

FY2022 Financial Results and New Mid-term Plan (FY2023–25)

May 17, 2023



Contents

1	FY2022 Financial Results	P2
2	New Mid-term Plan “Aozora 2025” (FY2023–25) — Fostering, Change and Recovery —	P32
3	Mid-term Financial Targets & Capital Policy	P55
4	Appendix	P58

(Note) Unless otherwise stated, all amounts stated have been rounded down to the nearest unit.
In addition, “1Q” refers to the period from April to June, “2Q” refers to the period from July to September, “3Q” refers to the period from October to December,
“4Q” refers to the period from January to March.

1 FY2022 Financial Results

Financial Highlights

Net revenue	59.5 billion yen (43.4 billion yen decrease year-on-year, 2.4 billion yen lower than the revised forecast)
Business profit	2.5 billion yen (45.2 billion yen decrease year-on-year, 1.9 billion yen lower than the revised forecast)
Profit attributable to owners of parent	8.7 billion yen (26.2 billion yen decrease year-on-year, 1.2 billion yen lower than the revised forecast)

Key points

- Net revenue, business profit and profit attributable to owners of parent were almost in line with the revised forecasts announced in January 2023
- Net revenue from customer-related business mainly driven by Aozora's Strategic Investments Business was strong with a 0.3 billion yen increase year-on-year
- Net revenue from the Bank's financial market-related business decreased by 38.6 billion yen from the previous year. We continued risk reduction operations in the securities portfolio throughout the fiscal year and implemented a loss-cut to a portion of the unrealized losses. The unrealized losses in the securities portfolio on a consolidated basis were 63.8 billion yen as of March 31, 2023, with an improvement of 6.3 billion yen from December 31, 2022
- Credit-related expenses in 4Q were a net expense of 3.9 billion yen due to provisions made mainly for overseas real estate non-recourse loans based on a conservative evaluation in light of recent market conditions in the U.S. Full-year credit-related expenses were a net expense of 1.7 billion yen and within the range of the Bank's initial forecast

Full-year dividend: 154 yen per common share (4Q: 40 yen)

FY2023 Earnings and Dividend Forecast

Earnings Forecast

(billion yen)

Consolidated	FY2021 Results	FY2022 Results
Net Revenue	103.0	59.5
Business profit*	47.8	2.5
Ordinary profit	46.2	7.3
Profit attributable to owners of parent	35.0	8.7

FY2023 Forecast
86.0
25.5
31.0
24.0

* Including gains/losses on equity method investments

Non-consolidated	FY2021 Results	FY2022 Results
Net Revenue	88.2	44.3
Business profit (before provisions to general loan loss reserves)	42.2	(1.6)
Ordinary profit	41.0	3.1
Net income	29.8	(8.1)

(billion yen)

FY2023 Forecast
70.0
22.0
27.0
19.0

Dividend Forecast

	FY2021 Results	FY2022 Results
Full-year dividend per common share	149 yen	154 yen

FY2023 Forecast
154 yen

Dividend payments on a quarterly basis will be maintained

PL summary

- Net revenue from customer-related business (excluding financial market-related and retail businesses) mainly driven by Aozora's Strategic Investments Business was 69.3 billion yen, a 0.3 billion yen increase year-on-year
- Net revenue from retail business was 2.8 billion yen, a 5.1 billion yen decrease from the previous year due to a change in the Bank's policy regarding the sale of structured bonds
- Net revenue from financial market-related business was a net loss of 12.6 billion yen, 38.6 billion yen lower compared to the previous year. In 4Q, a net loss of 10.7 billion yen was recorded
- G&A expenses increased by 1.5 billion yen year-on-year due to increased personnel costs
- Profit attributable to owners of parent was 8.7 billion yen. A net loss of 6.9 billion yen was recorded in 4Q due to realized losses in financial market-related business as well as provisions made for overseas real estate non-recourse loans based on a conservative evaluation

	FY2021 Full year A (billion yen)	FY2022					Full year B	Change B - A		FY2022 Revised forecast
		Apr. - Jun.	Jul. - Sep.	Oct. - Dec.	Jan. - Mar.	Amount		%		
Net revenue	103.0	21.4	21.8	11.9	4.2	59.5	-43.4	-42.2%	62.0	
Net interest income	51.6	14.2	12.9	13.1	10.6	51.0	-0.5			
Non-interest income	51.3	7.2	8.8	-1.2	-6.3	8.4	-42.9			
General & administrative expenses	-57.7	-14.4	-14.6	-14.5	-15.6	-59.3	-1.5			
Gains/losses on equity method investments	2.6	0.3	0.4	0.4	1.0	2.3	-0.2			
Business profit	47.8	7.3	7.6	-2.1	-10.3	2.5	-45.2	-94.6%	4.5	
Credit-related expenses	-3.7	3.2	-1.1	0.1	-3.9	-1.7	+2.0			
Gains/losses on stock transactions	2.0	-0.0	4.6	0.1	3.7	8.4	+6.4			
Ordinary profit	46.2	11.3	9.0	-1.9	-11.0	7.3	-38.9	-84.1%	10.0	
Profit before income taxes	45.9	11.3	9.0	-1.9	-11.0	7.3	-38.6	-84.0%		
Taxes	-12.9	-3.3	-2.6	1.7	3.5	-0.6	+12.2			
Gains/losses attributable to non-controlling interests	1.9	0.4	0.5	0.5	0.5	2.0	+0.0			
Profit attributable to owners of parent	35.0	8.3	7.0	0.3	-6.9	8.7	-26.2	-75.1%	10.0	

Reference: Net revenue by business group (management accounting basis)

Customer-related business excl. financial market-related and retail businesses	68.9	19.2	18.2	17.2	14.5	69.3	+0.3	+0.5%
Retail business	8.0	1.0	0.8	0.5	0.4	2.8	-5.1	-64.4%
Financial market-related business	25.9	1.2	2.7	-5.9	-10.7	-12.6	-38.6	-

Net interest income

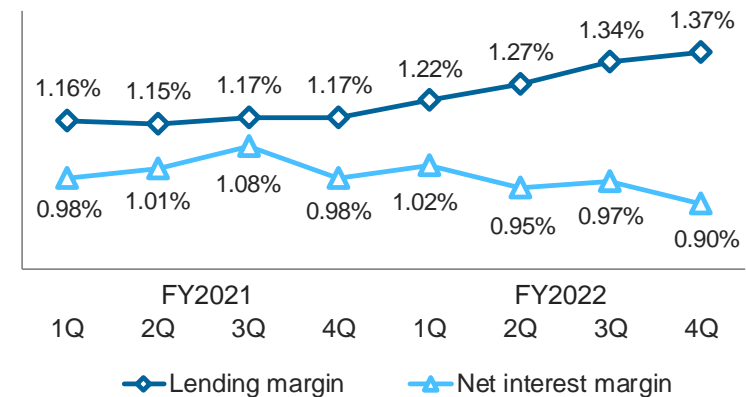
- Net interest income was 51.0 billion yen, almost flat year-on-year
 - Net interest income on loans increased by approximately 10.0 billion yen year-on-year due to increases in both average loan outstandings and interest margins
 - Net interest income on securities decreased by approximately 8.0 billion yen due to declining interest margins caused by higher interest rates in the U.S.
- The net interest margin decreased by 6 bps compared to the previous year
 - The lending margin increased by 15 bps year-on-year mainly due to the overseas loans. The increasing trend continued on a quarterly basis

(billion yen)	FY2021	FY2022				Full year B	Change B - A
	Full year A	Apr. - Jun.	Jul. - Sep.	Oct. - Dec.	Jan. - Mar.		
Net interest income	51.6	14.2	12.9	13.1	10.6	51.0	-0.5
Interest income	66.1	21.2	26.1	32.1	33.9	113.5	+47.4
Interest on loans and discounts	44.7	14.4	19.8	25.2	27.4	87.0	+42.2
Interest and dividends on securities	20.2	6.4	5.7	6.1	4.9	23.3	+3.1
Incl. gains on cancellation of investment trusts	0.4	0.9	0.1	0.2	0.0	1.3	+0.8
Other interest income	1.0	0.3	0.5	0.8	1.5	3.1	+2.1
Interest expenses	-14.5	-7.0	-13.1	-19.0	-23.2	-62.4	-47.9
Interest on deposits and NCDs	-6.1	-2.1	-2.7	-3.1	-3.2	-11.2	-5.0
Interest on debentures	-1.9	-0.4	-0.4	-0.1	-0.4	-1.5	+0.4
Interest on borrowings and rediscounts	-1.1	-0.2	-0.3	-0.3	-0.3	-1.2	-0.0
Other interest (repurchase interest, etc.)	-0.7	-0.8	-2.1	-3.1	-3.1	-9.2	-8.5
Interest on swaps	-4.5	-3.2	-7.4	-12.2	-16.1	-39.1	-34.6

(Note) Decreases in expenses are shown as positive.

	FY2021	FY2022				Full year B	Change B - A
	Full year A	Apr. - Jun.	Jul. - Sep.	Oct. - Dec.	Jan. - Mar.		
Yield on total investments (A)	1.27%	1.48%	1.78%	2.15%	2.36%	1.94%	+0.67%
Yield on loans (B)	1.42%	1.68%	2.10%	2.52%	2.83%	2.30%	+0.88%
Yield on securities (C)	1.50%	1.81%	1.63%	1.59%	1.47%	1.63%	+0.13%
Yield on funding (D)	0.26%	0.46%	0.83%	1.18%	1.46%	0.99%	+0.73%
Net interest margin (A)-(D)	1.01%	1.02%	0.95%	0.97%	0.90%	0.95%	-0.06%
Lending margin (B)-(D)	1.16%	1.22%	1.27%	1.34%	1.37%	1.31%	+0.15%
Securities margin (C)-(D)	1.24%	1.35%	0.80%	0.41%	0.01%	0.64%	-0.60%

Net interest margin and lending margin



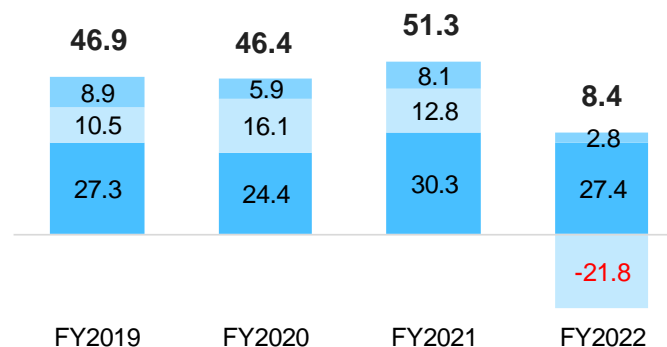
Non-interest income

- Non-interest income was 8.4 billion yen, a decrease of 42.9 billion yen year-on-year
 - Non-interest income from customer-related business (excluding financial market-related and retail businesses) was 27.4 billion yen, a decrease of 2.8 billion yen
 - Non-interest income from financial market-related business was a net loss of 21.8 billion yen, 34.7 billion yen lower compared to the prior year
 - Aozora continued to implement a loss-cut to a portion of unrealized losses in the securities portfolio and, as a result, gains/losses on bond transactions were a net loss of 11.1 billion yen
 - Net trading revenues were 4.1 billion yen, a decrease of 12.4 billion yen due to a lower level of earnings from the sale of structured bonds and trading income

	FY2021	FY2022				Full year B	Change B - A
	Full year A	Apr. - Jun.	Jul. - Sep.	Oct. - Dec.	Jan. - Mar.		
(billion yen)							
Non-interest income	51.3	7.2	8.8	-1.2	-6.3	8.4	-42.9
Net fees and commissions	14.0	2.8	2.8	3.7	3.8	13.3	-0.6
Net trading revenues	16.6	1.6	0.2	1.1	1.1	4.1	-12.4
Gains/losses on bond transactions	4.5	-2.3	-0.0	-3.9	-4.8	-11.1	-15.6
Net other ordinary income excl. gains/losses on bond transactions	16.2	5.1	5.7	-2.2	-6.4	2.1	-14.1
Incl. gains from limited partnerships	9.1	3.1	0.9	1.1	-0.5	4.6	-4.5

Non-interest income breakdown*

(billion yen)



- Non-interest income from retail business
- Non-interest income from financial market-related business
- Non-interest income from customer-related business (excl. financial market-related and retail businesses)

* Management accounting basis

Non-interest income — Net fees and commissions / Net trading revenues

- Net fees and commissions were 13.3 billion yen, a decrease of 0.6 billion yen compared to the previous year
 - Loan-related fee income was 6.1 billion yen, a decrease of 1.6 billion yen year-on-year mainly due to the delay in the closing of several large-sized transactions (expected fee income of approximately 2.0 billion yen) to 1Q of FY2023
 - Investment trust AUM balances and investment trust fee income (+0.5 billion yen) both increased as sales of investment trust products offered by Aozora Investment Management to the retail customers of regional financial institutions were strong
- Net trading revenues were 4.1 billion yen, a decrease of 12.4 billion yen due to a lower level of earnings from the sale of structured bonds and trading income

(billion yen)	FY2021 Full year A	FY2022				Full year B	Change B - A
		Apr. - Jun.	Jul. - Sep.	Oct. - Dec.	Jan. - Mar.		
Net fees and commissions	14.0	2.8	2.8	3.7	3.8	13.3	-0.6
Fees and commissions	17.7	3.8	3.9	4.8	5.0	17.7	-0.0
Loan business-related and deposits	7.8	1.4	1.4	1.9	1.3	6.1	-1.6
Securities-related and agency	3.9	1.0	1.2	1.1	1.2	4.6	+0.6
Incl. investment trust fee income	2.0	0.5	0.6	0.6	0.6	2.5	+0.5
Other	5.9	1.3	1.2	1.8	2.4	6.9	+1.0
Incl. GANB fee income	3.2	0.9	0.8	0.9	1.1	3.9	+0.6
Fees and commissions payments	-3.7	-1.0	-1.0	-1.0	-1.1	-4.3	-0.6
Net trading revenues	16.6	1.6	0.2	1.1	1.1	4.1	-12.4

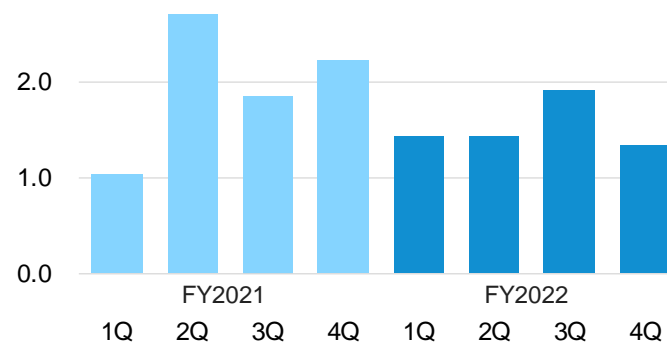
Earnings from investment product sales to retail customers*

Earnings from investment product sales	8.0	1.0	0.9	0.5	0.4	2.9	-5.1
Incl. investment trusts	1.4	0.3	0.3	0.3	0.3	1.3	-0.0
Incl. structured bonds	6.4	0.6	0.5	0.1	0.0	1.4	-5.0

* Earnings from the sale of investment trusts are included in net fees and commissions. Earnings from the sale of structured bonds are included in net trading revenues.

