. This revision is due to the application of Accounting Standard for Fair Value Measurement, and other standards and guidance, hence in accordance with the transitional treatment prescribed in the Paragraph 20 of the Accounting Standard for Fair Value Measurement, the cumulative effect of retrospectively applying the new accounting policy prior to the beginning of the fiscal year ended March 31, 2022 has been reflected in retained earnings at the beginning of the current fiscal year. As a result, retained earnings at the beginning of the fiscal year ended March 31, 2022 decreased by ¥657 million (\$5,374 thousand), Trading account assets increased by ¥350 million (\$2,863 thousand), Other assets decreased by ¥14 million (\$122 thousand), Deferred tax assets increased by less than ¥1 million (\$7 thousand), Trading account liabilities increased by ¥873 million (\$7,138 thousand), Other liabilities increased by ¥122 million (\$1,000 thousand), and Deferred gains or losses on hedges decreased by ¥1 million (\$16 thousand).

In addition, in Note 27, 'Financial Instruments and Related Disclosures,' the Group has described matters concerning fair value of financial instruments and breakdown by level within fair value hierarchy, etc. However, in accordance with the transitional treatment prescribed in Paragraph 7-4 of the 'Implementation Guidance on Disclosures about Fair Value of Financial Instruments' (ASBJ Guidance No.19, issued on March 31, 2020), comparative information for the current fiscal year is not described in Note 27, 'Financial Instruments and Related Disclosures.'

## (22) Significant Accounting Estimates

Among items recorded in the consolidated financial statements for the year ended March 31, 2022 with accounting estimates, items significantly affect the consolidated financial statements for the year ending March 31, 2023 are described below:

### 1) Allowance for loan losses

The loan portfolio is a major asset class representing nearly the majority of the total assets in the consolidated financial statements. Since the allowance for loan losses relate to credit risk of the loans significantly affects financial condition or performance of the Group, the estimate of the allowance for loan losses is deemed to be important in accounting.

(a) Amounts recorded in the consolidated financial statements  
Allowance for loan losses: ¥48,677 million (\$397,596 thousand) and ¥50,886 million at March 31, 2022 and 2021, respectively

(b) Information contributing to understanding of the detail of the significant accounting estimates related to recognized item  
(i) Determination method

The determination method of the allowance for loan losses is described in Note 2 'Summary of Significant Accounting Policies' (10) 'Write-Off of Loans and Allowance for Loan Losses.'

For certain borrowers that are expected to have a long-term impact from the global novel coronavirus ("COVID-19"), the allowance for loan losses is provided with consideration of possible future credit deterioration.

### (ii) Major assumptions

i) Outlook of future business performance of borrowers in determination of borrower category

For determining borrower categories, characteristics such as profit earning capability and cash flow generating capability are individually examined and evaluated. Specifically, for borrowers who have recorded goodwill derived from M&A transactions, the feasibility of the estimated cash flows generated from the acquired business is individually examined and evaluated.

ii) Estimation of future cash flows of underlying real estate properties in real estate non-recourse loans (i.e., loans for which the repayment source is provided only by cash flows generated from underlying real estate properties)  
Since estimation of future cash flows of underlying real estate properties are significant element in determining the borrower categories for real estate non-recourse loans, rents, vacancy rates, discount rates or other factors are individually examined and evaluated.

### iii) Effect of COVID-19

The effect of COVID-19 pandemic on the economy and corporate activities would continue long term and that certain borrowers' business performance may continue to be affected until the year ending March 31, 2023. Based on this general assumption, on an individual borrower level, the Group evaluated the estimated period of time where the business performance of borrowers may be impacted by COVID-19 in consideration of the business sector, region and individual characteristics of each borrower.

The assumption of the period affecting economic and corporate activities was not revised from the year ended March 31, 2021.

(iii) Effect over the consolidated financial statements for the year ending March 31, 2023

In case the assumptions used for the original estimation changes due to fluctuations in business performance, of individual borrower or fluctuation of figures used for estimation of future cash flows generated from underlying real estate properties of real estate non-recourse loans, the allowance for loan losses can be significantly affected in the consolidated financial statements for the year ending March 31, 2023.

As the allowance for loan losses in consideration of an effect of COVID-19, in case the assumption used for the original estimation is changed due to fluctuation of containment status, containment and economic assistance measures of each country and countermeasures of each borrower to COVID-19, the allowance for loan losses can be significantly affected in the consolidated financial statements for the year ending March 31, 2023. Since the relevant assumption has a high degree of uncertainty, the loss amount can be increased or decreased in the future depending on the situation.

## 3. Cash and Cash Equivalents

Cash and cash equivalents as of March 31, 2022 and 2021, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Cash on hand	¥6,289	¥6,148	\$51,370
Due from the Bank of Japan	1,055,453	841,584	8,620,876
Total	¥1,061,743	¥847,732	\$8,672,246

## 4. Trading Account Assets and Liabilities

Trading account assets and liabilities as of March 31, 2022 and 2021, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Trading account assets:			
Trading securities	¥12	¥5	\$104
Trading securities derivatives	14,392	3,624	117,558
Trading account securities derivatives for hedging	10,570	5,907	86,339
Trading account financial derivatives	108,045	145,080	882,508
Total	¥133,021	¥154,616	\$1,086,509
Trading account liabilities:			
Trading securities derivatives	¥—	¥74	\$—
Trading account securities derivatives for hedging	14,936	11,000	121,999
Trading account financial derivatives	114,290	129,376	933,521
Total	¥129,227	¥140,451	\$1,055,520

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## 5. Securities

Certain amounts shown in the following tables include negotiable certificates of deposit in 'Due from banks', trading securities and trading account securities for hedging classified as 'Trading account assets' and certain beneficiary interests in trust classified as 'Monetary claims bought' in addition to 'Securities' stated in the consolidated balance sheet.

'Securities' stated in the consolidated balance sheet as of March 31, 2022 and 2021, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Japanese national government bonds	¥76,367	¥37,775	\$623,766
Japanese local government bonds	164,282	145,136	1,341,845
Japanese short-term corporate bonds	34,998	29,998	285,863
Japanese corporate bonds	137,915	87,841	1,126,488
Japanese stocks	31,534	27,416	257,571
Foreign bonds	536,059	600,550	4,378,495
Other	497,020	464,639	4,059,633
Total	¥1,478,178	¥1,393,357	\$12,073,661

As of March 31, 2022 and 2021, securities included equity investments in unconsolidated subsidiaries and affiliated companies that amounted to ¥55,974 million (\$457,193 thousand) and ¥37,958 million, respectively.

The unrealized gains and losses for trading securities as of March 31, 2022 and 2021, were charged to profit or loss for the years then ended as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Unrealized gains (losses)	¥(0)	¥0	\$(5)

No held-to-maturity bonds were held as of March 31, 2022 and 2021.

The costs and carrying amounts of available-for-sale securities with fair value as of March 31, 2022 and 2021, were as follows:

	Millions of Yen			Thousands of U.S. Dollars		
	Carrying amount	Cost	Difference	Carrying amount	Cost	Difference
March 31, 2022						
Carrying amount exceeding cost:						
Japanese stocks	¥27,458	¥6,977	¥20,480	\$224,278	\$56,994	\$167,284
Japanese national government bonds	20,014	20,012	1	163,473	163,457	16
Japanese local government bonds	12,822	12,761	60	104,731	104,237	494
Japanese short-term corporate bonds	—	—	—	—	—	—
Japanese corporate bonds	59,625	58,967	658	487,015	481,639	5,376
Foreign bonds	84,720	83,726	994	691,994	683,869	8,125
Other	175,186	146,712	28,474	1,430,913	1,198,338	232,575
Subtotal	379,827	329,157	50,670	3,102,404	2,688,534	413,870
Carrying amount not exceeding cost:						
Japanese stocks	982	1,054	(71)	8,028	8,613	(585)
Japanese national government bonds	56,353	57,098	(744)	460,294	466,378	(6,084)
Japanese local government bonds	151,459	152,779	(1,319)	1,237,114	1,247,892	(10,778)
Japanese short-term corporate bonds	34,998	34,998	—	285,863	285,863	—
Japanese corporate bonds	78,290	78,531	(241)	639,473	641,442	(1,969)
Foreign bonds	451,338	480,752	(29,414)	3,686,500	3,926,757	(240,257)
Other	219,102	231,969	(12,867)	1,789,615	1,894,713	(105,098)
Subtotal	992,526	1,037,185	(44,658)	8,106,887	8,471,658	(364,771)
Total	¥1,372,353	¥1,366,342	¥6,011	\$11,209,291	\$11,160,192	\$49,099
March 31, 2021						
Carrying amount exceeding cost:						
Japanese stocks	¥23,777	¥3,314	¥20,462			
Japanese national government bonds	29,773	29,480	293			
Japanese local government bonds	29,549	29,415	133			
Japanese short-term corporate bonds	—	—	—			
Japanese corporate bonds	71,344	70,362	981			
Foreign bonds	181,080	175,202	5,877			
Other	235,527	206,705	28,822			
Subtotal	571,051	514,480	56,570			
Carrying amount not exceeding cost:						
Japanese stocks	78	86	(7)			
Japanese national government bonds	8,001	8,002	(0)			
Japanese local government bonds	115,587	116,038	(451)			
Japanese short-term corporate bonds	29,998	29,998	—			
Japanese corporate bonds	16,496	16,547	(50)			
Foreign bonds	419,470	429,922	(10,451)			
Other	162,126	164,256	(2,130)			
Subtotal	751,759	764,851	(13,092)			
Total	¥1,322,811	¥1,279,332	¥43,478			



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The Group has adopted its impairment criteria based on the severity of decline of securities by borrower category of the issuer of securities in the determination of significant declines. A significant decline is regarded as an other-than-temporary decline unless the significant decline is reasonably recoverable. Impairment losses are recognized for other-than-temporary declines.

For the year ended March 31, 2022, there was no write-off of marketable available-for-sale securities. For the year ended March 31, 2021, the Group wrote off foreign bonds included in marketable available-for-sale securities in the amount of ¥68 million.

If the fair value declines more than 50% from the acquisition cost or amortized cost, the Group generally deems the decline to be significant and other-than-temporary. However, based on the borrower category of the issuer of securities, the following impairment criteria determine whether or not the fair value decline is significant under the internal standards for write-offs and reserves.

'In danger of bankruptcy,' 'De facto bankrupt' and 'Bankrupt' ... if the fair value declines from cost.

'Need attention' ... if the fair value declines more than 30% from cost.

'Normal' ... if the fair value declines more than 50% from cost.

For debt securities categorized as 'Normal,' the fair value decline is deemed significant if the fair value declines more than 30% from cost.

For securities, whose fair value remains below a certain level, the fair value decline is deemed significant even if it does not meet the above criteria.

'Bankrupt' borrower means an issuer of securities under legal proceedings, such as bankruptcy or liquidation. 'De facto bankrupt' borrower means an issuer of securities in a similar condition as 'Bankrupt' borrower. 'In danger of bankruptcy' borrower means an issuer of securities that is not currently bankrupt but is highly likely to become bankrupt. 'Need attention' borrower means an issuer of securities that needs to be monitored carefully. 'Normal' borrower means an issuer of securities categorized as other than 'Bankrupt,' 'De facto bankrupt,' 'In danger of bankruptcy' or 'Need attention.'

Of securities received under unsecured lending agreements, lending agreements with cash collateral or resale agreements, etc., and securities received as collateral for derivative transactions, which permit borrowers to sell or repledge such securities received, ¥242 million (\$1,979 thousand) and ¥214 million were repledged under such agreements, none were re-loaned under such agreements and none remained undisposed as of March 31, 2022 and 2021, respectively.

Proceeds from sales of available-for-sale securities and the gross realized gains and losses on these sales for the years ended March 31, 2022 and 2021, were as follows:

	Millions of Yen			Thousands of U.S. Dollars		
	Proceeds from sales	Gross realized gains	Gross realized losses	Proceeds from sales	Gross realized gains	Gross realized losses
March 31, 2022						
Japanese stocks	¥1,986	¥1,625	¥—	\$16,226	\$13,281	\$—
Japanese national government bonds	10,021	174	—	81,852	1,422	—
Japanese local government bonds	—	—	—	—	—	—
Japanese short-term corporate bonds	—	—	—	—	—	—
Japanese corporate bonds	6,317	317	—	51,601	2,594	—
Foreign bonds	318,271	1,172	3,133	2,599,622	9,575	25,597
Other	102,593	8,591	1,775	837,974	70,173	14,502
Total	¥439,190	¥11,881	¥4,909	\$3,587,275	\$97,045	\$40,099
March 31, 2021						
Japanese stocks	¥202	¥119	¥—			
Japanese national government bonds	24,486	—	458			
Japanese local government bonds	—	—	—			
Japanese short-term corporate bonds	—	—	—			
Japanese corporate bonds	501	1	—			
Foreign bonds	540,510	11,783	4,127			
Other	223,823	8,994	5,578			
Total	¥789,524	¥20,899	¥10,165			

'Valuation difference on available-for-sale securities' stated in the consolidated balance sheet as of March 31, 2022 and 2021, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Net unrealized gains	¥6,011	¥43,478	\$49,099
Available-for-sale securities	6,011	43,478	49,099
Other money held in trust	—	—	—
(-) Deferred tax liabilities	2,052	16,286	16,762
Valuation difference on available-for-sale securities (before adjustments)	3,959	27,192	32,337
(-) Non-controlling interests	(26)	(3)	(218)
(+) The Bank's interest in valuation difference on available-for-sale securities held by equity method affiliate	—	—	—
Valuation difference on available-for-sale securities	¥3,985	¥27,196	\$32,555

## 6. Money Held in Trust

The carrying amounts and related valuation gains recognized in earnings for money held in trust classified as for investment purposes as of March 31, 2022 and 2021, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Carrying amounts	¥20,930	¥33,521	\$170,960
Unrealized gains recognized in earnings	—	—	—

None of the money held in trust was categorized as held-to-maturity or available-for-sale as of March 31, 2022 and 2021.

## 7. Loans and Bills Discounted

Loans and bills discounted as of March 31, 2022 and 2021, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Bills discounted	¥5,674	¥4,633	\$46,352
Loans on notes	24,443	15,960	199,651
Loans on deeds	3,143,831	2,779,600	25,678,600
Overdrafts	142,933	148,349	1,167,475
Other	242	264	1,981
Total	¥3,317,125	¥2,948,808	\$27,094,059

Disclosed claims under the Financial Reconstruction Law ('FRL Credit') and Risk-Monitored Loans as of March 31, 2022 and 2021, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Bankrupt and similar credit	¥2,822	¥2,145	\$23,057
Doubtful credit	16,201	20,790	132,329
Special attention credit	2,392	4,447	19,542
Loans overdue for three months or more	—	1,577	—
Restructured loans	2,392	2,869	19,542
Total	21,416	27,382	174,928
Normal credit	3,346,004	2,966,643	27,329,938
Total credit	¥3,367,420	¥2,994,026	\$27,504,866

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The above amounts are stated after write-offs of uncollectible amounts but before deduction of the allowance for loan losses.

FRL Credit and Risk-Monitored Loans are listed in the second table above. These include corporate bonds in securities (limited to those for which payment of principal and interest is guaranteed in whole or in part, and the issuance of such bonds is through private placement of securities (Article 2, Paragraph 3 of the Financial Instruments and Exchange Act)), loans and bills discounted, foreign exchanges, accrued interest and suspense payables in other assets, customers' liabilities for acceptances and guarantees and securities in the case of loaned securities in the notes to the consolidated balance sheet (limited to only those subject to a usage and lending or lending agreement)

'Bankrupt and similar credit' refers to the credit of borrowers who have filed for bankruptcy, corporate reorganization, composition, etc., as well as those borrowers who are in an equivalent situation.

'Doubtful credit' refers to the credit with serious doubt concerning the recovery of principal and receiving of interest as contract provisions, because the borrower's financial condition and business results have worsened, although they have not reached the point of management collapse, excluding loans to 'Bankrupt and similar credit'.

'Loans overdue for three months or more' refers to those loans excluding loans to 'Bankrupt and similar credit' and 'Doubtful credit' for which principal or interest remains unpaid for at least three months.

'Restructured loans' refers to those loans excluding loans to 'Bankrupt and similar credit', 'Doubtful credit' and 'Loans overdue for three months or more' for which agreement was made to provide reduction or a moratorium on interest payments, or concessions in the borrower's favor on interest or principal payments or to waive claims in order to support the borrowers' recovery from financial difficulties.

'Normal credit' refers to credits to borrowers whose financial condition and business results have no particular problem and which are not categorized in any of the above categories.

(Changes in presentation)

Following 'Cabinet Office Order to Amend the Ordinance for Enforcement of the Banking Act, etc.' (Cabinet Office Ordinance No. 3, January 24, 2020) effective on March 31, 2022, the classification, etc. of risk-monitored loans under 'Banking Act' is presented in accordance with the classification, etc. under 'Act on Emergency Measures for the Revitalization of the Financial Functions.

Overdraft contracts and contracts for loan commitments are those by which the Group is bound to extend loans up to a prearranged amount, upon the request of customers, unless the customer is in breach of contract conditions. The unutilized balance of these contracts amounted to ¥550,256 million (\$4,494,460 thousand) and ¥560,116 million as of March 31, 2022 and 2021, respectively. ¥461,747 million (\$3,771,521 thousand) and ¥465,239 million of these amounts relate to contracts with residual contractual terms of one year or less as of March 31, 2022 and 2021, respectively.

Bills discounted are accounted for as financing transactions in accordance with 'Accounting and Auditing Treatments on the Application of Accounting Standards for Financial Instruments in the Banking Industry' (the JICPA Industry Committee Practical Guideline No.24), although the Bank has the right to sell or repledge them without restriction. The face values of such bills discounted held as of March 31, 2022 and 2021, were ¥5,674 million (\$46,352 thousand) and ¥4,633 million, respectively.

## 8. Foreign Exchange

Foreign exchange as of March 31, 2022 and 2021, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Assets:			
Due from foreign banks	¥63,878	¥58,154	\$521,752
Total	¥63,878	¥58,154	\$521,752

## 9. Tangible Fixed Assets and Intangible Fixed Assets

Tangible fixed assets as of March 31, 2022 and 2021, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Buildings	¥10,322	¥11,251	\$84,312
Land	9,235	9,235	75,435
Lease assets	478	709	3,909
Construction in progress	—	0	—
Other	1,749	2,114	14,286
Total	¥21,785	¥23,311	\$177,942
Accumulated depreciation	¥26,364	¥25,443	\$215,346

Intangible fixed assets as of March 31, 2022 and 2021, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Software	¥20,072	¥20,065	\$163,952
Other	67	67	550
Total	¥20,140	¥20,133	\$164,502

## 10. Customers' Liabilities for Acceptances and Guarantees

All contingent liabilities arising from acceptances and guarantees are included in acceptances and guarantees. As a contra account, customers' liabilities for acceptances and guarantees are shown as assets representing the Group's right of indemnity from customers.

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## 11. Allowance for Loan Losses

Allowance for loan losses as of March 31, 2022 and 2021, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
General allowance	¥38,489	¥40,123	\$314,377
Specific allowance	10,188	10,763	83,219
Total	¥48,677	¥50,886	\$397,596

## 12. Pledged Assets and Collateralized Debts

The carrying amounts of assets pledged as collateral and collateralized debts as of March 31, 2022 and 2021, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Assets pledged as collateral:			
Securities	¥440,268	¥505,528	\$3,596,084
Loans and bills discounted	174,285	120,274	1,423,550
Total	¥614,553	¥625,802	\$5,019,634
Collateralized debts:			
Securities sold under repurchase agreements	¥69,876	¥56,750	\$570,750
Cash collateral received for securities lent	356,956	431,673	2,915,593
Borrowed money	59,800	12,403	488,442
Total	¥486,632	¥500,828	\$3,974,785

In addition, the following assets were pledged or deposited as margin money for future trading and collateral for transactions, including exchange settlements and derivatives as of March 31, 2022 and 2021:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Securities	¥48,473	¥7,501	\$395,925
Foreign exchange	12,243	11,072	100,000
Other assets:			
Margin deposits for futures transactions	962	962	7,859
Cash collateral paid for financial instruments	143,846	91,590	1,174,925
Guarantee deposits	29,396	20,422	240,105
Total	¥234,920	¥131,549	\$1,918,814

## 13. Deposits

Deposits as of March 31, 2022 and 2021, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Current deposits	¥32,708	¥31,121	\$267,162
Ordinary deposits	2,222,218	1,440,848	18,150,930
Saving deposits	32,352	11,490	264,253
Deposits at notice	995	1,095	8,131
Time deposits	2,423,163	2,372,650	19,792,234
Negotiable certificates of deposit	33,500	34,000	273,626
Other	126,618	121,301	1,034,210
Total	¥4,871,556	¥4,012,506	\$39,790,546

## 14. Bonds Payable

Bonds payable as of March 31, 2022 and 2021, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars	Interest Rates
	2022	2021	2022	
Three-year unsecured straight bond issued by the Bank	¥60,000	¥92,000	\$490,076	0.10% - 0.15%
Five-year unsecured straight bond issued by the Bank	19,000	25,000	155,191	0.08% - 0.19%
Three-year unsecured straight bond issued by the Bank in U.S. dollars	73,431	66,418	599,785	1.05% - 3.81%
Three-year unsecured domestic straight bond issued by the Bank in U.S. dollars	10,406	9,411	85,000	1.06%
Five-year unsecured domestic straight bond issued by the Bank in U.S. dollars	6,121	5,536	50,000	1.70%
Total	¥168,959	¥198,365	\$1,380,052	

Annual maturities of bonds payable as of March 31, 2022, were as follows:

Years Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2023	¥82,724	\$675,689
2024	33,406	272,862
2025	46,707	381,501
2026	6,121	50,000
2027	—	—
Total	¥168,959	\$1,380,052

## 15. Borrowed Money

The weighted-average annual interest rates applicable to borrowed money were 0.46% and 0.52% as of March 31, 2022 and 2021, respectively.

Borrowed money does not include subordinated borrowings as of March 31, 2022 and 2021.

Annual maturities of borrowed money as of March 31, 2022, were as follows:

Years Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2023	¥65,042	\$531,263
2024	6,500	53,091
2025	5,500	44,924
2026	10,300	84,130
2027	13,000	106,183
2028 and thereafter	332,000	2,711,754
Total	¥432,342	\$3,531,345



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Apart from borrowed money, lease obligations are included in 'Other liabilities.' Annual maturities of lease obligations as of March 31, 2022, were as follows:

Years Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2023	¥249	\$2,038
2024	240	1,965
2025	20	163
2026	—	—
Total	¥510	\$4,166

Note: Lease obligations above include interest expense which is amortized over the lease term by the straight-line method. The weighted-average effective interest rates applicable to the lease obligations are not disclosed accordingly.

## 16. Other Assets and Liabilities

Other assets and liabilities as of March 31, 2022 and 2021, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Other assets:			
Accrued income	¥8,095	¥6,979	\$66,128
Accounts receivable	30,323	23,481	247,682
Financial derivatives	53,380	56,043	436,007
Cash collateral paid for financial instruments	143,846	91,590	1,174,925
Guarantee deposits	29,396	20,422	240,105
Other	41,173	33,892	336,299
Total	¥306,215	¥232,409	\$2,501,146
Other liabilities:			
Income taxes payable	¥6,847	¥3,481	\$55,927
Accrued expenses	4,687	4,311	38,288
Accounts payable	21,114	20,158	172,463
Financial derivatives	101,576	91,503	829,666
Cash collateral received for financial instruments	7,239	34,826	59,131
Asset retirement obligations	2,206	2,096	18,021
Other	26,770	37,741	218,660
Total	¥170,441	¥194,120	\$1,392,156

## 17. Retirement and Pension Plans

The Bank and certain consolidated subsidiaries have defined retirement benefit plans for their employees. Such retirement benefits are made in the form of a lump-sum severance payment from the Group and annuity payments from trustees etc.

Changes in defined retirement benefit obligation for the years ended March 31, 2022 and 2021, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Defined retirement benefit obligation at the beginning of fiscal year	¥42,188	¥41,824	\$344,589
Service cost	1,692	1,664	13,824
Interest cost	165	164	1,349
Actuarial losses (gains)	352	405	2,880
Benefits paid	(2,350)	(1,870)	(19,202)
Defined retirement benefit obligation at the end of fiscal year	¥42,047	¥42,188	\$343,440

Changes in plan assets for the years ended March 31, 2022 and 2021, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Fair value of plan assets at the beginning of fiscal year	¥37,084	¥33,983	\$302,903
Expected return on plan assets	927	849	7,573
Actuarial gains (losses)	(1,042)	3,115	(8,518)
Contributions from employer	468	466	3,826
Benefits paid	(1,399)	(1,330)	(11,432)
Fair value of plan assets at the end of fiscal year	¥36,037	¥37,084	\$294,352

Reconciliation between the liability and asset recorded in the consolidated balance sheet and the balances of defined retirement benefit obligation and plan assets for the years ended March 31, 2022 and 2021, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Funded defined retirement benefit obligation	¥31,072	¥31,344	\$253,802
Plan assets	(36,037)	(37,084)	(294,352)
	(4,964)	(5,740)	(40,550)
Unfunded defined retirement benefit obligation	10,974	10,844	89,639
Net liability (asset) arising from defined retirement benefit obligation	¥6,009	¥5,103	\$49,089
Retirement benefit liability	¥10,974	¥10,844	\$89,639
Retirement benefit asset	(4,964)	(5,740)	(40,550)
Net liability (asset) arising from defined retirement benefit obligation	¥6,009	¥5,103	\$49,089

Components of net periodic retirement benefit costs for the years ended March 31, 2022 and 2021, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Service cost	¥1,692	¥1,664	\$13,824
Interest cost	165	164	1,349
Expected return on plan assets	(927)	(849)	(7,573)
Recognized actuarial losses	(263)	1,429	(2,156)
Amortization of prior-service cost	(81)	(327)	(669)
Other	13	—	112
Net periodic defined retirement benefit costs	¥598	¥2,081	\$4,887

Note: 'Other' stated above is the premium severance pay.

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The breakdown of 'Remeasurements of defined benefit plans' in Other comprehensive income (loss), before adjusting for tax effects, for the years ended March 31, 2022 and 2021, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Amortization of prior-service cost	¥(81)	¥(327)	\$(669)
Recognized actuarial gains (losses)	(1,659)	4,139	(13,554)
Total	¥(1,741)	¥3,811	\$(14,223)

The breakdown of 'Remeasurements of defined benefit plans' in Accumulated other comprehensive income (loss), before adjusting for tax effects, as of March 31, 2022 and 2021, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Unrecognized prior-service cost	¥—	¥81	\$—
Unrecognized actuarial losses	(336)	1,322	(2,749)
Total	¥(336)	¥1,404	\$(2,749)

Plan assets

(1) Asset allocation of plan assets as of March 31, 2022 and 2021, was as follows:

	2022	2021
Bonds	47.9%	51.4%
Stocks	21.9	20.6
Cash and deposits	16.6	20.1
Other	13.6	7.9
Total	100.0%	100.0%

(2) Determination of expected long-term rate of return on plan assets

The Bank considers the asset allocation of plan assets and the expected long-term rate of return on diverse assets which plan assets comprise in the present and future, in order to determine the expected long-term rate of return on plan assets.

Principal actuarial assumptions used for the years ended March 31, 2022 and 2021, were as follows:

	2022	2021
Discount rate	0.4%	0.4%
Expected long-term rate of return on plan assets	2.5%	2.5%

## 18. Equity

### (1) Share Capital and Capital Surplus

Authorized number of common stock was 289,828 thousand as of March 31, 2022 and 2021, respectively.

Changes in the number of issued shares of common stock and treasury stock for the years ended March 31, 2022 and 2021, consisted of the following:

	Thousands			
	Number of shares			
	As of April 1, 2021	Increase	Decrease	As of March 31, 2022
Issued stock				
Common stock	118,289	—	—	118,289
Treasury stock				
Common stock <sup>(Note )</sup>	1,586	0	69	1,517

	Thousands			
	Number of shares			
	As of April 1, 2020	Increase	Decrease	As of March 31, 2021
Issued stock				
Common stock	118,289	—	—	118,289
Treasury stock				
Common stock <sup>(Note )</sup>	1,604	0	18	1,586

Note: The increase is due to buybacks of shares constituting less than one trade unit, and the decrease is due to a transfer of shares upon exercise of stock option rights.

### Share acquisition rights

Share acquisition rights as of March 31, 2022 and 2021, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Share acquisition rights as stock options	¥390	¥482	\$3,188

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## Cash dividends

Cash dividends paid during the years ended March 31, 2022 and 2021, were as follows:

	Millions of Yen	Yen	Thousands of U.S. Dollars	U.S. Dollars
	Total amounts	Per share	Total amounts	Per share
Year ended March 31, 2022				
(Record date: December 31, 2021) <sup>(Note 1)</sup>				
Common stock	¥4,670	¥40.00	\$38,152	\$0.33
(Record date: September 30, 2021) <sup>(Note 2)</sup>				
Common stock	¥3,736	¥32.00	\$30,521	\$0.26
(Record date: June 30, 2021) <sup>(Note 3)</sup>				
Common stock	¥3,734	¥32.00	\$30,503	\$0.26
(Record date: March 31, 2021) <sup>(Note 4)</sup>				
Common stock	¥3,967	¥34.00	\$32,410	\$0.28
Year ended March 31, 2021				
(Record date: December 31, 2020) <sup>(Note 5)</sup>				
Common stock	¥3,501	¥30.00		
(Record date: September 30, 2020) <sup>(Note 6)</sup>				
Common stock	¥3,501	¥30.00		
(Record date: June 30, 2020) <sup>(Note 7)</sup>				
Common stock	¥3,500	¥30.00		
(Record date: March 31, 2020) <sup>(Note 8)</sup>				
Common stock	¥4,550	¥39.00		

Notes: 1. Cash dividends applicable to the three-month period ended December 31, 2021, were approved at the Board of Directors' meeting held on January 31, 2022.  
2. Cash dividends applicable to the three-month period ended September 30, 2021, were approved at the Board of Directors' meeting held on November 12, 2021.  
3. Cash dividends applicable to the three-month period ended June 30, 2021, were approved at the Board of Directors' meeting held on August 2, 2021.  
4. Year-end cash dividends applicable to the fiscal year ended March 31, 2021, were approved at the Board of Directors' meeting held on May 13, 2021.  
5. Cash dividends applicable to the three-month period ended December 31, 2020, were approved at the Board of Directors' meeting held on February 1, 2021.  
6. Cash dividends applicable to the three-month period ended September 30, 2020, were approved at the Board of Directors' meeting held on November 16, 2020.  
7. Cash dividends applicable to the three-month period ended June 30, 2020, were approved at the Board of Directors' meeting held on July 31, 2020.  
8. Year-end cash dividends applicable to the fiscal year ended March 31, 2020, were approved at the Board of Directors' meeting held on May 14, 2020.

## (2) Companies Act and Banking Act of Japan

The Bank is subject to the Companies Act and Banking Act of Japan.

### 1) Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the stockholders' meeting. For companies that meet certain criteria such as:

(1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors is prescribed as one year rather than two years of a normal term by the company's Articles of Incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has so prescribed in its Articles of Incorporation. The Bank meets all of the above criteria and its Articles of Incorporation prescribe the authority for dividend declaration by the Board of Directors.

The Companies Act permits companies to distribute dividends in kind (noncash assets) to stockholders subject to certain limitations and additional requirements.

Interim dividends may also be paid once a year upon resolution by the Board of Directors if the Articles of Incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the stockholders, however, the amount of equity after dividends must be maintained at no less than ¥3 million.

### 2) Increases/decreases and transfers of common stock, reserves and surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the

equity account charged upon the payment of such dividends until the aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that capital stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the stockholders.

Under the Banking Act of Japan, an amount equivalent to 20% of the aggregate amount of cash dividends and certain other appropriations of surplus associated with cash outlays applicable to each period shall be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the aggregate amount of legal reserve and additional paid-in capital equals 100% of stated capital. The amount of total additional paid-in capital and legal reserve that exceeds 100% of the stated capital may be available for dividends by resolution of the stockholders.

### 3) Treasury stock and treasury stock acquisition rights

The Companies Act also allows for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the stockholders which is determined by a specific formula.

Under the Companies Act, stock acquisition rights are presented as a separate component of equity.

The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.