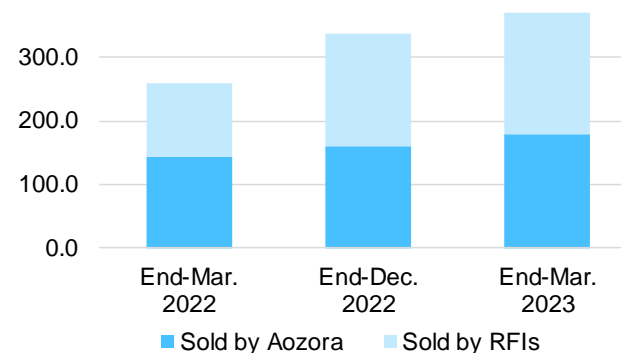
Loan-related fee income

(billion yen)



Retail investment trust AUM balances

(billion yen)



Non-interest income — Net other ordinary income

- Gains/losses on bond transactions were a net loss of 11.1 billion yen, compared to a net gain of 4.5 billion yen in the previous year. Net other ordinary income (excl. gains/losses on bond transactions) was 2.1 billion yen, compared to 16.2 billion yen in the previous year
 - Losses related to risk reduction operations in the securities portfolio, including gains/losses on financial and equity derivatives, in FY2022 were 11.2 billion yen. Losses recorded in 4Q were 7.5 billion yen mainly due to the sale of foreign bonds and municipal bonds
 - With regards to gains/losses from limited partnerships, real estate-related gains increased year-on-year due to a large-sized exit transaction closed in 4Q. Distressed loan-related gains also increased due to favorable recovery gains in the second half. As a result of a re-evaluation of the limited partnership portfolio, an allowance for investment losses of 2.6 billion yen was provided on certain transactions in 4Q

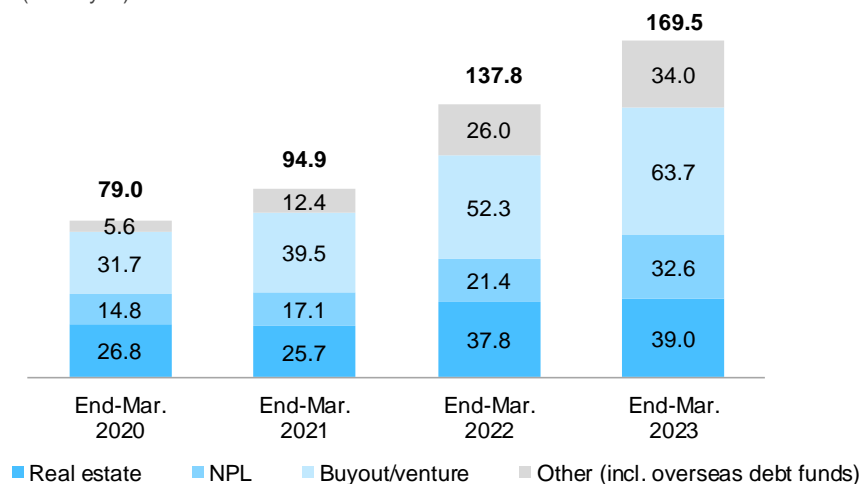
(billion yen)	FY2021	FY2022				Full year B	Change B - A
	Full year A	Apr. - Jun.	Jul. - Sep.	Oct. - Dec.	Jan. - Mar.		
Gains/losses on bond transactions (A)	4.5	-2.3	-0.0	-3.9	-4.8	-11.1	-15.6
Japanese government bonds (JGBs)	0.1	-0.4	0.0	-	-0.2	-0.6	-0.8
Municipal bonds	-	-0.3	-0.0	-0.7	-2.3	-3.4	-3.4
Foreign government bonds and mortgage bonds	-1.9	-	-	-2.8	-2.1	-5.0	-3.0
Other	6.2	-1.5	0.0	-0.3	-0.1	-2.0	-8.3
Incl. private placement investment trusts	4.1	3.7	-0.0	-0.4	-	3.1	-0.9
Incl. REITs	2.2	-0.0	0.0	0.1	0.2	0.3	-1.8
Incl. foreign currency ETFs	-0.9	-5.2	0.0	-	-	-5.2	-4.2
Net other ordinary income excl. gains/losses on bond transactions	16.2	5.1	5.7	-2.2	-6.4	2.1	-14.1
Incl. gains/losses on financial derivatives (B)	1.0	-0.1	4.5	-0.3	-2.0	1.9	+0.8
Incl. gains from limited partnerships	9.1	3.1	0.9	1.1	-0.5	4.6	-4.5
Incl. allowance for investment losses	0.3	0.0	-0.0	-0.3	-2.6	-3.0	-3.3
Real estate-related	2.2	0.4	0.4	0.2	1.4	2.5	+0.3
Distressed loan-related	3.3	0.4	0.5	1.3	1.2	3.6	+0.2
Buyout/venture-related	2.6	1.8	-0.4	-0.6	-0.9	-0.1	-2.8
Other	0.8	0.4	0.2	0.1	-2.2	-1.4	-2.2
(Ref.) Gains/losses on equity derivatives*1 (C)	-0.2	0.6	-1.9	-0.0	-0.6	-2.0	-1.7
(A)+(B)+(C) *2	5.3	-1.8	2.5	-4.3	-7.5	-11.2	-16.5

*1 Not included in net revenue or gains on stock transactions on the next page

*2 Gains/losses related to risk reduction operations in the securities portfolio

Limited partnership investments*

(billion yen)



* Management accounting basis

Gains/losses on equity method investments/stock transactions

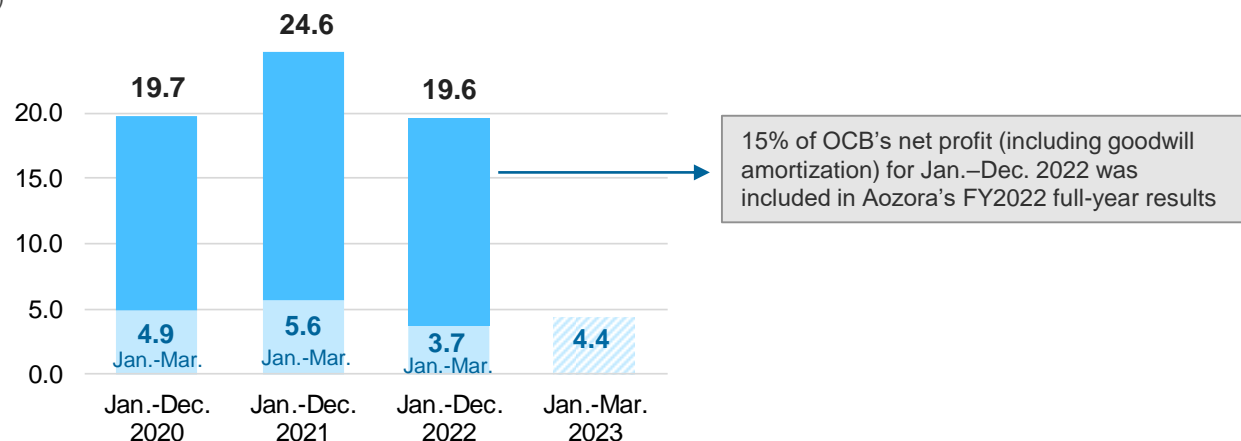
- Gains/losses on equity method investments were a net gain of 2.3 billion yen
 - Orient Commercial Joint Stock Bank's (OCB) net profit during the January–December 2022 period decreased compared to the previous year, mainly due to losses recorded on the sale of bonds in response to increased interest rates within Vietnam
- Gains/losses on stock transactions were a net gain of 8.4 billion yen
 - The gains in 4Q were 3.7 billion yen due to the exit transactions of equity investments related to Aozora's Strategic Investments Business

(billion yen)	FY2021	FY2022					Change B - A
	Full year A	Apr. - Jun.	Jul. - Sep.	Oct. - Dec.	Jan. - Mar.	Full year B	
Gains/losses on equity method investments	2.6	0.3	0.4	0.4	1.0	2.3	-0.2
Gains/losses on stock transactions *	2.0	-0.0	4.6	0.1	3.7	8.4	+6.4

* Not including gains/losses on equity derivatives

OCB's net profit*

(billion yen)



* Uses an exchange rate of 0.0056 yen per 1 Vietnamese dong

Aozora's Strategic Investments Business — Equity investments

- Equity investments as of March 31, 2023 were 291.8 billion yen, an increase of 47.0 billion yen from March 31, 2022. Capital gains were 9.7 billion yen
 - In 4Q:
 - A net gain of 1.1 billion yen was recorded in the “Investment in business recovery claims” due to collections, while the purchase of recovery claims continued to increase
 - “Real estate-related equities” recognized a net gain of 1.7 billion yen due to a large-sized exit transaction, while balances declined as a result of the sale
 - “Domestic/overseas equity investments” recorded a net gain of 4.0 billion yen while “Buyout/venture” and “Other” were a net loss of 3.8 billion yen, which included an allowance for investment losses as a result of a re-evaluation of the limited partnership portfolio

(billion yen)	Equity investments*1					Capital gains and other equity returns*2		
	End - Mar. 2022	End - Dec. 2022	End - Mar. 2023	Change C - A	Change C - B	FY2021 Full year	FY2022	
	A	B	C				Full year	Jan.-Mar.
Investment in business recovery claims	56.1	58.9	65.7	+9.6	+6.7	3.2	3.0	1.1
Real estate-related equities	84.5	99.1	94.5	+9.9	-4.6	4.1	3.6	1.7
Buyout/venture (Private equity funds, etc.)	52.3	60.0	61.5	+9.1	+1.5	2.5	-0.9	-1.2
Domestic/overseas equity investments	25.7	32.4	33.6	+7.9	+1.1	1.7	6.3	4.0
Other (incl. overseas debt funds)	26.0	35.1	36.3	+10.2	+1.1	0.7	-2.3	-2.6
Total	244.8	285.7	291.8	+47.0	+6.0	12.3	9.7	3.0

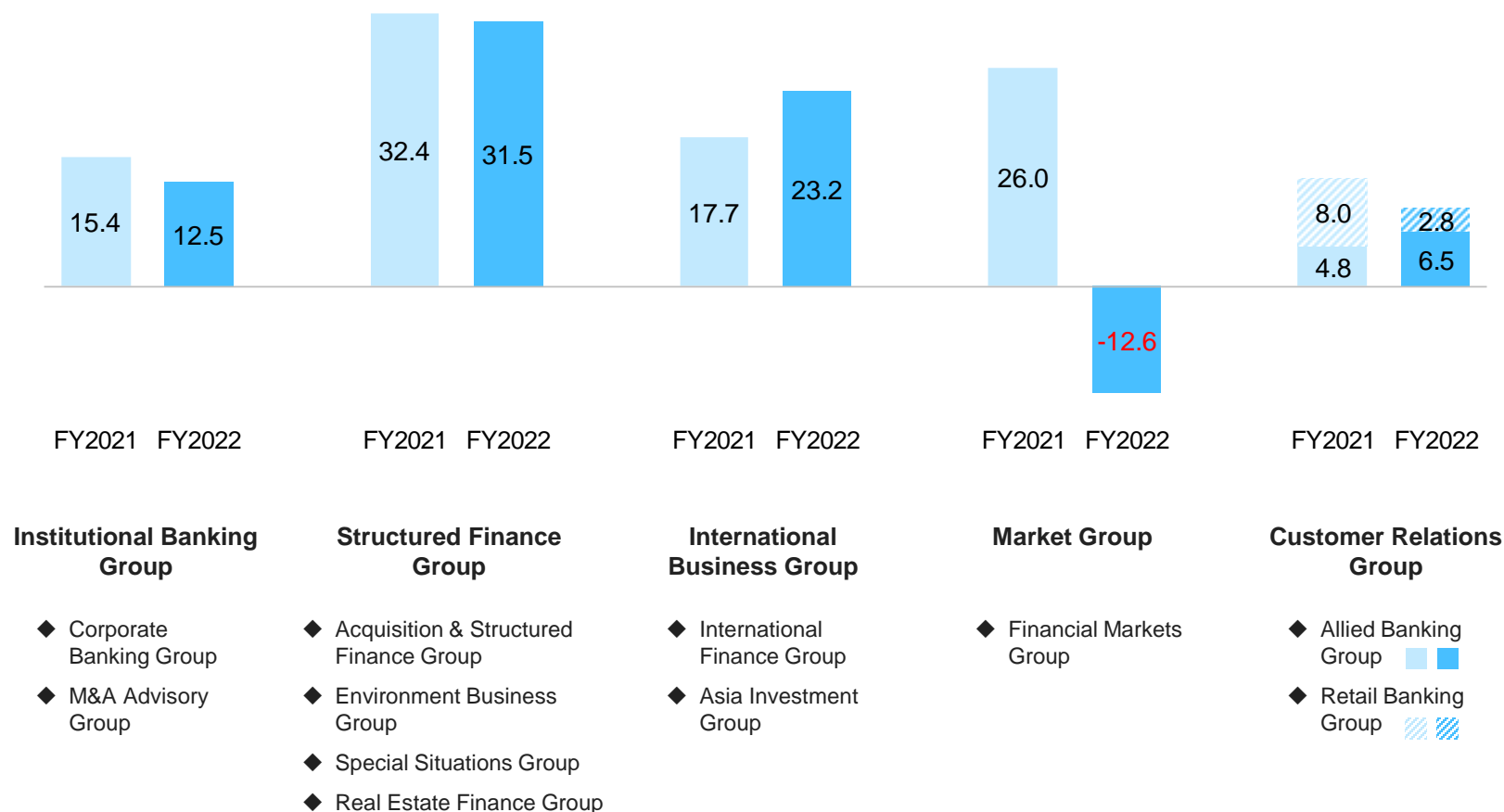
*1 Management accounting basis, customer business-related equity investments on a mark-to-market basis

*2 Management accounting basis, including gains/losses on stock transactions, gains/losses from limited partnerships, and interest and dividends on securities

Results by business segment

Business revenue* (total of net revenue, gains/losses on equity method investments and stock transactions)

(billion yen)



* Management accounting basis

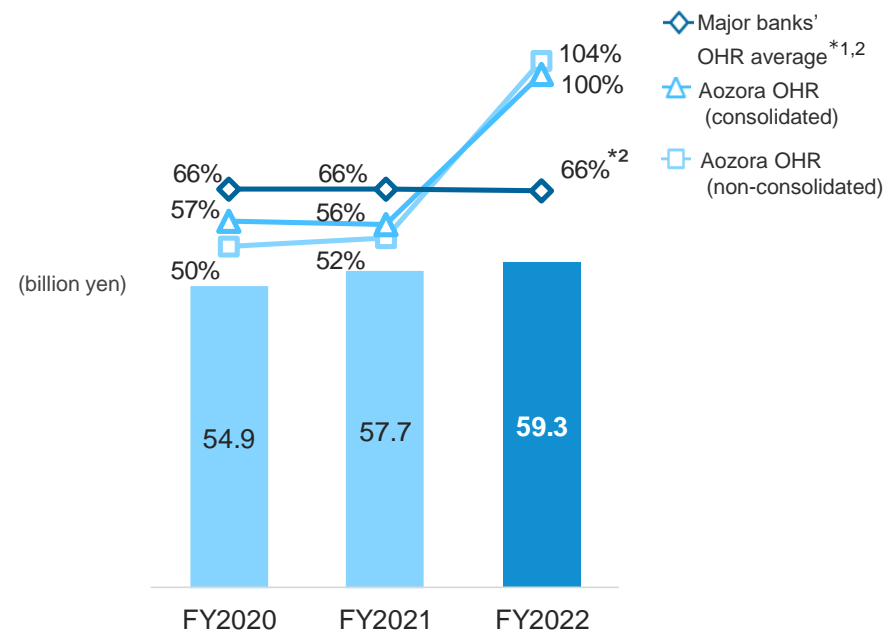
G&A expenses

- G&A expenses were 59.3 billion yen, an increase of 1.5 billion yen from the previous year
 - The Bank maintained its focus on cost control while making necessary personnel and IT related investments. Overall G&A expenses were within the original budget (60.0 billion yen)
 - Personnel expenses increased by 1.4 billion yen from the previous year as the Bank has continued to invest in human capital, including pay-scale increases and personnel system reform

G&A expenses breakdown

(billion yen)	FY2021	FY2022					Change B - A
	Full year A	Apr. - Jun.	Jul. - Sep.	Oct. - Dec.	Jan. - Mar.	Full year B	
G&A expenses (A)	57.7	14.4	14.6	14.5	15.6	59.3	+1.5
Personnel	27.3	6.8	7.2	7.0	7.6	28.8	+1.4
Non-Personnel	26.9	6.6	6.7	6.9	7.4	27.8	+0.8
Incl. IT-related	11.2	2.8	2.8	2.9	3.3	11.9	+0.7
Taxes	3.4	0.9	0.6	0.5	0.5	2.7	-0.7
Net revenue (B)	103.0	21.4	21.8	11.9	4.2	59.5	
OHR (A) / (B)	56%	67%	67%	122%	366%	100%	
OHR (non-consolidated)	52%	63%	62%	143%	-	104%	
OHR (non-consolidated, core net business profit)	55%	56%	62%	95%	241%	83%	

G&A expenses and OHR



*1 "Major banks" refers to MUFG, SMFG, Mizuho FG, Resona HD, Sumitomo Mitsui Trust HD and SBI Shinsei
Values calculated based on each company's publically-available financial data

*2 FY2022 1-3Q

Credit-related expenses

- Credit-related expenses were a net expense of 1.7 billion yen, compared to a net expense of 3.7 billion yen in the previous year, which was within the range of initial forecast
 - Credit-related expenses in 4Q were a net expense of 3.9 billion yen. As a result of the re-evaluation of overseas real estate non-recourse loans based on conservative appraisals and a divergence in credit quality, mainly in the office sector, an additional reserve of 5.1 billion yen was made
 - The Bank continued rebalancing of the overseas corporate loan portfolio and recorded losses on loan dispositions of 1.2 billion yen in 4Q
- The ratio of loan loss reserves to total loans remained adequate at 1.13%
 - The ratio of loan loss reserves to overseas loans was approximately 2%. Of overseas real estate non-recourse loans, the ratio of loan loss reserves to the U.S. office loans was approximately 4.7%

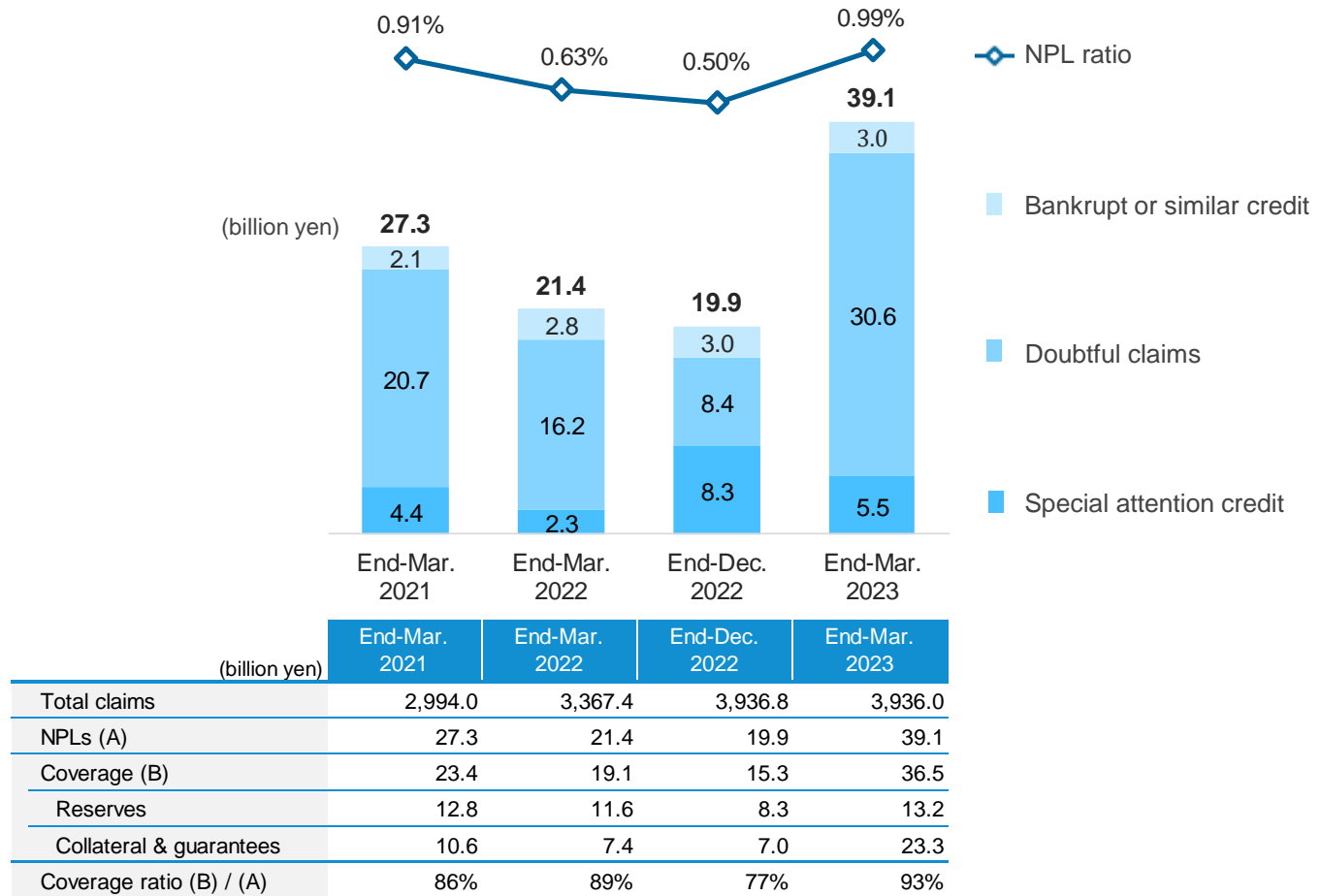
	FY2021	FY2022					Change B - A
	Full year A	Apr. - Jun.	Jul. - Sep.	Oct. - Dec.	Jan. - Mar.	Full year B	
(billion yen)							
Credit-related expenses	-3.7	3.2	-1.1	0.1	-3.9	-1.7	+2.0
Write-off of loans	-1.3	-0.0	-0.0	-0.0	-0.1	-0.1	+1.1
Loan loss reserves	-2.7	2.2	-1.1	0.3	-2.5	-1.1	+1.5
Specific loan loss reserves	-4.3	-0.6	0.4	-0.0	-5.7	-5.9	-1.5
General loan loss reserves	1.6	2.9	-1.6	0.3	3.1	4.8	+3.1
Gains/losses on disposition of loans	-0.0	-0.0	-0.0	-0.2	-1.2	-1.5	-1.4
Recoveries of written off receivables	0.1	1.0	0.1	0.0	0.0	1.1	+1.0
Reserve for credit losses on off-balance-sheet instruments	0.2	0.0	-0.0	0.0	-0.0	-0.0	-0.2

Ratio of loan loss reserves to total loans

(billion yen)	End - Mar. 2022	End - Dec. 2022	End - Mar. 2023
Loan loss reserves (A)	48.6	41.4	44.0
General loan loss reserves	38.4	36.8	33.6
Total loans (B)	3,317.1	3,877.6	3,881.3
Loans subject to loss reserves (C)	3,108.0	3,477.4	3,482.8
(A) / (B)	1.46%	1.06%	1.13%
(A) / (C)	1.56%	1.19%	1.26%
Reserve ratio for need attention credit	5.0%	5.1%	5.8%
Reserve ratio for normal credit	0.7%	0.5%	0.5%

Non-performing loans based on the FRA*

- The ratio of NPLs to total claims on a consolidated basis (NPL ratio) was 0.99%, an increase of 0.36% from March 31, 2022 and an increase of 0.49% from December 31, 2022
 - NPLs increased by 17.7 billion yen compared to March 31, 2022, which was mainly due to changes in obligor classification as a result of the conservative evaluation of the overseas real estate non-recourse loan portfolio
 - Coverage ratio was 93% as of March 31, 2023, an increase from 77% as of December 31, 2022



* Financial Reconstruction Act

Balance sheet summary

- Total assets were 7,184.0 billion yen, an increase of 455.4 billion yen compared to March 31, 2022
- Total net assets were 431.1 billion yen, representing a decrease of 56.1 billion yen from March 31, 2022
 - The balance of deposits / negotiable certificates of deposit increased by 91.2 billion yen from December 31, 2022
 - Valuation difference on available-for-sale securities improved by 9.5 billion yen compared to December 31, 2022 due to a decrease in unrealized losses in the securities portfolio

(billion yen)	End - Mar. 2022 A	End - Dec. 2022	End - Mar. 2023 B	Change B - A
Loans and bills discounted	3,317.1	3,877.6	3,881.3	+564.2
Securities	1,478.1	1,333.5	1,278.7	-199.4
Cash and due from banks	1,141.9	1,060.7	1,275.0	+133.0
Trading assets	133.0	271.8	151.2	+18.2
Other	658.3	610.4	597.6	-60.7
Total assets	6,728.6	7,154.3	7,184.0	+455.4

(billion yen)	End - Mar. 2022 A	End - Dec. 2022	End - Mar. 2023 B	Change B - A
Deposits / Negotiable certificates of deposit	4,871.5	5,406.1	5,497.3	+625.7
Bonds payable	168.9	117.7	147.7	-21.1
Borrowed money	432.3	509.0	525.6	+93.2
Cash collateral received for securities lent	356.9	194.8	215.9	-140.9
Trading liabilities	129.2	180.8	121.8	-7.3
Other	282.3	305.7	244.3	-37.9
Total liabilities	6,241.3	6,714.3	6,752.9	+511.5
Capital stock / Capital surplus	187.4	187.4	187.4	+0.0
Retained earnings	301.7	303.3	291.8	-9.8
Valuation difference on available-for-sale securities	3.9	-55.0	-45.4	-49.4
Foreign currency translation adjustment	3.4	9.7	7.6	+4.2
Other	-9.3	-5.5	-10.4	-1.1
Total net assets	487.2	439.9	431.1	-56.1
Total liabilities and net assets	6,728.6	7,154.3	7,184.0	+455.4

Loans — Balance by industry

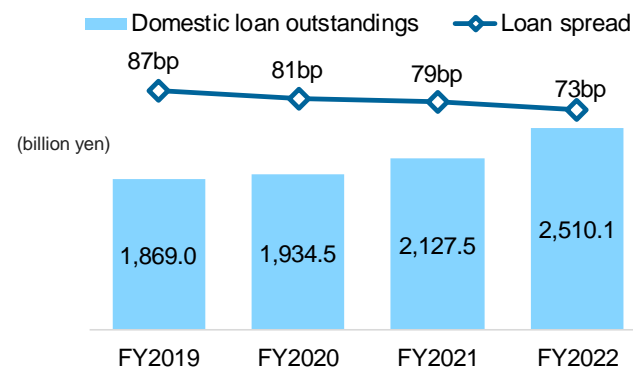
- Loans were 3,881.3 billion yen, an increase of 564.2 billion yen compared to March 31, 2022
 - Domestic loans increased by 382.6 billion yen compared to March 31, 2022 and decreased by 6.8 billion yen compared to December 31, 2022. Environmental finance and loans to borrowers with strong credit ratings (e.g. government, domestic REITs, leasing)* contributed to the increase
 - * The government is classified into “Other” and domestic REITs are included in “non-recourse loans” under the “Real estate” category.

(billion yen)	End - Mar. 2022 A	End - Dec. 2022	End - Mar. 2023 B	Change B - A
Total loans (A)	3,317.1	3,877.6	3,881.3	+564.2
Domestic loans	2,127.5	2,517.0	2,510.1	+382.6
Overseas loans* (B)	1,189.6	1,360.6	1,371.1	+181.5
(B) / (A)	35.9%	35.1%	35.3%	-

* With no final risk residing in Japan

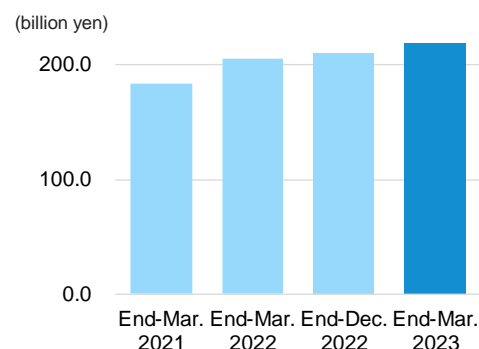
					Share
Loans by domestic offices (excl. Japan offshore market accounts)	2,545.7	3,001.0	3,000.0	+454.3	77%
Manufacturing	236.8	244.1	258.7	+21.9	7%
Utilities (electric power/gas/heat supply/water service)	87.0	154.2	141.5	+54.4	4%
Information and communications	102.6	105.3	105.3	+2.6	3%
Transport, postal services	40.3	48.3	49.7	+9.3	1%
Wholesale and retail sale	77.9	86.0	86.9	+8.9	2%
Financial and insurance	352.0	349.8	342.4	-9.5	9%
Real estate	715.0	753.8	760.4	+45.3	20%
Incl. non-recourse loans	380.8	420.4	428.0	+47.1	11%
Leasing	100.5	144.8	148.7	+48.2	4%
Other services	153.8	166.5	155.2	+1.3	4%
Other	679.3	947.9	950.7	+271.4	24%
Incl. overseas (HQ booked)	439.2	508.1	514.9	+75.7	13%
Loans by overseas offices incl. Japan offshore market accounts	771.3	876.5	881.3	+109.9	23%
Total	3,317.1	3,877.6	3,881.3	+564.2	100%

Domestic loan outstandings and loan spread*



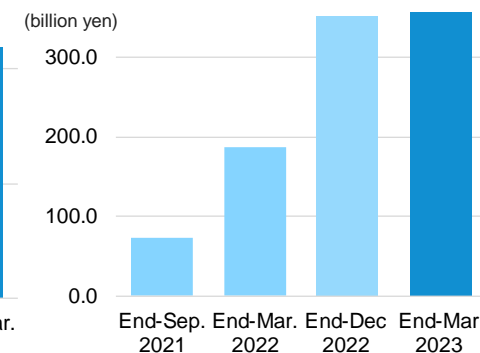
* Management accounting basis. Loan balances and loan spreads at fiscal-year end. Loan spreads as of the end of each period have been disclosed since 3Q of FY2022.

LBO loans (non-consolidated)*



* Management accounting basis

Environmental finance (non-consolidated)*



* Management accounting basis
Including corporate bonds and equities

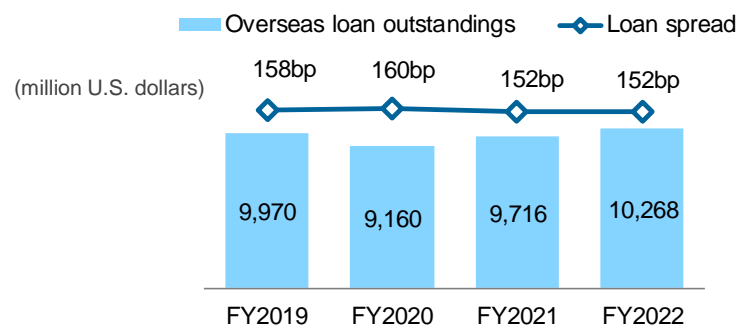
Loans — Overseas

- Overseas loans were 1,371.1 billion yen, or 10,268 million on a U.S. dollar-basis (an increase of US\$ 551 million compared to March 31, 2022 and an increase of US\$ 17 million compared to December 31, 2022)

(billion yen)	End - Mar. 2022 A	End - Dec. 2022	End - Mar. 2023 B	Change B - A
Total loans (A)	3,317.1	3,877.6	3,881.3	+564.2
Overseas loans* (US\$ million)	9,716	10,250	10,268	+551
Overseas loans (B)	1,189.6	1,360.6	1,371.1	+181.5
(B) / (A)	35.9%	35.1%	35.3%	-
Foreign exchange rate (US\$/JPY)	¥122.43	¥132.74	¥133.54	¥11.11

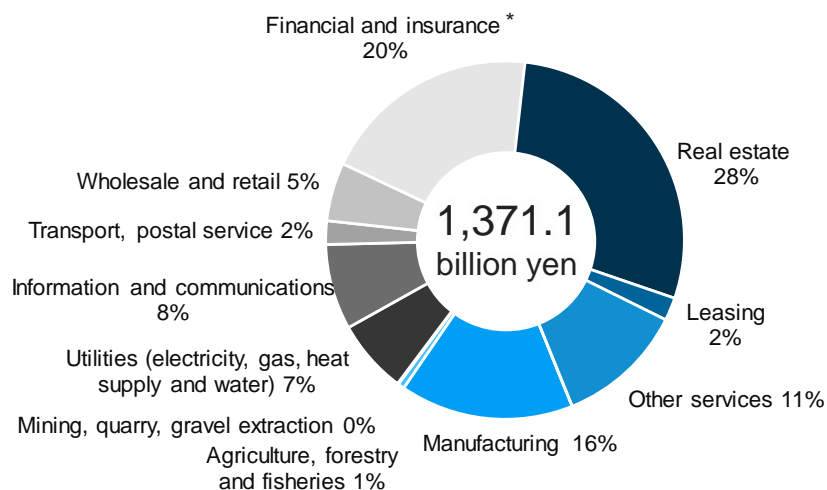
* With no final risk residing in Japan

Overseas loan outstandings and loan spread*



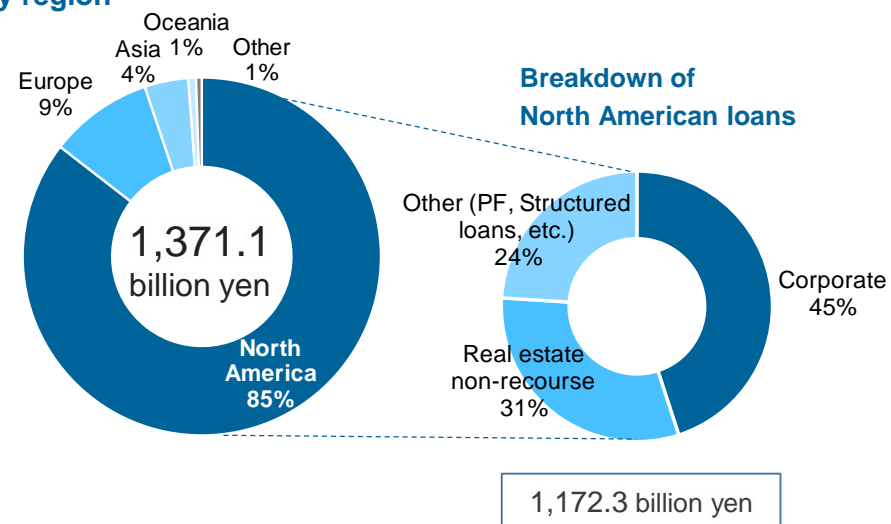
* Management accounting basis. Loan outstandings and loan spreads at fiscal-year end. To eliminate the impact of foreign exchange rate fluctuations on lending margins, loan spreads as of the end of each period have been disclosed since 3Q of FY2022.

By industry



* The majority of "Financial and insurance" consist of the highest senior tranche (AAA-rated) of middle-market CLO backed by diversified portfolio of the U.S. medium-sized companies.