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## 19. Stock Options

(1) Expenses for stock options as of March 31, 2022, and 2021, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
General and administrative expenses	¥115	¥98	\$946

(2) Outline, volume and changes in stock options

The outline of stock options was as follows:

	Stock options for FY2021	Stock options for FY2020	Stock options for FY2019
Title and number of eligible persons	4 directors of the Bank 20 executive officers of the Bank	4 directors of the Bank 18 executive officers of the Bank	4 directors of the Bank 18 executive officers of the Bank
Number of stock options by share class <sup>(Note)</sup>	51,540 shares of common stock	64,110 shares of common stock	47,420 shares of common stock
Grant date	July 12, 2021	July 10, 2020	July 11, 2019
Condition for vesting	None	None	None
Requisite service period	None	None	None
Exercise period	From July 13, 2021 to July 12, 2051	From July 11, 2020 to July 10, 2050	From July 12, 2019 to July 11, 2049

	Stock options for FY2018	Stock options for FY2017	Stock options for FY2016
Title and number of eligible persons	4 directors of the Bank 17 executive officers of the Bank	4 directors of the Bank 17 executive officers of the Bank	4 directors of the Bank 18 executive officers of the Bank
Number of stock options by share class <sup>(Note)</sup>	25,540 shares of common stock	26,540 shares of common stock	34,330 shares of common stock
Grant date	July 13, 2018	July 13, 2017	July 15, 2016
Condition for vesting	None	None	None
Requisite service period	None	None	None
Exercise period	From July 14, 2018 to July 13, 2048	From July 14, 2017 to July 13, 2047	From July 16, 2016 to July 15, 2046

	Stock options for FY2015	Stock options for FY2014
Title and number of eligible persons	4 directors of the Bank 16 executive officers of the Bank	4 directors of the Bank
Number of stock options by share class <sup>(Note)</sup>	22,970 shares of common stock	25,350 shares of common stock
Grant date	July 14, 2015	August 1, 2014
Condition for vesting	None	None
Requisite service period	None	None
Exercise period	From July 15, 2015 to July 14, 2045	From August 2, 2014 to August 1, 2044

Note: Numbers of stock options are shown on the basis of the post share consolidation effective October 1, 2017.

Volume and Changes in Stock Options

The number of stock options was as follows:

	Stock options for FY2021	Stock options for FY2020	Stock options for FY2019	Stock options for FY2018	Stock options for FY2017	Stock options for FY2016
Before vested						
At the beginning of fiscal year	—	—	—	—	—	—
Granted	51,540 shares	—	—	—	—	—
Forfeited	—	—	—	—	—	—
Vested	51,540 shares	—	—	—	—	—
Outstanding	—	—	—	—	—	—
After vested						
At the beginning of fiscal year	—	64,110 shares	42,110 shares	21,620 shares	17,530 shares	17,470 shares
Vested	51,540 shares	—	—	—	—	—
Exercised	—	15,140 shares	13,470 shares	8,610 shares	8,440 shares	9,060 shares
Forfeited	—	—	—	—	—	—
Exercisable	51,540 shares	48,970 shares	28,640 shares	13,010 shares	9,090 shares	8,410 shares

	Stock options for FY2015	Stock options for FY2014
Before vested		
At the beginning of fiscal year	—	—
Granted	—	—
Forfeited	—	—
Vested	—	—
Outstanding	—	—
After vested		
At the beginning of fiscal year	10,220 shares	8,450 shares
Vested	—	—
Exercised	6,340 shares	8,450 shares
Forfeited	—	—
Exercisable	3,880 shares	—

Note: Numbers of stock options are shown on the basis of the post share consolidation effective October 1, 2017.

Unit price information was as follows:

	Stock options for FY2021	Stock options for FY2020	Stock options for FY2019	Stock options for FY2018	Stock options for FY2017	Stock options for FY2016
Exercise price	¥1	¥1	¥1	¥1	¥1	¥1
Average stock price when exercised	—	2,488	2,488	2,488	2,488	2,488
Fair value on grant date	¥2,248	¥1,537	¥2,352	¥3,832	¥3,980	¥3,420

	Stock options for FY2015	Stock options for FY2014
Exercise price	¥1	¥1
Average stock price when exercised	2,488	2,488
Fair value on grant date	¥4,380	¥3,230

Note: Unit prices are shown on the basis of the post share consolidation effective October 1, 2017.

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(3) Valuation technique used for valuing the fair value of stock options

Stock options for FY2021 granted in the fiscal year ended March 31, 2022 were valued using the Black-Scholes option pricing model.

The principal parameters and estimation methods were as follows:

	Stock options for FY2021
Expected volatility <sup>(Note 1)</sup>	39.4%
Average expected life <sup>(Note 2)</sup>	2 years
Expected dividends <sup>(Note 3)</sup>	¥124 (\$1.0) per share
Risk-free interest rate <sup>(Note 4)</sup>	0.12% negative

Notes: 1. Expected volatility is calculated based on the actual price of common stock of the Bank on each trading day from July 8, 2019 to July 5, 2021.  
2. Average expected life could not be estimated rationally due to insufficient amount of data. It was estimated based on average tenures of the Bank's directors and executive officers.  
3. Expected dividends are estimated based on the actual dividends on common stock paid for the fiscal year ended March 31, 2021.  
4. Japanese national government bond yield applicable to the average expected life.

(4) Method of estimating the number of stock options vested

Only the actual number of forfeited stock options is reflected because it is difficult to rationally estimate the actual number of stock options that will be forfeited in the future.

## 20. Other Ordinary Income

Other ordinary income for the years ended March 31, 2022 and 2021, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Gains on foreign exchange transactions	¥2,961	¥—	\$24,186
Gains on sales of bonds and other securities	9,408	18,357	76,850
Gains on derivatives	1,082	182	8,838
Other	14,614	16,955	119,370
Total	¥28,066	¥35,495	\$229,244

Note: The 'Other' category primarily includes gains from investments in partnerships.

## 21. Other Income

Other income for the years ended March 31, 2022 and 2021, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Gains on sales of stocks and other securities	¥2,034	¥2,400	\$16,618
Gains on investments in money held in trust	328	513	2,681
Recoveries of written-off receivables	156	240	1,282
Reversal of provision for credit losses on off-balance-sheet instruments	205	—	1,678
Equity in earnings of associates	2,620	1,111	21,405
Gains on disposal of fixed assets	0	—	0
Other	796	524	6,508
Total	¥6,142	¥4,790	\$50,172

## 22. Other Ordinary Expenses

Other ordinary expenses for the years ended March 31, 2022 and 2021, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Amortization of bond issuance costs	¥182	¥191	\$1,491
Losses on foreign exchange transactions	—	477	—
Losses on sales of bonds and other securities	4,908	9,340	40,089
Losses on redemption of bonds and other securities	—	794	—
Losses on devaluation of bonds and other securities	—	68	—
Other	2,243	4,048	18,329
Total	¥7,334	¥14,920	\$59,909

Note: The 'Other' category primarily includes losses from investments in partnerships.

## 23. General and Administrative Expenses

General and administrative expenses for the years ended March 31, 2022 and 2021, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Salaries and related expenses	¥22,649	¥21,329	\$185,000
Other	34,841	34,798	284,579
Total	¥57,490	¥56,128	\$469,579

## 24. Other Expenses

Other expenses for the years ended March 31, 2022 and 2021, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Losses on sales of stocks and other securities	¥1	¥—	\$10
Losses on devaluation of stocks and other securities	—	25	—
Write-off of loans	1,367	174	11,166
Provision of allowance for loan losses	2,702	767	22,077
Provision of allowance for credit losses on off-balance-sheet instruments	—	49	—
Losses on disposition of loans	33	3,596	270
Losses on disposal of fixed assets	49	4	404
Losses on impairment of fixed assets	269	—	2,205
Other	1,264	1,613	10,325
Total	¥5,687	¥6,231	\$46,457

## 25. Income Taxes

The Bank and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rates of approximately 30.6% for the years ended March 31, 2022 and 2021.

The Bank files a tax return under the consolidated corporate tax system which allows the Bank to base tax payments on the combined profits or losses of the Bank and certain wholly owned domestic subsidiaries.

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The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities as of March 31, 2022 and 2021, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Deferred tax assets:			
Tax loss carryforwards <sup>(Note 1)</sup>	¥20,937	¥19,195	\$171,013
Allowance for loan losses	15,342	15,340	125,320
Devaluation of securities	1,120	1,127	9,148
Valuation difference on available-for-sale securities	413	—	3,381
Deferred gains or losses on hedges	69	331	566
Difference related to investment in consolidated subsidiaries	16,749	16,937	136,806
Write-off of loans	75	75	616
Other	13,545	14,055	110,635
Total of tax loss carryforwards and temporary differences	68,252	67,063	557,485
Less valuation allowance for tax loss carryforwards	(20,883)	(19,024)	(170,575)
Less valuation allowance for temporary differences	(12,918)	(13,891)	(105,518)
Total valuation allowance	(33,802)	(32,916)	(276,093)
Total deferred tax assets	34,450	34,147	281,392
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	(659)	(14,854)	(5,383)
Other	(2,085)	(2,332)	(17,036)
Total deferred tax liabilities	(2,744)	(17,187)	(22,419)
Net deferred tax assets	¥31,706	¥16,960	\$258,973

The expiration of tax loss carryforwards and its deferred tax assets are as follows:

Year ended March 31, 2022

	Millions of Yen						
	1 year or less	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 4 years	Over 4 years to 5 years	Over 5 years	Total
Deferred tax assets related to tax loss carryforwards <sup>(Note 1)</sup>	¥—	¥3	¥8	¥91	¥328	¥20,504	¥20,937
Less valuation allowance for tax loss carryforwards	—	(3)	(8)	(91)	(328)	(20,451)	(20,883)
Net deferred tax assets related to tax loss carryforwards	¥—	¥—	¥—	¥—	¥0	¥52	<sup>(Note 2)</sup> ¥53

	Thousands of U.S. Dollars						
	1 year or less	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 4 years	Over 4 years to 5 years	Over 5 years	Total
Deferred tax assets related to tax loss carryforwards <sup>(Note 1)</sup>	\$—	\$32	\$67	\$751	\$2,686	\$167,477	\$171,013
Less valuation allowance for tax loss carryforwards	—	(32)	(67)	(751)	(2,681)	(167,045)	(170,576)
Net deferred tax assets related to tax loss carryforwards	\$—	\$—	\$—	\$—	\$5	\$432	<sup>(Note 2)</sup> \$437

Year ended March 31, 2021

	Millions of Yen						
	1 year or less	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 4 years	Over 4 years to 5 years	Over 5 years	Total
Deferred tax assets related to tax loss carryforwards <sup>(Note 1)</sup>	¥3	¥—	¥12	¥8	¥91	¥19,079	¥19,195
Less valuation allowance for tax loss carryforwards	(3)	—	(12)	(8)	(91)	(18,908)	(19,024)
Net deferred tax assets related to tax loss carryforwards	¥—	¥—	¥—	¥—	¥—	¥170	<sup>(Note 3)</sup> ¥170

Notes: 1. The amount of tax loss carryforwards is multiplied by the normal effective statutory tax rate.

- Of the tax loss carryforward of the ¥20,937 million (\$171,013 thousand) (multiplied by the effective statutory tax rate), the Group recorded deferred tax assets of ¥53 million (\$437 thousand) as of March 31, 2022. Valuation allowances are provided for the portion of tax loss carryforwards that are judged not to be recoverable.
- Of the tax loss carryforward of the ¥19,195 million (multiplied by the effective statutory tax rate), the Group recorded deferred tax assets of ¥170 million as of March 31, 2021. Valuation allowances are provided for the portion of tax loss carryforwards that are judged not to be recoverable.

Reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income for the years ended March 31, 2022 and 2021, were as follows:

	2022	2021
Normal effective statutory tax rate	30.6%	30.6%
Valuation allowance	(1.9)	(8.0)
Tax loss carryforwards of subsidiaries	(0.9)	5.7
Expenses not deductible for income tax purposes	0.3	0.1
Other—net	—	3.0
Actual effective tax rate	28.1%	31.4%

## 26. Lease Transactions

(1) Finance lease transactions

The Group leases certain fixed assets, such as system-related equipment.

(2) Operating lease transactions

The minimum rental commitments under non-cancelable operating leases as of March 31, 2022 and 2021, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Due within one year	¥2,119	¥1,373	\$17,314
Due after one year	6,152	1,631	50,252
Total	¥8,272	¥3,004	\$67,566



## 27. Financial Instruments and Related Disclosures

### (1) Overview of financial instruments

#### 1) Basic policy for financial instruments

The main business of the Group is banking operations, which consist of deposit taking, lending, domestic exchange services, foreign exchange services, etc. Additionally, the Group pursues securities operations (trading of marketable securities, securities investments, etc.), and other financial services, such as trust banking operations and loan-servicing operations.

The asset side of the Group mainly consists of financial assets, such as loans and securities, and the liability side mainly consists of financial liabilities, such as deposits and bonds payable. Since the major operation of the Group is the handling of financial instruments involving market risk and/or credit risk, it is the basic business policy of the Group to avoid unexpected losses by properly managing various risks relating to financial instruments, and to achieve highly reliable and healthy management of the Group by adequately undertaking certain risks within the capacity of the Group and securing reasonable profit, well balanced with the undertaken risks.

Also, the Bank intends to stabilize and optimize profitability by maintaining an appropriate level of interest rate risk associated with assets and liabilities of the Bank, liquidity risk, and price fluctuation risk of securities, etc., based on the policy of asset liability management (ALM, comprehensive management of assets and liabilities). Derivative transactions are also used to maintain interest rate risk derived from on-balance-sheet assets and liabilities at an adequate level, and are intended to achieve stable profitability and efficient operations.

#### 2) Main items of financial instruments and related risks

Financial assets held by the Group mainly comprise loans to both domestic and foreign corporate entities and securities, etc.

Loans are subject to credit risk which includes the risk of default caused by deteriorated credit of the borrowers. Loans to the 10 largest borrowers of the Bank accounted for about 10% and 12% of the total outstanding balance of loans as of March 31, 2022 and 2021, respectively. A default by any of the borrowers with large credit exposures or a material change in our relationship with any of them could negatively affect the business results and financial condition of the Group. Also, the proportion of loans to real estate businesses and the coverage ratio of loans collateralized by real estate properties are material in the loan portfolio of the Group. Therefore, in the event that the real estate market or the real estate industry were to become stagnant, the quality of the loans protected by real estate collateral would deteriorate; the creditworthiness of the borrowers in the industry would be undermined; or the cash flows from the underlying properties of real estate nonrecourse loans would be negatively affected. In such cases, the Group might need to provide an additional allowance for loan losses or incur additional credit costs. Also, in addition to credit risk and interest rate risk,

overseas loan exposures are subject to various risks, including those related to transactions arising from foreign exchange fluctuations, and risks involved with environmental changes, whether social, political and/or the economic environment.

Securities held by the Group primarily consist of debt securities, stocks and fund investments, which are subject to various risks, such as the credit risk of the issuer, interest rate fluctuation risk, and market price fluctuation risk. Securities held by the Bank include those backed by assets such as real estate properties, housing loans, etc. These securities are exposed to the risks dependent on the economic environment or transaction trends in relation to the underlying assets, in addition to other general risks related to interest rate fluctuations in the market, foreign exchange fluctuations, bond price movements, movements of the stock market, etc. Also, securities face market liquidity risk. This risk materializes when market liquidity of financial assets becomes almost nonexistent because of an abrupt deterioration in the financial environment, tumultuous movements in the financial markets, etc., resulting in the drastic decline in price at the time of disposition beyond expectations.

Financial liabilities of the Group are mainly deposits, negotiable certificates of deposit and bonds payable. Since funds procured by the Bank through deposit taking, etc., will be due one after another, refinancing of the existing liabilities is always necessary through continued deposit taking, or bond issuance, etc. However, in the event the market environment becomes unstable, sufficient funding would become difficult or more expensive. The Bank is exposed to such risk and the funding liquidity risk as well.

These financial assets and financial liabilities are also subject to interest rate fluctuation risk involved in the mismatch of intervals to repricing interest rates. From the viewpoint of ALM, the interest rate risk amount for the entire balance sheet is managed at an appropriate level, partly using derivative transactions (interest rate swaps, etc.).

Regarding assets denominated in foreign currencies, since funding of the Group is primarily conducted by taking deposits and issuing bonds payable in Japanese yen, the Group seeks to avoid foreign exchange fluctuation risk through currency matching between the funding side and the asset side, using currency swaps, etc.

Derivative transactions are one of the primary operations of the Group. The derivative instruments are provided to fulfill our customers' hedge requirements for market risk (interest rate, foreign exchange, etc.). Trading derivative instruments are booked in the trading accounts, which seek gains on short-term fluctuations and arbitrage opportunities in interest rates, currency prices, market prices of securities and related indices. Moreover, the Group implements derivative transactions for the purpose of optimizing ALM, in order to maintain the interest rate risk derived from on-balance-sheet assets and liabilities at an adequate level.

The Group uses interest rate futures, interest rate options, and interest rate swaps as interest rate derivatives, currency swaps, foreign exchange forwards and currency options as currency derivatives, and also futures and options related to equities and bonds, commodity-related transactions and credit derivative transactions. These derivative transactions are exposed to market risk, which implies potential loss from market fluctuations in market prices, volatility of underlying interest rates, foreign exchange and so forth, and to credit risk, which implies potential loss from contractual default by counterparties.

Concerning derivative transactions for the purpose of optimizing ALM, such as interest rate swaps, etc., the Bank uses the deferral method of hedge accounting, specifying derivatives as hedging instruments and deposits or loans, etc., as hedged items, in accordance with 'Accounting and Auditing Treatments on the Application of Accounting Standards for Financial Instruments in the Banking Industry' (the JICPA Industry Committee Practical Guideline No. 24, March 17, 2022). The effectiveness of hedging for the purpose of offsetting market fluctuations is assessed as follows: the Bank specifies hedged items, such as deposits or loans, and hedging instruments such as interest rate swaps, and divides them into groups by remaining tenures to maturity and evaluates each of the groups.

The Bank applies deferral hedge accounting to hedges of foreign currency risk associated with foreign currency-denominated financial assets and liabilities in accordance with 'Accounting and Auditing Treatments for Foreign Currency Transactions in the Banking Industry' (the JICPA Industry Committee Practical Guideline No. 25, October 8, 2020). The Bank designates certain currency swaps and foreign exchange swaps for the purpose of funding foreign currencies as hedges for the exposure to changes in foreign exchange rates associated with foreign currency-denominated assets or liabilities.

Hedge effectiveness is reviewed by comparing the total currency position of the hedged items with that of the hedging instruments by currency.

For hedging the foreign currency exposure of foreign currency-denominated available-for-sale securities (other than debt securities), which were designated in advance, fair value hedge accounting is adopted on a portfolio basis when the cost of the hedged securities is covered with offsetting liabilities denominated in the same foreign currency as the hedged securities.

### 3) Risk management system concerning financial instruments

The Group, while pursuing various operations, is endeavoring to develop and maintain an adequate risk management system, to avoid the occurrence of unexpected losses and to realize highly reliable and sound management of the Group by adequately undertaking certain risks within the capacity of the Group and securing reasonable profit well-balanced with the undertaken risks.

The basic points of risk managements are documented as internal Master Policies and Procedures in the risk management category. The basic framework of risk management, including capital allocation and risk limits, is determined by the BOD. Within this framework, the Risk Management Division is in charge of market risk, credit risk, comprehensive risk and operational risk. Also, the Internal Audit Division is responsible for verifying the appropriateness and effectiveness of the risk management system. The BOD, the Management Committee ('MC'), and other concerned committees receive risk situation reports from each risk management function as well as audit reports from the Internal Audit Division, supervising the risk situation based on these reports or employing the information thereof for managerial decisions, and maintaining/improving the overall risk management system.

#### (a) Credit risk management

In order to maintain a sound asset portfolio of the entire Group including consolidated subsidiaries, the Group has implemented credit risk management, with the approach both at the transaction level, which entails strict credit screening and ex post facto management of individual transactions including predictive control of our clients, and at the portfolio level focusing on eliminating credit risk concentration. The Group has established a management system, including a credit rating system, quantification of credit risk, management of risk capital, management of concentration risk (large credit exposure, real estate risk, country risk, etc.), asset securitization transaction management of problem loans, and so forth. Also, concerning verification of credit ratings, self-assessments, and write-offs and reserves, the Asset Assessment Division is in charge of overall control and is responsible for adequately grasping the reality of the asset portfolio and properly implementing write-off/reserve appropriations, in cooperation with other concerned functions.

(i) Approval authority for individual credit undertaking  
Credit and investment transactions are approved under the authority of the Credit Committee or the Investment Committee consisting of Representative Directors, the Chief Risk Officer ('CRO'), the Chief Credit Risk Officer ('CCRO'), etc., and proposals are discussed at and reported to each Committee. The approval authorities of the Credit Committee and the Investment Committee are partly delegated to the CCRO, furthermore the approval authority delegated to the CCRO from each Committee is redelegated to the credit functions or to business front office functions to a certain extent.

(ii) Credit rating system  
Credit ratings are an integral component of the approval system for credit assessment and the decision for interest rate spread, etc. They are also used to conduct self-assessments and are employed as benchmarks for quantifying credit risks. The credit rating system of the Group is composed of 'Obligor Rating', 'Facility Rating' and 'Expected Loss Grade.' 'Obligor Rating' is given, in principle, to all customers for whom the Group is undertaking credit risk, and this rating represents the degree of creditworthiness of the borrower. 'Facility Rating' represents the degree of credit cost of a credit transaction in consideration of Obligor Rating and transaction conditions such as a tenor of credit facility, guarantee and collateral. Also, 'Expected Loss Grade' represents the degree of credit cost of a credit transaction which relies on cash flow arising from specified underlying assets such as real estate nonrecourse loans, securitization of monetary claims and structured bonds in senior/junior tranches. As for the credit rating processes, rating recommendations are given by the respective business divisions/branches at inception, and the recommendation is then approved by the Credit Divisions. Credit ratings are subject to review on a regular basis based on the updated financial results of each respective borrower, and on an as-needed basis whenever there is a symptom of a material change in the creditworthiness of any borrower. As for the credit rating given by business divisions/branches and the Credit Divisions, the Asset Assessment Division, which is an independent division for verification of ratings, reviews the appropriateness of credit ratings on a sample basis. Also, the Group examines its credit rating system itself through benchmarking (comparative verification of our ratings with those assigned by external agencies or external models) and back testing (assessment of the significance of credit rating based on past default).

(iii) Quantification of credit risk  
The Group centrally manages all assets with credit risks, irrespective of the type of transaction, including not only loans, securities, equities and fund investments, and securitized transaction facilities, but also off-balance-sheet transactions such as commitment lines, derivative transactions, and the like. The credit risk amount of our portfolio is measured by Value at Risk (VaR) according to our internal model, etc., and the measured result is regularly reported to the BOD, etc., together with the credit portfolio situation of the entire Group. The internal model of the Bank employs a holding period of 1 year and a confidence interval of 99.9%. Unexpected Loss (UL) is measured using parameters, such as Probability of Default (PD), Loss Given Default (LGD), intra-sector correlation, inter-sector correlation, and parent subsidiary correlation of the borrower group.

(iv) Credit portfolio management  
Concerning credit portfolio management, the Group examines the credit portfolio through the calculation and analysis of Expected Loss (EL) and UL assuming the occurrence of stress scenarios, such as the downgrading of credit ratings and declining real estate prices. Credit concentration risk is managed by establishing exposure guidelines by credit ratings of borrowers, countries or regions. For the real estate portfolio, the Group establishes additional concentration limits to control such risk.

**(b) Market risk management**  
The Group performs, from various viewpoints, comprehensive analysis and understanding of the market risk affecting all assets and liabilities and off-balance-sheet transactions for its trading and banking businesses, in order to manage market risk properly.

(i) Measurement of market risk  
The Group uses VaR to quantify the market risk for the trading and banking businesses and as a basis for setting market risk limits and for monitoring risk. The Bank has computed VaR with an internal model utilizing historical simulation.  
The assumptions for computing VaR include a 1-day holding period, a 99% confidence interval, an observation period of 2 years for the trading account, and 4 years for the banking account in principle. The Group conducts back testing to verify the reliability of VaR by comparing daily computed VaR with daily gains or losses. To complement VaR, the Group regularly conducts stress testing to assess the potential impact of volatile market movements that could exceed statistical estimates. The results of the stress testing are reported to the ALM Committee, etc.

(ii) Quantitative information of market risk  
i) Financial instruments held for trading purposes  
The VaR of financial instruments (trading account securities, derivatives, etc.) held for trading purposes by the Bank was ¥1,398 million (\$11,416 thousand) and ¥1,025 million as of March 31, 2022 and 2021, respectively. Market risk in the financial instruments held for trading purposes by certain consolidated subsidiaries is immaterial.  
The back testing of the VaR calculated with internal models over the 244 business days from April 1, 2021 to March 31, 2022, and the 245 business days from April 1, 2020 to March 31, 2021, resulted in no business day with actual daily losses beyond VaR. This result supports the reliability of the Bank's internal models which have captured market risks with sufficient accuracy. However, the VaR represents the market risks arising with a certain probability using a statistical methodology based on historical market movements. It may not be able to capture the risks arising under drastic market movements beyond normal estimates.

ii) Financial instruments held for other than trading purposes  
The main financial instruments in the Bank which are affected by interest rate risk, the typical risk parameter in the Bank, are 'Loans and bills discounted,' bonds/notes of 'Securities,' 'Deposits,' 'Bonds payable,' interest rate swaps and currency swaps of Derivatives, etc.  
The VaR of financial instruments held for other than trading purposes by the Bank was ¥7,790 million (\$63,631 thousand) and ¥8,849 million as of March 31, 2022 and 2021, respectively. Market risks in the financial instruments held for other than trading purposes by certain consolidated subsidiaries are immaterial. The VaR represents the market risks arising with a certain probability using a statistical methodology based on historical market movements. It may not be able to capture the risks arising under drastic market movements beyond normal estimates.

(iii) Procedures for market risk management  
The Group documents its handling of products, risk management methods and market price valuation methods under market risk management. The compliance with limits of risks and losses, etc., allocated to the front office, business units and divisions, is monitored by the Risk Management Division, which is independent from the front offices in terms of organization and human resources. The Risk Management Division monitors the market risk and profit/loss (P/L) on a daily basis for trading operations, and on a daily or monthly basis for banking operations, and they report on them directly to the CRO and Executive Officer(s) in charge of the front offices. The Risk Management Division also makes periodic reports to the BOD, the MC and the

ALM Committee. In the event a large loss is reported in excess of the maximum expected loss amount computed in advance, a cause analysis is conducted. Also, a discussion point, which is positioned as cross-section risk management between market risk and credit risk, is set up by asset class in order to strengthen the monitoring function for price fluctuation risks.

Market liquidity risk is the potential for losses caused by the inability to execute market transactions as a result of market turbulence and thin trading or by the necessity to execute transactions at extremely unfavorable prices. Regarding management of market liquidity risk, the Risk Management Division monitors the Group's position relative to market size in order to ensure that the position does not become excessive.

**(c) Funding liquidity risk management**  
The Financial Management Division centrally manages funding liquidity risk for both Japanese yen and foreign currencies. The Financial Management Division also plans for the sources and uses of funds both annually and monthly, and reports the liquidity status directly to senior management on a daily basis. The Group maintains a sufficient liquidity buffer in order to prepare for funding liquidity risk and to meet various contractual obligations, by holding an adequate level of marketable securities with high liquidity.

**(d) Operational risk management**  
The Group recognizes operations risk, legal and compliance risk and system risk in handling financial instruments as operational risk, and manages it in a comprehensive manner through uniform method and indicators. Actual loss events that have already occurred are gathered by the Risk Management Division. Potential risks that would lead to actual loss events are identified and assessed through risk control self-assessment, etc. Operational risk of the Group is estimated using internal model simulations, based on actual loss events and conceived risk scenarios, and capital is allocated to cover the estimated risk within the internal capital allocation system.

**(e) Comprehensive risk management**  
The Group establishes a basic policy on comprehensive risk management. The basic policy sets forth the scope of target risk categories, such as credit risk, market risk and operational risk, and their definitions. The policy also defines the risk management procedures which consist of the identification, assessment, monitoring and control of the target risks. The Group is committed to managing risks in compliance with this basic policy, and is always endeavoring to improve the risk management system. In the framework of comprehensive risk management, the Group measures credit risk, market risk and operational risk in a comprehensive manner, ensures that these risks are controlled within allowable limits with reference to the Group's capital through implementation of integrated stress testing, etc., and aims at

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securing an adequate level of profit well balanced with the corresponding risks.

4) Supplemental explanation for fair value of financial instruments

Since the calculations for the fair value of financial instruments are based on certain conditions and assumptions, calculated prices would differ if different conditions and assumptions are adopted.

(2) Matters concerning fair value of financial instruments and breakdown by level within fair value hierarchy

Carrying amounts, fair values of financial instruments, their difference and fair values by level within fair value hierarchy are as follows.

The amounts shown in the following tables do not include non-marketable equity securities and investments in partnerships (see 'Non-marketable equity securities and investments in partnerships').

The fair values of financial instruments are classified into the following three levels based on the observability and significance of the inputs used in the fair value measurement.

Level 1 : Fair value determined based on quoted prices for the asset or liability in an active market among the observable inputs to the fair value measurement

Level 2 : Fair value determined based on observable inputs to the fair value measurement other than Level 1 inputs

Level 3 : Fair value determined based on significant unobservable inputs to the fair value measurement

If multiple inputs with a significant impact on the fair value measurement are used, the financial instrument is classified into the lowest priority level of fair value measurement in which each input belongs.

1) Assets and liabilities of financial instruments measured at fair value as of March 31, 2022 and 2021

	Millions of Yen				Thousands of U.S. Dollars			
	2022				2022			
	Carrying Amount				Carrying Amount			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Monetary claims bought	¥—	¥—	¥50,805	¥50,805	\$—	\$—	\$414,973	\$414,973
Trading account assets	—	—	12	12	—	—	104	104
Securities								
Available-for-sale	318,482	594,160	77,669	990,311	2,601,340	4,853,062	634,397	8,088,799
Japanese stocks	28,005	435	—	28,441	228,746	3,560	—	232,306
Japanese national government bonds	76,367	—	—	76,367	623,767	—	—	623,767
Japanese local government bonds	—	164,282	—	164,282	—	1,341,845	—	1,341,845
Japanese short-term corporate bonds	—	—	34,998	34,998	—	—	285,863	285,863
Japanese corporate bonds	—	119,114	18,800	137,915	—	972,923	153,565	1,126,488
Foreign bonds	207,318	304,870	23,870	536,059	1,693,367	2,490,159	194,969	4,378,495
Other (Note 1)	6,789	5,457	0	12,247	55,460	44,575	0	100,035
Assets total	¥318,482	¥594,160	¥128,487	¥1,041,129	\$2,601,340	\$4,853,062	\$1,049,474	\$8,503,876
Derivatives (Notes 2, 3 and 4)								
Interest rate contracts	¥—	¥32,221	¥0	¥32,221	\$—	\$263,185	\$1	\$263,186
Foreign exchange contracts	—	(89,185)	—	(89,185)	—	(728,461)	—	(728,461)
Equity contracts	(4,804)	(92)	14,392	9,495	(39,245)	(753)	117,557	77,559
Bond contracts	492	—	—	492	4,026	—	—	4,026
Commodity derivatives	—	196	0	196	—	1,601	3	1,604
Credit derivatives	—	2,264	—	2,264	—	18,500	—	18,500
Derivatives total	¥(4,311)	¥(54,594)	¥14,393	¥(44,513)	\$(35,219)	\$(445,928)	\$117,561	\$(363,586)

	Millions of Yen
	2021
	Carrying Amount
Monetary claims bought	¥30,642
Trading account assets	5
Securities	
Available-for-sale	936,681
Japanese stocks	23,855
Japanese national government bonds	37,775
Japanese local government bonds	145,136
Japanese short-term corporate bonds	29,998
Japanese corporate bonds	87,841
Foreign bonds	600,550
Other (Note 1)	11,523
Assets total	¥967,328
Derivatives (Notes 2 and 3)	
Interest rate contracts	¥30,162
Foreign exchange contracts	(52,194)
Equity contracts	(1,830)
Bond contracts	149
Commodity derivatives	228
Credit derivatives	2,164
Derivatives total	¥(21,319)

Notes: 1. In accordance with the Paragraph 26 of 'Implementation Guidance on Accounting Standard for Fair Value Measurement' (ASBJ Guidance No. 31, issued on July 4, 2019), investment trusts to which transitional treatment were applied are not included in the balance of the above table. The carrying amounts of such investment trusts were ¥322,236 million (\$2,632,009 thousand) and ¥340,487 million as of March 31, 2022 and 2021, respectively.

2. Derivatives recorded in 'Trading account assets', 'Trading account liabilities', 'Other assets' and 'Other liabilities' are aggregated and shown herein in total. Assets and liabilities attributable to the derivative contracts are totally offset and the net liability position as a consequence of offsetting would be represented with brackets, if any.

3. As for derivative transactions for which hedge accounting is applied, negative ¥79,441 million (negative \$648,871 thousand) and negative ¥42,379 million are recorded on the carrying amounts as of March 31, 2022 and 2021, respectively.

4. Derivative transactions for which hedge accounting is applied are currency swaps, etc. designated as hedging instruments in order to offset market fluctuations of foreign currency-denominated loans, etc., which are hedged items, and deferral hedge accounting is mainly applied. Of these hedging relationships, the 'Practical Solution on the Treatment of Hedge Accounting for Financial Instruments that Reference LIBOR' (ASBJ Practical Issues Task Force No. 40, issued on March 17, 2022) is applied to all hedging relationships included in the scope of application of it.