By region

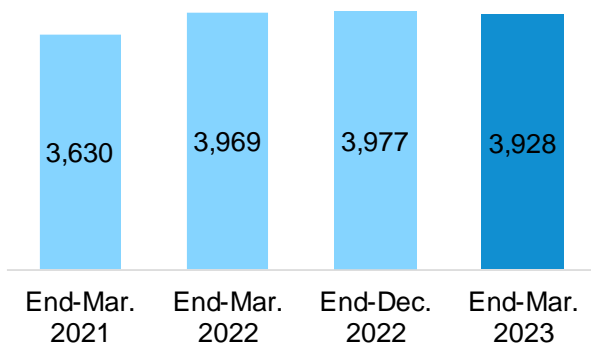


Loans — North American corporate loans

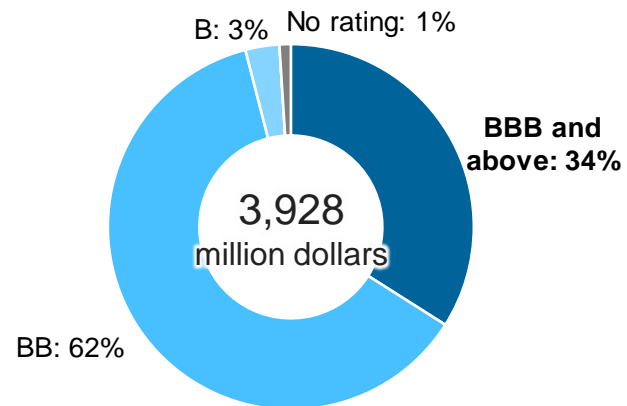
- The Bank's North American corporate loans were US\$ 3,928 million, a decrease of US\$ 41 million compared to March 31, 2022
 - Aozora maintained portfolio quality through selective loan origination and flexible rebalancing in response to market conditions
 - The average bid price of the Bank's loan portfolio continued to outperform the market index with an improvement in portfolio quality. Loans rated BB or higher represented 96%, an increase from 91% as of March 31, 2022

North American corporate loan outstandings

(million U.S. dollars)

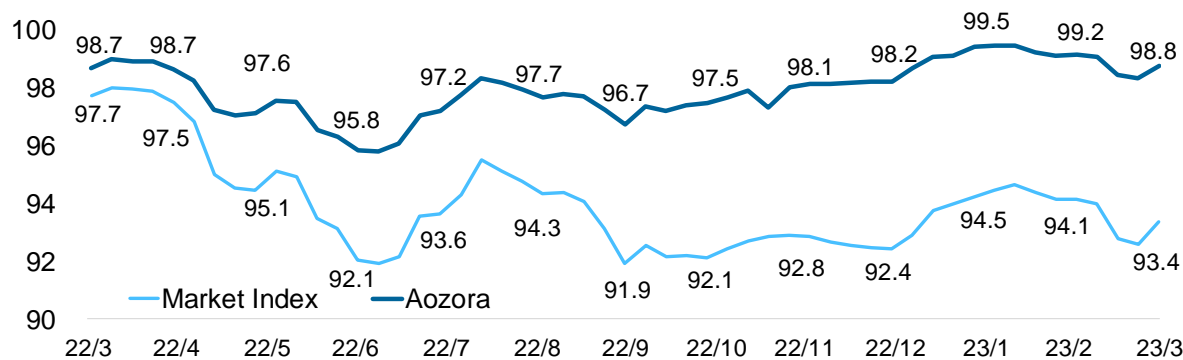


North American corporate loans by credit rating*



* S&P credit rating (facility basis)

Average bid price



Loans — Overseas real estate non-recourse loans (NRLs) (1/2)

- Overseas real estate non-recourse loans were US\$ 2,813 million. The ratio of overseas real estate non-recourse loans to total loans was 9.7%
 - The overseas real estate non-recourse loans increased by US\$ 391 million from March 31, 2022 and US\$ 26 million from December 31, 2022, as Aozora focused on originating higher credit quality loans, mainly in residential/multi-family and logistics
 - Commercial office loans remained flat compared to December 31, 2022 as the Bank took a policy to limit originating new loans

Aozora's Origination Criteria

- Senior secured loans. All underlying properties are with cash flows. No ADC* loans
- Participating deals are: 1) properties with creditworthy sponsors with a long-term investment horizon, and 2) transactions arranged by established financial institutions with proven track records
- Maintain cautious approach based on a conservative credit analysis
- LTV of 65% or lower at origination

* ADC: Acquisition, development and construction

Status of the Bank's Office Loan Portfolio

- Good quality offices located in metropolitan areas (85% of offices are Class A buildings)
- The percentage of offices in the portfolio decreased from 78% (as of March 31, 2022) to 71% (as of March 31, 2023). The Bank continues to prioritize the repayment of loans in FY2023
- As a result of the re-evaluation, Aozora classified US\$ 145 million of office loans as NPL*s based on the FRA in 4Q and made provisions based on conservative appraisals. The loan loss reserve ratio for office loans increased to 4.7% from 2.8% as of December 31, 2022. The NPL* ratio of overseas office non-recourse loans was 7%
- During the work-out process, Aozora plans to maximize collections by carefully assessing trends in the real estate market

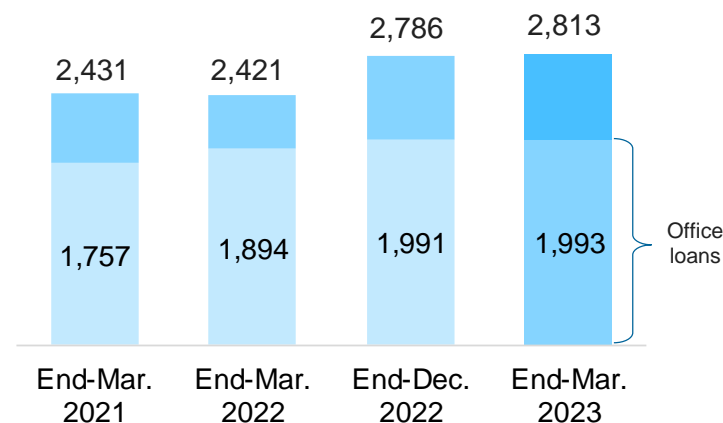
* NPL: Non-performing loans based on the FRA (Financial Reconstruction Act)

Office Market

- While office demand continues to stagnate across the U.S., there is an increasing trend of polarization on an individual property basis. The Bank's portfolio includes properties with good demand as a result of flight-to-quality in New York and other cities
- Vacancy rates in the three major metropolitan areas remain high in New York and Washington D.C., and could potentially rise further in San Francisco
- With new real estate financing limited, the trend in real estate transactions has been limited, with a resulting negative impact on property valuations

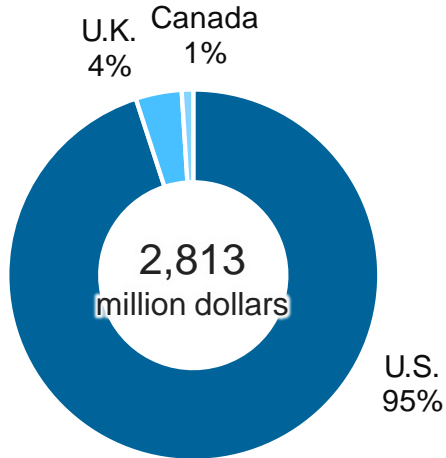
Overseas real estate non-recourse loan outstandings

(million U.S. dollars)

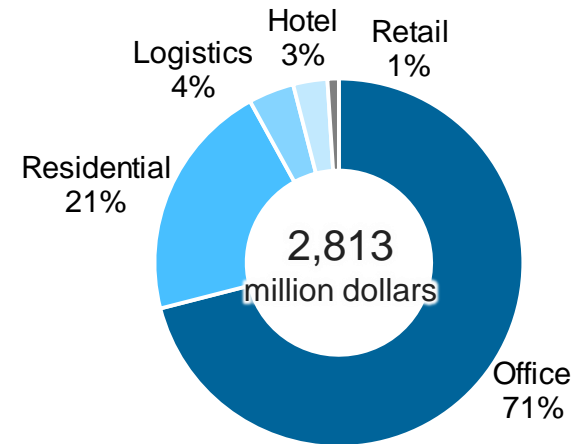


Loans — Overseas real estate non-recourse loans (NRLs) (2/2)

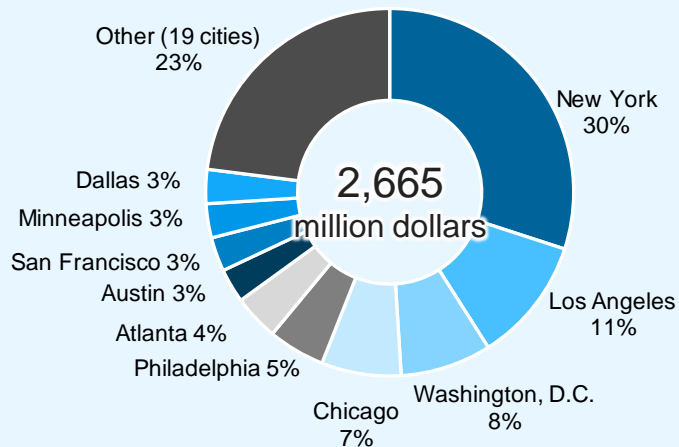
By region



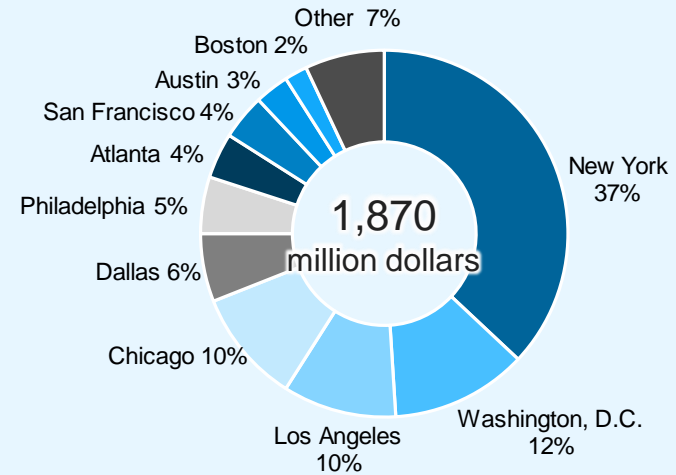
By sector



By U.S. city – Total NRLs



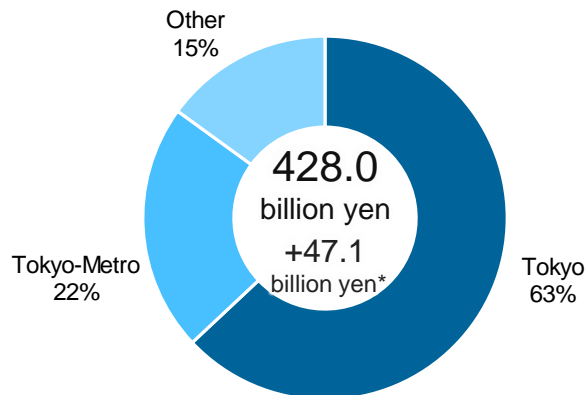
By U.S. city – Office loans only



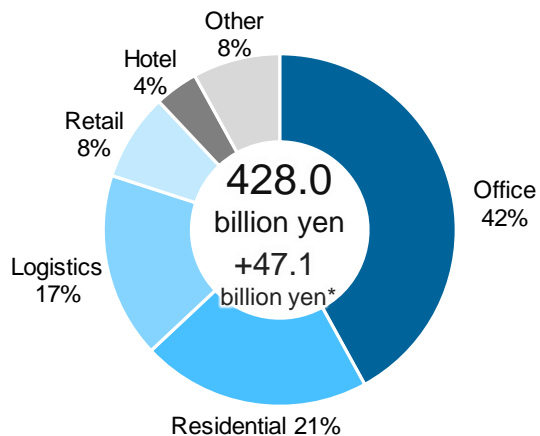
Loans — Domestic real estate non-recourse loans (NRLs)

- The Bank's domestic real estate non-recourse loan outstandings totaled 428.0 billion yen, an increase of 47.1 billion yen compared to March 31, 2022, and an increase of 7.6 billion yen compared to December 31, 2022 due to an increase in REITs. The ratio of domestic real estate non-recourse loans to total loans was 11%
 - The Bank continued its selective origination of higher credit quality loans. Non-recourse loans (excluding REITs) with an LTV of 70% or less accounted for 99% of its total, and REIT loans with an LTV of 50% or less represented 100% of its total

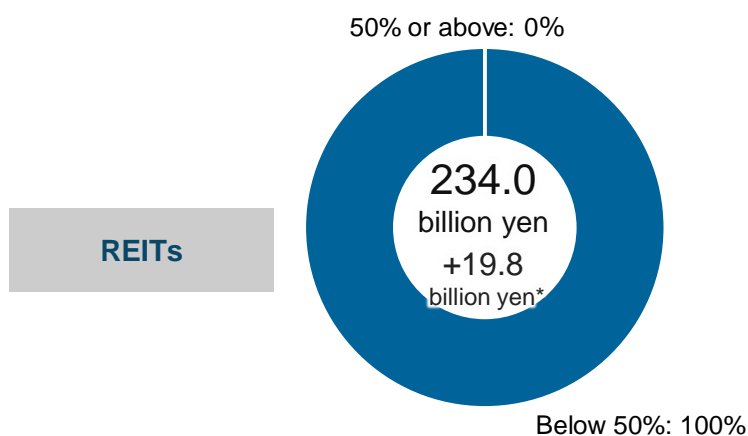
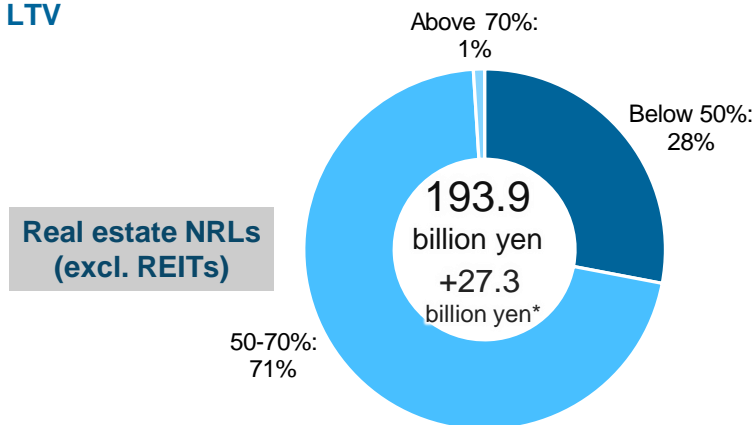
By region



By sector



LTV



* Compared to March 31, 2022

Securities

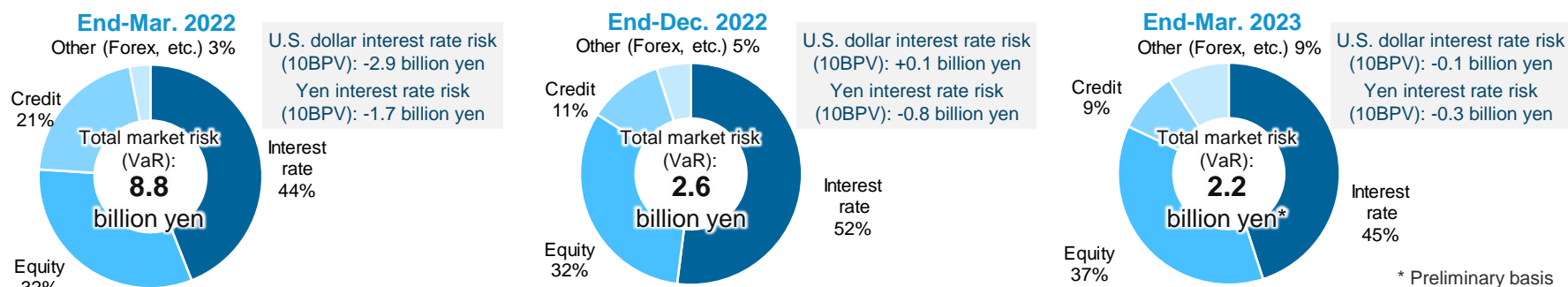
- Securities were 1,278.7 billion yen, a decrease of 199.4 billion yen compared to March 31, 2022
 - The Bank implemented a loss-cut to a portion of the unrealized losses in the securities portfolio. As a result, in addition to a decrease in foreign government bond balances, JGB and municipal bond balances also decreased in order to reduce yen interest rate risk
 - Investment trusts increased as a result of investing in “bear funds” for risk control operations in the future
- Unrealized gains/losses, including unrealized gains/losses on hedging instruments, were a net loss of 63.8 billion yen, an improvement of 6.3 billion yen from December 31, 2022
 - No securities are booked as held-to-maturity
- Bond durations as of March 31, 2023 were 4.8 years for U.S. government bonds, 6.5 years for mortgage-backed securities, 2.8 years for municipal bonds, and 16.7 years for Japanese government bonds

	Book value					Unrealized gains/losses				
	End - Mar. 2022 A	End - Dec. 2022 B	End - Mar. 2023 C	Change C - A	Change C - B	End - Mar. 2022 D	End - Dec. 2022 E	End - Mar. 2023 F	Change F - D	Change F - E
(billion yen)										
JGBs	76.3	42.3	18.3	-57.9	-24.0	-0.7	-2.3	-1.3	-0.5	+1.0
Municipal bonds	164.2	93.3	38.9	-125.2	-54.3	-1.2	-2.3	-0.1	1.1	+2.2
Corporate bonds / short-term corporate bonds	172.9	152.3	127.9	-44.9	-24.3	0.4	-1.6	-0.9	-1.3	+0.7
Equities	31.5	29.5	30.1	-1.3	+0.6	20.4	14.0	12.8	-7.5	-1.1
Foreign bonds	536.0	474.2	458.7	-77.2	-15.4	-28.4	-73.3	-62.4	-34.0	+10.8
Foreign government bonds	264.1	217.4	195.8	-68.3	-21.6	-13.3	-34.1	-27.0	-13.7	+7.1
MBS	171.9	151.3	152.3	-19.5	+1.0	-15.6	-35.3	-32.5	-16.8	+2.8
Other	99.9	105.4	110.6	+10.6	+5.2	0.5	-3.8	-2.8	-3.4	+0.9
Other securities	497.0	541.7	604.4	+107.4	+62.6	15.4	-14.0	-14.0	-29.5	-0.0
ETFs	153.0	118.9	123.3	-29.7	+4.3	-11.4	-27.1	-23.7	-12.2	+3.4
Investments in limited partnerships	137.8	166.5	169.5	+31.7	+3.0	2.4	1.6	1.8	-0.5	+0.1
REITs	76.0	45.7	46.5	-29.5	+0.7	7.7	6.8	6.5	-1.2	-0.2
Investment trusts	93.0	165.1	225.0	+131.9	+59.8	10.4	-1.7	-1.4	-11.9	+0.3
Other	36.9	45.3	40.0	+3.0	-5.3	6.2	6.4	2.7	-3.5	-3.7
Total	1,478.1	1,333.5	1,278.7	-199.4	-54.8	5.8	-79.6	-65.9	-71.8	+13.7
Unrealized gains/losses, incl. unrealized gains/losses on hedging instruments						5.2	-70.1	-63.8	-69.0	+6.3

Securities operations

- Aozora further reduced the level of risk (VaR) in 4Q, from 2.6 billion yen as of December 31, 2022 to 2.2 billion yen as of March 31, 2023
- As of March 31, 2023, all of the Bank's U.S. and European government bonds, 90% of mortgage-backed securities, as well as 80% of its ETFs were hedged. The risk of further losses has been significantly reduced
- The Bank continued implementing a loss-cut mainly in foreign bonds, and it continues in 1Q of FY2023
- Yen interest rate risk (10BPV) was reduced to 0.3 billion yen as of March 31, 2023, mainly as the result of selling JGBs and municipal bonds

Market risk (VaR)



ALM/securities operations

		Balance* ^{1, 2}			Net balance after hedging* ^{1, 2}		Realized gains* ³ (gains from sale)	Realized losses* ³ (losses from sale/redemption)	Net gains/losses* ³
		End-Mar. 2022	End-Dec. 2022	End-Mar. 2023					
JGBs, municipal bonds	(billion yen)	195.5	95.1	38.2	27.7	(billion yen)	0.0	-4.1	-4.1
US government bonds	(US\$ million)	1,800	1,450	1,250	-	(billion yen)	-	-5.0	-5.0
European government bonds	(EUR million)	440	440	405	-	(billion yen)	-	-	-
MBS	(US\$ million)	1,483	1,362	1,341	158	(billion yen)	0.0	-	0.0
ETFs	(US\$ million)	1,344	1,101	1,101	163	(billion yen)	-	-5.2	-5.2
REITs	(billion yen)	42.6	6.9	6.9	6.9	(billion yen)	2.1	-1.2	0.8
Investment trusts * ⁴	(billion yen)	67.3	38.2	38.5	20.9	(billion yen)	4.7	-1.0	3.7
Total							6.9	-16.7	-9.7
							Gains/losses on financial derivatives	(billion yen)	1.9
							Gains/losses on equity derivatives	(billion yen)	-2.0
Total							Total	(billion yen)	-0.0

Note: Assets managed under the ALM securities portfolio. Non-consolidated, management accounting basis (risk basis)

*1 Under "Balance" and "Net balance after hedging", bonds are calculated based on face value. All others are calculated based on book value

*2 Foreign currency-denominated REITs and investment trusts converted to yen. Other categories stated in original currency

*3 All realized gains/losses converted to yen. Includes 1.3 billion yen in gains on the cancellation of investment trusts recorded as net interest income

*4 Excluding bear funds

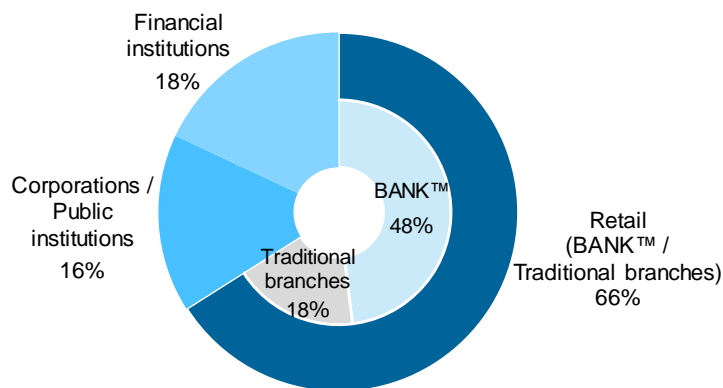
Funding

- Total core funding (deposits, negotiable certificates of deposit, and bonds) was 5,645.1 billion yen, an increase of 604.6 billion yen from March 31, 2022 and 121.2 billion yen from December 31, 2022
 - The balance of retail deposits increased by 491.6 billion yen compared to March 31, 2022 and 42.0 billion yen compared to December 31, 2022
 - The average deposit balance per retail account was approximately 4.8 million yen and approximately 80% of the total retail deposit balance (on a non-consolidated basis) was covered by the Deposit Insurance Corporation of Japan

(billion yen)	End - Mar. 2022	End - Dec. 2022 A	End - Mar. 2023 B	Change B - A
Total core funding	5,040.5	5,523.8	5,645.1	+121.2
Deposits / NCDs	4,871.5	5,406.1	5,497.3	+91.2
Incl. the balance of retail deposits	3,247.9	3,697.6	3,739.6	+42.0
Bonds	168.9	117.7	147.7	+30.0
Retail funding ratio *	64%	67%	66%	
Loan-to-deposit ratio incl. NCDs	68%	72%	71%	

* Defined as follows:
Retail funding ratio = Retail deposits / Total core funding

Core funding by customer segment



Liquidity reserves*

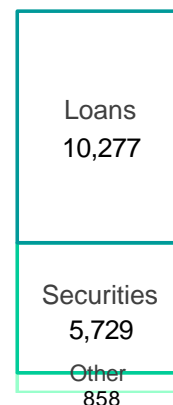
(billion yen)	End - Mar. 2022	End - Dec. 2022 A	End - Mar. 2023 B	Change B - A
Liquidity reserves	1,367.6	1,156.5	1,356.6	+200.0

* Surplus funds at hand for cash management purpose operated with high liquidity method including BOJ current account balance, JGBs, U.S. government bonds and call loans

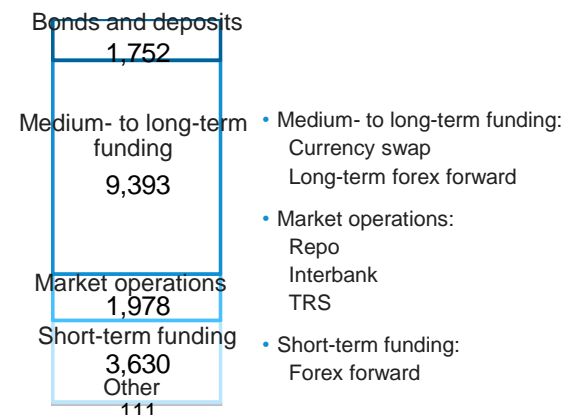
Foreign currency investments/funding

(million U.S. dollars)

Investments 16,864



Funding 16,864



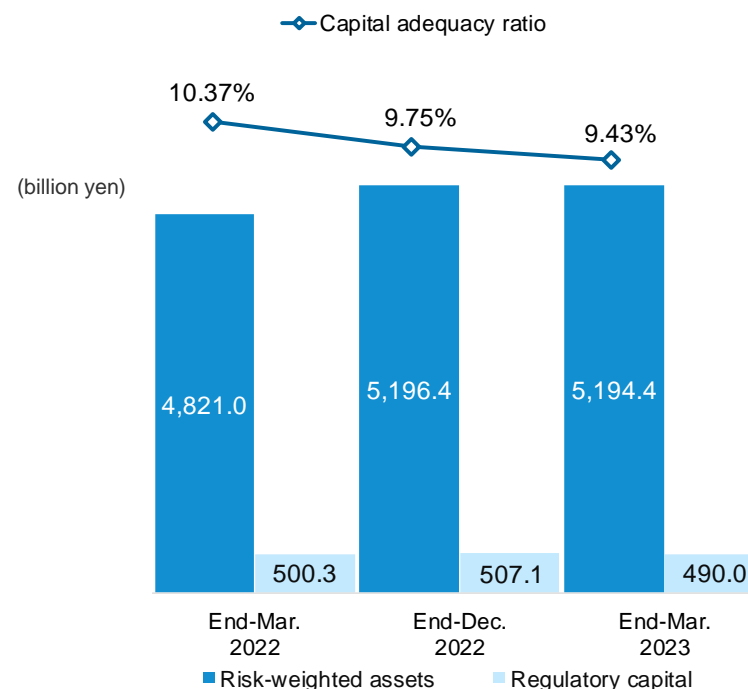
- Medium- to long-term funding:
 - Currency swap
 - Long-term forex forward
- Market operations:
 - Repo
 - Interbank
 - TRS
- Short-term funding:
 - Forex forward

Capital adequacy ratio (preliminary)

- The consolidated capital adequacy ratio (domestic standard) remained adequate at 9.43% as of March 31, 2023 (preliminary basis)
 - The CET1 (Common Equity Tier 1) ratio was approximately 7.4%

Domestic standard

(billion yen)	End-Mar. 2022 A	End-Dec. 2022	End-Mar. 2023 B	Change B - A
Capital adequacy ratio	10.37%	9.75%	9.43%	-0.94 %
Regulatory capital (A - B)	500.3	507.1	490.0	-10.2
Instruments and reserves (A)	523.7	531.0	512.9	-10.7
Shareholders' equity	481.0	483.4	471.8	-9.1
Other	42.6	47.5	41.1	-1.5
Regulatory adjustment (B)	23.3	23.8	22.8	-0.4
Risk-weighted assets	4,821.0	5,196.4	5,194.4	+373.4
Credit risk assets	4,245.7	4,555.3	4,558.1	+312.4
Market risk assets	407.8	470.1	478.4	+70.6
Operational risk assets	167.4	170.9	157.7	-9.6



Dividends

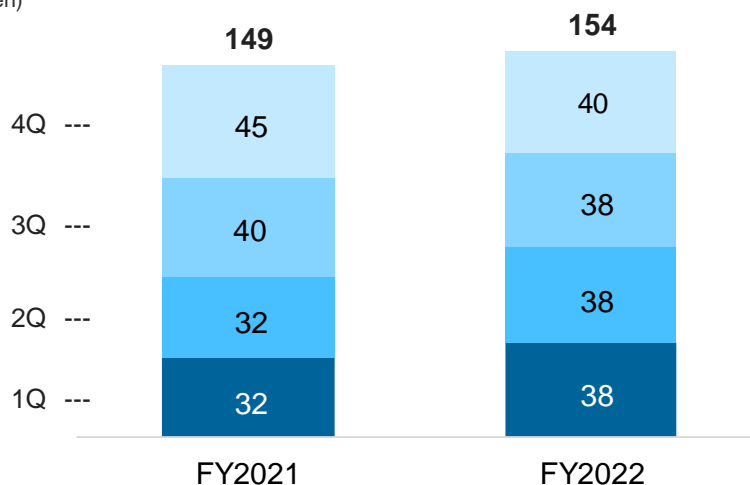
- The FY2022 full-year dividend is 154 yen per common share, the same level as the initial dividend forecast, as the customer-related business continued to perform strongly and the capital adequacy ratio is maintained at an adequate level of 9.43%. The fourth quarter dividend is 40 yen per common share
- The FY2023 full-year dividend forecast is 154 yen per common share, the same level as FY2022, based on the policy of stable shareholder returns while maintaining financial strength

Dividend per common share

	1st quarter	2nd quarter	3rd quarter	4th quarter	Full-year
Current forecast (FY2023)					154 yen
Dividend payment (FY2022)	38 yen	38 yen	38 yen	40 yen	154 yen
Dividend payment (FY2021)	32 yen	32 yen	40 yen	45 yen	149 yen

Dividend payments

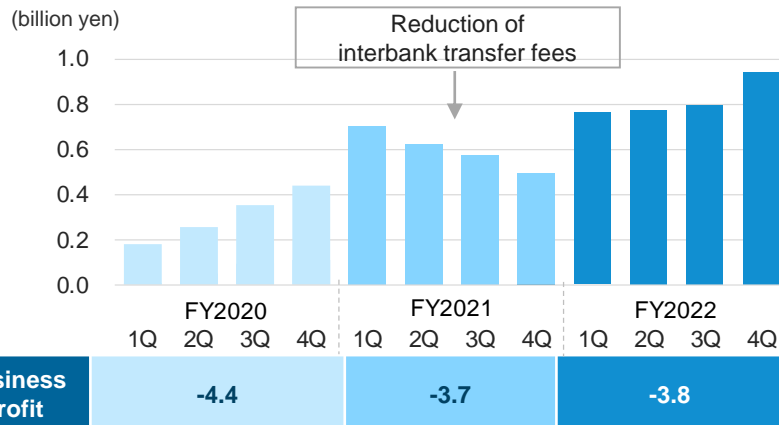
(yen)



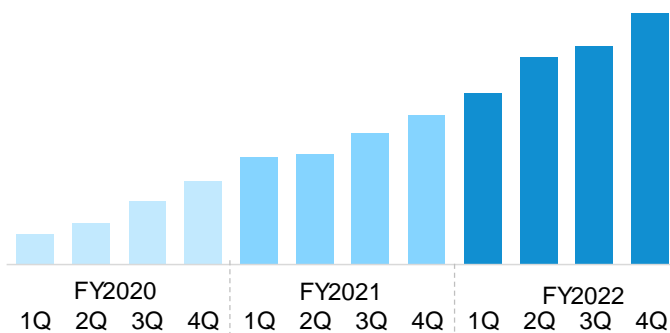
GMO Aozora Net Bank (GANB)

- GANB's business including domestic transfer transactions, debit cards, and corporate loans performed well, with net revenue exceeding, and business profit in line with the plan for FY2022. GANB aims to reach profitability in FY2024
- The number of corporate accounts grew to approximately 77,000, with the number of applications for the month of March at an all-time high
- The number of "Simple Embedded Finance Services" contracts has progressed almost as planned. The number of contracts for a new product released in November last year to support streamlining of transfer operations and promotion of business DX also remained strong, especially in the real estate and reuse industries

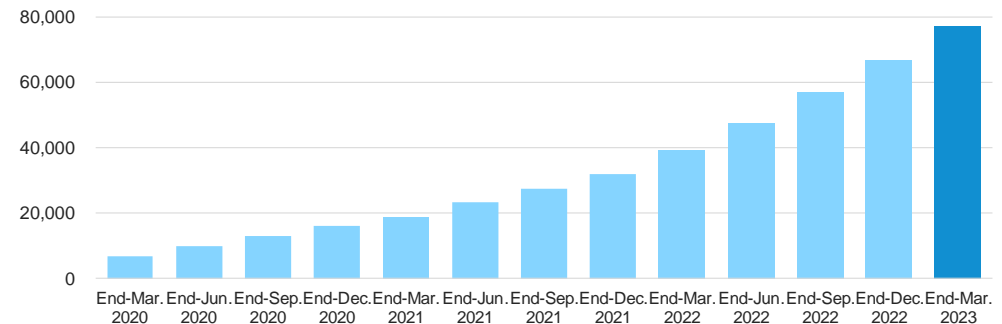
Quarterly net revenue



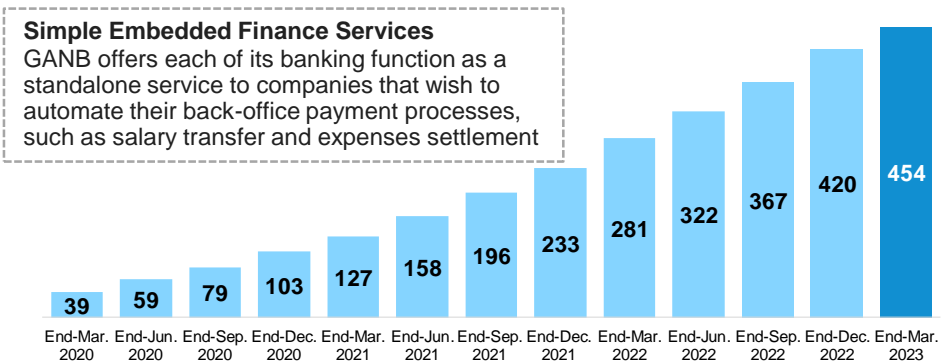
Number of transfer transactions



Number of corporate accounts



Number of "Simple Embedded Finance Services" contracts



Aozora Group companies

	(billion yen)	FY2021			FY2022		
		Net revenue	Business profit	Net income	Net revenue	Business profit	Net income
Aozora Bank (non-consolidated)		88.2	42.2	29.8	44.3	-1.6	-8.1*
GMO Aozora Net Bank		2.3	-3.7	-3.9	3.2	-3.8	-4.1
Aozora Loan Services		1.6	0.2	0.0	1.3	-0.0	0.0
Aozora Securities		4.3	2.7	1.9	0.9	-0.5	-0.4
Aozora Investment Management		0.6	0.1	0.1	1.1	0.5	0.3
Aozora Real Estate Investment Advisors		0.0	-0.0	-0.0	0.1	0.0	0.0
ABN Advisors		0.4	0.0	0.0	0.5	0.0	0.0
Aozora Corporate Investment		0.0	0.0	0.0	0.3	0.2	0.1
Aozora Asia Pacific Finance		0.7	0.2	-0.3	0.7	0.1	0.1
Other subsidiaries		6.0	4.0	3.5	6.9	4.7	3.2
Total of consolidated subsidiaries		16.3	3.7	1.3	15.4	1.3	-0.4

Consolidated, non-consolidated difference

	(billion yen)		
Profit attributable to owners of parent		35.0	8.7
Non-consolidated net income		29.8	-8.1
Difference		5.1	16.8