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2) Assets and liabilities of financial instruments not measured at fair value as of March 31, 2022 and 2021

‘Cash and cash equivalents’, ‘Due from banks’, ‘Call loans and bills bought’, ‘Securities purchased under resale agreements’, ‘Cash collateral provided for securities borrowed’, ‘Foreign exchange’, ‘Negotiable certificates of deposit’, ‘Call money and bills sold’, ‘Securities sold under repurchase agreements’, and ‘Cash collateral received for securities lent’ are omitted from the following tables, since these instruments are mostly with short maturities (one year or less), and the fair value of these instruments is approximately equal to the book value.

	Millions of Yen					
	2022					
	Fair Value				Carrying Amount	Difference
	Level 1	Level 2	Level 3	Total		
Monetary claims bought <sup>(Note 1)</sup>	¥—	¥—	¥56,751	¥56,751	¥50,834	¥5,917
Money held in trust	—	5,871	17,040	22,912	20,930	1,981
Loans and bills discounted <sup>(Note 2)</sup>	—	571,022	2,777,124	3,348,146	3,269,215	78,931
Assets total	¥—	¥576,893	¥2,850,917	¥3,427,811	¥3,340,980	¥86,830
Deposits (excluding negotiable certificates of deposit)	¥—	¥2,337,650	¥2,506,374	¥4,844,025	¥4,838,056	¥5,968
Borrowed money	—	—	432,618	432,618	432,342	275
Bonds payable	—	166,246	—	166,246	168,959	(2,713)
Liabilities total	¥—	¥2,503,897	¥2,938,992	¥5,442,890	¥5,439,358	¥3,531

	Thousands of U.S. Dollars					
	2022					
	Fair Value				Carrying Amount	Difference
	Level 1	Level 2	Level 3	Total		
Monetary claims bought <sup>(Note 1)</sup>	\$—	\$—	\$463,546	\$463,546	\$415,214	\$48,332
Money held in trust	—	47,958	139,189	187,147	170,960	16,187
Loans and bills discounted <sup>(Note 2)</sup>	—	4,664,070	22,683,369	27,347,439	26,702,733	644,706
Assets total	\$—	\$4,712,028	\$23,286,104	\$27,998,132	\$27,288,907	\$709,225
Deposits (excluding negotiable certificates of deposit)	\$—	\$19,093,773	\$20,471,898	\$39,565,671	\$39,516,920	\$48,751
Borrowed money	—	—	3,533,597	3,533,597	3,531,345	2,252
Bonds payable	—	1,357,892	—	1,357,892	1,380,052	(22,160)
Liabilities total	\$—	\$20,451,665	\$24,005,495	\$44,457,160	\$44,428,317	\$28,843

	Millions of Yen		
	2021		
	Fair Value	Carrying Amount	Difference
Monetary claims bought <sup>(Note 1)</sup>	¥50,691	¥43,790	¥6,901
Money held in trust	35,736	33,521	2,214
Loans and bills discounted <sup>(Note 2)</sup>	2,975,124	2,898,629	76,495
Assets total	¥3,061,552	¥2,975,941	¥85,610
Deposits (excluding negotiable certificates of deposit)	¥3,981,716	¥3,978,506	¥3,210
Borrowed money	350,647	349,767	879
Bonds payable	199,591	198,365	1,225
Liabilities total	¥4,531,956	¥4,526,640	¥5,315

Notes: 1. Allowance for loan losses provided to ‘Monetary claims bought’ is directly deducted from the carrying amounts due to immateriality.  
2. General allowance for loan losses and specific allowance for loan losses provided to ‘Loans and bills discounted’ are deducted by ¥47,910 million (\$391,326 thousand) and ¥50,178 million as of March 31, 2022 and 2021, respectively.

Description of the valuation techniques and inputs used to measure fair value

(1) Monetary claims bought

Fair value of trust beneficiary rights, recorded as monetary claims bought which meet the criteria of securities for the purpose of accounting treatment, is measured using the same method as described in (4) Securities, below. The fair value is mainly determined as the present value of estimated future cash flows, discounted by the market interest rates, less accrued interest and is classified as Level 3. The estimated future cash flows are calculated by adjusting contractual payment of principal and interest and reflecting Probability of Default (PD) and Loss Given Default (LGD). PD is based on the internal credit ratings and LGD is based on the situations of underlying assets and collateral.

Fair value of monetary claims bought other than the above is measured using the same techniques as described in (5) Loans and bills discounted, below and is classified as Level 3.

(2) Trading account assets

Fair value of trading securities is measured using the same techniques as described in either (4) Securities or (9) Derivatives, below and is classified as each level based on the type of the securities.

(3) Money held in trust

Fair value of securities held as trust assets in individually operated money trusts whose main purpose is to manage securities is measured using the same techniques as described in (4) Securities, below and is classified as each level based on the type of the securities.

Fair value of monetary claims held as trust assets is measured using the same techniques as described in (5) Loans and bills discounted, below and is classified as either Level 2 or Level 3.

Notes on money held in trust by purpose of holding are described in Note 6, ‘Money Held in Trust.’

(4) Securities

Fair value of stocks is valued at market prices quoted at exchanges and is mainly classified as Level 1 based on market activity. Bonds that have a market price announced by certain industry associations or provided by information vendors are valued at those prices. Fair value of Japanese national government bonds etc. is classified as Level 1. Fair value of other bonds is classified as Level 2.

Fair value of bonds that do not have a market price announced by certain industry associations or provided by information vendors is mainly determined as the present value of estimated future cash flows, discounted by the market interest rates, less accrued interest and is classified as Level 3. The estimated future cash flows are calculated by adjusting contractual payment of principal and interest and reflecting PD and LGD. PD is based on the internal credit ratings and LGD is based on the situations of underlying assets and collateral.

Notes on securities by purpose of holding are described in Note 5, ‘Securities.’

(5) Loans and bills discounted

Fair value of loans and bills discounted is mainly determined as the present value of estimated future cash flows, discounted by the market interest rates, less accrued interest and is classified as Level 3. The estimated future cash flows are calculated by adjusting contractual payment of principal and interest and reflecting PD and LGD. PD is based on the internal credit ratings and LGD is based on the situations of underlying assets and collateral.

Concerning compound financial instruments to which bifurcation accounting is applied, the contractual payments of principal and interest for the calculations are those of the host contracts where embedded derivatives are separated under bifurcation accounting. As for loans with no materiality, the book value is deemed as fair value.

Fair value of loans and bills discounted that have a market price provided by information vendors is classified as Level 2.

As for loans to ‘Bankrupt’ borrowers, ‘De facto bankrupt’ borrowers and ‘In danger of bankruptcy’ borrowers, the collectable amount through the disposal of collateral or the execution of guarantees, or the present value of estimated future cash flows, etc., is deemed as the fair value and is classified as Level 3.

(6) Deposits

Fair value of deposits on demand is deemed as the payment amount if demanded on the consolidated balance sheet date (book value) and is classified as Level 2. Fair value of time deposits is principally determined as the present value of contractual payments of principal and interest less accrued interest and is classified as Level 3. The discount rate is the market interest rate, adjusted with average funding spreads of the Group observed within a specified period preceding the consolidated balance sheet date. Concerning compound financial instruments to which bifurcation accounting is applied, the contractual payments of principal and interest for the calculations are those of the host contracts where embedded derivatives are bifurcated under bifurcation accounting.

(7) Borrowed money

Since the fair value of borrowed money with short maturities is approximately equal to the book value, the fair value is deemed as the book value and is classified as Level 3. Other than that, the fair value is measured using the same techniques as for time deposits described in (6) Deposits above and is classified as Level 3. Concerning compound financial instruments to which bifurcation accounting is applied, the contractual payments of principal and interest for the calculations are those of the host contracts where embedded derivatives are bifurcated under bifurcation accounting.

(8) Bonds payable

Fair value of bonds payable is mainly measured using a market price announced by certain industry associations or provided by information vendors and is classified as Level 2.

(9) Derivatives

Fair value of listed derivatives is based on their closing prices. Fair value of over-the-counter derivative transactions is based on the discounted cash flow method or option pricing models, etc., using inputs such as interest rate, foreign exchange rate, volatility, etc. Fair value of over-the-counter derivative transactions is measured with adjustment of the counterparties’ credit risk or the Group’s own credit risk (Credit Value Adjustment or Debit Value Adjustment). Fair value of listed derivative transactions is mainly classified as Level 1. Fair value of over-the-counter derivative transactions is classified as Level 2 if observable inputs are available or impact of unobservable inputs to the fair values is not significant. If impact of unobservable inputs to the fair values is significant, it is classified as Level 3.

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Information about assets and liabilities measured at fair value and classified as Level 3

## (1) Quantitative Information on significant unobservable inputs

	Valuation technique	Significant unobservable inputs	Range	Weighted average
Monetary claims bought	Discounted cash flow method	Probability of default	0.0%—0.2%	0.1%
		Recovery rate	55.0%	55.0%
Trading account assets	Option pricing model	Correlation between stock price indices	29.7%—47.0%	35.4%
		Correlation between stock price index and foreign exchange rate	5.7%—19.6%	10.3%
Securities	Discounted cash flow method	Probability of default	0.0%—10.7%	2.1%
		Credit Spread	0.2%—0.3%	0.3%
		Recovery rate	55.0%	55.0%
Derivatives				
Interest rate contracts	Option pricing model	Correlation between interest rates	5.8%	—
		Correlation between interest rate and foreign exchange rate	(1.5%)—9.0%	—
Equity contracts	Option pricing model	Correlation between stock price indices	29.7%—47.0%	—
		Correlation between stock price index and foreign exchange rate	5.7%—19.6%	—
Commodity derivatives	Option pricing model	Correlation between commodity price and foreign exchange rate	(8.8%)—14.4%	—

## (2) Reconciliation between the beginning and ending balance, and net unrealized gains (losses) recognized in earnings of the period

	Millions of Yen							
	2022							
	As of April 1, 2021	Included in earnings of the period (Note 1)	Included in other comprehensive income (Note 2)	Net amount of purchase, sale, issuance and settlement	Transfers into Level 3	Transfers out of Level 3 (Note 3)	As of March 31, 2022	Net unrealized gains (losses) on assets and liabilities held at consolidated balance sheet date included in earnings of the period (Note 1)
Monetary claims bought	¥30,642	¥—	¥120	¥20,042	¥—	¥—	¥50,805	¥—
Trading account assets	5	(0)	—	8	—	—	12	(0)
Securities								
Available-for-sale								
Japanese local government bonds	22	—	(0)	(2)	—	(19)	—	—
Japanese short-term corporate bonds	29,998	7	—	4,992	—	—	34,998	—
Japanese corporate bonds	17,978	0	(55)	877	—	—	18,800	—
Foreign bonds	35,259	41	(171)	(10,259)	—	(1,000)	23,870	—
Other	0	—	—	0	—	—	0	—
Derivatives (Note 4)								
Interest rate contracts	¥(60)	¥60	¥—	¥—	¥—	¥—	¥0	¥60
Equity contracts	3,550	7,576	—	3,265	—	—	14,392	10,112
Commodity derivatives	0	0	—	—	—	—	0	0

	Thousands of U.S. Dollars							
	2022							
	As of April 1, 2021	Included in earnings of the period (Note 1)	Included in other comprehensive income (Note 2)	Net amount of purchase, sale, issuance and settlement	Transfers into Level 3	Transfers out of Level 3 (Note 3)	As of March 31, 2022	Net unrealized gains (losses) on assets and liabilities held at consolidated balance sheet date included in earnings of the period (Note 1)
Monetary claims bought	\$250,282	\$—	\$988	\$163,703	\$—	\$—	\$414,973	\$—
Trading account assets	41	(6)	—	69	—	—	104	(5)
Securities								
Available-for-sale								
Japanese local government bonds	182	—	(3)	(22)	—	(157)	—	—
Japanese short-term corporate bonds	245,022	64	—	40,777	—	—	285,863	—
Japanese corporate bonds	146,845	3	(450)	7,167	—	—	153,565	—
Foreign bonds	287,999	339	(1,402)	(83,799)	—	(8,168)	194,969	—
Other	0	—	—	0	—	—	0	—
Derivatives (Note 4)								
Interest rate contracts	\$(496)	\$497	\$—	\$—	\$—	\$—	\$1	\$497
Equity contracts	28,999	61,887	—	26,672	—	—	117,558	82,601
Commodity derivatives	1	2	—	—	—	—	3	2

- Notes: 1. Included in consolidated statement of income.  
2. Included in 'Valuation difference on available-for-sale securities' under 'Other comprehensive income' in the consolidated statement of comprehensive income.  
3. These transfers are from Level 3 to Level 2, since observable inputs become available for measuring fair value of private placement bonds, etc. The transfer was made at the end of the fiscal year ended March 31, 2022.  
4. Derivatives recorded in 'Trading account assets', 'Trading account liabilities', 'Other assets' and 'Other liabilities' are aggregated and shown herein in total. Assets and liabilities attributable to the derivative contracts are totally offset and the net liability position as a consequence of offsetting would be represented with brackets, if any.

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## (3) Description of the fair value valuation process

The Financial Control Division of the Group establishes policies and procedures for the calculation of fair value and procedures for the use of valuation models, and the front division develops valuation models in accordance with such policies and procedures.

The Risk Management Division verifies the reasonableness of the fair value valuation models, the inputs used, and the calculated fair values. In addition, the Financial Control Division classifies the fair value level based on the results of such verifications. If quoted prices obtained from third parties are used, those values are verified by using appropriate methods such as confirming the valuation techniques and inputs used, and comparing the fair value with that of similar financial instruments.

## (4) Description of the sensitivity of the fair value to changes in significant unobservable inputs

### Probability of default

Probability of default is an estimate of the likelihood that the default event will occur and the Group will be unable to collect the contractual amounts. A significant increase (decrease) in the default rate would result in a significant decrease (increase) in a fair value.

### Credit spread

Credit spread is an additional risk premium required for the financial assets relative to the yield on risk-free assets in the secondary market. A significant increase (decrease) in the credit spread would result in a significant decrease (increase) in a fair value.

### Recovery rate

Recovery rate is an estimated proportion of the total outstanding balance of a bond or loan that is expected to be collected in a liquidation scenario. Recovery rate would affect estimation of future cash flows to a certain extent. A significant increase (decrease) in the recovery rate would result in a significant increase (decrease) in a fair value.

### Correlation

Correlation is an indicator of the relation of variables such as interest rate, foreign exchange rate, stock price and commodity price. Correlation is estimated based on actual results in the past, and is mainly used in valuation technique of complex derivatives. A significant change in correlation would generally result in a significant increase or decrease in a fair value according to the contractual terms of the financial instrument.

## Non-marketable equity securities and Investments in partnerships

The following instruments are not included in 'Securities' in the above tables of 'Matters concerning fair value of financial instruments and breakdown by level within fair value hierarchy.'

	Carrying amount	
	2022	
	Millions of Yen	Thousands of U.S. Dollars
Non-marketable equity securities <sup>(Notes 1 and 3)</sup>	¥8,861	\$72,378
Investments in partnerships <sup>(Note 2)</sup>	134,131	1,095,578

	Carrying amount
	2021
	Millions of Yen
Non-marketable equity securities <sup>(Notes 1 and 3)</sup>	¥6,996
Investments in partnerships <sup>(Note 2)</sup>	91,274

Notes: 1. Non-marketable equity securities include unlisted stocks and those fair value is not disclosed in accordance with the Paragraph 5 of 'Implementation Guidance on Disclosures about Fair Value of Financial Instruments' (ASBJ Guidance No.19, issued on March 31, 2020).  
2. Fair value of investments in partnerships is not disclosed in accordance with the Paragraph 27 of 'Implementation Guidance on Accounting Standard for Fair Value Measurement' (ASBJ Guidance No. 31, issued on July 4, 2019).  
3. There was no write-off of unlisted stocks, etc. during the fiscal year ended March 31, 2022. The Group wrote off unlisted stocks, etc. in the amount of ¥25 million during the fiscal year ended March 31, 2021.

## Maturity analysis for claims and securities with contractual maturities as of March 31, 2022 and 2021

Year ended March 31, 2022

	Millions of Yen					
	1 year or less	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years to 7 years	Over 7 years to 10 years	Over 10 years
Due from banks	¥1,135,657	¥—	¥—	¥—	¥—	¥—
Call loans and bills bought	122,243	—	—	—	—	—
Securities purchased under resale agreements	—	—	—	—	—	—
Cash collateral provided for securities borrowed	—	—	—	—	—	—
Monetary claims bought <sup>(Note 1)</sup>	33,796	19,830	11,095	894	8,205	4,653
Securities:						
Available-for-sale securities with fixed maturity	101,781	94,654	170,141	57,566	225,259	300,219
Loans and bills discounted <sup>(Note 2)</sup>	901,820	781,882	842,561	493,090	152,501	126,289
Total	¥2,295,299	¥896,367	¥1,023,798	¥551,550	¥385,966	¥431,163

	Thousands of U.S. Dollars					
	1 year or less	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years to 7 years	Over 7 years to 10 years	Over 10 years
Due from banks	\$9,275,975	\$—	\$—	\$—	\$—	\$—
Call loans and bills bought	998,473	—	—	—	—	—
Securities purchased under resale agreements	—	—	—	—	—	—
Cash collateral provided for securities borrowed	—	—	—	—	—	—
Monetary claims bought <sup>(Note 1)</sup>	276,051	161,977	90,629	7,303	67,025	38,012
Securities:						
Available-for-sale securities with fixed maturity	831,345	773,133	1,389,703	470,199	1,839,901	2,452,177
Loans and bills discounted <sup>(Note 2)</sup>	7,366,009	6,386,361	6,881,987	4,027,527	1,245,623	1,031,526
Total	\$18,747,853	\$7,321,471	\$8,362,319	\$4,505,029	\$3,152,549	\$3,521,715

Notes: 1. Of monetary claims bought, the portion whose collection is unforeseeable, such as loans to 'Bankrupt' borrowers, loans to 'De facto bankrupt' borrowers and loans to 'In danger of bankruptcy' borrowers, amounting to ¥23,210 million (\$189,578 thousand) as of March 31, 2022, is not included in the table.  
2. Of loans and bills discounted, the portion whose collection is unforeseeable, such as loans to 'Bankrupt' borrowers, loans to 'De facto bankrupt' borrowers and loans to 'In danger of bankruptcy' borrowers, amounting to ¥18,979 million (\$155,026 thousand) as of March 31, 2022, is not included in the table. There are no loans that do not have fixed maturity amounted.



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Year ended March 31, 2021

	Millions of Yen					
	1 year or less	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years to 7 years	Over 7 years to 10 years	Over 10 years
Due from banks	¥943,961	¥—	¥—	¥—	¥—	¥—
Call loans and bills bought	41,000	—	—	—	—	—
Securities purchased under resale agreements	—	—	—	—	—	—
Cash collateral provided for securities borrowed	—	—	—	—	—	—
Monetary claims bought <sup>(Note 1)</sup>	15,494	17,274	6,088	695	3,870	6,046
Securities:						
Available-for-sale securities with fixed maturity	57,617	51,520	185,475	67,797	222,085	316,804
Loans and bills discounted <sup>(Note 2)</sup>	859,226	690,099	733,334	433,641	129,582	80,016
Total	¥1,917,298	¥758,894	¥924,898	¥502,135	¥355,539	¥402,867

Notes: 1. Of monetary claims bought, the portion whose collection is unforeseeable, such as loans to 'Bankrupt' borrowers, loans to 'De facto bankrupt' borrowers and loans to 'In danger of bankruptcy' borrowers, amounting to ¥25,035 million as of March 31, 2021, is not included in the table.  
2. Of loans and bills discounted, the portion whose collection is unforeseeable, such as loans to 'Bankrupt' borrowers, loans to 'De facto bankrupt' borrowers and loans to 'In danger of bankruptcy' borrowers, amounting to ¥22,907 million as of March 31, 2021, is not included in the table.  
There are no loans that do not have fixed maturity amounted.

Maturity analysis for interest-bearing liabilities as of March 31, 2022 and 2021

Year ended March 31, 2022

	Millions of Yen					
	1 year or less	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years to 7 years	Over 7 years to 10 years	Over 10 years
Deposits (excluding negotiable certificates of deposit)	¥3,720,735	¥365,043	¥108,839	¥60,324	¥185,887	¥397,226
Negotiable certificates of deposit	33,500	—	—	—	—	—
Call money and bills sold	16,121	—	—	—	—	—
Securities sold under repurchase agreements	69,876	—	—	—	—	—
Cash collateral received for securities lent	356,956	—	—	—	—	—
Borrowed money	65,042	12,000	23,300	27,000	93,500	211,500
Bonds payable	82,724	80,113	6,121	—	—	—
Total	¥4,344,957	¥457,157	¥138,260	¥87,324	¥279,387	¥608,726

	Thousands of U.S. Dollars					
	1 year or less	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years to 7 years	Over 7 years to 10 years	Over 10 years
Deposits (excluding negotiable certificates of deposit)	\$30,390,718	\$2,981,654	\$888,992	\$492,724	\$1,518,316	\$3,244,516
Negotiable certificates of deposit	273,626	—	—	—	—	—
Call money and bills sold	131,679	—	—	—	—	—
Securities sold under repurchase agreements	570,750	—	—	—	—	—
Cash collateral received for securities lent	2,915,593	—	—	—	—	—
Borrowed money	531,263	98,015	190,313	220,534	763,702	1,727,518
Bonds payable	675,689	654,363	50,000	—	—	—
Total	\$35,489,318	\$3,734,032	\$1,129,305	\$713,258	\$2,282,018	\$4,972,034

Note: Deposits on demand (current deposits, ordinary deposits and deposits at notice) are included in '1 year or less.'

Year ended March 31, 2021

	Millions of Yen					
	1 year or less	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years to 7 years	Over 7 years to 10 years	Over 10 years
Deposits (excluding negotiable certificates of deposit)	¥2,938,703	¥315,828	¥152,880	¥40,207	¥139,408	¥391,479
Negotiable certificates of deposit	34,000	—	—	—	—	—
Call money and bills sold	15,536	—	—	—	—	—
Securities sold under repurchase agreements	56,750	—	—	—	—	—
Cash collateral received for securities lent	431,673	—	—	—	—	—
Borrowed money	16,167	11,500	15,800	18,500	54,800	233,000
Bonds payable	81,216	111,613	5,536	—	—	—
Total	¥3,574,047	¥438,941	¥174,216	¥58,707	¥194,208	¥624,479

Note: Deposits on demand (current deposits, ordinary deposits and deposits at notice) are included in '1 year or less.'

28. Derivatives

The qualitative nature of derivative transactions, such as the type of derivatives, policy and purpose of using derivatives, risks and risk control systems for derivatives, are described in Note 27, 'Financial Instruments and Related Disclosures.'

(1) Derivative transactions for which hedge accounting is not applied

The Group had the following derivative contracts, which were listed on exchanges, outstanding as of March 31, 2022 and 2021:

	Millions of Yen				Thousands of U.S. Dollars			
	Contract or Notional Amount	Due after 1 Year	Fair Value	Valuation Gain/(Loss)	Contract or Notional Amount	Due after 1 Year	Fair Value	Valuation Gain/(Loss)
<b>March 31, 2022</b>								
Interest rate contacts;								
Futures sold	¥—	¥—	¥—	¥—	\$—	\$—	\$—	\$—
Futures bought	—	—	—	—	—	—	—	—
Options purchased	—	—	—	—	—	—	—	—
Bond contracts:								
Futures sold	41,268	—	524	524	337,078	—	4,286	4,286
Futures bought	9,839	—	(83)	(83)	80,370	—	(682)	(682)
Futures options written	6,121	—	(1)	27	50,000	—	(16)	223
Futures options purchased	61,215	—	53	(94)	500,000	—	438	(770)
Equity contracts:								
Index futures sold	6,145	—	54	54	50,194	—	445	445
Index futures bought	97,463	—	4,937	4,937	796,072	—	40,325	40,325
Index options written	416,768	137,852	(14,652)	6,547	3,404,135	1,125,974	(119,682)	53,483
Index options purchased	210,128	27,629	4,856	(4,230)	1,716,312	225,675	39,666	(34,558)
<b>March 31, 2021</b>								
Interest rate contacts;								
Futures sold	¥24,853	¥24,853	¥13	¥13				
Futures bought	24,747	24,747	(29)	(29)				
Options purchased	55,360	—	1	(6)				
Bond contracts:								
Futures sold	8,222	—	20	20				
Futures bought	67,283	—	(47)	(47)				
Futures options written	553	—	(5)	(0)				
Futures options purchased	111,384	—	182	87				
Equity contracts:								
Index futures sold	2,088	—	0	0				
Index futures bought	58,575	—	952	952				
Index options written	367,975	128,231	(10,820)	4,396				
Index options purchased	357,503	61,803	4,798	(2,847)				

Notes: 1. The contracts or notional amounts of derivatives which are shown in the above table do not necessarily represent the amounts exchanged by the parties and do not measure the exposure of the Group to credit or market risk.  
2. Derivative transactions shown above are stated at fair value in the accompanying consolidated financial statements.

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The Group had the following derivative contracts, which were not listed on exchanges, outstanding as of March 31, 2022 and 2021:

	Millions of Yen				Thousands of U.S. Dollars			
	Contract or Notional Amount	Due after 1 Year	Fair Value	Valuation Gain/(Loss)	Contract or Notional Amount	Due after 1 Year	Fair Value	Valuation Gain/(Loss)
<b>March 31, 2022</b>								
Interest rate contracts:								
Interest rate swaps:								
Receive fixed and pay floating	¥2,197,449	¥1,978,431	¥7,906	¥7,906	\$17,948,617	\$16,159,693	\$64,578	\$64,578
Receive floating and pay fixed	2,266,866	1,964,368	27,091	27,091	18,515,612	16,044,832	221,285	221,285
Receive floating and pay floating	1,516,130	333,679	819	819	12,383,652	2,725,473	6,695	6,695
Other contracts sold	2,192,356	1,822,346	(2,131)	(2,131)	17,907,022	14,884,805	(17,407)	(17,407)
Other contracts bought	822,270	625,135	(1,464)	(1,464)	6,716,246	5,106,061	(11,964)	(11,964)
Foreign exchange contracts:								
Currency swaps	630,053	256,049	582	582	5,146,231	2,091,394	4,755	4,755
Forward exchange contracts sold	544,328	62,962	(32,397)	(32,397)	4,446,036	514,277	(264,619)	(264,619)
Forward exchange contracts bought	337,548	122,543	26,649	26,649	2,757,069	1,000,925	217,669	217,669
Options written	662,740	437,555	(31,214)	(359)	5,413,221	3,573,927	(254,955)	(2,937)
Options purchased	635,884	441,008	26,437	(374)	5,193,861	3,602,126	215,937	(3,060)
Commodity derivatives:								
Commodity swaps:								
Receive fixed and pay floating	14,229	4,342	(7,616)	(7,616)	116,223	35,468	(62,215)	(62,215)
Receive floating and pay fixed	14,020	4,225	7,812	7,812	114,522	34,513	63,816	63,816
Options written	1,019	—	(380)	(380)	8,325	—	(3,106)	(3,106)
Options purchased	1,019	—	380	380	8,325	—	3,109	3,109
Credit derivatives:								
CDS sold	149,725	127,475	3,340	3,340	1,222,944	1,041,207	27,288	27,288
CDS bought	121,890	100,390	(1,075)	(1,075)	995,589	819,979	(8,788)	(8,788)
Equity index swap:								
Receive equity index and pay interest rate	116,346	115,829	14,392	14,392	950,306	946,083	117,558	117,558
Internal transactions:								
Currency swaps	549,326	216,500	182	182	4,486,858	1,768,357	1,495	1,495
Forward exchange contracts sold	—	—	—	—	—	—	—	—
Forward exchange contracts bought	—	—	—	—	—	—	—	—
<b>March 31, 2021</b>								
Interest rate contracts:								
Interest rate swaps:								
Receive fixed and pay floating	¥5,163,851	¥4,205,578	¥87,275	¥87,275				
Receive floating and pay fixed	5,151,144	4,149,728	(55,583)	(55,583)				
Receive floating and pay floating	409,404	365,604	164	164				
Other contracts sold	2,305,458	1,926,422	2,177	2,177				
Other contracts bought	933,725	772,216	(3,856)	(3,856)				
Foreign exchange contracts:								
Currency swaps	540,230	171,442	(228)	(228)				
Forward exchange contracts sold	498,921	83,010	(32,212)	(32,212)				
Forward exchange contracts bought	382,985	94,200	18,807	18,807				
Options written	911,660	458,724	(33,231)	34,954				
Options purchased	903,061	446,770	35,904	(23,924)				
Commodity derivatives:								
Commodity swaps:								
Receive fixed and pay floating	15,410	7,942	(2,180)	(2,180)				
Receive floating and pay fixed	15,181	7,810	2,409	2,409				
Options written	2,840	921	(121)	(121)				
Options purchased	2,840	921	121	121				
Credit derivatives:								
CDS sold	143,750	115,750	3,109	3,109				
CDS bought	117,550	86,500	(945)	(945)				
Equity index swap:								
Receive equity index and pay interest rate	60,732	60,732	3,550	3,550				
Internal transactions:								
Currency swaps	482,501	128,526	898	898				
Forward exchange contracts sold	9	—	(0)	(0)				
Forward exchange contracts bought	9	—	0	0				

Notes: 1. The contracts or notional amounts of derivatives which are shown in the above table do not necessarily represent the amounts exchanged by the parties and do not measure the exposure of the Group to credit or market risk.  
2. Derivative transactions shown above are stated at fair value in the accompanying consolidated financial statements.  
3. Other contracts sold and bought of 'Interest rate contracts' were mainly swaptions.  
4. Foreign exchange profit/loss generated from the notional amount exposure of currency swaps, amounting to a loss of ¥76 million (\$626 thousand) and a loss of ¥64 million as of March 31, 2022 and 2021, respectively, are excluded from 'Fair Value' and 'Valuation Gain/(Loss)' shown above.

5. Commodity derivatives are mainly related to oil and non-ferrous metal.  
6. CDS is the abbreviation for credit default swaps.  
7. 'Sold' credit derivatives represent credit risk taking. 'Bought' credit derivatives represent credit risk transfer.

(2) Derivative transactions for which hedge accounting is applied

The Group had the following derivative contracts for which hedge accounting is applied as of March 31, 2022 and 2021:

	Millions of Yen			Thousands of U.S. Dollars		
	Contract or Notional Amount	Due after 1 Year	Fair Value	Contract or Notional Amount	Due after 1 Year	Fair Value
<b>March 31, 2022</b>						
Equity contracts:						
Total return swaps	¥3,540	¥3,540	¥(92)	\$28,919	\$28,919	\$(753)
Foreign exchange contracts:						
Currency swaps	590,471	227,582	(182)	4,822,928	1,858,880	(1,495)
Forward exchange contracts	642,446	—	(37,731)	5,247,459	—	(308,192)
<b>March 31, 2021</b>						
Equity contracts:						
Total return swaps	¥4,438	¥4,438	¥(311)			
Foreign exchange contracts:						
Currency swaps	499,293	132,853	(898)			
Forward exchange contracts	577,607	—	(24,610)			

Notes: 1. The contracts or notional amounts of derivatives which are shown in the above table do not necessarily represent the amounts exchanged by the parties and do not measure the exposure of the Group to credit or market risk.  
2. The main hedged items for total return swaps are stock-price-bearing financial assets, such as available-for-sale securities.  
3. The main hedged items for currency swaps and forward exchange contracts are foreign-currency-denominated financial assets or liabilities, such as loans and securities.  
4. For the currency swaps and forward exchange contracts shown above, deferred hedge accounting is applied in accordance with the JICPA Industry Committee Practical Guideline No. 25.  
5. Foreign exchange profit/loss generated from the notional amount exposure of currency swaps, amounting to a loss of ¥41,434 million (\$338,432 thousand) and a loss of ¥16,558 million as of March 31, 2022 and 2021, respectively, are excluded from 'Fair Value' shown above.

# Consolidated Financial Statements

## 29. Other Comprehensive Income

The components of other comprehensive income for the years ended March 31, 2022 and 2021, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
<b>Reclassification and tax effect related to comprehensive income</b>			
Valuation difference on available-for-sale securities:			
Difference arising during the year	¥(30,972)	¥71,750	\$(252,982)
Reclassification adjustment to profit or loss	(6,495)	(9,634)	(53,051)
Amount before income tax effect	(37,467)	62,116	(306,033)
Income tax effect	14,234	(10,580)	116,263
Valuation difference on available-for-sale securities	(23,233)	51,535	(189,770)
Deferred gains or losses on hedges:			
Gains (losses) arising during the year	(3,840)	(7,452)	(31,368)
Reclassification adjustment to profit or loss	4,695	6,039	38,350
Amount before income tax effect	854	(1,412)	6,982
Income tax effect	(261)	432	(2,138)
Deferred gains or losses on hedges	593	(980)	4,844
Foreign currency translation adjustment:			
Adjustments arising during the year	2,322	207	18,967
Reclassification adjustment to profit or loss	—	—	—
Amount before income tax effect	2,322	207	18,967
Income tax effect	—	—	—
Foreign currency translation adjustment	2,322	207	18,967
Remeasurements of defined benefit plans:			
Adjustments arising during the year	(1,395)	2,709	(11,398)
Reclassification adjustment to profit or loss	(345)	1,101	(2,825)
Amount before income tax effect	(1,741)	3,811	(14,223)
Income tax effect	533	(1,167)	4,355
Remeasurements of defined benefit plans	(1,208)	2,644	(9,868)
Share of other comprehensive income (loss) in associates:			
Adjustments arising during the year	2,099	(372)	17,148
Reclassification adjustment to profit or loss	—	—	—
Amount before income tax effect	2,099	(372)	17,148
Income tax effect	—	—	—
Share of other comprehensive income (loss) in associates	2,099	(372)	17,148
Other comprehensive income total	¥(19,427)	¥53,035	\$(158,679)

## 30. Per Share Information

The reconciliation of differences between basic and diluted net income per share (EPS) for the years ended March 31, 2022 and 2021, was as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
	Net Income	Weighted-Average Number of Shares	EPS	
<b>Year Ended March 31, 2022</b>				
Basic EPS—Net income available to common stockholders (Net income attributable to owners of the parent)	¥35,004	116,755	¥299.81	\$2.45
Effect of dilutive securities— Share acquisition rights to shares	—	167		
Diluted EPS—Net income for computation	¥35,004	116,923	¥299.38	\$2.45
<b>Year Ended March 31, 2021</b>				
Basic EPS—Net income available to common stockholders (Net income attributable to owners of the parent)	¥28,972	116,698	¥248.27	
Effect of dilutive securities— Share acquisition rights to shares	—	169		
Diluted EPS—Net income for computation	¥28,972	116,868	¥247.90	

Net assets per share of common stock as of March 31, 2022 and 2021, were as follows:

	Yen		U.S. Dollars
	2022	2021	2022
Net assets per share of common stock	¥4,222.79	¥4,233.53	\$34.49

Net assets per share of common stock as of March 31, 2022 and 2021, were calculated based on the following:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Total equity	¥487,265	¥490,006	\$3,979,956
Deductions from total equity:			
Non-controlling interests	(6,229)	(4,541)	(50,884)
Share acquisition rights	390	482	3,188
Net assets attributable to common stock at the end of the year	¥493,105	¥494,065	\$4,027,652
Number of shares of common stock at the end of the year used for the calculation of net assets per share of common stock (shares in thousands)	116,772	116,702	



# Consolidated Financial Statements

## 31. Segment Information

### (1) Segment information

Segment information for the years ended March 31, 2022 and 2021, was as follows:

#### 1) Description of reportable segments

##### (a) Identification of operating segments

The Bank has classified its Group's business operations into business groups based upon the nature of the customers served and products offered: Retail Banking Group ('RBG'), Institutional Banking Group ('IBG'), Allied Banking Group ('ABG'), Specialty Finance Group ('SFG'), International Finance Group ('IFG'), and Financial Markets Group ('FMG'). The Bank has designated these business groups as operating segments and reportable segments for the purpose of the disclosures contained herein.

Financial information for these groups is regularly reported to the Management Committee, which comprises members from amongst the Executive Officers who are approved and appointed by the Board of Directors, and is utilized for management decisions on the allocation of resources, an evaluation of the performance of each business group, etc.

##### (b) Services provided by each reportable segment

RBG offers financial services to retail customers. RBG's major services are the sale of investment products, including deposits, investment trusts and insurance, and other financial services.

IBG offers financial services to corporate customers and public sector customers. Major services offered by IBG are loans and deposits, sale of financial products, financing through securitization, privately placed bonds, M&A advisory, private equity operations, acquisition finance, and other financial services.

ABG offers financial services to financial institutions. Major services offered by ABG are loans and deposits, sale of financial products, and other financial services.

SFG offers financial services that require specialized expertise such as corporate restructuring finance and real estate finance.

IFG offers financial services that require specialized expertise such as overseas loans and investments.

FMG offers derivatives and foreign exchange products to customers, trading derivatives and foreign exchange products, as well as ALM operations.

#### 2) Methods of measurement for the amounts of revenues, profit (loss), assets and liabilities by reportable segments

Revenues, profit (loss), assets and liabilities of reportable segments are recognized and measured mainly in accordance with accounting policies applied to consolidated financial statements.

The Bank calculates its net interest income from funding and investing across reportable segments based on i) the internal transfer rates determined by the average rate of funding by the currency and by contractual term, and ii) an expense allocation ratio for funding activities. In addition, the expenses related to the operations of the Bank's Head Office, which is not directly related to its business activities, is excluded from each reportable segment.

Fixed assets are not allocated to reportable segments, while the associated expenses are allocated to specific reportable segments and included in the segments' expenses.

#### Changes in the method of calculating the amount of revenues, profit (loss) by reportable segments

In response to changes in the overall business environment as well as the Bank's financing structure, the Bank changed its methods for calculating the profits and losses of reportable segments starting in the year ended March 31, 2022.

Regarding the profit and loss of financing transaction in each reportable segment, the Bank changed from the calculation method by revenue allocation ratio decided based on the compensation of financing activities to the calculation method by expense allocation ratio decided based on the expenses of financing activities.

In addition, the expenses related to the operations of the Bank's Head Office, which is not directly related to its business activities, is excluded from each reportable segment. The information regarding reportable segments for the year ended March 31, 2021, has been updated to reflect these new calculation methods.

### 3) Revenues, profit (loss), assets and liabilities by reportable segment

Year ended March 31, 2022

	Millions of Yen						
	RBG	IBG	ABG	SFG	IFG	FMG	Total
Consolidated net revenue	¥8,041	¥25,647	¥4,570	¥21,350	¥15,345	¥25,981	¥100,936
General and administrative expenses	8,767	12,463	3,537	9,511	6,570	4,924	45,775
Segment profit (loss)	(725)	15,804	1,032	11,838	8,775	21,056	57,781
Segment assets	15,244	1,434,530	124,284	1,180,066	919,697	2,418,046	6,091,869
Segment liabilities	3,173,848	536,439	1,209,971	50,686	57	902,517	5,873,521

	Thousands of U.S. Dollars						
	RBG	IBG	ABG	SFG	IFG	FMG	Total
Consolidated net revenue	\$65,685	\$209,487	\$37,328	\$174,386	\$125,339	\$212,214	\$824,439
General and administrative expenses	71,611	101,805	28,894	77,689	53,665	40,227	373,891
Segment profit (loss)	(5,926)	129,087	8,434	96,697	71,674	171,987	471,953
Segment assets	124,516	11,717,146	1,015,148	9,638,704	7,512,029	19,750,439	49,757,982
Segment liabilities	25,923,780	4,381,600	9,882,969	414,006	468	7,371,702	47,974,525

Notes: 1. Due to the nature of the banking business, the Bank uses 'Consolidated net revenue' as a substitute for 'Sales' as would be used by non-financial service companies. Consolidated net revenue represents the total of net interest income, trust fees, net fees and commissions, net gains on trading account transactions and net other ordinary income. The Bank oversees its revenue by reportable segment using consolidated net revenue. The Bank offsets interest income and interest expense for the management purposes, therefore, revenue in transactions between reportable segments is not disclosed.

2. Depreciation expenses are included in the general and administrative expenses of each reportable segment, but are not disclosed as a separate item, because in the calculation process of the segment profit (loss), a part of depreciation expenses is allocated to each reportable segment, aggregated with other general and administrative expenses. Therefore, depreciation expenses by reportable segment are not managed separately. The amount of depreciation expense for the year is ¥6,461 million (\$52,775 thousand).

3. Segment profit of IBG includes equity in earnings of associates of ¥2,620 million (\$21,405 thousand) and segment assets of IBG include investments in entities applying equity methods of ¥22,637 million (\$184,898 thousand).

Year ended March 31, 2021

	Millions of Yen						
	RBG	IBG	ABG	SFG	IFG	FMG	Total
Consolidated net revenue	¥5,749	¥22,474	¥5,148	¥22,088	¥12,143	¥29,832	¥97,435
General and administrative expenses	8,325	11,854	2,892	9,523	6,959	4,300	43,855
Segment profit (loss)	(2,575)	11,730	2,256	12,565	5,183	25,531	54,691
Segment assets	27,665	1,309,235	133,588	1,063,949	759,944	2,181,466	5,475,850
Segment liabilities	2,515,153	553,616	1,060,031	53,518	57	946,684	5,129,062

Notes: 1. Due to the nature of the banking business, the Bank uses 'Consolidated net revenue' as a substitute for 'Sales' as would be used by non-financial service companies. Consolidated net revenue represents the total of net interest income, trust fees, net fees and commissions, net gains on trading account transactions and net other ordinary income. The Bank oversees its revenue by reportable segment using consolidated net revenue. The Bank offsets interest income and interest expense for the management purposes, therefore, revenue in transactions between reportable segments is not disclosed.

2. Depreciation expenses are included in the general and administrative expenses of each reportable segment, but are not disclosed as a separate item, because in the calculation process of the segment profit (loss), a part of depreciation expenses is allocated to each reportable segment, aggregated with other general and administrative expenses. Therefore, depreciation expenses by reportable segment are not managed separately. The amount of depreciation expense for the year is ¥5,827 million.

3. Segment profit of IBG includes equity in earnings of associates of ¥1,111 million and segment assets of IBG include investments in entities applying equity methods of ¥17,917 million.

# Consolidated Financial Statements

## 4) Reconciliation between total segment amounts and the consolidated financial statements

(a) Reconciliation between total consolidated net revenue of reportable segments and the consolidated net revenue in the consolidated statement of income for the years ended March 31, 2022 and 2021, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Total consolidated net revenue of reportable segments	¥100,936	¥97,435	\$824,439
Variances resulting from profit or loss not covered by reportable segments or differences in the basis of revenue and expense recognition and measurement	2,074	(889)	16,948
Net revenue derived from the consolidated statement of income	¥103,011	¥96,546	\$841,387

(b) Reconciliation between total segment profits and income before income taxes in the consolidated statement of income for the years ended March 31, 2022 and 2021, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Total segment profits	¥57,781	¥54,691	\$471,953
Variances resulting from profit or loss not covered by reportable segments or differences in the basis of revenue and expense recognition and measurement	(9,942)	(12,022)	(81,207)
Amortization of actuarial differences on retirement benefit plans, etc.	302	(1,139)	2,467
Credit-related expenses, etc.	(3,740)	(4,348)	(30,553)
Gains (losses) on stock transactions	2,033	2,375	16,608
Others, including net extraordinary income (losses)	(458)	(579)	(3,745)
Income before income taxes in the consolidated statement of income	¥45,975	¥38,977	\$375,523

Note: Credit-related expenses, etc., represent the total of write-offs of loans, provision of allowance for loan losses and losses on disposition of non-performing loans.

(c) Reconciliation between total segment assets and total assets in the consolidated balance sheet as of March 31, 2022 and 2021, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Total segment assets	¥6,091,869	¥5,475,850	\$49,757,982
Allowance for loan losses	(38,489)	(40,123)	(314,377)
Assets not allocated to reportable segments	675,273	481,139	5,515,583
Total assets in the consolidated balance sheet	¥6,728,653	¥5,916,866	\$54,959,188

Note: As of March 31, 2022, assets not allocated to reportable segments include foreign exchange of ¥63,878 million (\$521,752 thousand), other assets of ¥252,834 million (\$2,065,139 thousand), fixed assets of ¥41,925 million (\$342,445 thousand) and deferred tax assets of ¥31,729 million (\$259,163 thousand). As of March 31, 2021, assets not allocated to reportable segments include foreign exchange of ¥58,154 million, other assets of ¥176,366 million, fixed assets of ¥43,444 million and deferred tax assets of ¥16,984 million.

(d) Reconciliation between total segment liabilities and total liabilities in the consolidated balance sheet as of March 31, 2022 and 2021, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Total segment liabilities	¥5,873,521	¥5,129,062	\$47,974,525
Liabilities not allocated to reportable segments	367,866	297,797	3,004,707
Total liabilities in the consolidated balance sheet	¥6,241,387	¥5,426,859	\$50,979,232

Note: As of March 31, 2022, liabilities not allocated to reportable segments include other liabilities of ¥64,446 million (\$526,396 thousand) and retirement benefit liability of ¥10,974 million (\$89,639 thousand). As of March 31, 2021, liabilities not allocated to reportable segments include other liabilities of ¥98,530 million and retirement benefit liability of ¥10,844 million.

(e) Detailed information on revenues from contracts with customers

	Millions of Yen	Thousands of U.S. Dollars
	2022	2022
Fees and commissions income (including trust fees)	¥17,744	\$144,938
Loan business and deposit related	7,844	64,072
Securities and agency related	3,996	32,647
Others	5,903	48,219

Note: Of fees and commissions income (including trust fees), revenues from loan business and deposit related are mainly recorded in IBG, and revenues from securities and agency related are mainly recorded in RBG.  
The above table also includes revenues based on ASBJ Statement No. 10 'Accounting Standard for Financial Instruments' and other guidance.

## (2) Related information

### 1) Segment information by service

Year ended March 31, 2022

	Millions of Yen				
	Lending	Securities investment	Derivatives, etc.	Others	Total
Ordinary income from external customers	¥53,057	¥49,684	¥8,938	¥23,057	¥134,737

	Thousands of U.S. Dollars				
	Lending	Securities investment	Derivatives, etc.	Others	Total
Ordinary income from external customers	\$433,374	\$405,819	\$73,007	\$188,331	\$1,100,531

Year ended March 31, 2021

	Millions of Yen				
	Lending	Securities investment	Derivatives, etc.	Others	Total
Ordinary income from external customers	¥53,737	¥52,115	¥32,906	¥16,996	¥155,755

Note: 'Ordinary income', that is calculated as total income less non-recurring income such as gains on disposal of fixed assets, is presented instead of 'Sales' as would be used by non-financial service companies.

### 2) Segment information by geographic region

#### (a) Ordinary income

The information by geographic region has been omitted as the transaction data on each customer regarding interest income, gains on sales of securities and income related to derivative transactions, etc., were not available to be segmented by customers' domicile.

#### (b) Tangible fixed assets

The information by geographic region has been omitted as the amounts of tangible fixed assets located in Japan exceeded 90% of the total amount of tangible fixed assets in the consolidated balance sheet as of March 31, 2022 and 2021.

### 3) Segment information by major customer

The information by major customer has been omitted as ordinary income from any particular customer was less than 10% of ordinary income in the consolidated statement of income.

## Consolidated Financial Statements

### (3) Segment information on impairment losses on fixed assets by reportable segment

For the year ended March 31, 2022

The description is omitted because it is immaterial.

For the year ended March 31, 2021

Not applicable.

### (4) Segment information on amortization and unamortized portion of goodwill by reportable segment

Not applicable.

### (5) Segment information on profit on negative goodwill by reportable segment

Not applicable.

## 32. Related-Party Transactions

There were no material related party transactions to be disclosed for the years ended March 31, 2022 and 2021.

Information on the parent company (including entities similar to partnerships) is as follows:

Not applicable

## 33. Subsequent Events

### (1) Appropriation of retained earnings

The following distribution of retained earnings to the stockholders of record as of March 31, 2022, was approved at the Board of Directors' meeting held on May 16, 2022:

	Millions of Yen	Thousands of U.S. Dollars
Year-end dividends:		
Common stock, ¥45.00 (\$0.37) per share	¥5,254	\$42,920

The following distribution of retained earnings to the stockholders of record as of June 30, 2022, was approved at the Board of Directors' meeting held on August 1, 2022:

	Millions of Yen	Thousands of U.S. Dollars
Dividends applicable to the three-month period ended June 30, 2022:		
Common stock, ¥38.00 (\$0.31) per share	¥4,437	\$36,244

## Independent Auditor's Report

# Deloitte.

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### INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Aozora Bank, Ltd.:

#### Opinion

We have audited the consolidated financial statements of Aozora Bank, Ltd. and its consolidated subsidiaries (the "Group"), which comprise the consolidated balance sheet as of March 31, 2022, 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, 2022, 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.

Member of  
Deloitte Touche Tohmatsu Limited



Write-off of loans and determination of allowance for loan losses	
Key Audit Matter Description	How the Key Audit Matter Was Addressed in the Audit
<p>The Group recorded allowance for loan losses of 48.6 billion yen against the loans of 3,317.1 billion yen and other accounts receivables in its consolidated financial statements as of March 31, 2022.</p> <p>As described in Note 2 "Summary of Significant Accounting Policies" (10) "Write-off of Loans and Allowance for Loan Losses" to the consolidated financial statements, all loans are monitored in accordance with the internal self-assessment standard and other guidance on an ongoing basis. The operating divisions or branches review the internal credit ratings of the borrowers, which also determine the borrower categories. The internal credit ratings are then approved by the divisions in charge of credit. In addition, the division in charge of asset assessment, which is independent of the operating divisions or branches and the divisions in charge of credit, reviews the appropriateness of the internal credit ratings on a sample basis.</p> <p>For allowance for loan losses, the operating divisions or branches initially determine the write-offs of loans and the allowances for loan losses, and the division in charge of asset assessment verifies and determines the final amounts based on the borrower categories as of year-end determined by the aforementioned process.</p> <p>The allowance for loan losses depends on the borrowers' financial conditions, the value of collateral held, forecasts related to economic trends, as well as other factors. As such, the determination of the allowance for loan losses requires significant judgment made by management. As described in Note 2 "Summary of Significant Accounting Policies" (22) "Significant Accounting Estimates" 1) "Allowance for loan losses" to the consolidated financial statements, the following areas involve a high degree of uncertainty. As the determination of the allowance for loan losses is particularly significant to our audit of the consolidated financial statements for the year ended March 31, 2022, we have identified it as a key audit matter.</p> <ul style="list-style-type: none"> <li>Loans of the Group include those to borrowers raising funds for the purpose of business acquisitions or other arrangements. To determine the borrower categories for such loans based on the financial conditions, the valuation of goodwill based on expected excess earnings of the acquired business becomes a significant factor. To evaluate the valuation of goodwill, the Group individually examines and evaluates the feasibility of the estimated cash flows generated from the acquired business and is required to make significant judgment.</li> </ul>	<p>We performed the following audit procedures, among others, to examine the Group's write-off of loans and allowance for loan losses.</p> <p>(Evaluation of controls)</p> <ul style="list-style-type: none"> <li>We tested the effectiveness of the control in which the division in charge of asset assessment evaluated the judgment to determine whether the borrower categories of loans, including the valuation of goodwill, conformed with the internal self-assessment standard and other guidance.</li> <li>We tested the effectiveness of the control in which the division in charge of asset assessment evaluated whether the valuation of the underlying real estate properties for the real estate non-recourse loans, including rents, vacancy rates, discount rates or other factors, conformed with the processes prescribed in the internal appraisal standard and other guidance.</li> <li>We tested the effectiveness of the control in which the division in charge of asset assessment evaluated the determination of the borrower categories based on the effects of COVID-19 and the determination of the allowance for loan losses considering the possibility of future credit deterioration.</li> </ul> <p>(Substantive procedures)</p> <ul style="list-style-type: none"> <li>For significant borrowers that require consideration of the valuation of goodwill in determining the borrower categories, we evaluated the rationale of the estimation by examining business condition forecasts, cash flow projections and other information that served as the bases for the valuation of goodwill based on the status of the borrowers and the acquired businesses as well as the information included in reports from external agencies.</li> </ul>

<ul style="list-style-type: none"> <li>Real estate non-recourse loans (i.e., loans for which the repayment source is provided only by cash flows generated from underlying real estate properties) accounted for approximately 22% of total loans as of March 31, 2022. The estimated future cash flows generated from the underlying real estate properties are a significant element in determining the borrower categories for real estate non-recourse loans. Therefore, the Group individually examines and evaluates rents, vacancy rates, discount rates or other factors, which are bases for the valuation of the underlying real estate properties. Such valuation of the real estate properties requires significant judgment in estimation, specifically in cases when adjustments are required for actual or market rates regarding rents, vacancy rates, discount rates or other factors to reflect the individual characteristics of the real estate properties.</li> <li>In developing accounting estimates, the Group assumed that the effects of the global novel coronavirus ("COVID-19") pandemic on the economy and corporate activities would continue long term and that certain borrowers' business performance may continue to be affected through the year ending March 31, 2023. Based on this general assumption, on an individual borrower level, the Group examined and evaluated the estimated period of time where the business performance of borrowers may be impacted by COVID-19 considering the business sector, region and individual characteristics of each borrower. As such, the determination of the borrower categories on this assumption and determination of allowance for loan losses require consideration of potential future credit deterioration and involve significant judgment in estimation.</li> </ul>	<ul style="list-style-type: none"> <li>For the valuation of real estate properties related to real estate non-recourse loans, based on quantitative analysis on the changes in appraised values or other factors and inspection of self-assessment documents, we identified significant real estate properties for which related rents, vacancy rates, discount rates or other factors were determined by adjusting them from the actual or market rates due to the individual characteristics of the real estate properties. With the assistance of our valuation specialists, we evaluated the reasonableness of rents, vacancy rates, discount rates or other factors used in the valuation of the real estate properties.</li> <li>We evaluated the assumption that the effects of the COVID-19 pandemic on the economy and corporate activities would continue long term and that a certain portion of the borrowers may continue to be affected through the year ending March 31, 2023 by examining the Group's credit portfolio status, the industry specific information on the ongoing effects of COVID-19 published by external agencies as well as other analyses to determine whether the assumption fell within a reasonable range. In addition, we evaluated the rationale of the estimates, regarding the borrower categories for significant borrowers and the allowance for loan losses determined based on that assumption by inspecting relevant documents, evaluating the effects of COVID-19 prepared by management, and examining the expected ongoing effect of COVID-19 by industry through inspection of published information by external agencies as well as other analyses.</li> </ul>
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## 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 Annual Report, but does not include the consolidated financial statements and our auditor's report thereon. The Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will 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 identified above when it becomes available 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.



## 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

August 5, 2022

# Income Analysis (Consolidated)

## Interest-Earning Assets and Interest-Bearing Liabilities

Years Ended March 31

(Millions of Yen, %)

	Average balance			Interest income/expenses			Return/rates		
	2022	2021	Change	2022	2021	Change	2022	2021	Change
<b>Interest-earning assets</b>	<b>5,177,712</b>	<b>4,615,337</b>	<b>562,375</b>	<b>66,141</b>	<b>67,807</b>	<b>(1,665)</b>	<b>1.27</b>	<b>1.46</b>	<b>(0.19)</b>
Due from banks	61,777	66,226	(4,449)	11	29	(17)	0.01	0.04	(0.03)
Call loans and bills bought	448,869	158,540	290,329	(54)	(31)	(22)	(0.01)	(0.01)	0.00
Securities purchased under resale agreements	4	142,350	(142,346)	(0)	(142)	142	(0.09)	(0.09)	0.00
Cash collateral provided for securities borrowed	—	—	—	—	—	—	—	—	—
Securities	1,344,391	1,157,287	187,104	20,283	21,234	(950)	1.50	1.83	(0.33)
Loans and bills discounted	3,136,496	2,911,611	224,885	44,792	45,631	(839)	1.42	1.56	(0.14)
<b>Interest-bearing liabilities</b>	<b>5,413,570</b>	<b>4,784,351</b>	<b>629,219</b>	<b>14,518</b>	<b>17,698</b>	<b>(3,179)</b>	<b>0.26</b>	<b>0.36</b>	<b>(0.10)</b>
Deposits	4,365,996	3,627,441	738,555	6,179	5,650	528	0.14	0.15	(0.01)
Negotiable certificates of deposit	34,272	39,574	(5,302)	3	4	(0)	0.01	0.01	(0.00)
Call money and bills sold	15,925	18,921	(2,995)	24	34	(10)	0.15	0.18	(0.03)
Securities sold under repurchase agreements	62,819	43,279	19,540	82	107	(25)	0.13	0.24	(0.11)
Cash collateral received for securities lent	364,118	348,299	15,818	356	1,513	(1,157)	0.09	0.43	(0.34)
Borrowed money	370,250	462,705	(92,454)	1,171	1,744	(573)	0.31	0.37	(0.06)
Bonds payable	180,593	198,383	(17,789)	1,957	2,230	(273)	1.08	1.12	(0.04)

Note: Interest expenses are shown after deduction of amounts of assumed cost of funding money held in trust .

## Fees and Commissions

Years Ended March 31

(Millions of Yen)

	2022	2021	Change
<b>Net fees and commissions</b>	<b>14,024</b>	<b>12,481</b>	<b>1,543</b>
<b>Fees and commissions income (including trust fees)</b>	<b>17,744</b>	<b>14,938</b>	<b>2,806</b>
Deposits and loan operations	7,844	7,561	282
Foreign exchange operations	1,638	1,032	606
Securities-related operations	3,098	2,237	860
Agency services	898	945	(47)
Guarantee operations	111	151	(39)
<b>Fees and commissions expenses</b>	<b>3,720</b>	<b>2,457</b>	<b>1,262</b>
Foreign exchange operations	713	484	229

## Gains on trading account transactions

Years Ended March 31

(Millions of Yen)

	2022	2021	Change
<b>Net gains on trading account transactions</b>	<b>16,642</b>	<b>13,401</b>	<b>3,241</b>
<b>Gains on trading account transactions</b>	<b>16,642</b>	<b>32,723</b>	<b>(16,081)</b>
Gains on trading securities	8,786	—	8,786
Gains on trading account securities	2,251	26,378	(24,126)
Gains on trading account financial derivatives	5,604	6,345	(741)
Gains on other trading account transactions	—	—	—
<b>Losses on trading account transactions</b>	<b>—</b>	<b>19,322</b>	<b>(19,322)</b>
Losses on trading securities	—	19,322	(19,322)
Losses on trading account securities	—	—	—
Losses on trading account financial derivatives	—	—	—
Losses on other trading account transactions	—	—	—

## Other Ordinary Income

Years Ended March 31

(Millions of Yen)

	2022	2021	Change
<b>Net other ordinary income</b>	<b>20,731</b>	<b>20,574</b>	<b>157</b>
<b>Other ordinary income</b>	<b>28,066</b>	<b>35,495</b>	<b>(7,428)</b>
Gains on foreign exchange transactions	2,961	—	2,961
Gains on sales of bonds and other securities	9,408	18,357	(8,948)
Gains on redemption of bonds and other securities	—	—	—
Gains on derivatives	1,082	182	899
Other	14,614	16,955	(2,340)
<b>Other ordinary expenses</b>	<b>7,334</b>	<b>14,920</b>	<b>(7,586)</b>
Losses on foreign exchange transactions	—	477	(477)
Losses on sales of bonds and other securities	4,908	9,340	(4,432)
Losses on redemption of bonds and other securities	—	794	(794)
Losses on devaluation of bonds and other securities	—	68	(68)
Amortization of bond issuance costs	182	191	(9)
Losses on derivatives	—	—	—
Other	2,243	4,048	(1,804)



## Non-Consolidated Business Results

### Non-Consolidated Financial Highlights [Five-Year Summary]

Years Ended March 31

(Millions of Yen)

	2022	2021	2020	2019	2018
Ordinary income	119,899	149,454	176,858	156,829	143,932
Trust fees <sup>(Note 4)</sup>	444	386	462	189	—
Ordinary profit	41,014	41,473	45,342	51,335	56,948
Net income	29,854	29,526	28,669	38,043	42,015
Share capital	100,000	100,000	100,000	100,000	100,000
Number of issued shares (in thousands)					
Common stock	118,289	118,289	118,289	118,289	118,289
Total equity	480,047	489,440	424,309	443,611	429,092
Total assets	6,446,916	5,735,238	5,212,668	5,205,876	4,907,226
Debentures and Bonds payable	168,959	198,365	259,935	283,946	257,563
Deposits <sup>(Note 1)</sup>	4,597,581	3,855,140	3,325,989	3,196,659	2,980,351
Loans and bills discounted	3,230,905	2,918,317	2,937,508	2,782,131	2,624,742
Securities	1,494,578	1,445,782	1,151,561	1,314,968	1,209,919
Net assets per share (yen)	4,107.62	4,189.77	3,632.56	3,798.95	3,675.35
Common stock dividends per share (yen) <sup>(Note 2)</sup>	149.00	124.00	156.00	154.00	184.00
1st quarter end	(32.00)	(30.00)	(39.00)	(40.00)	(4.00)
2nd quarter end	(32.00)	(30.00)	(39.00)	(40.00)	(4.00)
3rd quarter end	(40.00)	(30.00)	(39.00)	(40.00)	(50.00)
Year end	(45.00)	(34.00)	(39.00)	(34.00)	(54.00)
Basic net income per share (yen)	255.69	253.01	245.70	326.06	360.17
Diluted net income per share (yen)	255.33	252.65	245.43	325.80	359.90
Dividend payout ratio (%)	58.27	49.00	63.49	47.23	51.08
Capital adequacy ratio (domestic standard) (%)	10.33	11.13	10.26	10.19	10.25
Number of employees <sup>(Note 3)</sup>	1,966	1,933	1,928	1,878	1,787
Trust assets <sup>(Note 4)</sup>	879,535	730,209	835,481	797,320	—
Loans and bills discounted (Trust account) <sup>(Note 4)</sup>	38,790	28,116	43,312	40,981	—
Securities (Trust account) <sup>(Note 4)</sup>	184,418	176,573	163,390	175,292	—
Rights represented by securities transferred and recorded electronically (Trust account)	—	—			

Notes: 1. Deposits include negotiable certificates of deposit (NCDs).

2. The Bank consolidated every ten common shares into one common share on October 1, 2017. 'Common stock dividends per share' of FY2017 (184 yen) is presented as if the share consolidation was effective at the beginning of the fiscal year ended March 31, 2018. The dividend payments for the 1st quarter end and the 2nd quarter end of FY2017 are actual amounts before the share consolidation, and those for the 3rd quarter end and year-end are actual amounts after the share consolidation.

3. Number of employees includes executive officers and locally hired overseas staff, but excludes the Bank's employees seconded to other firms.

4. Due to the transfer of the trust business operations from GMO Aozora Net Bank, Ltd., to the Bank on October 1, 2018, 'Trust fees', 'Trust assets', 'Loans and bills discounted (Trust account)' and 'Securities (Trust account)' are added from the fiscal year ended March 31, 2019, going forward. 'Trust assets' is assets in trust pertaining to trust business under the Act on Engagement in Trust Business by a Financial Institution (the Concurrent Business Act).

## Non-Consolidated Financial Statements

### Non-Consolidated Balance Sheet (Unaudited)

Aozora Bank, Ltd.

March 31, 2022

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
<b>Assets</b>			
Cash and cash equivalents	¥948,606	¥758,637	\$7,748,154
Due from banks	31,984	59,466	261,244
Call loans	122,243	41,000	998,473
Monetary claims bought	78,477	49,470	640,998
Trading account assets	133,008	154,611	1,086,405
Money held in trust	9,639	4,975	78,736
Securities	1,494,578	1,445,782	12,207,618
Loans and bills discounted	3,230,905	2,918,317	26,389,822
Foreign exchange	63,878	58,154	521,752
Other assets	286,308	222,907	2,338,550
Tangible fixed assets	21,147	22,596	172,727
Intangible fixed assets	12,125	12,461	99,040
Prepaid pension costs	5,132	4,227	41,922
Deferred tax assets	31,962	17,262	261,070
Customers' liabilities for acceptances and guarantees	25,381	16,083	207,315
Allowance for loan losses	(47,910)	(50,043)	(391,328)
Allowance for investment losses	(553)	(674)	(4,521)
<b>Total</b>	<b>¥6,446,916</b>	<b>¥5,735,238</b>	<b>\$52,657,977</b>

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
<b>Liabilities and Equity</b>			
Liabilities:			
Deposits	¥4,597,581	¥3,855,140	\$37,552,733
Call money	16,121	15,536	131,679
Securities sold under repurchase agreements	69,876	56,750	570,750
Cash collateral received for securities lent	356,956	431,673	2,915,593
Trading account liabilities	129,227	140,451	1,055,520
Borrowed money	432,100	349,503	3,529,364
Bonds payable	168,959	198,365	1,380,052
Other liabilities	159,893	171,299	1,306,001
Provision for retirement benefits	10,367	10,383	84,680
Provision for credit losses on off-balance-sheet instruments	403	609	3,292
Acceptances and guarantees	25,381	16,083	207,315
<b>Total liabilities</b>	<b>5,966,868</b>	<b>5,245,797</b>	<b>48,736,979</b>
<b>Equity:</b>			
Share capital	100,000	100,000	816,793
Capital surplus			
Legal capital surplus	87,313	87,313	713,170
Other capital surplus	163	98	1,335
Retained earnings			
Legal retained earnings	12,686	12,686	103,626
Other retained earnings	278,761	265,675	2,276,902
Treasury stock-at cost	(3,117)	(3,260)	(25,465)
Valuation difference on available-for-sale securities	4,007	27,195	32,733
Deferred gains or losses on hedges	(157)	(750)	(1,284)
Share acquisition rights	390	482	3,188
<b>Total equity</b>	<b>480,047</b>	<b>489,440</b>	<b>3,920,998</b>
<b>Total</b>	<b>¥6,446,916</b>	<b>¥5,735,238</b>	<b>\$52,657,977</b>

Note: The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at the rate of ¥122.43 to \$1.00, the approximate rate of exchange at March 31, 2022.