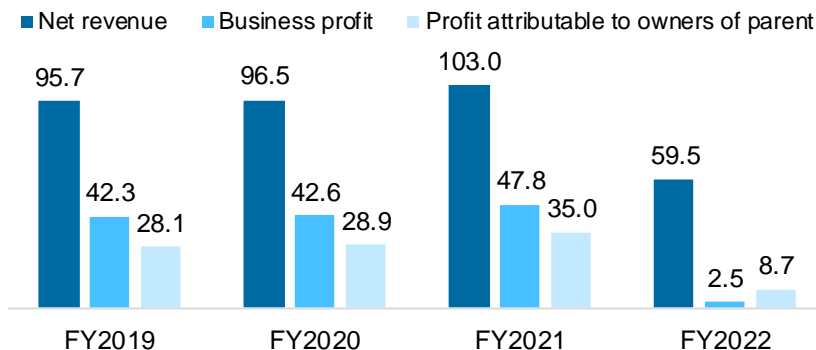
* The Bank recorded an extraordinary loss of 11.0 billion yen as losses on the valuation of equities of subsidiaries and affiliates in non-consolidated financial statements

Review of the previous Mid-term Plan “Aozora 2022”

- Aozora launched its Strategic Investments Business in FY2021 with a focus on equity investments, environmental finance, recovery finance and M&A advisory as growth businesses, in addition to existing leveraged finance and real estate finance businesses as key sources of revenue. Customer-related business driven by Aozora’s Strategic Investments Business has continued to grow
- Net revenue and net earnings both increased in FY2020 and FY2021. However, earnings significantly declined in FY2022 mainly due to the loss-cut taken on a portion of unrealized losses in the securities portfolio in financial market-related business as well as review of the sales policy of structured bonds in retail business
- Going forward, Aozora will continue to expand its customer-related business focused on Aozora’s Strategic Investments Business, as well as restructure the securities portfolio in financial market-related business and transform the structure of its retail business

Earnings

(billion yen)



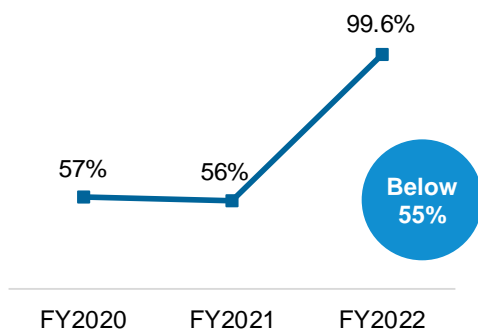
(billion yen)

Net revenue by business group*1	FY2019	FY2020	FY2021	FY2022
Customer-related business*2	64.6	60.9	68.9	69.3
Retail business	8.6	5.7	8.0	2.8
Market-related business	22.4	29.8	25.9	-12.6

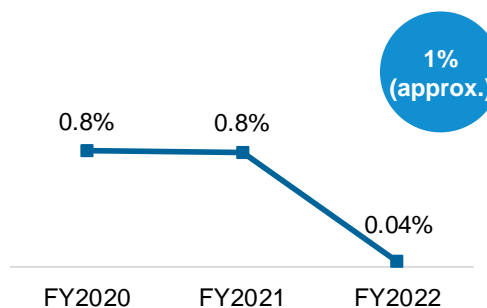
*1 Management accounting basis

*2 Excluding retail and financial market-related businesses

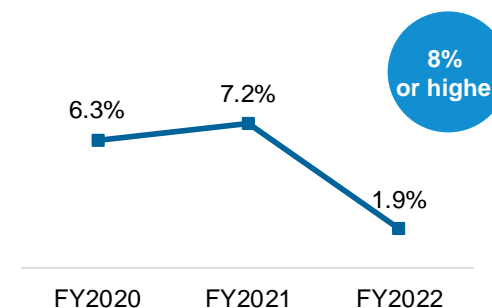
OHR



Business profit* ROA



ROE



* Business profit including gains/losses on equity method investments

Progress of Aozora's Sustainability Targets

Promoting Aozora's Strategic Investments Business

Realizing "Financial Inclusion"

◆ Growth Support for Venture Companies

	FY2021-FY2030 Targets	Results as of Mar. 31, 2023
Number of venture-related investments:	100 transactions	46 (+34)
GMO Aozora Net Bank Small businesses & start-ups:	200,000 account openings	62K (+38K)

◆ Contributing to Regional Communities through Business Recovery

	FY2021-FY2025 Targets	Results as of Mar. 31, 2023
Number of business recovery fund-based transactions:	100 transactions	64 (+43)

Promoting "Industrial Transition"

◆ Investments Designed to Support Structural Transformation

	FY2021-FY2025 Targets	Results as of Mar. 31, 2023
Number of equity investments with a primary focus on engagement:	100 transactions	77 (+44)

(Note) 1. Aozora partially revised its Sustainability Targets as it developed the new Mid-term Plan "Aozora 2025" (please see pages 53-54).

2. Results recorded starting from April 2021. Parentheses denote FY2022 results

Response to Climate Change

◆ Sustainable Financing Amount

	FY2021-FY2030 Targets	Results as of Mar. 31, 2023
Total: 1 trillion yen		400 billion yen* (+250 billion yen)*
Includes environmental financing of 700 billion yen		350 billion yen* (+210 billion yen)*

* Approximate figures

◆ CO2 Emissions as a Business Entity

	By FY2030 Targets	By FY2050* Targets	FY2022 Results
	↓ 50% reduction (compared to FY2020)	0 (net zero) *Or as early as possible	To be disclosed in the Annual Report (late July)

◆ Amount of Project Financing for Coal-fired Power Plants

	By FY2040 Targets	Results as of Mar. 31, 2023
	0 (zero)	27.5 billion yen (-1.7 billion yen from Mar. 31, 2022)

Protecting and Providing for the Next Generation

◆ Business/Asset Succession Consulting

	FY2021-FY2025 Targets	Results as of Mar. 31, 2023
Number of consulting contracts:	1,800	562 (+248)

2

New Mid-term Plan “Aozora 2025” (FY2023–25)

— Fostering, Change and Recovery —

Goals under the new Mid-term Plan “Aozora 2025”

The three years of the “Aozora 2025” are expected to be a period of historic change in the environment

Three phases where the Aozora Group plans to leverage its strengths



Fostering

Fostering Customer Growth

“Fostering” of customers’ assets and businesses

- Growth of startups
- Customers’ wealth building



Change

Change Management

Support for the “change” in customers’ business structure and environmental responses

- Promotion of business restructuring
- Response to climate change



Recovery

Recovery Management

Support for the “recovery” of customers’ business and assets

- Recovery of distressed companies, business and assets

Expand Aozora’s Strategic Investments Business through focused allocation of resources

Building the Aozora Ecosystem with customers leading to mutual growth

Long-term customer engagement activities

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

Contribute to the growth of all stakeholders including society, customers, shareholders and employees by creating distinctive and value-added services tailored to customers in a rapidly changing environment

Outline of the new Mid-term Plan “Aozora 2025”

Aozora 2025

— Fostering, Change and Recovery —

1. Aozora’s Strategic Investments Business

2. Aozora’s Platform Business

3. Investments in Human Capital

4. Promoting Digital Transformation (DX)

5. Promoting Aozora Sustainability

Financial KPIs (final fiscal year)

Capital efficiency
Financial strength
Productivity
Funding efficiency
Earnings

ROE: 8% (medium- to long-term target: 10%)
Capital adequacy ratio: 9% or higher
Business-related profit*1 per employee: 20 million yen
Business-related profit RORA*2: 1.3%
Profit attributable to owners of parent: 37.0 billion yen

*1 Business profit + Gains/losses on stock transactions, *2 (Business profit + Gains/losses on stock transactions)/Risk-weighted assets

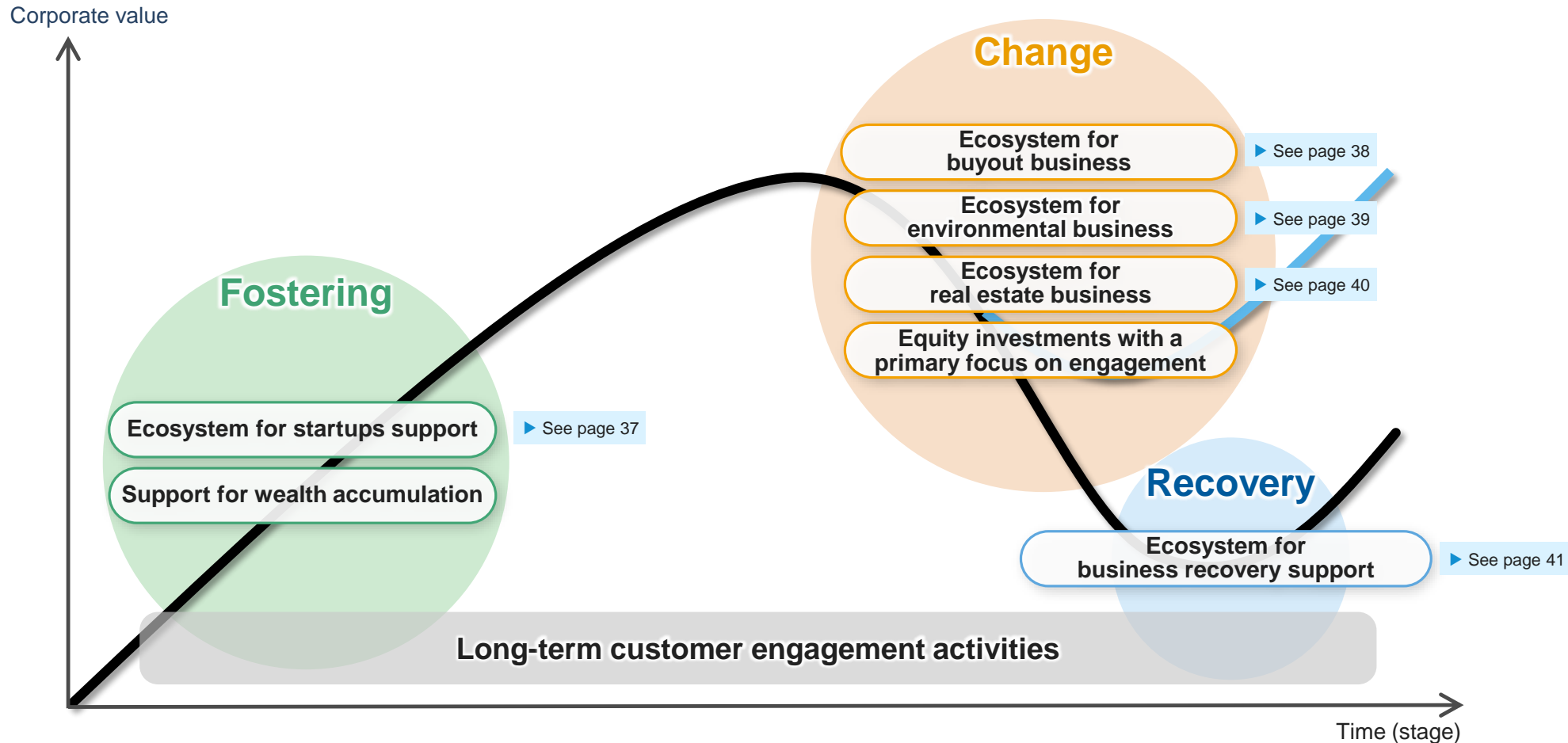
Capital policy

Maintain a capital policy which aims to sustain a proper balance among “stable shareholder returns”, “strategic investments” and “financial strength”

- Capital adequacy ratio (domestic standard) of 9% or higher, ROE of 10% in the medium- to long-term while maintaining a proper balance with financial strength
- Focus on Aozora’s Strategic Investments Business through focused allocation of capital to business areas with higher growth and earnings potential
- Aim to increase the annual dividend per common share to 158 yen based on a 50% dividend payout ratio for FY2025, the final year of the Mid-term Plan
- Maintain dividend payments on a quarterly basis

1. Aozora's Strategic Investments Business

Promote long-term engagement with customers through investment and financing activities, ranging from debt to equity, in three phases (Fostering/Change/Recovery) where the Aozora Group plans to leverage its strengths, and create the Aozora Ecosystem* with customers for mutual growth



* The Aozora Ecosystem refers to an ecosystem where the Aozora Group and its customers and business partners perform their assigned roles, or work as a unit, to pursue the business development of customers at each phase of growth.

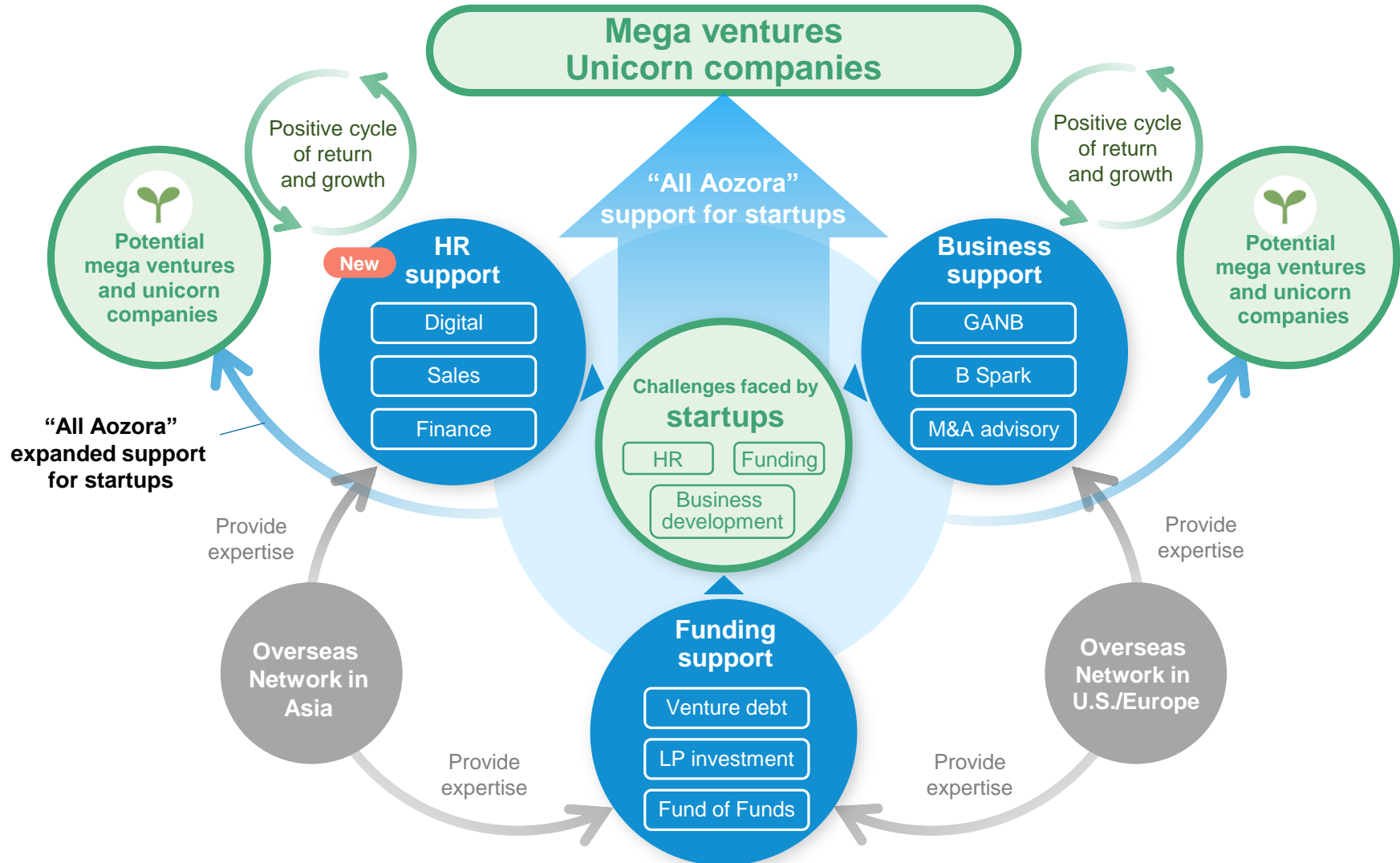
1-(1) Aozora Ecosystem

“Aozora 2025” Key Points

<p>Fostering</p> <p>Support for startups</p>	<p>Foster startups by providing products and services that support their funding, business and human resources</p> <p>Funding: Support at each growth phase mainly through venture debt-based investments/loans Business: Aozora Group’s total support for business expansion and enhanced corporate value HR: Human resource support</p>	<ul style="list-style-type: none"> • Enhance engagement with startups to support their growth • Establish the use of venture debt as a key funding source • Double the number of staff
<p>Change</p> <p>Buyout business</p>	<p>Provide solutions, ranging from information service to support for exit transactions, to promote industrial transition through business restructuring and succession</p> <p>Support customers’ business transition, including business selection and concentration approach, mainly through leveraged finance, equity investments via private equity funds and M&A advisory services</p>	<ul style="list-style-type: none"> • Establish position as a leading bank by investing in private equity funds, mainly related to LBO finance • Contribute to the development of sound buyout markets through syndications
<p>Environmental business</p>	<p>Promote Green Transformation (GX) initiatives aimed at realizing a decarbonized society</p> <p>Contribute to the realization of a decarbonized society by providing project finance for renewable energy, sustainable finance and other solutions for customers working on climate change initiatives</p>	<ul style="list-style-type: none"> • Promote the development of new power sources and encourage broader use of transition energy • Create and increase investment and financing opportunities through syndicated loans with regional financial institutions
<p>Real estate business</p>	<p>In addition to investments and loans, provide a wide range of services and products of the Aozora Group and its business partners</p> <p>Contribute to the sustainable growth and development of society and economy by offering the Aozora Group’s wide-ranging services/products, including debt, equity and business matching</p>	<ul style="list-style-type: none"> • Provide new, convenient and multifaceted financial services corresponding to the changing real estate market by utilizing real estate tech and responding to SDGs
<p>Recovery</p> <p>Support for business recovery</p>	<p>Provide solutions tailored for each phase of the business cycle in order to address local issues through recovery management</p> <p>Support customers’ business/asset recovery through the use of recovery finance and Aozora Loan Services’ loan servicing as well as M&A advisory services and other solutions</p>	<ul style="list-style-type: none"> • Make investments in overseas business recovery claims • Strengthen cooperation with RFIs, law firms, and other partners to promote support for business recovery and provide solutions such as M&A advisory for exit from restructuring processes