Non-Consolidated Financial Statements

Non-Consolidated Statement of Income (Unaudited)

Aozora Bank, Ltd.  
Year Ended March 31, 2022

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Income:			
Interest income:			
Interest on loans and discounts	¥38,429	¥39,813	\$313,889
Interest and dividends on securities	20,298	21,251	165,794
Interest on due from banks	22	27	186
Other interest income	1,107	910	9,045
Trust fees	444	386	3,630
Fees and commissions income	14,975	14,563	122,318
Gain on trading account transactions	15,432	32,723	126,056
Other ordinary income	26,537	37,008	216,753
Other income	2,652	2,768	21,664
Total income	119,900	149,454	979,335
Expenses:			
Interest expenses:			
Interest on deposits	6,133	5,611	50,100
Interest on debentures and bonds payable	1,957	2,285	15,988
Interest on borrowings and rediscounts	902	1,816	7,373
Other interest expenses	5,193	7,996	42,416
Fees and commissions expenses	7,324	4,623	59,824
Loss on trading account transactions	—	20,851	—
Other ordinary expenses	7,498	14,084	61,247
General and administrative expenses	45,684	45,488	373,147
Other expenses	4,510	5,227	36,841
Total expenses	79,204	107,986	646,936
Income before income taxes	40,695	41,468	332,399
Income taxes:			
Current	11,569	12,645	94,499
Deferred	(728)	(704)	(5,946)
Total income taxes	10,841	11,941	88,553
Net income	¥29,854	¥29,526	\$243,846

Note: The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at the rate of ¥122.43 to \$1.00, the approximate rate of exchange at March 31, 2022.

Non-Consolidated Statement of Changes in Equity (Unaudited)

Aozora Bank, Ltd.  
Year Ended March 31, 2022

	Millions of Yen									
	Share capital	Capital surplus		Retained earnings		Treasury stock-at cost	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Share acquisition rights	Total equity
		Legal capital surplus	Other capital surplus	Legal retained earnings	Other retained earnings					
Balance, April 1, 2020	¥100,000	¥87,313	¥74	¥12,686	¥251,201	¥(3,297)	¥(24,343)	¥229	¥444	¥424,309
Net income					29,526					29,526
Cash dividends paid					(15,053)					(15,053)
Purchase of treasury stock						(0)				(0)
Disposal of treasury stock			23			37				60
Net changes in items during the year							51,539	(980)	37	50,596
Balance, March 31, 2021	¥100,000	¥87,313	¥98	¥12,686	¥265,675	¥(3,260)	¥27,195	¥(750)	¥482	¥489,440
Cumulative effects of accounting change					(657)			(1)		(659)
Restated balance	100,000	87,313	98	12,686	265,017	(3,260)	27,195	(752)	482	488,780
Net income					29,854					29,854
Cash dividends paid					(16,109)					(16,109)
Purchase of treasury stock						(0)				(0)
Disposal of treasury stock			64			142				207
Net changes in items during the year							(23,188)	595	(91)	(22,684)
Balance, March 31, 2022	¥100,000	¥87,313	¥163	¥12,686	¥278,761	¥(3,117)	¥4,007	¥(157)	¥390	¥480,047

	Thousands of U.S. Dollars (Note)									
	Share capital	Capital surplus		Retained earnings		Treasury stock-at cost	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Share acquisition rights	Total equity
		Legal capital surplus	Other capital surplus	Legal retained earnings	Other retained earnings					
Balance, March 31, 2021	\$816,793	\$713,170	\$806	\$103,626	\$2,170,016	\$(26,632)	\$222,131	\$(6,128)	\$3,937	\$3,997,719
Cumulative effects of accounting change					(5,374)			(16)		(5,390)
Restated balance	816,793	713,170	806	103,626	2,164,642	(26,632)	222,131	(6,144)	3,937	3,992,329
Net income					243,846					243,846
Cash dividends paid					(131,586)					(131,586)
Purchase of treasury stock						(0)				(0)
Disposal of treasury stock			529			1,167				1,696
Net changes in items during the year							(189,398)	4,860	(749)	(185,287)
Balance, March 31, 2022	\$816,793	\$713,170	\$1,335	\$103,626	\$2,276,902	\$(25,465)	\$32,733	\$(1,284)	\$3,188	\$3,920,998

Note: The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at the rate of ¥122.43 to \$1.00, the approximate rate of exchange at March 31, 2022.

Income Analysis (Non-Consolidated)

Net Revenue, Business Profit

(Millions of Yen)

	2022			2021		
	Total	Domestic operations	International operations	Total	Domestic operations	International operations
Net interest income	45,681	20,070	25,611	44,311	20,245	24,065
Interest income	59,857	26,814	35,066	62,003	26,765	37,372
Interest expenses	14,175	6,744	9,455	17,692	6,520	13,306
		[2,023]	[2,023]		[2,134]	[2,134]
Trust fees	444	444	—	386	386	—
Net fees and commissions	7,651	6,905	745	9,939	8,152	1,787
Fees and commissions (income)	14,975	13,303	1,671	14,563	12,054	2,508
Fees and commissions (expenses)	7,324	6,397	926	4,623	3,901	721
Net trading income	15,432	10,416	5,016	11,872	(11,039)	22,912
Gain on trading account transactions	15,432	10,416	5,016	32,723	9,813	22,910
Loss on trading account transactions	—	—	—	20,851	20,852	(1)
Net other ordinary income	19,038	9,100	9,937	22,924	7,498	15,425
Other ordinary income	26,537	10,771	15,765	37,008	10,578	26,430
Other ordinary expenses	7,498	1,670	5,827	14,084	3,079	11,004
Net revenue	88,249	46,938	41,310	89,434	25,243	64,191
Net revenue ratio (%)	1.75	1.07	1.98	1.95	0.65	3.13
Business profit	43,278	—	—	45,364	—	—
Core net business profit	42,262	—	—	45,085	—	—
Core net business profit excluding gains (losses) on bonds	37,762	—	—	36,931	—	—
Core net business profit excluding gains (losses) on bonds and cancellation on investment trusts	37,324	—	—	36,790	—	—

Notes: 1. Domestic operations include yen-denominated transactions by domestic offices, while international operations include foreign currency-denominated transactions by domestic offices and transactions by overseas offices. Yen-denominated nonresident transactions and Japan offshore banking accounts are included under international operations.

2. Interest expenses are shown after deduction of amounts equivalent to interest expenses on money held in trust (¥10 million for the fiscal year ended March 31, 2022 and ¥19 million for the fiscal year ended March 31, 2021).

3. Figures in brackets [ ] indicate interest received/paid as a result of interdepartmental lending and borrowing activities between domestic and international operations.

4. Net revenue ratio is calculated as follows:

Net revenue ratio =  $\frac{\text{net revenue}}{\text{average balance of interest-bearing assets}} \times 100$

5. Business profit is calculated by deducting the net provision to general allowance for loan losses and general and administrative expenses from net revenue.

6. Core net business profit is calculated by deducting the general and administrative expenses from net revenue.

Ratios

(%)

	2022	2021
Ordinary profit to total assets	0.71	0.78
Ordinary profit to equity	8.46	9.07
Net income to total assets	0.51	0.56
Net income to equity	6.15	6.46

Notes: 1. Return on assets, as calculated =  $\frac{\text{ordinary profit or net income}}{(\text{average balance of total assets} - \text{customers' liabilities for acceptances and guarantees})} \times 100$

2. Return on equity, as calculated =  $\frac{\text{ordinary profit or net income}}{(\text{equity, beginning of year} + \text{equity, end of year}) \div 2} \times 100$

Yield on Interest-Earning Assets, Interest Rate on Interest-Bearing Liabilities, Net Yield/Interest Rate

(%)

	2022			2021		
	Total	Domestic operations	International operations	Total	Domestic operations	International operations
Yield on interest-earning assets	1.18	0.61	1.68	1.35	0.69	1.82
Interest rate on interest-bearing liabilities	1.15	1.06	0.64	1.32	1.17	0.85
Net yield/interest rate	0.03	(0.45)	1.04	0.03	(0.48)	0.97

Average Balance of Interest-Earning Assets and Interest-Bearing Liabilities

(Millions of Yen)

		2022			2021		
		Total	Domestic operations	International operations	Total	Domestic operations	International operations
Balance of interest-earning assets	Average balance	5,041,038	4,373,314	2,086,071	4,573,685	3,837,272	2,046,313
	Interest income/expense	59,857	[1,418,347]	35,066	62,003	[1,309,900]	37,372
	Return/rates (%)	1.18	0.61	1.68	1.35	0.69	1.82
Due from banks	Average balance	23,530	71	23,459	37,398	144	37,253
	Interest income/expense	22	0	22	27	0	27
	Return/rates (%)	0.09	0.00	0.09	0.07	0.04	0.07
Call loans	Average balance	398,294	389,019	9,275	139,689	139,345	344
	Interest income/expense	(34)	(44)	9	(23)	(24)	0
	Return/rates (%)	(0.00)	(0.01)	0.10	(0.01)	(0.01)	0.08
Securities purchased under resale agreements	Average balance	4	4	—	142,350	142,350	—
	Interest income/expense	(0)	(0)	—	(142)	(142)	—
	Return/rates (%)	(0.09)	(0.09)	—	(0.10)	(0.10)	—
Cash collateral provided for securities borrowed	Average balance	—	—	—	—	—	—
	Interest income/expense	—	—	—	—	—	—
	Return/rates (%)	—	—	—	—	—	—
Securities	Average balance	1,376,034	504,569	871,464	1,213,757	366,328	847,428
	Interest income/expense	20,298	4,891	15,406	21,251	4,645	16,605
	Return/rates (%)	1.47	0.96	1.76	1.75	1.26	1.95
Loans and bills discounted	Average balance	3,080,017	1,966,508	1,113,508	2,883,214	1,808,727	1,074,486
	Interest income/expense	38,463	18,907	19,556	39,837	19,207	20,629
	Return/rates (%)	1.24	0.96	1.75	1.38	1.06	1.91
Balance of interest-bearing liabilities	Average balance	5,201,659	4,558,041	2,061,965	4,676,466	3,973,485	2,012,881
	Interest income/expense	14,175	6,744	[1,418,347]	17,692	6,520	[1,309,900]
	Return/rates (%)	0.27	0.14	0.45	0.37	0.16	0.66
Deposits	Average balance	4,154,323	4,031,799	122,523	3,519,794	3,401,395	118,399
	Interest income/expense	6,130	5,747	382	5,607	4,931	676
	Return/rates (%)	0.14	0.14	0.31	0.15	0.14	0.57
Negotiable certificates of deposit	Average balance	34,272	34,272	—	39,574	39,574	—
	Interest income/expense	3	3	—	4	4	—
	Return/rates (%)	0.01	0.01	—	0.01	0.01	—
Debentures	Average balance	—	—	—	20,925	20,925	—
	Interest income/expense	—	—	—	55	55	—
	Return/rates (%)	—	—	—	0.26	0.26	—
Call money	Average balance	15,925	10,000	5,925	18,921	15,164	3,756
	Interest income/expense	24	1	23	34	(0)	35
	Return/rates (%)	0.15	0.01	0.39	0.18	(0.00)	0.93
Securities sold under repurchase agreements	Average balance	62,819	—	62,819	43,279	—	43,279
	Interest income/expense	82	—	82	107	—	107
	Return/rates (%)	0.13	—	0.13	0.24	—	0.24
Cash collateral received for securities lent	Average balance	364,118	4,904	359,213	348,299	969	347,330
	Interest income/expense	356	—	356	1,513	—	1,513
	Return/rates (%)	0.09	—	0.09	0.43	—	0.43
Borrowed money	Average balance	370,013	369,104	908	462,466	347,536	114,930
	Interest income/expense	878	876	2	1,782	1,392	390
	Return/rates (%)	0.23	0.23	0.26	0.38	0.40	0.33
Bonds payable	Average balance	180,593	98,509	82,083	198,383	133,863	64,520
	Interest income/expense	1,957	125	1,832	2,230	155	2,075
	Return/rates (%)	1.08	0.12	2.23	1.12	0.11	3.21

Notes: 1. Interest-earning assets are shown after deduction of the average balance of non-interest-earning deposits. Interest-bearing liabilities are shown after deduction of amounts equivalent to the average balance of money held in trust and corresponding interest.

2. Figures in brackets [ ] indicate the average balances of interdepartmental lending and borrowing activities between domestic and international operations and corresponding interest income/expenses.



# Income Analysis (Non-Consolidated)

## Analysis of Interest Income and Interest Expenses

(Millions of Yen)

		2022			2021		
		Total	Domestic operations	International operations	Total	Domestic operations	International operations
<b>Interest income</b>	<b>Volume-related increase (decrease)</b>	<b>6,335</b>	<b>3,738</b>	<b>726</b>	<b>3,963</b>	<b>1,082</b>	<b>(6,154)</b>
	<b>Rate-related increase (decrease)</b>	<b>(8,480)</b>	<b>(3,689)</b>	<b>(3,031)</b>	<b>(34,735)</b>	<b>(1,449)</b>	<b>(24,915)</b>
	<b>Net increase (decrease)</b>	<b>(2,145)</b>	<b>49</b>	<b>(2,305)</b>	<b>(30,771)</b>	<b>(366)</b>	<b>(31,070)</b>
Due from banks	Volume-related increase (decrease)	(10)	(0)	(10)	(31)	(0)	(28)
	Rate-related increase (decrease)	5	(0)	5	(644)	0	(648)
	Net increase (decrease)	(5)	(0)	(5)	(676)	(0)	(676)
Call loans	Volume-related increase (decrease)	(44)	(43)	7	75	38	7
	Rate-related increase (decrease)	33	23	1	(99)	(62)	(7)
	Net increase (decrease)	(10)	(19)	9	(24)	(24)	0
Securities purchased under resale agreements	Volume-related increase (decrease)	142	142	—	(141)	(141)	—
	Rate-related increase (decrease)	0	0	—	0	0	—
	Net increase (decrease)	142	142	—	(140)	(140)	—
Cash collateral provided for securities borrowed	Volume-related increase (decrease)	—	—	—	—	—	—
	Rate-related increase (decrease)	—	—	—	—	—	—
	Net increase (decrease)	—	—	—	—	—	—
Securities	Volume-related increase (decrease)	2,841	1,753	470	(1,615)	1,044	(3,575)
	Rate-related increase (decrease)	(3,794)	(1,507)	(1,670)	(8,521)	(1,178)	(6,427)
	Net increase (decrease)	(953)	246	(1,199)	(10,137)	(134)	(10,003)
Loans and bills discounted	Volume-related increase (decrease)	2,719	1,675	749	68	729	(2,390)
	Rate-related increase (decrease)	(4,092)	(1,975)	(1,822)	(19,186)	383	(17,840)
	Net increase (decrease)	(1,373)	(299)	(1,073)	(19,117)	1,112	(20,230)
<b>Interest expenses</b>	<b>Volume-related increase (decrease)</b>	<b>1,986</b>	<b>959</b>	<b>324</b>	<b>2,159</b>	<b>379</b>	<b>(4,982)</b>
	<b>Rate-related increase (decrease)</b>	<b>(5,503)</b>	<b>(734)</b>	<b>(4,176)</b>	<b>(31,004)</b>	<b>(92)</b>	<b>(24,816)</b>
	<b>Net increase (decrease)</b>	<b>(3,516)</b>	<b>224</b>	<b>(3,851)</b>	<b>(28,845)</b>	<b>287</b>	<b>(29,798)</b>
Deposits	Volume-related increase (decrease)	1,010	913	23	822	558	145
	Rate-related increase (decrease)	(488)	(97)	(317)	(2,445)	(459)	(1,867)
	Net increase (decrease)	522	816	(293)	(1,622)	99	(1,722)
Negotiable certificates of deposit	Volume-related increase (decrease)	(0)	(0)	—	(3)	(3)	—
	Rate-related increase (decrease)	(0)	(0)	—	0	0	—
	Net increase (decrease)	(0)	(0)	—	(2)	(2)	—
Debentures	Volume-related increase (decrease)	(55)	(55)	—	(80)	(80)	—
	Rate-related increase (decrease)	—	—	—	(2)	(2)	—
	Net increase (decrease)	(55)	(55)	—	(83)	(83)	—
Call money	Volume-related increase (decrease)	(5)	0	20	(392)	0	(533)
	Rate-related increase (decrease)	(4)	1	(32)	(205)	0	(65)
	Net increase (decrease)	(10)	1	(11)	(598)	0	(598)
Securities sold under repurchase agreements	Volume-related increase (decrease)	48	—	48	(546)	—	(546)
	Rate-related increase (decrease)	(74)	—	(74)	(872)	—	(872)
	Net increase (decrease)	(25)	—	(25)	(1,418)	—	(1,418)
Cash collateral received for securities lent	Volume-related increase (decrease)	68	—	51	(2,261)	(0)	(1,739)
	Rate-related increase (decrease)	(1,225)	—	(1,208)	(5,710)	(0)	(6,233)
	Net increase (decrease)	(1,157)	—	(1,157)	(7,972)	(0)	(7,972)
Borrowed money	Volume-related increase (decrease)	(356)	86	(387)	406	52	2,249
	Rate-related increase (decrease)	(547)	(602)	(0)	305	393	(1,983)
	Net increase (decrease)	(904)	(515)	(388)	712	446	266
Bonds payable	Volume-related increase (decrease)	(200)	(41)	564	(470)	(28)	(520)
	Rate-related increase (decrease)	(73)	10	(807)	35	6	106
	Net increase (decrease)	(273)	(30)	(242)	(435)	(21)	(414)

Note: Changes due to a combination of volume- and rate-related increases (decreases) have been included in rate-related increase (decrease).

## Fees and Commissions

(Millions of Yen)

		2022			2021		
		Total	Domestic operations	International operations	Total	Domestic operations	International operations
<b>Net fees and commissions</b>		<b>7,651</b>	<b>6,905</b>	<b>745</b>	<b>9,939</b>	<b>8,152</b>	<b>1,787</b>
<b>Fees and commissions income</b>		<b>14,975</b>	<b>13,303</b>	<b>1,671</b>	<b>14,563</b>	<b>12,054</b>	<b>2,508</b>
Deposits and loan operations		7,646	7,134	512	7,419	7,113	305
Foreign exchange operations		196	187	8	198	182	16
Securities-related operations		1,382	1,382	—	938	938	—
Agency services		4,467	3,451	1,015	5,105	2,986	2,119
Guarantee operations		123	72	51	152	96	55
<b>Fees and commissions expenses</b>		<b>7,324</b>	<b>6,397</b>	<b>926</b>	<b>4,623</b>	<b>3,901</b>	<b>721</b>
Foreign exchange operations		158	89	69	153	108	44

## Trading Income

(Millions of Yen)

		2022			2021		
		Total	Domestic operations	International operations	Total	Domestic operations	International operations
<b>Net trading income</b>		<b>15,432</b>	<b>10,416</b>	<b>5,016</b>	<b>11,872</b>	<b>(11,039)</b>	<b>22,912</b>
<b>Gain on trading account transactions</b>		<b>15,432</b>	<b>10,416</b>	<b>5,016</b>	<b>32,723</b>	<b>9,813</b>	<b>22,910</b>
Net gain on trading securities		7,576	7,576	—	—	—	—
Net gain on trading account securities		2,251	(1,302)	3,554	26,378	7,963	18,415
Net gain on trading account financial derivatives		5,604	4,142	1,461	6,345	1,850	4,495
Net gain on other trading account transactions		—	—	—	—	—	—
<b>Loss on trading account transactions</b>		<b>—</b>	<b>—</b>	<b>—</b>	<b>20,851</b>	<b>20,852</b>	<b>(1)</b>
Net loss on trading securities		—	—	—	20,851	20,852	(1)
Net loss on trading account securities		—	—	—	—	—	—
Net loss on trading account financial derivatives		—	—	—	—	—	—
Net loss on other trading account transactions		—	—	—	—	—	—

## Income Analysis (Non-Consolidated)

### Other Ordinary Income

	2022			2021		
	Total	Domestic operations	International operations	Total	Domestic operations	International operations
<b>Net other ordinary income</b>	<b>19,038</b>	<b>9,100</b>	<b>9,937</b>	<b>22,924</b>	<b>7,498</b>	<b>15,425</b>
<b>Other ordinary income</b>	<b>26,537</b>	<b>10,771</b>	<b>15,765</b>	<b>37,008</b>	<b>10,578</b>	<b>26,430</b>
Gains on foreign exchange transactions	2,583	—	2,583	—	—	—
Gains on sales of bonds and other securities	9,408	3,133	6,275	18,357	1,449	16,908
Gains on redemption of bonds and other securities	—	—	—	—	—	—
Gains on derivatives	1,082	—	1,082	182	—	182
Other	13,462	7,638	5,824	18,468	9,129	9,339
<b>Other ordinary expenses</b>	<b>7,498</b>	<b>1,670</b>	<b>5,827</b>	<b>14,084</b>	<b>3,079</b>	<b>11,004</b>
Losses on foreign exchange transactions	—	—	—	527	—	527
Losses on sales of bonds and other securities	4,908	220	4,687	9,340	1,055	8,285
Losses on redemption of bonds and other securities	—	—	—	794	173	621
Losses on devaluation of bonds and other securities	—	—	—	68	—	68
Amortization of bond issuance costs	214	131	82	233	166	67
Losses on derivatives	—	—	—	—	—	—
Other	2,375	1,318	1,057	3,118	1,684	1,434

### General and Administrative Expenses

	2022	2021
<b>General and administrative expenses</b>	<b>45,684</b>	<b>45,488</b>
Salaries and allowances	18,332	17,571
Retirement benefit expenses	551	2,031
Welfare expenses	574	542
Depreciation	4,923	4,521
Rent and lease expenses	3,054	3,112
Building and maintenance expenses	225	257
Supplies expenses	269	294
Utilities expenses	308	301
Traveling expenses	122	85
Communication expenses	759	696
Advertising expenses	460	766
Taxes and dues	2,901	2,639
Other	13,197	12,667

## Deposit Operations (Non-Consolidated)

### Balance of Deposits

		2022			2021		
		Total	Domestic operations	International operations	Total	Domestic operations	International operations
<b>Deposits</b>							
Liquid deposits	Average balance	1,663,531	1,663,531	—	1,023,087	1,023,087	—
	(%)	(40.04)	(41.26)	—	(29.07)	(30.08)	—
	Term-end balance	2,042,534	2,042,534	—	1,346,894	1,346,894	—
	(%)	(44.75)	(46.10)	—	(35.25)	(36.45)	—
Interest-bearing deposits	Average balance	1,628,751	1,628,751	—	989,770	989,770	—
	(%)	(39.21)	(40.40)	—	(28.12)	(29.10)	—
	Term-end balance	2,005,751	2,005,751	—	1,310,418	1,310,418	—
	(%)	(43.95)	(45.27)	—	(34.29)	(35.46)	—
Time deposits (in general)	Average balance	2,366,907	2,366,907	—	2,377,594	2,377,594	—
	(%)	(56.97)	(58.71)	—	(67.55)	(69.90)	—
	Term-end balance	2,386,837	2,386,837	—	2,346,518	2,346,518	—
	(%)	(52.30)	(53.87)	—	(61.41)	(63.50)	—
Deregulated interest rate time deposits (fixed)	Average balance	1,586,944	1,586,944	—	1,692,262	1,692,262	—
	(%)	(38.20)	(39.36)	—	(48.08)	(49.75)	—
	Term-end balance	1,523,999	1,523,999	—	1,623,119	1,623,119	—
	(%)	(33.39)	(34.40)	—	(42.48)	(43.92)	—
Deregulated interest rate time deposits (floating)	Average balance	779,963	779,963	—	685,332	685,332	—
	(%)	(18.77)	(19.35)	—	(19.47)	(20.15)	—
	Term-end balance	862,837	862,837	—	723,398	723,398	—
	(%)	(18.90)	(19.47)	—	(18.93)	(19.58)	—
Others	Average balance	123,884	1,360	122,523	119,112	712	118,399
	(%)	(2.99)	(0.03)	(100.00)	(3.38)	(0.02)	(100.00)
	Term-end balance	134,709	1,443	133,266	127,727	1,989	125,738
	(%)	(2.95)	(0.03)	(100.00)	(3.34)	(0.05)	(100.00)
Subtotal	Average balance	4,154,323	4,031,799	122,523	3,519,794	3,401,395	118,399
	(%)	(100.00)	(100.00)	(100.00)	(100.00)	(100.00)	(100.00)
	Term-end balance	4,564,081	4,430,814	133,266	3,821,140	3,695,402	125,738
	(%)	(100.00)	(100.00)	(100.00)	(100.00)	(100.00)	(100.00)
Negotiable certificates of deposit	Average balance	34,272	34,272	—	39,574	39,574	—
	Term-end balance	33,500	33,500	—	34,000	34,000	—
Total	Average balance	4,188,595	4,066,072	122,523	3,559,369	3,440,970	118,399
	Term-end balance	4,597,581	4,464,314	133,266	3,855,140	3,729,402	125,738

Notes: 1. Liquid deposits = Current deposits + ordinary deposits + savings deposits + deposits at notice

2. Time deposits (in general) = Time deposits

Deregulated interest rate time deposits (fixed) = Deregulated interest rate time deposits for which the interest up to the due date is determined when the deposits are made.

Deregulated interest rate time deposits (floating) = Deregulated interest rate time deposits for which the interest varies according to changes in market interest rates during the period of deposit.

Deposit Operations (Non-Consolidated)

Balance of Time Deposits by Residual Period

Years Ended March 31

	2022			2021		
	Total	Deregulated interest rate (fixed)	Deregulated interest rate (floating)	Total	Deregulated interest rate (fixed)	Deregulated interest rate (floating)
Less than 3 months	366,366	358,216	8,150	388,530	378,880	9,650
3–6 months	336,971	336,471	500	344,039	343,539	500
6 months–1 year	549,822	513,305	36,517	558,512	558,512	—
1–2 years	213,566	146,498	67,067	204,886	146,687	58,199
2–3 years	167,791	131,916	35,875	126,300	86,502	39,797
More than 3 years	752,319	37,590	714,728	724,249	108,997	615,252
Total	2,386,837	1,523,999	862,837	2,346,518	1,623,119	723,398

Balance of Deposits by Depositor

Years Ended March 31

	2022		2021	
	Balance	Share	Balance	Share
Corporate	674,658	14.78	655,853	17.16
Retail	3,026,240	66.31	2,388,661	62.51
Public sector	58,345	1.28	53,345	1.40
Financial institutions	804,836	17.63	723,279	18.93
Total	4,564,081	100.00	3,821,140	100.00

Note: The above balance does not include negotiable certificates of deposit in offshore market accounts.

Deposits per Office

Years Ended March 31

	2022			2021		
	Total	Domestic offices	Overseas offices	Total	Domestic offices	Overseas offices
Number of offices	20	20	—	20	20	—
Deposits per office	229,879	229,879	—	192,757	192,757	—

Notes: 1. Deposits include negotiable certificates of deposit.  
2. Number of offices does not include domestic sub-branches and overseas representative offices.

Deposits per Employee

Years Ended March 31

	2022			2021		
	Total	Domestic offices	Overseas offices	Total	Domestic offices	Overseas offices
Number of employees	1,987	1,987	—	1,955	1,955	—
Deposits per employee	2,313	2,313	—	1,971	1,971	—

Notes: 1. Deposits include negotiable certificates of deposit.  
2. Number of employees represents the average number of employees in each fiscal year. The number of employees in domestic offices includes head office staff.

Loan Operations (Non-Consolidated)

Balance of Loans

Years Ended March 31

		2022			2021		
		Total	Domestic operations	International operations	Total	Domestic operations	International operations
Loans on deeds	Average balance	2,856,970	1,743,461	1,113,508	2,691,707	1,617,220	1,074,486
	Term-end balance	3,057,969	1,813,101	1,244,868	2,749,373	1,667,864	1,081,509
Loans on bills	Average balance	35,791	35,791	—	12,456	12,456	—
	Term-end balance	24,443	24,443	—	15,960	15,960	—
Overdrafts	Average balance	181,461	181,461	—	176,518	176,518	—
	Term-end balance	142,817	142,817	—	148,349	148,349	—
Bills discounted	Average balance	5,794	5,794	—	2,532	2,532	—
	Term-end balance	5,674	5,674	—	4,633	4,633	—
Total	Average balance	3,080,017	1,966,508	1,113,508	2,883,214	1,808,727	1,074,486
	Term-end balance	3,230,905	1,986,037	1,244,868	2,918,317	1,836,808	1,081,509

Note: The Bank carries out partial and direct write-off of loans. This also applies to the table shown below.

Balance of Loans by Residual Period

Years Ended March 31

	2022			2021		
	Total	Fixed interest	Floating interest	Total	Fixed interest	Floating interest
Less than 1 year	1,476,622	/	/	1,314,189	/	/
1–3 years	578,459	239,407	339,051	565,946	221,229	344,717
3–5 years	610,656	218,206	392,449	561,529	198,664	362,865
5–7 years	335,100	78,661	256,439	268,927	60,888	208,038
Over 7 years	230,066	81,019	149,047	207,725	70,612	137,112
Indefinite period	—	—	—	—	—	—
Total	3,230,905	/	/	2,918,317	/	/

Notes: 1. Maturity is based on scheduled final maturity dates.  
2. No distinction has been made between fixed interest and floating interest for loans with a residual period of less than 1 year.

Ratio of Loans and Bills Discounted to Deposits

	2022			2021		
	Total	Domestic operations	International operations	Total	Domestic operations	International operations
Loans and bills discounted (A)	3,230,905	1,986,037	1,244,868	2,918,317	1,836,808	1,081,509
Deposits (B)	4,597,581	4,464,314	133,266	3,855,140	3,729,402	125,738
Ratio(A)/(B)	70.27	44.48	934.12	75.69	49.25	860.12
Average during the year	73.53	48.36	908.81	80.53	52.24	907.50

Notes: 1. Deposits include negotiable certificates of deposit.  
2. The above 'Average during the year' for the year ended of March 31,2021 is calculated as the ratio of Loans to the total amounts of Deposits and Debentures.

Loans per Office

	2022			2021		
	Total	Domestic offices	Overseas offices	Total	Domestic offices	Overseas offices
Number of offices	20	20	—	20	20	—
Loans per office	161,545	161,545	—	145,915	145,915	—

Note: Number of offices does not include domestic sub-branches and overseas representative offices.



Loan Operations (Non-Consolidated)

Loans per Employee

(Number of Employees, Millions of Yen)

	2022			2021		
	Total	Domestic offices	Overseas offices	Total	Domestic offices	Overseas offices
Number of employees	1,987	1,987	—	1,955	1,955	—
Loans per employee	1,626	1,626	—	1,492	1,492	—

Note: Number of employees represents the average number of employees in each fiscal year. The number of employees in domestic offices includes head office staff.

Loans to Small and Medium-Sized Enterprises(SMEs)

(Number of Borrowers, Millions of Yen, %)

	2022		2021	
	Number of borrowers	Value	Number of borrowers	Value
Total loans and bills discounted (A)	1,001	3,230,905	1,048	2,918,317
Loans to small and medium-sized enterprises(SMEs) (B)	779	2,517,539	823	2,240,369
(B)/(A)	77.82	77.92	78.53	76.76

Notes: 1. In this table, the balance of loans and bills discounted does not include offshore banking accounts.  
2. SMEs are defined as companies having capital of not more than ¥300 million (¥100 million in wholesale, and ¥50 million in retail, food service and leasing business categories), or companies with not more than 300 full-time employees (100 in wholesale and leasing, 50 in retail and food service business categories), etc.

Consumer Loans Outstanding

(Millions of Yen)

	2022	2021
Consumer loans	1,192	1,385
Housing loans	801	979
Others	391	405

Note: Consumer loans outstanding includes personal housing loans, as well as personal loans for general spending purposes and tax payments, and does not include business loans to sole proprietorships or their owners.

Breakdown of Loans and Bills Discounted by Industry

Years Ended March 31

(Millions of Yen, %)

	2022		2021	
	Balance of loans	Share	Balance of loans	Share
Domestic offices (excluding Japan offshore market accounts)	3,230,905	100.00	2,918,317	100.00
Manufacturing	236,793	7.33	212,283	7.27
Agriculture, forestry and fisheries	4,129	0.13	4,501	0.15
Mining, quarry and gravel extraction	—	—	—	—
Construction	10,286	0.32	12,228	0.42
Electricity, gas, heat supply and water	87,017	2.69	49,788	1.71
Information and communications	102,637	3.18	113,118	3.88
Transport and postal service	40,375	1.25	35,778	1.23
Wholesale and retail trade	77,922	2.41	71,898	2.46
Finance and insurance	351,254	10.87	361,798	12.40
Real estate	715,063	22.13	626,079	21.45
Leasing	100,517	3.11	75,701	2.59
Other services	153,686	4.76	186,041	6.38
Local government	16,980	0.53	21,115	0.72
Others	1,334,241	41.29	1,147,982	39.34
Overseas offices (including Japan offshore market accounts)	—	—	—	—
Government	—	—	—	—
Financial institutions	—	—	—	—
Others	—	—	—	—
Total	3,230,905		2,918,317	

Note: Domestic offices refer to the Bank's head office and branch offices; overseas offices refer to the Bank's overseas branch offices.