1-(1) Aozora Ecosystem — Support for startups

Foster startups by providing knowledge and services that support their funding, business and human resources



1-(1) Aozora Ecosystem — Buyout business

Change

Provide solutions, ranging from information service to support for exit transactions, to promote industrial transition through business restructuring and succession

M&A information

- Capturing selling and buying needs
- Providing information gathered from private equity funds
- Information gathering at domestic and overseas offices
- Providing information gathered from domestic group companies, such as ABN Advisors
- Collaboration with overseas partners, including Vietnam-based OCB
- Business succession consulting

Equity investments

- LP investments in private equity funds
- Direct and indirect investments through target funds
- New** • Backup support for management seeking a non-sponsored MBO

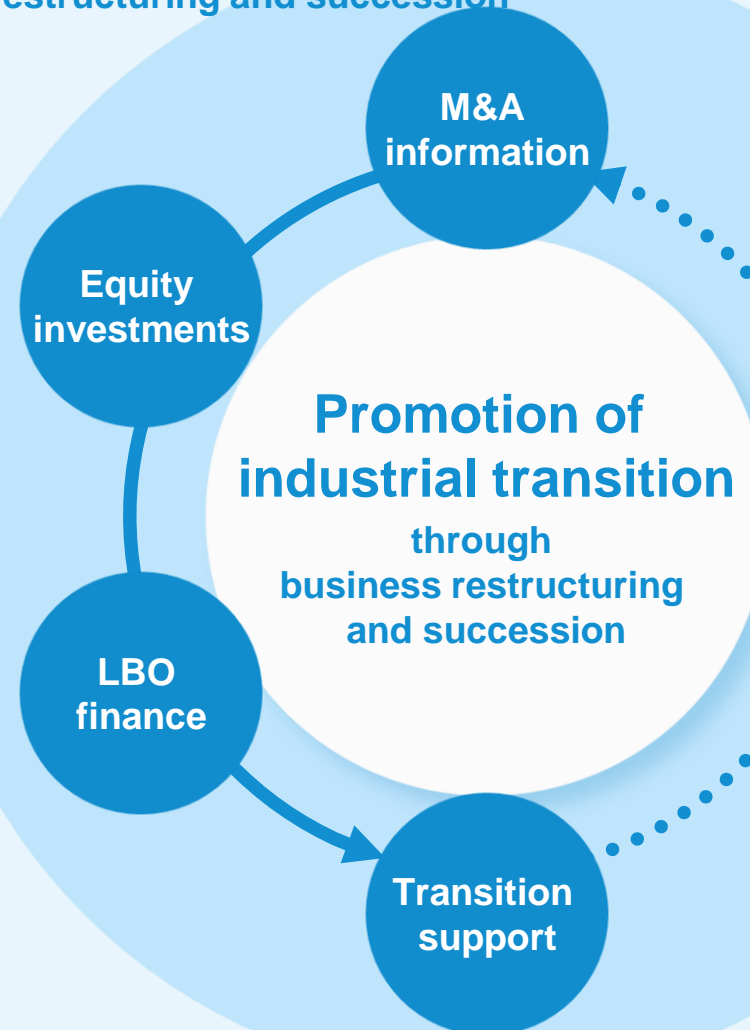
LBO finance

- LBO/MBO finance
- HoldCo loans, mezzanine finance
- Risk control through syndication/securitization

Transition support

- Growth and reorganization support via roll-ups (additional acquisition)
- Acting as FA at the time of sale or purchase of business
- New** • Equity investments with a primary focus on engaging with corporates that acquired businesses from private equity funds

Establish position as a leading bank



1-(1) Aozora Ecosystem — Environmental business

Change

Promote Green Transformation (GX) initiatives aimed at realizing a decarbonized society



1-(1) Aozora Ecosystem — Real estate business

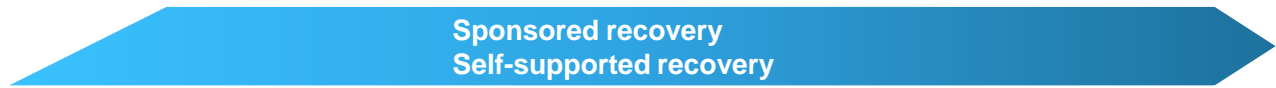
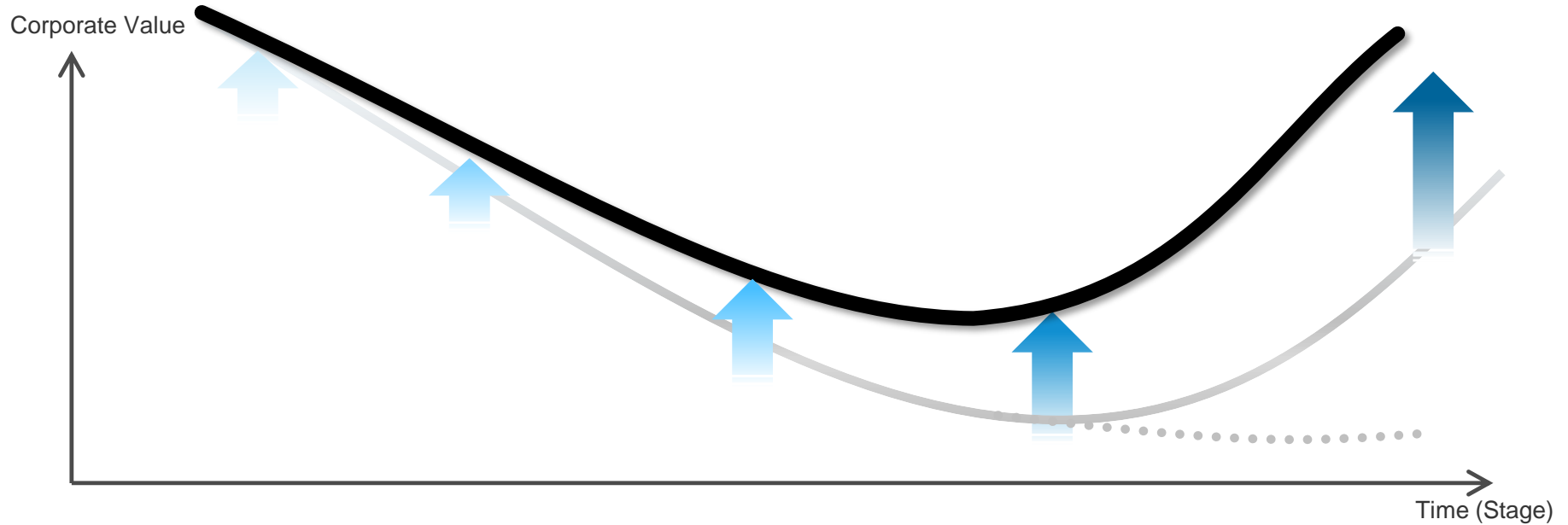
Change

In addition to investments and loans, provide a wide range of services and products of the Aozora Group and its business partners



1-(1) Aozora Ecosystem — Support for business recovery

Provide solutions tailored for each phase of the business cycle in order to address local issues through recovery management



Stage	Normal repayments	Recovery plan available	Recovery plan unavailable	Suspension of business Suspension of repayments	
Aozora Group's initiatives		Collaboration with regional financial institutions	Use of recovery funds	Purchase of NPLs	Collaboration with funds, law firms, etc.
Service	<ul style="list-style-type: none"> Support for management improvement mainly through consulting, M&A advisory services and business matching 	<ul style="list-style-type: none"> Recovery finance Use of recovery funds and loan servicing 	<ul style="list-style-type: none"> LBO finance Exit finance M&A advisory 	<ul style="list-style-type: none"> Investments in overseas business recovery claims 	<ul style="list-style-type: none"> New

1-(2) Business groups building the Aozora Ecosystem



Institutional Banking Group

	Support for Startups	Buyout business	Environmental business	Real estate business	Support for Business recovery
Corporate Banking	●	●	●	●	●
M&A Advisory	●	●	●	●	●

Structured Finance Group

Acquisition & Structured Finance		●			●
Environment Business			●		
Special Situations					●
Real Estate Finance			●	●	

International Business Group

	●	●	●		
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Market Group

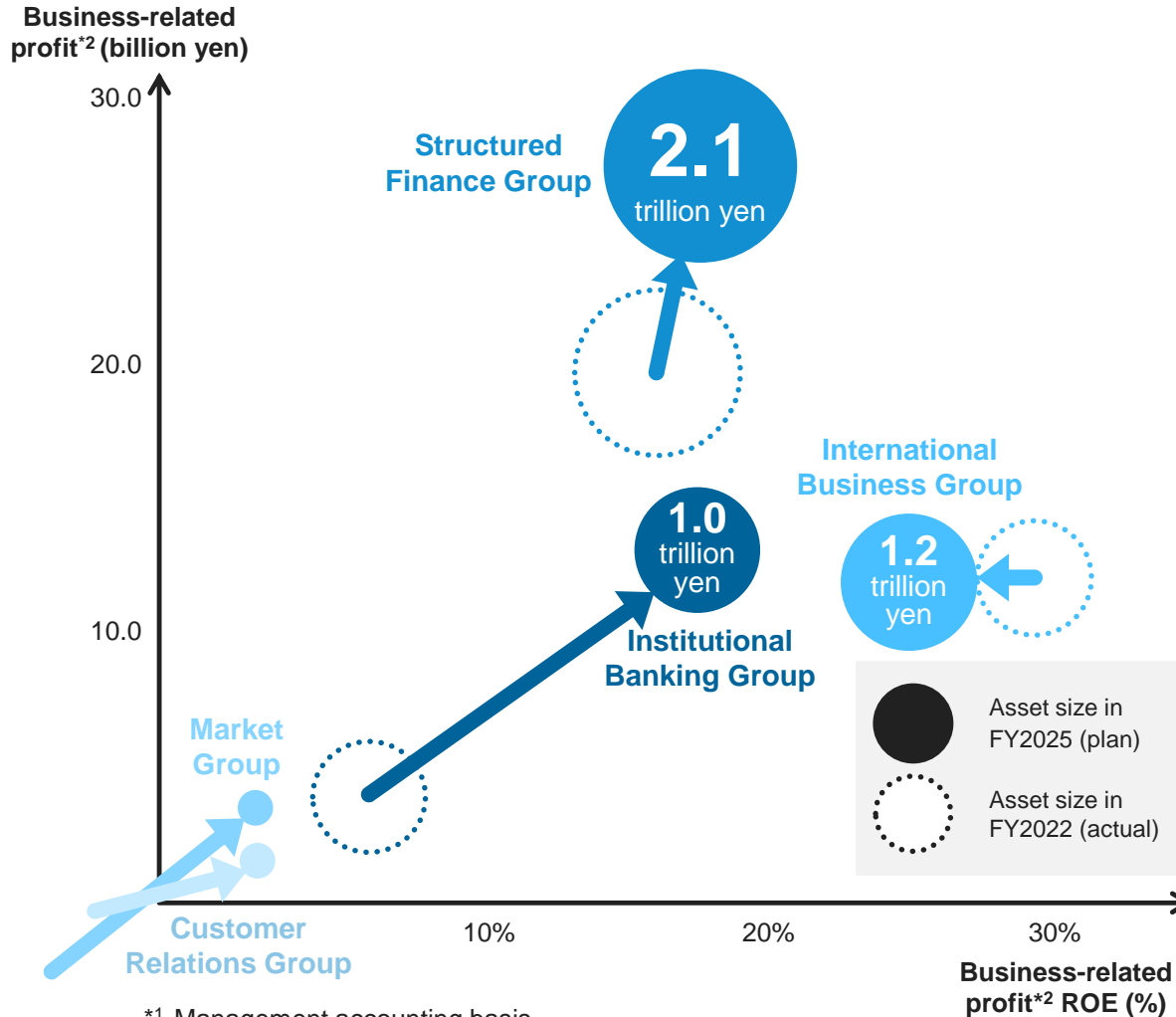
	●	●	●	●	●
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Customer Relations Group

Retail Banking	●	●	●	●	●
Regional FIs and Corporates	●	●	●	●	●

1-(2) Mid-term financial targets by business group

Financial targets by segment*1



*1 Management accounting basis

*2 Business profit + Gains/losses on stock transactions

Institutional Banking Group

Increase profitability significantly while maintaining the asset levels by generating higher returns on equity investments, expanding M&A business and exploring other business opportunities through our equity investments with a primary focus on engagement

Structured Finance Group

Increase earnings by further expanding the scale of businesses while maintaining high profitability, mainly in buyout finance and business recovery support where Aozora can leverage its strengths

International Business Group

Maintain policy of carefully originating investments and loans given unstable conditions in overseas economies and markets. Profit margins, which are already at a high level, are expected to decline slightly

Market Group

Work to regain earnings power by reconstructing the securities portfolio during the new Mid-term Plan while controlling risk

Customer Relations Group

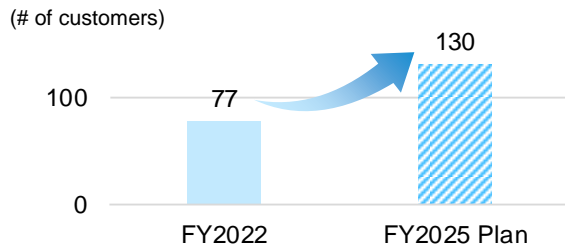
Improve efficiency and profitability by transforming the business model and realize its functions as the base of Aozora's platform businesses

1-(2) Institutional Banking Group

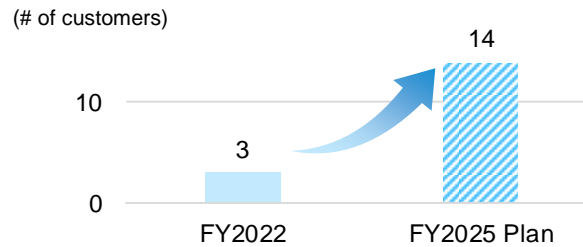
Corporate Banking

- Support the enhancement of customers' corporate value by promoting equity investments with a primary focus on engagement based on in-depth conversations with, and proposals to, our customers
- Provide financial, business and human resources supports and services needed by startups for their growth
- Improve profitability by promoting M&A advisory, derivatives, business succession, business recovery, digital transformation, decarbonization and other related businesses that lead to solutions for both customers and society

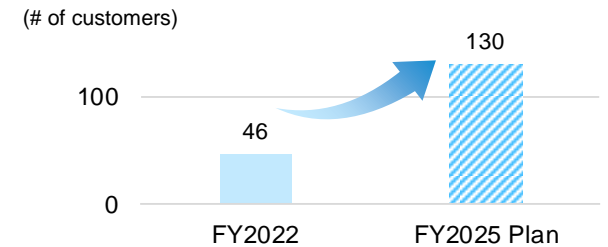
Equity investments with a primary focus on engagement (total)



Structured equity investments* (total)



Number of venture debt borrowers (total)

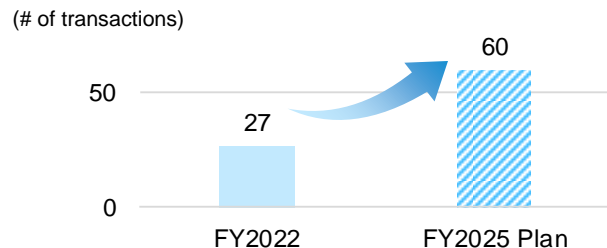


* Mainly acquiring minority shares in cooperation with investment partners, providing support for enhancing corporate value in tandem with investees' owner/management, and receiving returns in the form of capital gains and dividend

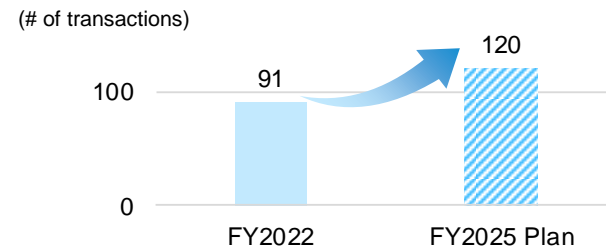
M&A Advisory

- Increase the number of closed deals and expand revenues by enhancing sourcing capabilities in M&A business through hiring of experts as well as collaboration mainly with M&A boutiques that have a focus on a specific region, sector or expertise.
- Focus on providing solutions to the business succession issues of small business owners and SMEs as well as invigorating regional economies by collaborating mainly with regional financial institutions across Japan to work together on business succession M&A initiatives