Risk-Monitored Loans by Industry

Years Ended March 31

(Millions of Yen)

	2022	2021
Domestic offices (excluding Japan offshore market accounts)	20,698	25,751
Manufacturing	7,801	2,905
Agriculture, forestry and fisheries	4,161	4,501
Mining, quarry and gravel extraction	—	—
Construction	—	—
Electricity, gas, heat supply and water	—	—
Information and communications	—	—
Transport and postal service	—	—
Wholesale and retail trade	1,961	2,025
Finance and insurance	—	—
Real estate	2,139	2,273
Leasing	—	861
Other services	1,300	1,405
Local government	—	—
Others	3,334	11,779
Overseas offices (including Japan offshore market accounts)	—	—
Government	—	—
Financial institutions	—	—
Others	—	—
Total	20,698	25,751

Note: Risk monitored loans include accrued interest and suspense payments in other assets and customers' liabilities for acceptances and guarantees.

## Loan Operations (Non-Consolidated)

### Balance of Loans and Bills Discounted, Classified by Purpose

(Millions of Yen, %)

	2022		2021	
	Balance of loans	Share	Balance of loans	Share
Funds for capital investment	436,681	13.52	400,627	13.73
Funds for working capital	2,794,224	86.48	2,517,689	86.27
<b>Total</b>	<b>3,230,905</b>	<b>100.00</b>	<b>2,918,317</b>	<b>100.00</b>

### Breakdown of Balance of Acceptances and Guarantees

(Millions of Yen)

	2022	2021
Acceptances of bills	—	—
Letters of credit	14,522	3,565
Guarantees	10,859	12,517
<b>Total</b>	<b>25,381</b>	<b>16,083</b>

### Breakdown of Loans and Bills Discounted by Collateral

(Millions of Yen)

	2022	2021
Securities	10,284	9,634
Claims	36,517	42,061
Merchandise	—	—
Real estate	170,149	164,681
Others	8,132	13,920
<b>Subtotal</b>	<b>225,084</b>	<b>230,298</b>
Guaranteed	86,734	102,025
Unsecured	2,919,087	2,585,993
<b>Total</b>	<b>3,230,905</b>	<b>2,918,317</b>

### Breakdown of Collateral for Customers' Liabilities for Acceptances and Guarantees

(Millions of Yen)

	2022	2021
Securities	—	—
Claims	—	—
Real estate	—	—
Others	5	25
<b>Subtotal</b>	<b>5</b>	<b>25</b>
Guaranteed	5,853	361
Unsecured	19,523	15,697
<b>Total</b>	<b>25,381</b>	<b>16,083</b>

### Write-Off of Loans

(Millions of Yen)

	2022	2021
Write-off of loans	1,062	3,020

### Allowance for Loan Losses

Years Ended March 31

(Millions of Yen)

	2022					2021				
	Balance at beginning of year	Provision	Reduction during year		Balance at end of year	Balance at beginning of year	Provision	Reduction during year		Balance at end of year
			Used for specific purpose	Other				Used for specific purpose	Other	
General allowance	39,280	38,264	—	39,280	38,264	39,612	39,280	—	39,612	39,280
Specific allowance	[-264]					[101]				
	11,027	9,646	5,245	5,782	9,646	13,470	10,763	3,610	9,859	10,763
Related to non-residents	[-254]					[101]				
	4,004	40	3,391	613	40	4,789	3,749	3,151	1,637	3,749
Allowance for loans to restructuring countries	—	—	—	—	—	—	—	—	—	—

Note: Figures in parentheses for balance at beginning of year indicate translation difference due to foreign exchange fluctuations.

### Country Risk Reserve

None.

Loan Operations (Non-Consolidated)

Disclosed Claims under Financial Reconstruction Law ("FRL Credit") and Risk-Monitored Loans

Years Ended March 31

Non-consolidated

	(Billions of Yen)	
	2022	2021
Disclosed claims under Financial Reconstruction Law ("FRL Credit") and Risk-Monitored Loans		
Bankrupt and similar credit	2.8	2.1
Doubtful credit	15.4	20.7
Special attention credit	2.3	2.8
Loans overdue for three months or more	—	—
Restructured loans	2.3	2.8
Subtotal (A)	20.6	25.7
Normal credit	3,272.3	2,938.5
Total credit (B)	3,293.0	2,964.2
(A/B)	0.62%	0.86%

Consolidated

	(Billions of Yen)	
	2022	2021
Disclosed claims under Financial Reconstruction Law ("FRL Credit") and Risk-Monitored Loans		
Bankrupt and similar credit	2.8	2.1
Doubtful credit	16.2	20.7
Special attention credit	2.3	4.4
Loans overdue for three months or more	—	1.5
Restructured loans	2.3	2.8
Subtotal (A)	21.4	27.3
Normal credit	3,346.0	2,966.6
Total credit (B)	3,367.4	2,994.0
(A/B)	0.63%	0.91%

Reserve Ratios for Each Category of Borrower, Based on Asset-Assessments

Years Ended March 31

Non-consolidated

	(%)	
Definition of Borrower Categories	2022	2021
Normal	0.7	0.8
Need attention:		
Other need attention borrowers	5.0	5.0
Special attention borrowers (Ratio of reserve to unsecured)	60.9	52.5
In danger of bankruptcy (Ratio of reserve to unsecured)	87.7	87.7
De facto bankrupt and bankrupt (Ratio of reserve to unsecured)	100.0	100.0

Asset-Assessment, Disclosed Claims, Write-Offs and Reserves

(After Partial and Direct Write-Offs, Non-Consolidated Basis) as of March 31, 2022

(Billions of Yen)

Borrower categories for self-assessment	Disclosed credit under the FRL		Reserve and coverage for claims under the FRL	Reserve to unsecured credit ratio	Reserve and coverage ratio for claims under the FRL	
	Loans	Other				
Bankrupt borrowers	Bankrupt and similar credit 2.8		Collateral/Guarantee coverage Reserve	2.8 —	100.0%	100.0%
De facto bankrupt borrowers						
In danger of bankruptcy borrowers	Doubtful credit 15.4		Collateral/Guarantee coverage Reserve Estimated collections	4.4 9.6 1.3	87.7%	91.3%
Need attention borrowers	Special attention credit 2.3		Collateral/Guarantee coverage Reserve Estimated collections	— 1.4 0.9		
	Normal borrowers		Normal credit 3,272.3			
	Disclosed claims under the FRL 20.6		Collateral/Guarantee coverage Reserve Estimated collections	7.3 11.1 2.2	Reserve ratio for disclosed claims under the FRL 82.9%	Reserve and coverage ratio for disclosed claims under the FRL 89.0%
	Total credit 3,293.0		Total reserve 47.9			

FRL: Financial Reconstruction Law

Reserve to unsecured credit ratio = Reserve ÷ (Claims − Collateral, guarantees, etc.)

Reserve and coverage ratio = (Collateral, guarantees, etc. ÷ Reserve) ÷ Claims

<Definitions of Borrower Categories>		<Definitions of Disclosed Claims under the Financial Reconstruction Law · Risk-Monitored Loans>	
Normal	Business performance is strong and no special financial problems exist.	Bankrupt and similar credit	Bankrupt and similar credit refers to the credit of borrowers who have filed for bankruptcy, corporate reorganization, composition, etc., as well as those borrowers who are in an equivalent situation.
Need attention	Borrowers that need to be monitored carefully because of weak business fundamentals, financial problems or problematic lending conditions.	Doubtful credit	Doubtful refers to the credit of borrowers, excluding bankrupt and similar credit with serious concern for recovery of principal and receiving of interest as contract provisions, as those borrower's financial condition and business result have worsened, although they have not gone bankrupt.
In danger of bankruptcy	Borrowers that are not currently bankrupt but are highly likely to become bankrupt.	Special attention credit	Special attention refers to loans in arrears for more than three months or with mitigated conditions.
De facto bankrupt	Borrowers that are substantially bankrupt but are not legally or practically bankrupt yet.	Loans overdue for three months or more	Loans overdue for three months or more refer to those loans, excluding bankrupt and similar credit and doubtful credit for which principal or interest remains unpaid for at least three months.
Bankrupt	Borrowers that are legally or practically bankrupt.	Restructured loans	Restructured loans refer to those loans, excluding bankrupt and similar credit, doubtful credit and loans overdue for three months or more for which agreement was made to provide reduction or a moratorium on interest payments, or concessions in the borrower's favor on interest or principal payments or to waive claims for the purpose of assisting the reconstruction of insolvent borrowers.
<Definitions of Asset Classifications>		Normal credit	Normal credit refers to credit to borrowers whose financial condition and business results have no particular problem and which are not categorized in any of the above categories.
Category I	Assets that present no particular risk of collectability or impairment of value.		
Category II	Assets, including credits, which bear above-average risk of collectability.		
Category III	Assets that bear substantial risk of final collectability or impairment of value, and are likely to incur losses.		
Category IV	Assets deemed to be uncollectable or valueless.		
<Write-Off and Reserve Provision Rules>			
Normal and Need attention borrowers	A general allowance is provided by applying the estimated loan-loss ratio determined based on the historical loan-loss data over a defined period in the past. However, for borrowers with large credit exposure, the loan-loss amount estimated by the DCF method is reflected as an addition to the allowance for loan losses calculated based on the estimated loan-loss ratio, if necessary.		
In danger of bankruptcy borrowers	A specific allowance is provided for the loan losses at an amount considered to be necessary based on an overall solvency assessment of the borrowers and expected collectible amounts through the disposal of collateral or execution of guarantees, etc. For loans whose future cash flows of principal and interest are reasonably estimated, the difference between the discounted cash flows and the carrying value is accounted for as an allowance for loan losses.		
De facto bankrupt and Bankrupt borrowers	In principle, the full amounts of credits that bear substantial risk of final collectability or impairment of value, and credits deemed to be uncollectable or valueless are written off directly.		



## Securities (Non-Consolidated)

### Balance of Securities Held

(Millions of Yen, %)

		2022			2021		
		Total	Domestic operations	International operations	Total	Domestic operations	International operations
<b>Total</b>	<b>Average balance (%)</b>	<b>1,376,034 (100.00)</b>	<b>504,569 (100.00)</b>	<b>871,464 (100.00)</b>	<b>1,213,757 (100.00)</b>	<b>366,328 (100.00)</b>	<b>847,428 (100.00)</b>
	<b>Term-end balance (%)</b>	<b>1,494,578 (100.00)</b>	<b>603,561 (100.00)</b>	<b>891,017 (100.00)</b>	<b>1,445,782 (100.00)</b>	<b>499,076 (100.00)</b>	<b>946,705 (100.00)</b>
Japanese national government bonds	Average balance (%)	30,999 (2.25)	30,999 (6.14)	—	10,400 (0.86)	10,400 (2.84)	—
	Term-end balance (%)	51,352 (3.44)	51,352 (8.51)	—	29,773 (2.06)	29,773 (5.97)	—
Japanese local government bonds	Average balance (%)	132,506 (9.63)	132,506 (26.26)	—	72,149 (5.94)	72,149 (19.70)	—
	Term-end balance (%)	133,452 (8.93)	133,452 (22.11)	—	128,971 (8.92)	128,971 (25.84)	—
Japanese short-term corporate bonds	Average balance (%)	369 (0.03)	369 (0.07)	—	191 (0.02)	191 (0.05)	—
	Term-end balance (%)	34,998 (2.34)	34,998 (5.80)	—	29,998 (2.07)	29,998 (6.01)	—
Japanese corporate bonds	Average balance (%)	135,630 (9.86)	135,630 (26.88)	—	79,694 (6.57)	79,694 (21.75)	—
	Term-end balance (%)	129,837 (8.69)	129,837 (21.51)	—	82,401 (5.70)	82,401 (16.51)	—
Japanese stocks	Average balance (%)	41,783 (3.04)	41,783 (8.28)	—	36,654 (3.02)	36,654 (10.01)	—
	Term-end balance (%)	65,525 (4.38)	65,525 (10.86)	—	58,219 (4.03)	58,219 (11.67)	—
Others	Average balance (%)	1,034,744 (75.19)	163,280 (32.37)	871,464 (100.00)	1,014,666 (83.59)	167,237 (45.65)	847,428 (100.00)
	Term-end balance (%)	1,079,411 (72.22)	188,394 (31.21)	891,017 (100.00)	1,116,418 (77.22)	169,712 (34.00)	946,705 (100.00)

Note: Total for 'Others' is the sum of domestic operations for 'Others' and international operations.

### Balance of Securities by Residual Period

(Millions of Yen)

	2022						2021					
	Japanese national government bonds	Japanese local government bonds	Japanese short-term corporate bonds	Japanese corporate bonds	Japanese stocks	Others	Japanese national government bonds	Japanese local government bonds	Japanese short-term corporate bonds	Japanese corporate bonds	Japanese stocks	Others
Less than 1 year	—	3,127	34,998	15,205		15,599	—	3,473	29,998	1,068		11,313
1–3 years	—	9,015	—	3,439		70,791	—	7,973	—	705		24,999
3–5 years	—	17,564	—	25,140		107,773	—	11,063	—	14,820		159,591
5–7 years	—	5,849	—	11,678		40,038	—	8,868	—	10,169		48,759
7–10 years	29,723	97,895	—	2,103		95,536	10,009	97,592	—	4,225		110,258
Over 10 years	21,629	—	—	72,270		206,320	19,764	—	—	51,411		245,628
Indefinite period	—	—	—	—	65,525	543,352	—	—	—	—	58,219	515,867
<b>Total</b>	<b>51,352</b>	<b>133,452</b>	<b>34,998</b>	<b>129,837</b>	<b>65,525</b>	<b>1,079,411</b>	<b>29,773</b>	<b>128,971</b>	<b>29,998</b>	<b>82,401</b>	<b>58,219</b>	<b>1,116,418</b>

### Ratio of Securities to Deposits

(Millions of Yen, %)

	2022			2021		
	Total	Domestic operations	International operations	Total	Domestic operations	International operations
Securities (A)	1,494,578	603,561	891,017	1,445,782	499,076	946,705
Deposits (B)	4,597,581	4,464,314	133,266	3,855,140	3,729,402	125,738
Ratio (A)/(B)	32.50	13.51	668.59	37.50	13.38	752.91
Average during the year	32.85	12.40	711.26	33.90	10.58	715.73

Notes: 1. Deposits include negotiable certificates of deposit.

2. The above 'Average during the year' for the year ended of March 31, 2021 is calculated as the ratio of Securities to the total amounts of Deposits and Debentures.

## Securities Business (Non-Consolidated)

### Underwriting of Public Bonds

(Millions of Yen)

	2022	2021
Japanese national government bonds	—	—
Japanese local government bonds and government-guaranteed bonds	—	—
<b>Total</b>	<b>—</b>	<b>—</b>

### Over-the-Counter Sales of Public Bonds and Securities Investment Trusts

(Millions of Yen)

	2022	2021
Japanese national government bonds	—	—
Japanese local government bonds and government-guaranteed bonds	—	—
<b>Total</b>	<b>—</b>	<b>—</b>
Securities investment trusts	72,953	37,138

## International Operations (Non-Consolidated)

### Foreign Exchange Transactions

Years Ended March 31

(Millions of U.S. Dollars)

		2022	2021
Outward exchange:	Foreign bills sold	2,990	6,328
	Foreign bills bought	—	—
Incoming exchange:	Foreign bills payable	809	2,519
	Foreign bills receivable	—	—
<b>Total</b>		<b>3,800</b>	<b>8,848</b>

### Balance of Assets in International Operations

(Millions of Yen)

	2022			2021		
	Total	Domestic offices	Overseas offices	Total	Domestic offices	Overseas offices
Balance of assets in international operations	2,394,312	2,394,312	—	2,268,277	2,268,277	—

## Trust Business Operations (Non-Consolidated)

### Statement of Trust Assets and Liabilities

(Millions of Yen)

Account	2022	2021
<b>(Assets)</b>		
<b>Loans and bills discounted</b>	<b>38,790</b>	<b>28,116</b>
Loans on deeds	38,790	28,116
<b>Securities</b>	<b>184,418</b>	<b>176,573</b>
Government bonds	6,785	7,788
Local government bonds	9,075	9,075
Corporate bonds	24,843	26,849
Foreign securities	143,714	132,860
<b>Beneficiary rights</b>	<b>5,359</b>	<b>3,625</b>
<b>Securities held in custody accounts</b>	<b>216,451</b>	<b>217,707</b>
<b>Money claims</b>	<b>238,606</b>	<b>117,676</b>
Money claims on home mortgage	1,353	1,664
Other money claims	237,253	116,011
<b>Tangible fixed assets</b>	<b>111,044</b>	<b>98,136</b>
Real estate	111,044	98,136
<b>Other claims</b>	<b>5,362</b>	<b>8,683</b>
<b>Cash and due from banks</b>	<b>79,502</b>	<b>79,690</b>
Due from banks	79,502	79,690
<b>Assets Total</b>	<b>879,535</b>	<b>730,209</b>
<b>(Liabilities)</b>		
<b>Money trusts</b>	<b>198,475</b>	<b>192,267</b>
<b>Money entrusted, other than money trusts</b>	<b>123,055</b>	<b>106,790</b>
<b>Securities trusts</b>	<b>216,632</b>	<b>217,890</b>
<b>Monetary claims trusts</b>	<b>49,116</b>	<b>7,004</b>
<b>Composite trusts</b>	<b>292,255</b>	<b>206,257</b>
<b>Liabilities Total</b>	<b>879,535</b>	<b>730,209</b>

Notes: 1. "Beneficiary rights", which the Bank acquired from a trust where the Bank acts as entrustor and trustee, is deducted from the total amount of beneficiary rights in the trust account, in order to avoid duplication.  
The principal balance of the corresponding trust account is deducted from liabilities by the same amount.  
2. There are no balances for guaranteed trusts.

### Balance of Money Trusts under Management

(Millions of Yen)

Type	2022	2021
Money trusts	198,475	192,267
<b>Total</b>	<b>198,475</b>	<b>192,267</b>

Note: There are no balances for pension trusts, asset formation benefit trusts or loan trusts.

Trust Business Operations (Non-Consolidated)

Balance of Securities Related to Money Trusts

(Millions of Yen, %)

Type	2022		2021	
	Balance	Percentage	Balance	Percentage
Government bonds	6,785	3.68	6,785	3.87
Local government bond	9,075	4.92	9,075	5.17
Short-term corporate bonds	—	—	—	—
Corporate bonds	24,843	13.47	26,849	15.29
Stocks	—	—	—	—
Other securities	143,714	77.93	132,860	75.67
Total	184,418	100.00	175,570	100.00

Note: There are no balances for pension trusts, asset formation benefit trusts or loan trusts.

Balance of Principal of Money Trusts by Trust Period

(Millions of Yen)

Type	2022	2021
Money trusts		
Less than 1 year	363	607
1-2 years	10,000	10,290
2-5 years	1,046	793
Over 5 years	1,045	1,223
Others	—	—
Total	12,455	12,915

Note: There are no balances for loan trusts.

Balance of Loans and Securities Held in Money Trust by Type

(Millions of Yen)

Type	2022	2021
Money trusts		
Loans	—	—
Securities	184,418	175,570
Money trusts Total	184,418	175,570
Total Loans	—	—
Total Securities	184,418	175,570
Total Loans and Securities	184,418	175,570

Note: There are no balances for pension trusts, asset formation benefit trusts or loan trusts.

The followings are not applicable.

1. Balance of guaranteed trust (including trust assets entrusted to other banks for asset management) by type.
2. Balance of loans held in money trusts by type.
3. Balance of loans related to money trusts by category (loans on deeds, loans on bills and bills discounted).
4. Balance of loans related to money trusts by contract term.
5. Balance of loans related to money trusts by type of collateral (securities, claims, commodities, real estate, guarantees and unsecured).
6. Balance of loans related to money trusts by purpose of use (capital spending and working capital).
7. Balance of loans related to money trusts by industry and ratios to total loans.
8. Balance of loans to Small and Medium-Sized Enterprises (SMEs) related to money trusts and ratios to total loans.  
SMEs are defined as companies having capital of not more than ¥300 million (¥100 million in wholesale, and ¥50 million in retail, food service and leasing business categories), or companies with not more than 300 full-time employees (100 in wholesale and leasing, 50 in retail and food service business categories), etc.
9. Balance of Loans related to guaranteed trust (including trust assets entrusted to other trust banks for asset management).  
Loans are “Bankrupt and similar credit”, “Doubtful credit”, “Loans overdue for three months or more” and “Restructured loans.”

Capitalization (Non-Consolidated)

History of Capitalization

(Millions of Yen)

Month/Year	Capital increases	Capital thereafter	Remarks
Sep. 2000	66,666	419,781	Compensatory private placement (common stock, 333,334 thousand shares); Issue price ¥300; Transfer to capital ¥200
Oct. 2000	(260,000)	159,781	Non-compensatory reduction of capital • Capital reduction of ¥105,287 million by redemption of the 2nd preferred stock, 102,000 thousand shares; the 3rd preferred stock, 386,398 thousand shares; and the 4th preferred stock, 71,856 thousand shares • Capital reduction of ¥154,712 million exceeding face amount of common stock and transferred to capital
Oct. 2000	260,000	419,781	Compensatory private placement (the 5th preferred stock, 866,667 thousand shares); Issue price ¥300; Transfer to capital ¥300
Nov. 2012	(319,781)	100,000	Capital reduction (Change in capital composition) Capital stock was reduced by ¥319,781 million. Of which, ¥53,980 million was transferred to legal capital surplus, and the remaining ¥265,801 million was transferred to other capital surplus.

Major Shareholders

(As of March 31, 2022)

	Number of shares held	Percentage of total outstanding shares
The Master Trust Bank of Japan, Ltd. (Trust Account)	18,224 Thousands	15.41%
Custody Bank of Japan, Ltd. (Trust Account)	5,263	4.45
The Nomura Trust and Banking Co., Ltd. (Trust Account 2052255)	5,000	4.23
SMBC Nikko Securities Inc.	2,676	2.26
JP MORGAN CHASE BANK 385781	1,548	1.31
Aozora Bank, Ltd.	1,517	1.28
The Nomura Trust and Banking Co., Ltd. (Investment Trust Account)	1,445	1.22
STATE STREET BANK WEST CLIENT – TREATY 505234	1,326	1.12
BNYM AS AGT/CLTS NON TREATY JASDEC	1,250	1.06
MSIP CLIENT SECURITIES	993	0.84
GOLDMAN SACHS JAPAN CO.,LTD. BNYM	905	0.77
Others	78,138	66.05
Total	118,289	100.00

Notes: The above table was compiled based on the Bank’s Shareholder Registry as of March 31, 2022.

Ownership and Distribution of Shares

(As of March 31, 2022)

Classification	Stock Status (1 <i>tangen</i> unit = 100 shares)								Fractional shares of common stock
	National and municipal governments	Financial institutions	Financial instruments firms	Other domestic companies	Foreign Investors		Individuals and others	Total	
					Other than individuals	Individuals			
Number of shareholders	—	58	42	736	307	168	85,193	86,504	—
Number of shares held ( <i>tangen</i> )	—	342,734	58,598	45,939	209,693	1,415	523,705	1,182,084	81,018
Percentage of total number of shares	—	28.99	4.96	3.89	17.74	0.12	44.30	100.00	—

- Notes: 1. Treasury stock of 1,517,048 shares comprises 15,170 *tangen* units under Individuals and others and 48 shares under Fractional shares of common stock.
2. In the Other domestic companies column, shares in the name of Japan Securities Depository Center Incorporated represent one *tangen* unit.



Disclosure Based on Basel III  
Capital Accord Pillar III—Market Discipline

This section describes the information consistent with FSA Notice Number 7, Basel III Pillar III—Market Discipline, based on Article 19-2.1.5.d and 19-3.1.3.c of the Ordinance for the Enforcement of the Banking Act (Ministry of Finance Ordinance Number 10, 1982), issued in 2014.

'Notice' in this section refers to FSA Notice Number 19, Basel III Pillar I—Minimum Capital Requirements and Buffers, issued in 2006.

Composition of Capital Disclosure

Composition of Capital Disclosure (Consolidated)

(Basel III)

(Millions of Yen)

Items	March 31, 2022	March 31, 2021
<b>Core capital: instruments and reserves (1)</b>		
Directly issued qualifying common share capital and preferred share capital with mandatory conversion clause plus related stock surplus and retained earnings	481,017	463,856
of which: capital and capital surplus	187,476	187,412
of which: retained earnings	301,914	283,674
of which: treasury stock (–)	3,117	3,260
of which: national specific regulatory adjustments (earnings to be distributed) (–)	5,256	3,969
of which: other than above	–	–
Accumulated other comprehensive income included in Core capital	3,216	3
of which: foreign currency translation adjustment	3,450	(971)
of which: remeasurements of defined benefit plans	(233)	974
Subscription rights to common shares and preferred shares with mandatory conversion clause	390	482
Adjusted non-controlling interests (amount allowed in group Core capital)	–	–
Total of general allowance for loan losses and eligible provisions included in Core capital	38,896	40,697
of which: general allowance for loan losses	38,896	40,697
of which: eligible provisions	–	–
Eligible non-cumulative perpetual preferred shares subject to transitional arrangements included in Core capital	–	–
Eligible capital instruments, other than non-cumulative perpetual preferred shares, subject to transitional arrangements included in Core capital	–	–
Capital instruments issued using public capital injection programs included in Core capital	–	–
Amounts equivalent to 45% of land revaluation excess subject to transitional arrangements included in Core capital	–	–
Non-controlling interests subject to transitional arrangements included in Core capital	185	272
Core capital: instruments and reserves (A)	523,706	505,311
<b>Core capital: regulatory adjustments (2)</b>		
Total intangible assets (net of related tax liability, excluding those relating to mortgage servicing rights)	19,696	19,642
of which: goodwill (including those equivalent)	3,965	3,761
of which: other intangibles other than goodwill and mortgage servicing rights	15,731	15,881
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	53	170
Shortfall of eligible provisions to expected losses	–	–
Securitization gain on sale	–	–
Gains and losses due to changes in own credit risk on fair valued liabilities	133	–
Defined-benefit pension fund net assets (prepaid pension costs)	3,444	3,982
Investments in own shares (excluding those reported in the Net assets section)	8	10
Reciprocal cross-holdings in capital instruments	–	–
Investments in the common stock and preferred stock with mandatory conversion clause of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	–	–

(Millions of Yen)

Items	March 31, 2022	March 31, 2021
Amount exceeding the 10% threshold on specified items	–	–
of which: significant investments in the common stock and preferred stock with mandatory conversion clause of financials	–	–
of which: mortgage servicing rights	–	–
of which: deferred tax assets arising from temporary differences (net of related tax liability)	–	–
Amount exceeding the 15% threshold on specified items	–	–
of which: significant investments in the common stock and preferred stock with mandatory conversion clause of financials	–	–
of which: mortgage servicing rights	–	–
of which: deferred tax assets arising from temporary differences (net of related tax liability)	–	–
Core capital: regulatory adjustments (B)	23,335	23,806
<b>Regulatory capital</b>		
Regulatory capital ((A)–(B)) (C)	500,370	481,505
<b>Risk-weighted assets (3)</b>		
Credit risk assets	4,245,714	3,853,572
Total of items subject to transitional arrangements included in risk-weighted assets	–	–
of which: investments in capital instruments of financials	–	–
of which: other than above	–	–
Risk assets derived from market risk equivalents	407,830	355,759
Risk assets derived from operational risk equivalents	167,469	152,219
Adjustments to credit risk assets	–	–
Adjustments to operational risk equivalents	–	–
Total risk-weighted assets (D)	4,821,014	4,361,551
<b>Consolidated capital adequacy ratio</b>		
Consolidated capital adequacy ratio ((C)/(D))	10.37%	11.03%

Note: Consolidated capital adequacy ratio is calculated based on the Notice.

The Bank uses the domestic standard applicable to Japanese banks without overseas branches or banking subsidiaries.

Methods used to calculate risk-weighted assets and amounts of required capital for each risk are as follows:

(Millions of Yen)

	Methods	March 31, 2022	March 31, 2021
Total required capital			
Credit risk	Standardized approach	192,840	174,462
Market risk equivalents	Internal models approach and Standardized approach	169,828	154,142
		16,313	14,230
Operational risk equivalents	Standardized approach	6,698	6,088

# Disclosure Based on Basel III Capital Accord Pillar III—Market Discipline

## Composition of Capital Disclosure (Non-Consolidated)

(Basel III)

(Millions of Yen)

Items	March 31, 2022	March 31, 2021
<b>Core capital: instruments and reserves (1)</b>		
Directly issued qualifying common share capital and preferred share capital with mandatory conversion clause plus related stock surplus and retained earnings	470,552	458,545
of which: capital and capital surplus	187,476	187,412
of which: retained earnings	291,448	278,361
of which: treasury stock (—)	3,117	3,260
of which: national specific regulatory adjustments (earnings to be distributed) (—)	5,254	3,967
of which: other than above	—	—
Subscription rights to common shares and preferred shares with mandatory conversion clause	390	482
Total of general allowance for loan losses and eligible provisions included in Core capital	38,667	39,852
of which: general allowance for loan losses	38,667	39,852
of which: eligible provisions	—	—
Eligible non-cumulative perpetual preferred shares subject to transitional arrangements included in Core capital	—	—
Eligible capital instruments, other than non-cumulative perpetual preferred shares, subject to transitional arrangements included in Core capital	—	—
Capital instruments issued using public capital injection programs included in Core capital	—	—
Amounts equivalent to 45% of land revaluation excess subject to transitional arrangements included in Core capital	—	—
Core capital: instruments and reserves (A)	509,609	498,879
<b>Core capital: regulatory adjustments (2)</b>		
Total intangible assets (net of related tax liability, excluding those relating to mortgage servicing rights)	8,412	8,645
of which: goodwill (including those equivalent)	—	—
of which: other intangibles other than goodwill and mortgage servicing rights	8,412	8,645
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	—	—
Shortfall of eligible provisions to expected losses	—	—
Securitization gain on sale	—	—
Gains and losses due to changes in own credit risk on fair valued liabilities	133	—
Defined-benefit pension fund net assets (prepaid pension costs)	3,560	2,933
Investments in own shares (excluding those reported in the Net assets section)	8	10
Reciprocal cross-holdings in capital instruments	—	—
Investments in the common stock and preferred stock with mandatory conversion clause of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	—	—
Amount exceeding the 10% threshold on specified items	—	—
of which: significant investments in the common stock and preferred stock with mandatory conversion clause of financials	—	—
of which: mortgage servicing rights	—	—
of which: deferred tax assets arising from temporary differences (net of related tax liability)	—	—
Amount exceeding the 15% threshold on specified items	—	—
of which: significant investments in the common stock and preferred stock with mandatory conversion clause of financials	—	—
of which: mortgage servicing rights	—	—
of which: deferred tax assets arising from temporary differences (net of related tax liability)	—	—
Core capital: regulatory adjustments (B)	12,115	11,589
<b>Regulatory capital</b>		
Regulatory capital ((A)–(B)) (C)	497,494	487,290

(Millions of Yen)

Items	March 31, 2022	March 31, 2021
<b>Risk-weighted assets (3)</b>		
Credit risk assets	4,254,514	3,881,639
Total of items subject to transitional arrangements included in risk-weighted assets	—	—
of which: investments in capital instruments of financials	—	—
of which: other than above	—	—
Risk assets derived from market risk equivalents	407,465	355,315
Risk assets derived from operational risk equivalents	153,788	141,139
Adjustments to credit risk assets	—	—
Adjustments to operational risk equivalents	—	—
Total risk-weighted assets (D)	4,815,768	4,378,094
<b>Non-consolidated capital adequacy ratio</b>		
Non-consolidated capital adequacy ratio ((C)/(D))	10.33%	11.13%

Note: Non-consolidated capital adequacy ratio is calculated based on the Notice.

The Bank uses the domestic standard applicable to Japanese banks without overseas branches or banking subsidiaries.

Methods used to calculate risk-weighted assets and amounts of required capital for each risk are as follows:

(Millions of Yen)

	Methods	March 31, 2022	March 31, 2021
<b>Total required capital</b>			
Credit risk	Standardized approach	192,630	175,123
Market risk equivalents	Internal models approach and Standardized approach	170,180	155,265
		16,298	14,212
Operational risk equivalents	Standardized approach	6,151	5,645

Disclosure Based on Basel III  
Capital Accord Pillar III—Market Discipline

Qualitative Disclosure

1. Items pertaining to the scope of consolidation

(1) A discrepancy between the definition of companies belonging to the group of companies (hereafter, ‘Consolidated Group’) subject to calculation of consolidated capital adequacy ratio, in accordance with Article 26 of the Notice, and companies included within the scope of accounting consolidation, and cause of the discrepancy

Subsidiaries deemed as ‘financial subsidiaries’ according to the Notice but excluded from the scope of accounting consolidation are included in the Consolidated Group in accordance with Article 26 of the Notice.

(2) Number of consolidated subsidiaries, names of principal consolidated subsidiaries and major lines of business

Number of consolidated subsidiaries for the consolidated financial statements: 25  
Principal consolidated subsidiaries:

- GMO Aozora Net Bank, Ltd. (banking business)
- Aozora Loan Services Co., Ltd. (distressed loan servicing)
- Aozora Securities Co., Ltd. (financial instruments business)
- Aozora Regional Consulting Co., Ltd. (business consulting services)
- Aozora Investment Management Co., Ltd. (investment management services)
- Aozora Real Estate Investment Advisors Co., Ltd. (investment advisory services)
- ABN Advisors Co., Ltd. (M&A advisory services)
- Aozora Corporate Investment Co., Ltd. (venture capital investment)
- Aozora Asia Pacific Finance Limited (financial services)
- Aozora Europe Limited (financial services)
- Aozora North America, Inc. (financial services)
- AZB Funding (investment vehicle)
- AZB Funding 2 (investment vehicle)
- AZB Funding 3 (investment vehicle)
- AZB Funding 4 Limited (investment vehicle)
- AZB Funding 5 (investment vehicle)
- AZB Funding 6 (investment vehicle)
- AZB Funding 7 (investment vehicle)
- AZB Funding 8 Limited (investment vehicle)
- AZB Funding 9 Limited (investment vehicle)
- AZB Funding 10 Limited (investment vehicle)
- AZB Funding 11 Limited (investment vehicle)
- AZB Funding 12 Limited (investment vehicle)

(3) Number of affiliates conducting financial services and having applied Article 32 of the Notice, and names, amounts of total assets and net assets and main business of such affiliates

Not applicable

(4) Names, amounts of total assets and net assets, and main business of companies belonging to the Consolidated Group but not included in the scope of accounting consolidation, and companies not belonging to the Consolidated Group but included in the scope of accounting consolidation

(Companies belonging to the Consolidated Group but not included in the scope of accounting consolidation)

(Millions of Yen)

Name	Total assets	Net assets	Main business
AT Investments Co., Ltd.	755	242	financial services
AHT Investments	11	11	financial services
Tokyo Recovery	15	2	financial services
Aozora Recovery Acquisition 1	4,089	4	financial services
Momiji Recovery	2	2	financial services
Chiba-Musashino Partner	315	3	financial services
Shinkumi Recovery Co., Ltd.	540	3	financial services
Aozora Recovery Support Co., Ltd.	1,418	2	financial services
AL3 Co., Ltd.	43	2	financial services
AL4 Co., Ltd.	1	1	financial services
Aozora Asset Co., Ltd.	503	2	financial services
Fukushima Recovery Co., Ltd.	226	218	financial services
Aozora Chiiki Saisei Co., Ltd.	4,630	10	financial services

(Companies not belonging to the Consolidated Group but included in the scope of accounting consolidation)

Not applicable

(5) Summary of restrictions on the movement of cash and equity capital within the Consolidated Group

Not applicable

2. Summary of equity financing methods

The Aozora Bank Group executes equity financing through the issuance of shares of common stock as follows. (As of March 31, 2022)

Item	Common Stock
Issuing entity	Aozora Bank
Amounts included in core capital	¥187,476 million

3. Outline of capital adequacy assessment method

The Bank manages its capital based on ‘risk capital,’ namely economic capital, in order to control the size of its business within its intended scope and secure sufficient capital to match the risk it faces. We assess our capital adequacy by comparing the amounts of total capital for the fiscal year and risk capital usage in which actual risk profile is reflected, and thus confirming that an adequate amount of capital for the risk is secured.

Such assessment is also made from the perspective of whether the Bank can maintain sufficient capital to cover the effects of the estimated impact of a loss assumed in a stress-testing on the Bank’s capital position and ensure the continuous operation from the following fiscal year onwards, and secure the required capital adequacy ratio. The status of risk capital is reported to the senior management on an approximately monthly basis.

4. Items pertaining to credit risk

(1) Summary of risk management policies and procedures

The policies and procedures applied to risk management at Aozora Bank are described in the Risk Governance section of this annual report under the heading ‘Credit Risk Management,’ in the Consolidated Financial Statements: Basic Requirements for the Preparation of Consolidated Financial Statements and the Non-Consolidated Financial Statements: Significant Accounting Policies.

(2) Eligible rating agencies used for the judgment on risk weight

The eligible rating agencies which we use for the judgment on risk weight are as follows. We do not use country risk scores of OECD or Export Credit Agencies.

Type of exposure	Eligible rating agencies used
Sovereign (including government-affiliated organizations)	Rating and Investment Information, Inc. (R&I)
Financial institutions (including securities firms)	Japan Credit Rating Agency, Ltd. (JCR)
Securitization	Moody’s Investors Service (Moody’s)
Exposures to corporates	S&P Global Ratings(S&P)

5. Risk management policy associated with credit risk mitigation and outline of procedures

The Bank uses a standard form of documentation for collateral or guarantee contracts which we confirm as to its legal enforceability. When this standard documentation is not used, we take steps such as confirming the legal enforceability of each contract, among other procedures in the process of our decision to grant or refuse a transaction.

The concentration of credit and market risks resulting from the use of credit risk mitigation is modest.

(Major collateral)

Type of collateral	Valuation	Management policy	Procedures
Financial assets (deposits at Aozora Bank, securities)	Notional amount or market price	Prices are reviewed on a monthly basis. (Prices of listed securities are reviewed every business day.)	In the calculation of risk-weighted assets, such financial collateral are applied as eligible credit risk mitigations. If a strong positive correlation exists between the credit risk of the counterparty and that of the subject eligible for financial collateral, we do not use such collateral as a credit risk mitigation.
Real estate, etc.	Appraisal	Value is reviewed annually or semiannually according to the credit strength of the borrower.	In the calculation of risk-weighted assets, we do not use such collateral as credit risk mitigation.
Nominative claims, etc.	Amount of billed receivables	Change in creditworthiness of the underlying obligor is monitored appropriately.	
Others	Judged individually	Judged individually	



Disclosure Based on Basel III  
Capital Accord Pillar III—Market Discipline

(Guarantees/CDS)

	Type and creditworthiness of counterparty
Guarantees	We individually judge the creditworthiness of the guarantor or the necessity of obtaining a proof thereof. We use a guarantee transaction as a credit risk mitigation contingent on the following: 1. The risk weight of the guarantor must be lower than that of the borrower. 2. The guarantor must be a sovereign or financial institution. 3. If a guarantor is not a sovereign or financial institution, the Bank will use the rating of the guarantor assigned by eligible ratings agencies for the judgment of risk weight.
CDS	The providers of protection in CDS transactions mainly consist of domestic and overseas financial institutions, and we judge the creditworthiness of the protection provider individually. When a CDS transaction is used as a credit risk mitigation, we set the minimum requirement of meeting the prerequisites of a guarantee as stated above.

(Offsetting/Netting)

	Policy/procedures/type of transaction/scope
Loan and deposit at Aozora Bank (On-balance-sheet netting)	(Policy) In extending a loan, we conclude a contract with a clause of special agreement on general requirements needed for offsetting, which allows legal offsetting of loans and deposits at Aozora Bank. In the calculation of risk-weighted assets, an amount after netting of a loan and deposit at Aozora subject to the offsetting agreement is treated as an exposure after credit risk mitigations are applied. (Type and scope of transactions) Claim against which the balance on the deposit account is offset: Loans Claims used to offset a loan: Time deposits (Procedures) Under the appropriate maturity control, we apply credit risk mitigations through netting of a loan provided by Aozora and time deposits at Aozora. However, if the remaining period of the loan exceeds the remaining period of time deposits at Aozora, credit risk mitigating effects are recognized only when the initial contract period of time deposits at Aozora is one year or longer and the remaining period as of the base date of calculation is over 3 months.
Derivatives	(Policy) We apply netting for derivative transactions subject to a legally enforceable netting agreement. Transactions exempt from calculation of credit equivalent amounts are not included in the target transactions of netting. (Type and scope of transactions) Interest derivatives, foreign exchange derivatives, credit derivatives, equity derivatives, commodity derivatives, and other various derivatives. (Procedures) We use the ISDA Master Agreement, whose legal enforceability has been confirmed by an outside law firm, as the standard form of derivative transactions. We have also confirmed that there is rational legal opinion for its use.
Repo-style transactions	(Policy) We apply netting for repo-style transactions subject to a legally enforceable netting agreement. (Type and scope of transactions) Repo-style transactions (Procedures) We use a contract, whose legal enforceability has been confirmed by an outside law firm, as the standard form of repo-style transactions. We have also confirmed that there is rational legal opinion for its use.

6. Summary of risk management policies and procedures associated with counterparties to derivative product transactions and long-term settlement transactions

Policies and procedures are described under 'Risk Governance section,' 'Credit Risk Management' and 'Market Risk Management.' The Bank is obliged to provide additional collateral for derivative product transactions when there is a deterioration of its credit quality.

7. Items pertaining to securitization exposures

- (1) Summary of risk management policies and risk characteristics  
Securitization transactions refer to transactions which are structured with two or more tranches in line with underlying credit and which are either partially or wholly transferred to a third party.  
The main role of the Bank in securitization transactions is that of investor or servicer. Sometimes, it may also act as originator or swap provider.  
Securitization transactions have various risks depending on underlying assets and the Bank's role in securitization transactions.  
Risk management policies are described under 'Risk Governance section' and 'Credit Risk Management.'
- (2) Summary of system development and management status in accordance with No. 1 to No. 4 of Paragraph 1, Article 248 of the Capital Adequacy Ratio Notice (this includes cases in which Paragraph 2 of Article 302-2 apply).  
Regarding securitization transactions (including resecuritization transactions), individual transactions and portfolios are monitored in accordance with risk characteristics by establishing monitoring policies for each product in line with the underlying assets.
- (3) Policy for using securitization transactions as credit risk mitigation  
Securitization transactions as a way to manage the portfolio are considered when necessary.
- (4) Name of method used to calculate the amount of credit risk assets for securitization exposures  
This is described in this document under the heading 'Quantitative Disclosures' 2. (1).
- (5) Name of method used to calculate equivalent market risk amounts of securitization exposures  
Not applicable.
- (6) Name of SPE types and whether the Bank or its consolidated subsidiaries have securitization exposures to securitization transactions which Aozora Group makes for a third party's assets using an SPE for securitization.  
There are no applicable securitization transactions as of March 31, 2022.
- (7) Names of subsidiaries (excluding consolidated subsidiaries) and affiliates which have securitization exposures to securitization transactions made by the Aozora Group (including securitization transactions in which the Aozora Group uses SPEs)  
There are no applicable subsidiaries or affiliates as of March 31, 2022.
- (8) Accounting policy for securitization transactions  
When the Group originates securitization transactions, the following treatments are applied:
- The Group recognizes the securitization transactions as sale of assets if conditions required for the elimination of assets, based on the Accounting Standards for Financial Instruments, have been satisfied.
  - The Group recognizes sale of assets when the assets are reassigned (delivery standard).
  - The Group records remainders at the acquisition price. However, if severe impairment mars assessment of the securitized assets, the Group will consider a charge-off.
  - The Group provides the necessary amount of provisions for off-balance credits including liquidity facilities or credit facilities, based on internal Write-off and Reserve Standards and related rules.
- When the Group acquires securitized products, the assets are treated according to the Accounting Standards for Financial Instruments.
- (9) Names of eligible rating agencies used for the judgment of risk weights according to type of securitization exposure  
This is described in this document under the heading 'Qualitative Disclosure' 4. (2).

Disclosure Based on Basel III  
Capital Accord Pillar III—Market Discipline

8. Items pertaining to market risk

- (1) Summary of risk management policies and procedures
  - (2) Methods used to calculate market risk equivalents
  - (3) Techniques used to accurately assess value according to transaction characteristics, given such factors as assumed holding period and the probability of an extended holding period
  - (4) Outline of models applied to market risk and explanations about back testing and stress tests
  - (5) Assumptions on and evaluation techniques for assessing the level of capital reinforcement required to cover market risk
- These items are described in the Risk Governance section of this annual report under the heading 'Market Risk Management.'

9. Items pertaining to operational risk

- (1) Summary of risk management policies and procedures
  - (2) Methods used to calculate operational risk equivalents
- These items are described in this document under the heading 'Composition of Capital Disclosure' and in the Risk Governance section of this annual report under the heading 'Operational Risk Management.'

10. Summary of policies and procedures for risk management related to equity exposures

Policies and procedures are described under 'Risk Governance section,' 'Credit Risk Management' and 'Market Risk Management.'

Accounting policies applicable to equity exposures are as follows:

- The Group evaluates equity exposures by holding purposes, in line with the Accounting Standards for Financial Instruments.
- a) Stocks in subsidiaries and affiliates are stated at cost.
- b) Available-for-sale securities are reported at fair value.
- c) Non-marketable equity securities are stated at cost.

11. Items pertaining to interest rate risk

- (1) Summary of risk management policies and procedures
- Consolidated and non-consolidated interest rate risk is measured on a quarterly basis and the CRO reports  $\Delta$ EVE and related items to the ALM Committee, etc. Interest rate risk is controlled by using bond transactions, swaps to which hedge accounting is applied, bond and interest rate futures, and options for those.
- (2) Summary of interest rate risk calculation method
- Interest rate risk in the banking book is measured in such a way that the interest due date under contract for each transaction is recognized as the maturity date, and prepayments of fixed rate housing loans and term deposits are assumed. We adopt the assumed rates for repayment and cancellation set by the Regulator. For liquid deposits, "core deposits" (liquid deposits that are to remain in the bank for a long period without withdrawal) are considered. Maturity dates of core deposits are set monthly by equal amount to the maximum maturity of 5 years for whichever is the lowest amount over the past 1 year among the following three criteria: (1) the minimum balance over the past 5 years, (2) the balance delivered by subtracting the largest annual outflow over the past 5 years from the current balance or (3) 50% of the current balance. The maximum maturity set to liquid deposits is 5 years, and the average maturity is 0.5 years on a non-consolidated basis and 0.4 years on a consolidated basis. For the aggregation of interest rate risk amount calculated per currency,  $\Delta$ EVE is calculate by adding only the currencies with positive  $\Delta$ EVE and  $\Delta$ NIIL is calculated by simply adding up  $\Delta$ NIIL of each currency. Also, spreads are considered in cash flows.
- Other items are described in the Risk Governance section of this annual report under the heading 'Market Risk Management'.

Quantitative Disclosure

- 1. Names of subsidiaries classified as other financial institutions under the Notice whose capital is short of the regulatory amount required, and total shortfall amount of such subsidiaries
- (As of March 31, 2022 and 2021)  
Not applicable

2. Items pertaining to capital adequacy

(1) Breakdown by Portfolio (Non-Consolidated)

Category	March 31, 2022			March 31, 2021		
	Amount of exposure	Amount of credit risk assets	Amount of capital requirements	Amount of exposure	Amount of credit risk assets	Amount of capital requirements
Cash	62	—	—	61	—	—
Claims on Japanese government/bank	12,091	—	—	9,588	—	—
Claims on foreign central government/bank	3,412	123	4	3,779	85	3
Claims on Bank for International Settlements (BIS)	—	—	—	—	—	—
Claims on Japanese local public bodies	1,625	—	—	1,509	—	—
Claims on non-central government public sector entities (PSEs) of foreign countries	1,249	249	9	1,320	264	10
Claims on multilateral development banks (MDBs)	—	—	—	—	—	—
Claims on Japan Finance Organization for Municipalities (JFM)	29	0	0	29	0	0
Claims on organs affiliated with the Japanese government	322	20	0	182	8	0
Claims on three major local public corporations	104	1	0	92	1	0
Claims on financial institutions and Type I financial instruments	—	—	—	—	—	—
business operators	3,985	797	31	3,268	653	26
Claims on corporates	21,996	18,578	743	20,125	17,436	697
Claims on SMEs and individuals	—	—	—	—	—	—
Mortgage-backed housing loans	—	—	—	6	2	0
Claims on projects including acquisition of real estate properties	2,301	2,301	92	1,966	1,966	78
Loans overdue for three months or more	1,034	1,509	60	982	1,411	56
Cash items in process of collection	—	—	—	—	—	—
Loans guaranteed by Credit Guarantee Association, etc.	—	—	—	—	—	—
Loans guaranteed by Regional Economy Vitalization Corporation of Japan (REVIC), etc.	—	—	—	—	—	—
Equity, etc.	1,272	1,272	50	1,179	1,179	47
Securitization exposure	2,795	803	32	2,162	742	29
Rating-based approach	2,649	747	29	2,040	687	27
Standardized approach	146	56	2	121	54	2
Risk weight = 1,250%	—	—	—	—	—	—
Specialized lending	7,038	6,911	276	6,353	6,207	248
Exposures relating to funds	4,452	6,124	244	3,997	5,026	201
Look-through approach	4,419	6,091	243	3,963	4,992	199
Mandate-based approach	32	32	1	33	33	1
250%	—	—	—	—	—	—
400%	—	—	—	—	—	—
Fall-back approach = 1,250%	—	—	—	—	—	—
Amount calculated by dividing equivalent CVA risk amount by 8%	—	596	23	—	650	26
Central counterparty-related	945	61	2	698	67	2
Total of items included in risk-weighted assets subject to phase-out arrangements	—	—	—	—	—	—
Other	1,506	3,193	127	1,438	3,111	124
Total	66,228	42,545	1,701	58,744	38,816	1,552

Notes: 1. Amount of exposure

- After deducting the amount equivalent to partial direct write-offs. Specific allowance for loan losses and allowance for loans to restructuring countries are not subject to the deduction.
- The amount is equivalent to credit extension set forth in the Notice (after the effect of deducting the amount equivalent to credit extension under netting agreement).

2. Amount of credit risk assets

3. Amount of capital requirements

4. Securitization exposure

5. Indication method after the decimal point

- After credit risk mitigation.
- As the Bank is subject to domestic standards, the amount is calculated as 'credit risk assets ×4%.'
- There were no securitization transactions originated or sponsored by the Aozora Group.
- The amount is rounded down to the whole number. The same applies to the following charts.

Disclosure Based on Basel III  
Capital Accord Pillar III—Market Discipline

Breakdown by Portfolio (Consolidated)

(100 Million Yen)

Category	March 31, 2022			March 31, 2021		
	Amount of exposure	Amount of credit risk assets	Amount of capital requirements	Amount of exposure	Amount of credit risk assets	Amount of capital requirements
Cash	62	—	—	61	—	—
Claims on Japanese government/bank	15,086	—	—	11,412	—	—
Claims on foreign central government/bank	3,412	123	4	3,779	85	3
Claims on Bank for International Settlements (BIS)	—	—	—	—	—	—
Claims on Japanese local public bodies	1,934	—	—	1,671	—	—
Claims on non-central government public sector entities (PSEs) of foreign countries	1,249	249	9	1,320	264	10
Claims on multilateral development banks (MDBs)	—	—	—	—	—	—
Claims on Japan Finance Organization for Municipalities (JFM)	29	0	0	29	0	0
Claims on organs affiliated with the Japanese government	387	26	1	209	11	0
Claims on three major local public corporations	104	1	0	92	1	0
Claims on financial institutions and Type I financial instruments	—	—	—	—	—	—
business operators	3,979	795	31	3,504	700	28
Claims on corporates	22,358	18,980	759	20,401	17,746	709
Claims on SMEs and individuals	—	—	—	—	—	—
Mortgage-backed housing loans	—	—	—	6	2	0
Claims on projects including acquisition of real estate properties	2,301	2,301	92	1,966	1,966	78
Loans overdue for three months or more	1,338	1,955	78	1,300	1,888	75
Cash items in process of collection	21	4	0	11	2	0
Loans guaranteed by Credit Guarantee Association, etc.	—	—	—	—	—	—
Loans guaranteed by Regional Economy Vitalization Corporation of Japan (REVIC), etc.	—	—	—	—	—	—
Equity, etc.	731	731	29	669	669	26
Securitization exposure	2,799	805	32	2,172	746	29
Rating-based approach	2,652	748	29	2,050	691	27
Standardized approach	146	56	2	121	54	2
Risk weight = 1,250%	—	—	—	—	—	—
Specialized lending	7,038	6,911	276	6,353	6,207	248
Exposures relating to funds	4,011	5,535	221	3,559	4,420	176
Look-through approach	3,978	5,502	220	3,525	4,386	175
Mandate-based approach	32	32	1	33	33	1
250%	—	—	—	—	—	—
400%	—	—	—	—	—	—
Fall-back approach = 1,250%	0	0	0	0	0	0
Amount calculated by dividing equivalent CVA risk amount by 8%	—	596	23	—	650	26
Central counterparty-related	945	61	2	698	67	2
Total of items included in risk-weighted assets subject to phase-out arrangements	—	—	—	—	—	—
Other	1,798	3,378	135	1,561	3,103	124
Total	69,589	42,457	1,698	60,784	38,535	1,541

Notes: 1. Amount of exposure

• After deducting the amount equivalent to partial direct write-offs. Specific allowance for loan losses and allowance for loans to restructuring countries are not subject to the deduction.  
• The amount is equivalent to credit extension set forth in the Notice (after the effect of deducting the amount equivalent to credit extension under netting agreement).  
• After credit risk mitigation.  
• As the Bank is subject to domestic standards, the amount is calculated as 'credit risk assets ×4%.'  
• There were no securitization transactions originated or sponsored by the Aozora Group.

2. Amount of credit risk assets

3. Amount of capital requirements

4. Securitization exposure

(2) Amount of capital required to cover credit risk related to exposures held in funds:

This item is described in 'Exposures relating to funds' of (1).

(3) Amount of capital required to cover market risk and amounts presented by each method used by the Consolidated Group:

This information is described in the Risk Governance section of this annual report under the heading 'Market Risk Management.'

(4) Amount of capital required to cover operational risk and amounts presented by each method used by the Consolidated Group:

This information is described in this document under the heading 'Composition of Capital Disclosure' and in the Risk Governance section of this annual report under the heading 'Operational Risk Management.'

(5) Total capital requirements:

This information is described in 'Composition of Capital Disclosure.'

3. Items pertaining to credit risk

(1) Breakdown of year-end credit risk exposure balance by area, industry and residual period, as well as category:

Breakdown of Exposure by Area (Non-Consolidated)

(100 Million Yen)

Area	March 31, 2022				March 31, 2021			
	Loans, etc.	Securities	Derivatives	Total	Loans, etc.	Securities	Derivatives	Total
Japan	35,849	5,690	1,140	42,680	31,482	4,626	1,028	37,137
Overseas	13,905	8,712	929	23,547	12,039	8,887	679	21,606
Total	49,754	14,403	2,070	66,228	43,521	13,514	1,708	58,744

Notes: 1. Loans, etc. include on-balance and off-balance-sheet exposures such as loans and commitment lines, other than securities and derivatives above.  
2. Disclosure of the average balance is not made because there is no significant difference between the average risk position of the exposure for the term and the balance at the term-end.

Breakdown of Exposure by Area (Consolidated)

(100 Million Yen)

Area	March 31, 2022				March 31, 2021			
	Loans, etc.	Securities	Derivatives	Total	Loans, etc.	Securities	Derivatives	Total
Japan	39,384	5,547	1,140	46,072	34,026	4,167	1,028	39,222
Overseas	14,073	8,513	929	23,516	12,193	8,688	679	21,561
Total	53,457	14,060	2,070	69,589	46,220	12,855	1,708	60,784

Notes: 1. Loans, etc. include on-balance and off-balance-sheet exposures such as loans and commitment lines, other than securities and derivatives above.  
2. Disclosure of the average balance is not made because there is no significant difference between the average risk position of the exposure for the term and the balance at the term-end.



Disclosure Based on Basel III  
Capital Accord Pillar III—Market Discipline

Breakdown of Exposure by Industry Sector (Non-Consolidated)

(100 Million Yen)

Industry sector	March 31, 2022				March 31, 2021			
	Loans, etc.	Securities	Derivatives	Total	Loans, etc.	Securities	Derivatives	Total
Sovereign	12,061	6,662	4	18,728	9,707	6,772	25	16,505
Financial institution	2,570	674	920	4,166	2,086	593	653	3,333
Manufacturing	4,599	487	56	5,143	4,173	368	63	4,605
Agriculture/forestry/fisheries	107	—	—	107	67	—	1	68
Mining	34	—	—	34	59	—	—	59
Construction	315	11	11	337	274	11	6	291
Utilities (electric power/gas/ heat supply/water service)	1,562	241	73	1,877	1,278	179	76	1,535
Information & telecommunications	2,152	54	—	2,206	2,141	112	0	2,254
Transport	645	174	25	844	594	53	38	686
Wholesale/retail	1,510	115	90	1,717	1,313	103	92	1,509
Other financial business (moneylending, leasing)	9,021	4,568	859	14,449	7,181	4,107	700	11,988
Real estate	10,057	1,379	20	11,456	9,498	1,196	25	10,721
Various services (excluding leasing)	3,501	24	7	3,533	3,561	4	24	3,590
Others	1,614	9	—	1,624	1,583	10	0	1,594
<b>Total</b>	<b>49,754</b>	<b>14,403</b>	<b>2,070</b>	<b>66,228</b>	<b>43,521</b>	<b>13,514</b>	<b>1,708</b>	<b>58,744</b>

Note: Loans, etc. include on-balance and off-balance-sheet exposures such as loans and commitment lines, other than securities and derivatives above.

Breakdown of Exposure by Industry Sector (Consolidated)

(100 Million Yen)

Industry sector	March 31, 2022				March 31, 2021			
	Loans, etc.	Securities	Derivatives	Total	Loans, etc.	Securities	Derivatives	Total
Sovereign	13,674	7,286	4	20,965	10,559	7,041	25	17,626
Financial institution	2,562	351	920	3,834	2,316	307	653	3,277
Manufacturing	4,616	487	56	5,160	4,189	368	63	4,621
Agriculture/forestry/fisheries	126	—	—	126	86	—	1	87
Mining	34	—	—	34	59	—	—	59
Construction	315	11	11	337	297	11	6	314
Utilities (electric power/gas/ heat supply/water service)	1,633	241	73	1,948	1,349	179	76	1,606
Information & telecommunications	2,189	54	—	2,244	2,185	112	0	2,298
Transport	645	188	25	858	594	73	38	706
Wholesale/retail	1,527	115	90	1,734	1,328	103	92	1,524
Other financial business (moneylending, leasing)	9,044	3,915	859	13,819	7,228	3,450	700	11,378
Real estate	10,057	1,379	20	11,456	9,498	1,196	25	10,721
Various services (excluding leasing)	3,533	20	7	3,562	3,582	0	24	3,607
Others	3,495	9	—	3,505	2,942	10	0	2,952
<b>Total</b>	<b>53,457</b>	<b>14,060</b>	<b>2,070</b>	<b>69,589</b>	<b>46,220</b>	<b>12,855</b>	<b>1,708</b>	<b>60,784</b>

Note: Loans, etc. include on-balance and off-balance-sheet exposures such as loans and commitment lines, other than securities and derivatives above.

Breakdown of Exposure by Residual Period (Non-Consolidated)

(100 Million Yen)

Residual period	March 31, 2022				March 31, 2021			
	Loans, etc.	Securities	Derivatives	Total	Loans, etc.	Securities	Derivatives	Total
< 1 year	7,729	661	648	9,040	6,444	450	306	7,201
≥ 1 year < 5 years	16,579	1,972	706	19,259	15,632	1,744	428	17,805
≥ 5 years	25,445	11,769	714	37,928	21,444	11,318	973	33,737
<b>Total</b>	<b>49,754</b>	<b>14,403</b>	<b>2,070</b>	<b>66,228</b>	<b>43,521</b>	<b>13,514</b>	<b>1,708</b>	<b>58,744</b>

Notes: 1. Loans, etc. include on-balance and off-balance-sheet exposures such as loans and commitment lines, other than securities and derivatives above.  
2. Exposures with a residual period of ≥ 5 years also include the transactions for which no maturity period is stipulated.

Breakdown of Exposure by Residual Period (Consolidated)

(100 Million Yen)

Residual period	March 31, 2022				March 31, 2021			
	Loans, etc.	Securities	Derivatives	Total	Loans, etc.	Securities	Derivatives	Total
< 1 year	8,283	990	648	9,922	6,681	567	306	7,556
≥ 1 year < 5 years	16,746	2,283	706	19,737	15,828	1,923	428	18,180
≥ 5 years	28,427	10,786	714	39,929	23,710	10,364	973	35,048
<b>Total</b>	<b>53,457</b>	<b>14,060</b>	<b>2,070</b>	<b>69,589</b>	<b>46,220</b>	<b>12,855</b>	<b>1,708</b>	<b>60,784</b>

Notes: 1. Loans, etc. include on-balance and off-balance-sheet exposures such as loans and commitment lines, other than securities and derivatives above.  
2. Exposures with a residual period of ≥ 5 years also include the transactions for which no maturity period is stipulated.

(2) Balance of year-end exposure overdue for three months or more and breakdown by area and industry:

Breakdown of Exposure Overdue for Three Months or More by Area (Non-Consolidated)

(100 Million Yen)

Area	March 31, 2022				March 31, 2021			
	Loans, etc.	Securities	Derivatives	Total	Loans, etc.	Securities	Derivatives	Total
Japan	50	—	—	50	45	—	1	47
Overseas	956	27	—	984	929	5	—	935
<b>Total</b>	<b>1,007</b>	<b>27</b>	<b>—</b>	<b>1,034</b>	<b>975</b>	<b>5</b>	<b>1</b>	<b>982</b>

Notes: 1. Loans, etc. include on-balance and off-balance-sheet exposures such as loans and commitment lines, other than securities and derivatives above.  
2. 'Exposures Overdue for Three Months or More' shows assets which have 150% of risk weight that is before write-off/reserve by Provision 71 of the Notice.

Breakdown of Exposure Overdue for Three Months or More by Area (Consolidated)

(100 Million Yen)

Area	March 31, 2022				March 31, 2021			
	Loans, etc.	Securities	Derivatives	Total	Loans, etc.	Securities	Derivatives	Total
Japan	333	—	—	333	347	—	1	348
Overseas	977	27	—	1,005	945	5	—	951
<b>Total</b>	<b>1,310</b>	<b>27</b>	<b>—</b>	<b>1,338</b>	<b>1,293</b>	<b>5</b>	<b>1</b>	<b>1,300</b>

Notes: 1. Loans, etc. include on-balance and off-balance-sheet exposures such as loans and commitment lines, other than securities and derivatives above.  
2. 'Exposures Overdue for Three Months or More' shows assets which have 150% of risk weight that is before write-off/reserve by Provision 71 of the Notice.

Disclosure Based on Basel III  
Capital Accord Pillar III—Market Discipline

Breakdown of Exposure Overdue for Three Months or More by Industry Sector (Non-Consolidated)  
(100 Million Yen)

Industry sector	March 31, 2022				March 31, 2021			
	Loans, etc.	Securities	Derivatives	Total	Loans, etc.	Securities	Derivatives	Total
Sovereign	—	—	—	—	—	—	—	—
Financial institution	—	—	—	—	—	—	—	—
Manufacturing	329	—	—	329	286	—	—	286
Agriculture/forestry/fisheries	46	—	—	46	21	—	1	22
Mining	—	—	—	—	—	—	—	—
Construction	13	—	—	13	—	—	—	—
Utilities (electric power/gas/ heat supply/water service)	0	22	—	22	29	—	—	29
Information & telecommunications	157	—	—	157	150	—	—	150
Transport	—	—	—	—	0	5	—	5
Wholesale/retail	154	—	—	154	159	—	—	159
Other financial business (moneylending, leasing)	30	5	—	35	—	—	—	—
Real estate	4	—	—	4	26	—	—	26
Various services (excluding leasing)	270	—	—	270	301	—	—	301
Others	0	—	—	0	0	—	—	0
Total	1,007	27	—	1,034	975	5	1	982

Notes: 1. Loans, etc. include on-balance and off-balance-sheet exposures such as loans and commitment lines, other than securities and derivatives above.  
2. 'Exposures Overdue for Three Months or More' shows assets which have 150% of risk weight that is before write-off/reserve by Provision 71 of the Notice.

Breakdown of Exposure Overdue for Three Months or More by Industry Sector (Consolidated)  
(100 Million Yen)

Industry sector	March 31, 2022				March 31, 2021			
	Loans, etc.	Securities	Derivatives	Total	Loans, etc.	Securities	Derivatives	Total
Sovereign	—	—	—	—	—	—	—	—
Financial institution	—	—	—	—	—	—	—	—
Manufacturing	336	—	—	336	286	—	—	286
Agriculture/forestry/fisheries	46	—	—	46	37	—	1	38
Mining	—	—	—	—	—	—	—	—
Construction	13	—	—	13	—	—	—	—
Utilities (electric power/gas/ heat supply/water service)	0	22	—	22	29	—	—	29
Information & telecommunications	171	—	—	171	150	—	—	150
Transport	—	—	—	—	0	5	—	5
Wholesale/retail	154	—	—	154	159	—	—	159
Other financial business (moneylending, leasing)	30	5	—	35	—	—	—	—
Real estate	4	—	—	4	26	—	—	26
Various services (excluding leasing)	270	—	—	270	301	—	—	301
Others	282	—	—	282	301	—	—	301
Total	1,310	27	—	1,338	1,293	5	1	1,300

Notes: 1. Loans, etc. include on-balance and off-balance-sheet exposures such as loans and commitment lines, other than securities and derivatives above.  
2. 'Exposures Overdue for Three Months or More' shows assets which have 150% of risk weight that is before write-off/reserve by Provision 71 of the Notice.

(3) Year-end balances and year-on-year changes for general allowance for loan losses, specific allowance for loan losses and country risk allowance:

Breakdown of Allowance by Area (Non-Consolidated)  
(100 Million Yen)

Area	Mar. 2022	Mar. 2021	Difference
General allowance	382	392	(10)
Specific allowance	96	107	(11)
Japan	96	70	25
Overseas	0	37	(37)
Allowance for loans to restructuring countries	—	—	—
Total	479	500	(21)

Breakdown of Allowance by Area (Consolidated)  
(100 Million Yen)

Area	Mar. 2022	Mar. 2021	Difference
General allowance	384	401	(16)
Specific allowance	101	107	(5)
Japan	96	70	25
Overseas	5	37	(31)
Allowance for loans to restructuring countries	—	—	—
Total	486	508	(22)

Breakdown of Allowance by Industry Sector (Non-Consolidated)  
(100 Million Yen)

Industry sector	Mar. 2022	Mar. 2021	Difference
General allowance	382	392	(10)
Specific allowance	96	107	(11)
Sovereign	—	—	—
Financial institution	—	—	—
Manufacturing	41	1	40
Agriculture/forestry/fisheries	22	32	(9)
Mining	—	—	—
Construction	—	—	—
Utilities (electric power/gas/heat supply/water service)	—	—	—
Information & telecommunications	—	—	—
Transport	—	—	—
Wholesale/retail	19	20	(0)
Other financial business (moneylending, leasing)	—	23	(23)
Real estate	0	17	(17)
Various services (excluding leasing)	11	11	(0)
Others	—	0	(0)
Allowance for loans to restructuring countries	—	—	—
Total	479	500	(21)

Disclosure Based on Basel III  
Capital Accord Pillar III—Market Discipline

Breakdown of Allowance by Industry Sector (Consolidated)

(100 Million Yen)

Industry sector	Mar. 2022	Mar. 2021	Difference
General allowance	384	401	(16)
Specific allowance	101	107	(5)
Sovereign	—	—	—
Financial institution	—	—	—
Manufacturing	47	1	45
Agriculture/forestry/fisheries	22	32	(9)
Mining	—	—	—
Construction	0	—	0
Utilities (electric power/gas/heat supply/water service)	—	—	—
Information & telecommunications	0	—	0
Transport	0	—	0
Wholesale/retail	19	20	(0)
Other financial business (moneylending, leasing)	0	23	(23)
Real estate	0	17	(17)
Various services (excluding leasing)	11	11	0
Others	—	0	(0)
Allowance for loans to restructuring countries	—	—	—
Total	486	508	(22)

(4) Write-offs by industry sector:

Breakdown of Write-Offs by Industry Sector (Non-Consolidated)

(100 Million Yen)

Industry sector	Mar. 2022	Mar. 2021	Difference
Sovereign	—	—	—
Financial institution	—	—	—
Manufacturing	0	10	(10)
Agriculture/forestry/fisheries	2	—	2
Mining	—	—	—
Construction	—	—	—
Utilities (electric power/gas/heat supply/water service)	—	—	—
Information & telecommunications	—	—	—
Transport	—	4	(4)
Wholesale/retail	—	7	(7)
Other financial business (moneylending, leasing)	7	—	7
Real estate	—	—	—
Various services (excluding leasing)	—	7	(7)
Others	0	—	0
Total	10	30	(19)

Note: The table shows the breakdown of the write-off of loans in the Statement of Operations.

Breakdown of Write-Offs by Industry Sector (Consolidated)

(100 Million Yen)

Industry sector	Mar. 2022	Mar. 2021	Difference
Sovereign	—	—	—
Financial institution	—	—	—
Manufacturing	—	0	(0)
Agriculture/forestry/fisheries	2	—	2
Mining	—	—	—
Construction	—	—	—
Utilities (electric power/gas/heat supply/water service)	—	—	—
Information & telecommunications	—	—	—
Transport	—	—	—
Wholesale/retail	—	—	—
Other financial business (moneylending, leasing)	7	—	7
Real estate	—	—	—
Various services (excluding leasing)	—	—	—
Others	3	1	1
Total	13	1	11

Notes: 1. The table shows the breakdown of the write-off of loans in the Statement of Operations.  
2. The 'Write-offs' include write-offs made by AOZORA Loan Services Co., Ltd., which are shown on the 'Others' line.

(5) Outstanding exposure after credit risk mitigation by risk weight:

(Non-Consolidated)

(100 Million Yen)

	March 31, 2022		March 31, 2021	
	Amount of exposure		Amount of exposure	
Risk weight		Application of external rating		Application of external rating
0%	16,966	2,942	14,809	3,527
> 0% ≤ 10%	1,118	55	749	19
> 10% ≤ 20%	9,504	8,825	7,533	7,476
> 20% ≤ 50%	4,392	4,247	3,516	3,390
> 50% ≤ 75%	997	232	1,073	332
> 75% ≤ 100%	27,807	7,480	26,126	6,904
> 100% ≤ 150%	3,392	1,147	3,122	1,039
> 150% < 1,250%	1,842	—	1,504	—
1,250%	17	—	37	—
Total	66,040	24,930	58,474	22,690

Note: In the 'Application of external rating' section, the exposures to which an external rating is applied in the calculation of risk weight are included.

(Consolidated)

(100 Million Yen)

	March 31, 2022		March 31, 2021	
	Amount of exposure		Amount of exposure	
Risk weight		Application of external rating		Application of external rating
0%	20,263	2,942	16,789	3,527
> 0% ≤ 10%	1,183	55	776	19
> 10% ≤ 20%	9,707	8,833	7,923	7,733
> 20% ≤ 50%	4,391	4,255	3,524	3,408
> 50% ≤ 75%	980	232	1,073	332
> 75% ≤ 100%	27,587	7,627	25,756	7,053
> 100% ≤ 150%	3,408	1,161	3,154	1,039
> 150% < 1,250%	1,753	—	1,478	—
1,250%	17	—	37	—
Total	69,401	25,107	60,514	23,114

Note: In the 'Application of external rating' section, the exposures to which an external rating is applied in the calculation of risk weight are included.

4. Items pertaining to credit risk mitigation techniques

Breakdown of Exposure for Which Credit Risk Mitigations Are Applied (Non-Consolidated)

(100 Million Yen)

Credit risk mitigation	March 31, 2022	March 31, 2021
Eligible financial collateral	2,053	1,434
Cash and deposits at Aozora	1,898	1,423
Debt securities	145	—
Equities	9	10
Others	—	—
Guarantees and credit derivatives	1,096	850
Guarantees	1,096	850
Credit derivatives	—	—
Total	3,150	2,284

Note: The exposure above does not include the amount for which a credit risk mitigation is recognized through netting between loans and deposits at the Bank under the netting agreement (Provision 117 of the Notice) and the repo transactions etc.



# Disclosure Based on Basel III Capital Accord Pillar III—Market Discipline

## Breakdown of Exposure for Which Credit Risk Mitigations Are Applied (Consolidated)

(100 Million Yen)

Credit risk mitigation	March 31, 2022	March 31, 2021
Eligible financial collateral	2,053	1,434
Cash and deposits at Aozora	1,898	1,423
Debt securities	145	—
Equities	9	10
Others	—	—
Guarantees and credit derivatives	1,096	850
Guarantees	1,096	850
Credit derivatives	—	—
<b>Total</b>	<b>3,150</b>	<b>2,284</b>

Note: The exposure above does not include the amount for which a credit risk mitigation is recognized through netting between loans and deposits at the Bank under the netting agreement (Provision 117 of the Notice) and the repo transactions etc.

## 5. Items pertaining to counterparty risk on derivative transactions and long-settlement transactions

### Credit-equivalent amount of Derivative Transactions and Long-Settlement Transactions (Non-Consolidated)

(100 Million Yen)

	March 31, 2022	March 31, 2021
Replacement cost(RC)	1,296	651
Potential future exposures(PFE)	1,442	1,280
Credit-equivalent amount(RC + PFE) x 1.4	3,834	2,704
Amount of credit risk assets	490	514
Collateral used in this transaction		
Received collateral	1,964	1,287
Cash and deposits at Aozora	1,818	1,287
Debt securities	145	0
Posted collateral	1,195	589
Cash and deposits at Aozora	1,195	589
Debt securities	—	—

### Credit-equivalent amount of Derivative Transactions and Long-Settlement Transactions (Consolidated)

(100 Million Yen)

	March 31, 2022	March 31, 2021
Replacement cost(RC)	1,296	651
Potential future exposures(PFE)	1,442	1,280
Credit-equivalent amount(RC + PFE) x 1.4	3,834	2,704
Amount of credit risk assets	490	514
Collateral used in this transaction		
Received collateral	1,964	1,287
Cash and deposits at Aozora	1,818	1,287
Debt securities	145	0
Posted collateral	1,195	589
Cash and deposits at Aozora	1,195	589
Debt securities	—	—

## Breakdown of Credit Derivative Transactions (Non-Consolidated)

(100 Million Yen)

Type of transaction	Purchase or supply of guarantee	March 31, 2022 Notional principal	March 31, 2021 Notional principal
Transactions subject to the calculation of credit-equivalent amount		2,716	2,613
Credit derivatives (credit reference asset of single organization)	Purchase	1,218	1,175
	Supply	1,497	1,437
First-to-default type	Purchase	—	—
	Supply	—	—
Second-to-default type	Purchase	—	—
	Supply	—	—
Transactions not subject to the calculation of credit-equivalent amount	Purchase	—	—

Note: The transactions not subject to the calculation of credit-equivalent amount are figures used for credit risk mitigations.

## Breakdown of Credit Derivative Transactions (Consolidated)

(100 Million Yen)

Type of transaction	Purchase or supply of guarantee	March 31, 2022 Notional principal	March 31, 2021 Notional principal
Transactions subject to the calculation of credit-equivalent amount		2,716	2,613
Credit derivatives (credit reference asset of single organization)	Purchase	1,218	1,175
	Supply	1,497	1,437
First-to-default type	Purchase	—	—
	Supply	—	—
Second-to-default type	Purchase	—	—
	Supply	—	—
Transactions not subject to the calculation of credit-equivalent amount	Purchase	—	—

Note: The transactions not subject to the calculation of credit-equivalent amount are figures used for credit risk mitigations.

# Disclosure Based on Basel III Capital Accord Pillar III—Market Discipline

## 6. Items pertaining to securitization transactions

### (1) Securitization transactions originated by the Aozora Group

As of March 31, 2021 and 2022, there were no securitization transactions originated by the Aozora Group.

### (2) Securitization transactions in which the Aozora Group invests

#### Securitization Exposure Held by the Group (Non-Consolidated)

(100 Million Yen)

Category of underlying assets	March 31, 2022					
	Securitization exposure		Resecuritization exposure		Total	
	On-Balance	Off-Balance	On-Balance	Off-Balance	On-Balance	Off-Balance
Corporate exposures	1,588	50	—	—	1,588	50
Retail exposures	1,157	0	—	—	1,157	0
Residential loan receivables	—	—	—	—	—	—
Lease receivables	—	—	—	—	—	—
Others	—	—	—	—	—	—
<b>Total</b>	<b>2,745</b>	<b>50</b>	<b>—</b>	<b>—</b>	<b>2,745</b>	<b>50</b>

(100 Million Yen)

Category of underlying assets	March 31, 2021					
	Securitization exposure		Resecuritization exposure		Total	
	On-Balance	Off-Balance	On-Balance	Off-Balance	On-Balance	Off-Balance
Corporate exposures	1,067	50	—	—	1,067	50
Retail exposures	1,027	16	—	—	1,027	16
Residential loan receivables	—	—	—	—	—	—
Lease receivables	—	—	—	—	—	—
Others	—	—	—	—	—	—
<b>Total</b>	<b>2,095</b>	<b>66</b>	<b>—</b>	<b>—</b>	<b>2,095</b>	<b>66</b>

#### Securitization Exposure Held by the Group (Consolidated)

(100 Million Yen)

Category of underlying assets	March 31, 2022					
	Securitization exposure		Resecuritization exposure		Total	
	On-Balance	Off-Balance	On-Balance	Off-Balance	On-Balance	Off-Balance
Corporate exposures	1,588	50	—	—	1,588	50
Retail exposures	1,160	0	—	—	1,160	0
Residential loan receivables	—	—	—	—	—	—
Lease receivables	—	—	—	—	—	—
Others	—	—	—	—	—	—
<b>Total</b>	<b>2,749</b>	<b>50</b>	<b>—</b>	<b>—</b>	<b>2,749</b>	<b>50</b>

(100 Million Yen)

Category of underlying assets	March 31, 2021					
	Securitization exposure		Resecuritization exposure		Total	
	On-Balance	Off-Balance	On-Balance	Off-Balance	On-Balance	Off-Balance
Corporate exposures	1,067	50	—	—	1,067	50
Retail exposures	1,037	16	—	—	1,037	16
Residential loan receivables	—	—	—	—	—	—
Lease receivables	—	—	—	—	—	—
Others	—	—	—	—	—	—
<b>Total</b>	<b>2,105</b>	<b>66</b>	<b>—</b>	<b>—</b>	<b>2,105</b>	<b>66</b>

### Outstanding Securitization Exposure by Risk Weight and Capital Requirement Thereof (Non-Consolidated)

(100 Million Yen)

Risk weight	March 31, 2022							
	Securitization exposure				Resecuritization exposure			
	On-Balance		Off-Balance		On-Balance		Off-Balance	
	Outstanding	Capital requirement	Outstanding	Capital requirement	Outstanding	Capital requirement	Outstanding	Capital requirement
0%	—	—	—	—	—	—	—	—
> 0% ≤ 20%	2,238	17	50	0	—	—	—	—
> 20% ≤ 50%	180	3	—	—	—	—	—	—
> 50% ≤ 100%	222	5	—	—	—	—	—	—
> 100% < 1,250%	104	5	—	—	—	—	—	—
1,250%	—	—	—	—	—	—	—	—
<b>Total</b>	<b>2,745</b>	<b>31</b>	<b>50</b>	<b>0</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>

(100 Million Yen)

Risk weight	March 31, 2021							
	Securitization exposure				Resecuritization exposure			
	On-Balance		Off-Balance		On-Balance		Off-Balance	
	Outstanding	Capital requirement	Outstanding	Capital requirement	Outstanding	Capital requirement	Outstanding	Capital requirement
0%	—	—	—	—	—	—	—	—
> 0% ≤ 20%	1,519	11	50	0	—	—	—	—
> 20% ≤ 50%	134	2	—	—	—	—	—	—
> 50% ≤ 100%	337	8	—	—	—	—	—	—
> 100% < 1,250%	103	5	16	0	—	—	—	—
1,250%	—	—	—	—	—	—	—	—
<b>Total</b>	<b>2,095</b>	<b>28</b>	<b>66</b>	<b>1</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>

### Outstanding Securitization Exposure by Risk Weight and Capital Requirement Thereof (Consolidated)

(100 Million Yen)

Risk weight	March 31, 2022							
	Securitization exposure				Resecuritization exposure			
	On-Balance		Off-Balance		On-Balance		Off-Balance	
	Outstanding	Capital requirement	Outstanding	Capital requirement	Outstanding	Capital requirement	Outstanding	Capital requirement
0%	—	—	—	—	—	—	—	—
> 0% ≤ 20%	2,238	17	50	0	—	—	—	—
> 20% ≤ 50%	183	3	—	—	—	—	—	—
> 50% ≤ 100%	222	5	—	—	—	—	—	—
> 100% < 1,250%	104	5	—	—	—	—	—	—
1,250%	—	—	—	—	—	—	—	—
<b>Total</b>	<b>2,749</b>	<b>31</b>	<b>50</b>	<b>0</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>

(100 Million Yen)

Risk weight	March 31, 2021							
	Securitization exposure				Resecuritization exposure			
	On-Balance		Off-Balance		On-Balance		Off-Balance	
	Outstanding	Capital requirement	Outstanding	Capital requirement	Outstanding	Capital requirement	Outstanding	Capital requirement
0%	—	—	—	—	—	—	—	—
> 0% ≤ 20%	1,519	11	50	0	—	—	—	—
> 20% ≤ 50%	144	2	—	—	—	—	—	—
> 50% ≤ 100%	337	8	—	—	—	—	—	—
> 100% < 1,250%	103	5	16	0	—	—	—	—
1,250%	—	—	—	—	—	—	—	—
<b>Total</b>	<b>2,105</b>	<b>28</b>	<b>66</b>	<b>1</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>

# Disclosure Based on Basel III Capital Accord Pillar III—Market Discipline

## Securitization Exposure Calculated By Risk Weight of 1,250% (Non-Consolidated)

(100 Million Yen)

Category of underlying assets	March 31, 2022	March 31, 2021
	Amount of exposure	Amount of exposure
Corporate exposures	—	—
Retail exposures	—	—
Residential loan receivables	—	—
Lease receivables	—	—
Others	—	—
<b>Total</b>	—	—

## Securitization Exposure Calculated By Risk Weight of 1,250% (Consolidated)

(100 Million Yen)

Category of underlying assets	March 31, 2022	March 31, 2021
	Amount of exposure	Amount of exposure
Corporate exposures	—	—
Retail exposures	—	—
Residential loan receivables	—	—
Lease receivables	—	—
Others	—	—
<b>Total</b>	—	—

## Presence/Absence of Method Applied to Reduce Credit Risk to Resecuritization Exposures in Which the Aozora Group Invests and Breakdown of Risk-Weight Categories Applied to Guarantors

As of March 31, 2021 and 2022, there were no res securitization exposures to which methods to reduce credit risk have been applied.

### (3) Securitization exposure in which Aozora Group invests that is subject to the calculation of the market risk amount

There was no securitization exposure in which Aozora Group invests that was subject to the calculation of the market risk amount as of March 31, 2021 and 2022.

### (4) Securitization exposure originated by Aozora Group that is subject to the calculation of the market risk amount

There was no securitization exposure originated by Aozora Group that was subject to the calculation of the market risk amount as of March 31, 2021 and 2022.

## 7. Items pertaining to market risk

(1) The Value at Risk (VaR) number at year-end as well as the highest, lowest and average VaR numbers during the disclosure period

(2) The Stressed Value at Risk (Stressed VaR) amount at term-end, and the highest, lowest and average Stressed VaR amounts during the disclosure period

(3) Back-testing results and explanations in the event actual losses strayed significantly downward from VaR numbers

These items are described in the Risk Governance section of this annual report under the heading 'Market Risk Management.'

(4) Amount of required capital for additional and comprehensive risk at term-end and the highest, lowest and average capital requirements during the disclosure period

There was no applicable required capital amount as of March 31, 2021 and 2022.

## 8. Items pertaining to equity exposures in the banking book

### (1) Balance sheet amount

(Millions of Yen)

	March 31, 2022		March 31, 2021	
	Non-consolidated	Consolidated	Non-consolidated	Consolidated
Balance sheet amount	148,071	93,904	150,691	99,711
Listed stock exposures	93,168	93,168	98,671	98,671
Other	54,903	736	52,020	1,040

### (2) Gains and losses on sales, and write-offs of equity exposure

(Millions of Yen)

	FY2021		FY2020	
	Non-consolidated	Consolidated	Non-consolidated	Consolidated
Gains on sales	3,707	3,707	1,567	1,567
Losses on sales	409	409	669	669
Write-off	—	—	0	0

### (3) Unrealized gains/losses recognized on the balance sheet but not recognized on the statement of income

(Millions of Yen)

	March 31, 2022		March 31, 2021	
	Non-consolidated	Consolidated	Non-consolidated	Consolidated
Unrealized gains (losses)	20,038	20,038	22,986	22,986

### (4) Unrealized gains/losses not recognized on the balance sheet or the statement of income

(As of March 31, 2022 and 2021)

Consolidated: Not applicable

Non-consolidated: Not applicable



Disclosure Based on Basel III  
Capital Accord Pillar III—Market Discipline

9. Amount of exposures held in funds

This item is described in 'Exposures relating to funds' of 2.(1).

10. Items pertaining to interest rate risk

・ Non-consolidated (Millions of Yen)					
IRRBB1 : Interest rate risk					
Item No.		a	b	c	d
		△EVE		△NII	
		March 31, 2022	March 31, 2021	March 31, 2022	March 31, 2021
1	Parallel up	80,721	81,003	△8,457	△5,438
2	Parallel down	18	25	6,614	△3,318
3	Steepener	47,168	52,438	/	/
4	Flattener	/	/	/	/
5	Short-term interest rate up	/	/	/	/
6	Short-term interest rate down	/	/	/	/
7	Maximum	80,721	81,003	6,614	△3,318
		e		f	
		March 31 2022		March 31 2021	
8	Regulatory capital	497,494		487,290	

・ Consolidated (Millions of Yen)					
IRRBB1 : Interest rate risk					
Item No.		a	b	c	d
		△EVE		△NII	
		March 31, 2022	March 31, 2021	March 31, 2022	March 31, 2021
1	Parallel up	88,373	85,779	△15,788	△10,071
2	Parallel down	5	5	14,962	6,201
3	Steepener	47,193	52,387	/	/
4	Flattener	/	/	/	/
5	Short-term interest rate up	/	/	/	/
6	Short-term interest rate down	/	/	/	/
7	Maximum	88,373	85,779	14,962	6,201
		e		f	
		March 31 2022		March 31 2021	
8	Regulatory capital	500,370		481,505	

Disclosure Related to Remuneration

This section describes the information consistent with FSA Notice Number 11, items pertaining to remuneration, issued on March 14, 2018 in accordance with Articles 19-2.1.6, 19-3.4, and 34-26-1-5 of the Ordinance for the Enforcement of the Banking Act.

1. Items pertaining to the framework of remuneration for officers and employees of the Aozora Group

(1) Scope of 'officers and employees' covered herein

As stated in the remuneration notice, the scope of 'officers' and 'employees' ('officers and employees' together) covered herein, subject to disclosure, is as follows:

(a) Scope of 'officers' covered herein

'Officers' refers to the Bank's directors, including outside directors and members of the Audit & Supervisory Board.

(b) Scope of 'employees' covered herein

'Employees' refers to Bank employees and those of its main consolidated subsidiaries who receive high remuneration and who also have a significant influence on the execution of business of the Bank and its main consolidated subsidiaries or on its assets.

(i) Scope of 'main consolidated subsidiaries' covered herein

A 'main consolidated subsidiary' is defined as one in which the ratio of its total assets exceeds 2% of the total consolidated assets of the Bank.

(ii) Scope of 'Receivers of high remuneration' covered herein

'Receivers of high remuneration' refers to those who are remunerated above 'the average level of remuneration for officers' which is calculated by dividing the total remuneration amount by the number of officers, which are both stated in the Bank's Securities Report.

(iii) Scope of 'those who have a significant influence on the execution of business of the Bank and its main consolidated subsidiaries or on its assets' covered herein

'Those who have a significant influence on the execution of business of the Bank and its main consolidated subsidiaries or on its assets' refers to those who have a significant influence on the execution of business of the Bank and its main consolidated subsidiaries when engaged in transactions or matters of management, or those who have a significant influence on its assets when losses are incurred as a result of transactions. Specifically, this refers to executive officers, general managers, and any other such persons to which this definition applies.

(2) Determination of remuneration for officers and employees covered herein

(a) Determination of remuneration for officers covered herein

The Bank has established a Nomination and Remuneration Committee (NRC) which is delegated authority by the Board of Directors (BoD) for the purpose of complementing the BoD's supervisory function over its directors. The NRC comprises mainly outside directors and in order to ensure the sound management and suitable business execution of the Bank, the NRC, which is independent from business promotion groups, discusses and determines the amounts of remuneration for individual directors in line with the basic policies for determining remuneration as stipulated by the BoD .

The remuneration for individual members of the Audit & Supervisory Board is determined based on discussions among the members of the Audit & Supervisory Board in accordance with Article 387-2 of the Companies Act and based on deliberations and recommendations by NRC.

(b) Determination of remuneration for employees covered herein

The remuneration of employees in the Aozora Group is determined and paid according to the basic policy stated in the Bank's 'Human Resource Master Policy.' Remuneration of the Bank's employees is determined in accordance with the policy on HR rules developed and documented by the HR Division independently from business promotion groups. Individual remuneration amounts for executive officers are discussed and determined by the NRC.

Individual remuneration amounts of certain employees that exceeds a certain level will be reported to the NRC. The remuneration for managers with a certain level of responsibility is determined upon approval from the President and Deputy Presidents of the Bank. In the Bank's consolidated subsidiaries, the HR or related divisions establish the remuneration policy and develop the remuneration framework independently from business promotion groups. The consolidated subsidiaries regularly submit a report on their remuneration policy and related matters to the Bank's HR Division.

(c) Determination of remuneration for overseas officers and employees

Remuneration for overseas officers and employees is determined based on prior discussions held between overseas subsidiaries and the relevant divisions of the Bank or HR Division in accordance with local rules, regulations and employment practices. The remuneration amounts of individual employees which exceed a certain level will be reported to the NRC.

(3) Total remuneration paid to members of the NRC and the total number of meetings held

	No. of meetings held during the FY ending March 2022
Meetings of NRC	6

The sum of individual remunerations of NRC members is not stated as it is difficult to calculate how much of an individual NRC member's total remuneration corresponds to remuneration paid for NRC-related duties.

Disclosure Related to Remuneration

2. Items pertaining to assessing the validity of the design and implementation of the remuneration framework for Aozora Group's 'officers and employees'

Remuneration policy

(a) Remuneration policy for 'officers' covered herein

The remuneration for officers basically consists of the base remuneration (fixed remuneration), bonus and Equity Compensation Type Stock Options for internal directors (full-time directors) and solely of base remuneration (fixed remuneration) for outside directors as well as ASB members. The base remuneration is determined by checking the appropriate level based on the research data obtained by engaging a dedicated third-party institution. The amount of bonus is determined based on achieved performance and the standard amounts set per position and responsibilities. The value granted as Equity Compensation Type Stock Options are determined at an appropriate level by the NRC and BoD based on discussions on the proportion of cash remuneration, bonus and equity compensation type stock options so as to function as sound incentives towards sustainable growth.

(b) Remuneration policy for 'employees' covered herein

Remuneration for the Bank's employees and its main consolidated subsidiaries' officers and employees is determined based on an evaluation of their performance which reflects their contribution to the business results. The Bank's HR Division confirms that the Bank and its main consolidated subsidiaries do not depend too heavily on 'pay for performance' in the remuneration of the Bank's employees and its main consolidated subsidiaries' officers and employees, by checking the remuneration framework, performance evaluation status and actual remunerations.

3. Items pertaining to the consistency between the remuneration framework for officers and employees and risk management in the Aozora Group, and the link between remuneration and business performance

As for the directors, the ceiling amount of 600 million yen has been approved at the 82nd general shareholders' meeting held on June 26, 2015 as the base remuneration and bonus for directors, including those for external directors, and the ceiling of remuneration for ASB members, including external ASB members, was approved in the amount not more than 60 million yen at the 73rd general shareholders' meeting held on June 23, 2006.

As to stock acquisition rights as the Equity Compensation Type Stock Options, allotments to internal directors (full-time directors) were approved at the 88th general shareholders' meeting held on June 24, 2021 in the total annual value up to 150 million yen (and up to 7,500 units) in addition to the base remuneration and bonus.

In determining the remuneration of employees of the Aozora Group, including those who fall under the scope of 'employees,' a budget is drawn up after considering the financial status of the Group. In addition to the authorized quota for those to be granted to full-time directors, Equity Compensation Type Stock Options are also granted to executive officers of the Bank based on decisions made by NRC and BoD.

4. Items pertaining to remuneration type, total amounts and method of payment for Aozora Group's officers and employees

Total remuneration amounts for those who fall under the scope of 'officers' and 'employees' (from April 1, 2021 to March 31, 2022)  
(Number of Persons, Millions of Yen)

Classification	Number of persons	Total remuneration	Basic remuneration	Bonus	Stock options	Provision for retirement allowance	Others
'Officers' (including external officers)	12	394	280	70	43		
'Employees' (including executive officers)	18	786	467	196	53	68	

- Notes: 1. The 'officers' listed above are the Bank's directors (including outside directors) and members of the Audit & Supervisory Board. The breakdown of the Total Remuneration for officers for the fiscal year ended March 2022 is as follows:  
Remuneration to directors: 341 million yen  
Remuneration to the members of the Audit and Supervisory Board ("ASB"): 53 million yen  
of which remuneration to outside directors and external members of ASB: 80 million yen
2. One member of the Board of Directors is included in the above 'officers' who resigned at the Ordinary General Meeting of Shareholders on June 24, 2021.
3. Performance based (Bonus) refers to the provision amount allocated for bonuses (70 million yen) during FY2021. The actual amount of bonuses was decided by the NRC on May 23, 2022, and the amount paid in June 2022 to four directors (which excludes Outside Directors) in recognition of their services rendered during FY2021 was 105 million yen.
4. Because there are no 'employees' subject to disclosure in the Bank's major consolidated subsidiaries, the above 'employees' are the only ones among the Bank's employees, including the Bank's executive officers, to whom this applies.
5. There is no deferred bonus to be paid in subsequent years as of this fiscal year.
6. The exercise periods of stock options (Compensation Type Stock Acquisition Rights) are as follows. As per the Agreement for Allotment of Stock Options, the exercise is deferred until the holder ceases to be both an executive officer and a director of the Bank even during the exercise period.

Name of Stock Option Issuance	Exercise Periods	Amount Outstanding (millions of yen)
The First Equity Compensation Type Stock Options	As from August 2, 2014 through August 1, 2044	0
The Second Equity Compensation Type Stock Options	As from July 15, 2015 through July 14, 2045	16
The Third Equity Compensation Type Stock Options	As from July 16, 2016 through July 15, 2046	28
The Fourth Equity Compensation Type Stock Options	As from July 14, 2017 through July 13, 2047	36
The Fifth Equity Compensation Type Stock Options	As from July 14, 2018 through July 13, 2048	49
The Sixth Equity Compensation Type Stock Options	As from July 12, 2019 through July 11, 2049	67
The Seventh Equity Compensation Type Stock Options	As from July 11, 2020 through July 10, 2050	75
The Eighth Equity Compensation Type Stock Options	As from July 13, 2021 through July 12, 2051	115

7. A payment of compensation with an extraordinary nature was not applicable during the fiscal year ended March 2022 such as a guaranteed bonus, sign-on bonus and additional retirement allowance on involuntary separation among 'officer' and 'employees'.

5. Other items pertaining to the framework of the Bank's 'officers and employees'

There are no specific items to be stated here other than the ones already stated above.

Share Procedure Information

(As of July 1, 2022)

● Fiscal year	From April 1 to March 31
● Ordinary General Shareholders' Meeting	Held in June
● Record date for determination of dividends	March 31, June 30, September 30 and December 31
● Record date	Ordinary General Shareholders' Meeting: March 31 (also to be held in other cases as deemed necessary, whereby the record date will be set and advance notice given)
● Public notifications	Electronic public notice via the Internet. In the event that public notice cannot be made via the Internet, the Nihon Keizai Shimbun will be used.
● Listed on	The Prime Market Segment of the Tokyo Stock Exchange
● Securities code	8304
● Number of shares constituting one unit (tangen)	100 shares
● Manager of register of shareholders and administrator of the 'special account'	Sumitomo Mitsui Trust Bank, Limited 4-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo
Manager of register of shareholders' location	Stock Transfer Agency Business Planning Dept., Sumitomo Mitsui Trust Bank, Limited 4-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo
(Mailing address)	Stock Transfer Agency Business Planning Dept., Sumitomo Mitsui Trust Bank, Limited 8-4, Izumi 2-chome, Suginami-ku, Tokyo, 168-0063
(Contact number)	0120-782-031 (toll free only if calling from Japan)

- Inquiries regarding shares and notification of changes  
We ask that shareholders direct all inquiries, including change of address, to their securities company. For those shareholders who do not have an account with a securities firm, inquiries should be directed to the agent above.
- Regarding the 'special account'  
Prior to the implementation of the electronic share certificate system in Japan, an account was established with Sumitomo Mitsui Trust Bank, Limited, for shareholders who did not use JASDEC's hofuri system. Such shareholders should direct all matters related to change of address and other inquiries to the agent above.



This report is printed with vegetable oil ink.

Published: September 2022

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Printed In Japan