Closed M&A deals (middle market)



Number of M&A contracts (business succession M&A)

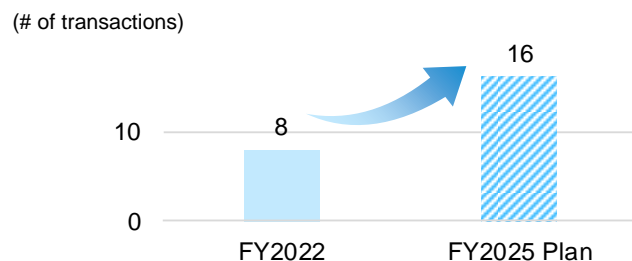


1-(2) Structured Finance Group (1/2)

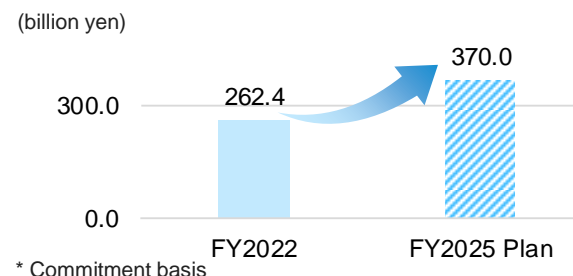
Acquisition & Structured Finance

- Promote the transformation and restructuring of industries through LBO and M&A finance for business selection and concentration, privatization, as well as business restructuring, succession and recovery
- Establish Aozora's position as a leading bank by further improving its status in the LBO market, and enhance its syndication capabilities for risk control

LBO loan arrangement (MLA)



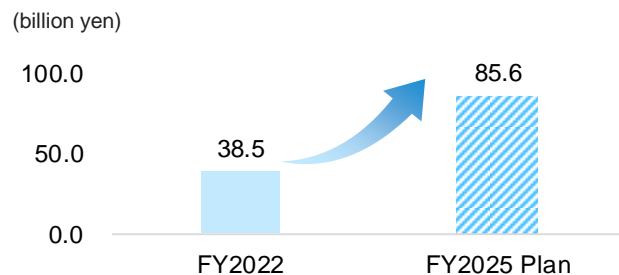
LBO loan outstandings*



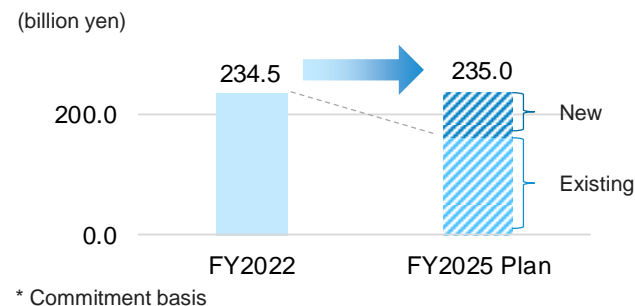
Environment Business

- Continue to work on domestic and overseas project finances and work with regional financial institutions to expand syndicated loans
- Support customers' GX promotion and develop a new source of revenue from innovative technologies and areas with growth potential by integrating our knowledge and expertise regarding domestic and overseas project finance

Amount of environmental finance syndications



Domestic renewable energy finance and overseas project finance outstandings*

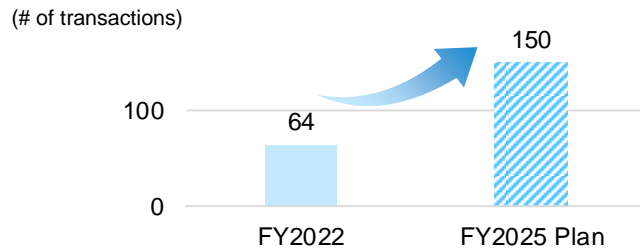


1-(2) Structured Finance Group (2/2)

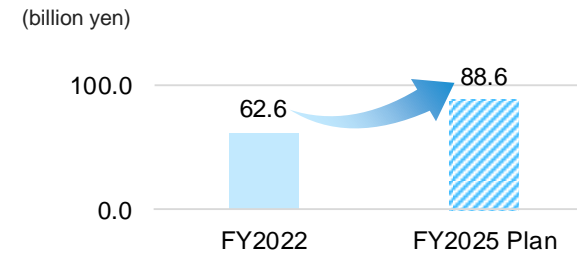
Special Situations

- Strengthen relationships with our business partners, including regional financial institutions and law firms, to capture business recovery support needs of regional financial institutions and corporates, and for assets adversely impacted by the COVID-19 pandemic, as well as promote DIP finance
- Support the realization of customers' business revitalization plan and proceed with collection from existing investments that have completed business recovery. Actively engage in consultation with financial institutions on support for business recoveries and advance new investments in business recovery claims

Support for business recovery through recovery funds



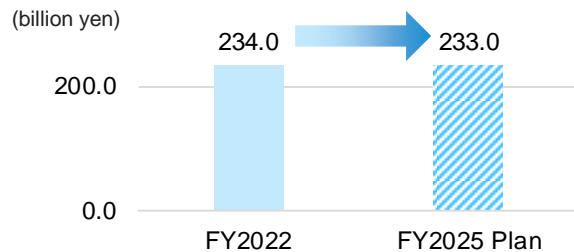
Investments in business recovery claims



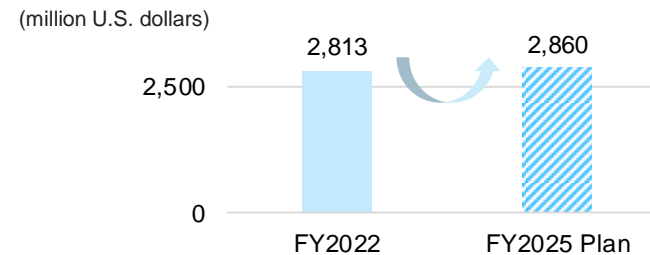
Real Estate Finance

- Develop real estate-related financial services through providing sustainable finance that contributes to SDGs as well as leveraging technologies
- Identify domestic transactions that have growth potential and stable cash flow and continue disciplined portfolio management
- For overseas assets, prioritize collection in FY2023, mainly commercial real estate office loans. Cautiously consider the timing of new lending opportunities under the changing real estate market environment, while strengthening risk control including portfolio rebalancing

Domestic real estate non-recourse debt outstandings*



Overseas real estate non-recourse loan outstandings



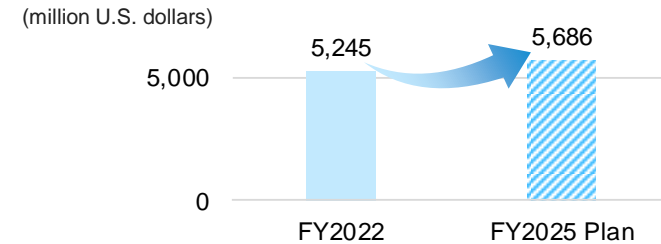
* Total of real estate non-recourse loans and bonds

1-(2) International Business Group

International Business

- Improve portfolio quality through disciplined portfolio management responding to changing market conditions, which include selective origination of North American and European corporate loans with attractive risk-return as well as flexible rebalancing
- Support OCB's growth by capturing the needs of Japanese customers doing business in Vietnam and introducing OCB's financial services to them, as well as capture growth opportunities in the Vietnamese economy through existing equity method investments

Overseas corporate loan outstandings



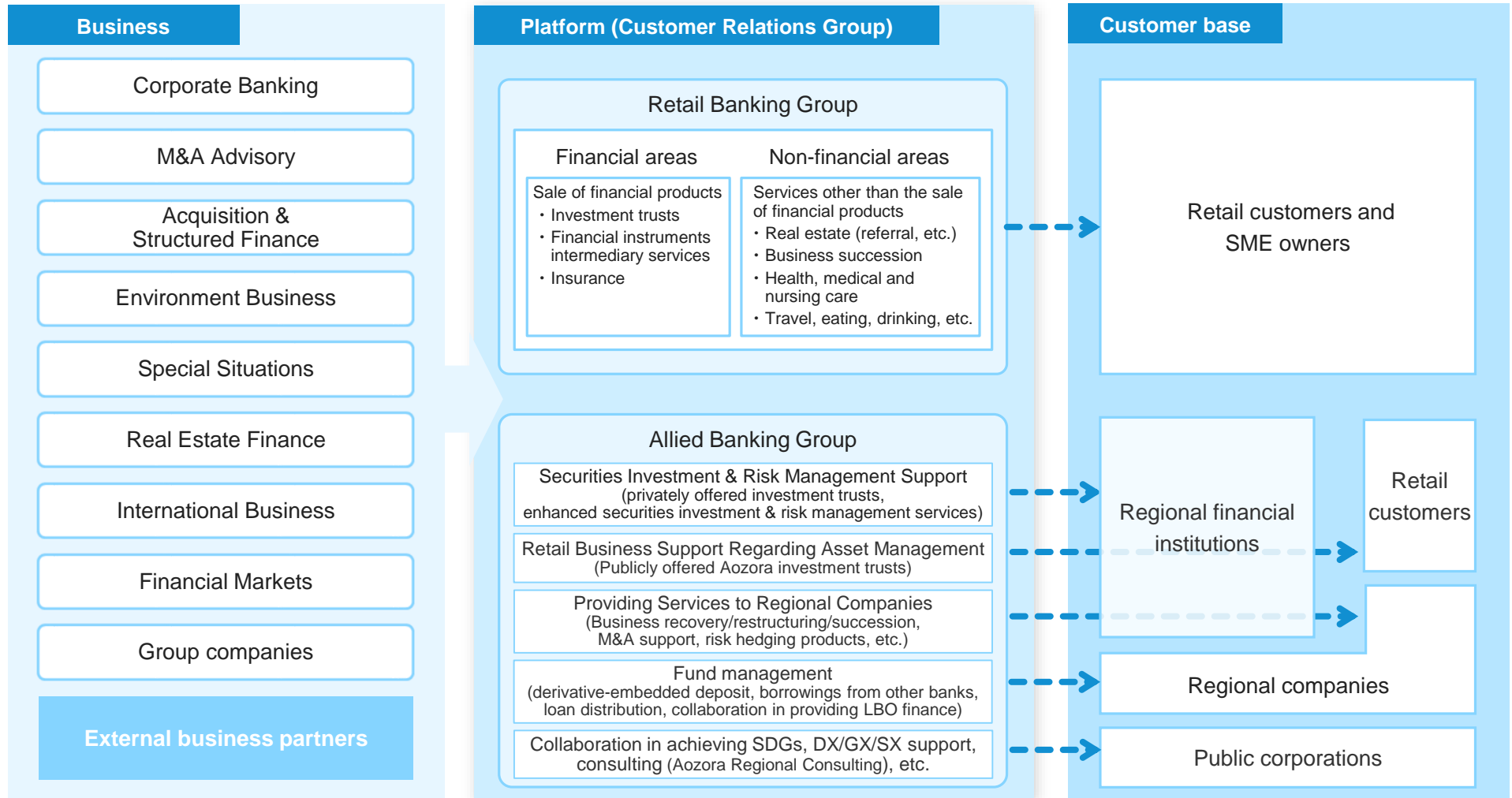
1-(2) Market Group

Financial Markets

- Restructure the Bank's securities portfolio that is more resilient against downside risks by while carefully identifying risks and expanding risk control methods including hedging instruments, given potential recession risks
- Provide products that meet customer needs, such as hedging instruments against multiple risks, provide sales support to customer relations divisions, and manage positions appropriately to ensure stable derivative related income

2. Aozora's Platform Business

Provide Aozora's broad financial and non-financial services and expertise tailored to the characteristics and needs of retail and regional financial institution customers by collaborating with Group companies and external business partners



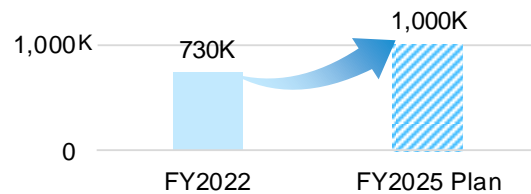
2-(1) Customer Relations Group

Retail Banking

- Shift from a business model based on fees and commissions from financial product sales to a platform business based on providing solutions for the diverse needs of customers
- Serve as a platform covering retail customers, ranging from asset formation generations to affluent individuals, as well as SME owners and provide financial and non-financial services that meet customer needs through sales activities combining consultancy and digital marketing as well as expanding non-financial services

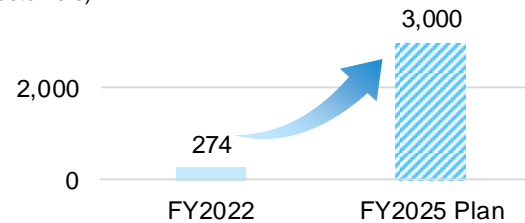
Retail customers

(# of customers)



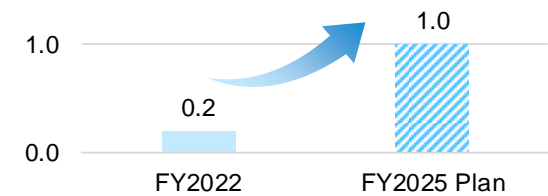
Customers receiving non-financial services

(# of customers)



Earnings from non-financial services

(billion yen)

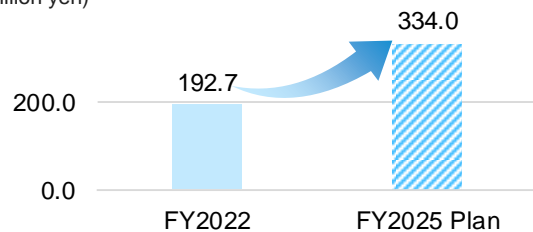


Regional FIs and Corporates

- Serve as an enhanced platform covering financial institutions across Japan, regional corporates and public corporations. Aim to increase the AUM of publicly offered Aozora's investment trusts that are provided to regional financial institutions for their retail customers, as well as collaborate with other business groups to promote our syndicated loans, distribution of Aozora's loans and business recovery support
- Strengthen engagement with regional banks that need to respond to the changing financial and economic environment

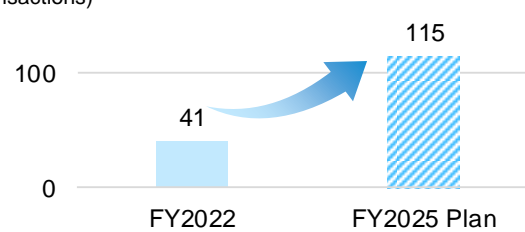
Publicly offered Aozora investment trusts sold through regional financial institutions

(billion yen)



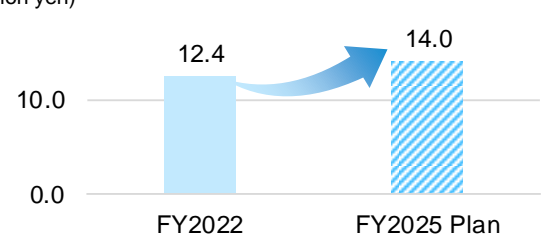
LBO and environmental finance syndications

(# of transactions)



Purchased amount of business recovery claims

(billion yen)



3. Investments in Human Capital

Increase investments in human capital by 2 billion yen over the next three years in order to provide attractive rewards and opportunities for skill development by employees willing to take on new challenges, as well as hire mid-career professionals. Realize “Fostering”, “Change” and “Recovery” in the Aozora Group’s working environment

Evaluations and rewards

Payment of attractive rewards based on merit-based personnel evaluation and compensation

Organization

An organization where each individual is conscious of "career autonomy" and realizes self-driven career development

Human resources

Resource redeployment within the Aozora Group through retention of key employees in the focus areas of business, flexible personnel reshuffle and productivity enhancement

Workplace environment

A work environment where Group officers and employees can take on challenges, grow and perform with a sense of unity, and where both ease and satisfaction of work can be achieved

Career development

- Placing career consultants
- Broader business experience within the Group (training, short-term trainee, e-learning, etc.)
- Business experience outside the Group (Mushashugyo program, Executive MBA, postgraduate school enrollment, etc.)
- Support for self-development and reskilling

Flexible resource transfer

- Strategic personnel changes in response to the business environment
- Job Support Program (in-house side jobs)
- Effective use of HR-Tech (skill, experience, career orientation, personnel assessment data and talent management)

Hiring mid-career professionals

- Hiring mid-career professionals in key business areas
- Focus areas of business, including DX and cybersecurity
- Building an attractive reward system
- Hiring of alumni

4. Promotion of DX (Digital Transformation)

Secure the Aozora Group's competitive advantage and enhance its corporate value by transforming its business (products and services) and corporate culture through the use of wide-ranging information assets (data) and digital technologies

4 initiatives for DX

Proper management, accumulation and use of diverse information assets (data)

- Reorganize the information asset management system
- Secure and maintain data quality that meets usage purposes, and ensure efficiency in data extraction and use

DX talent development

- Transfer key personnel driving DX to business divisions
- Raise awareness of DX literacy among Aozora officers/employees

Open communication

- Introduce business chat apps and expand online conference tools
- Grant access rights by project, and ensure faster information sharing

System improvement

- Streamline operations and share duties regardless of employees' working place through digitalization
- Improve stability through enhanced information linkage and loose coupling of the overall system

To achieve:

New business/services

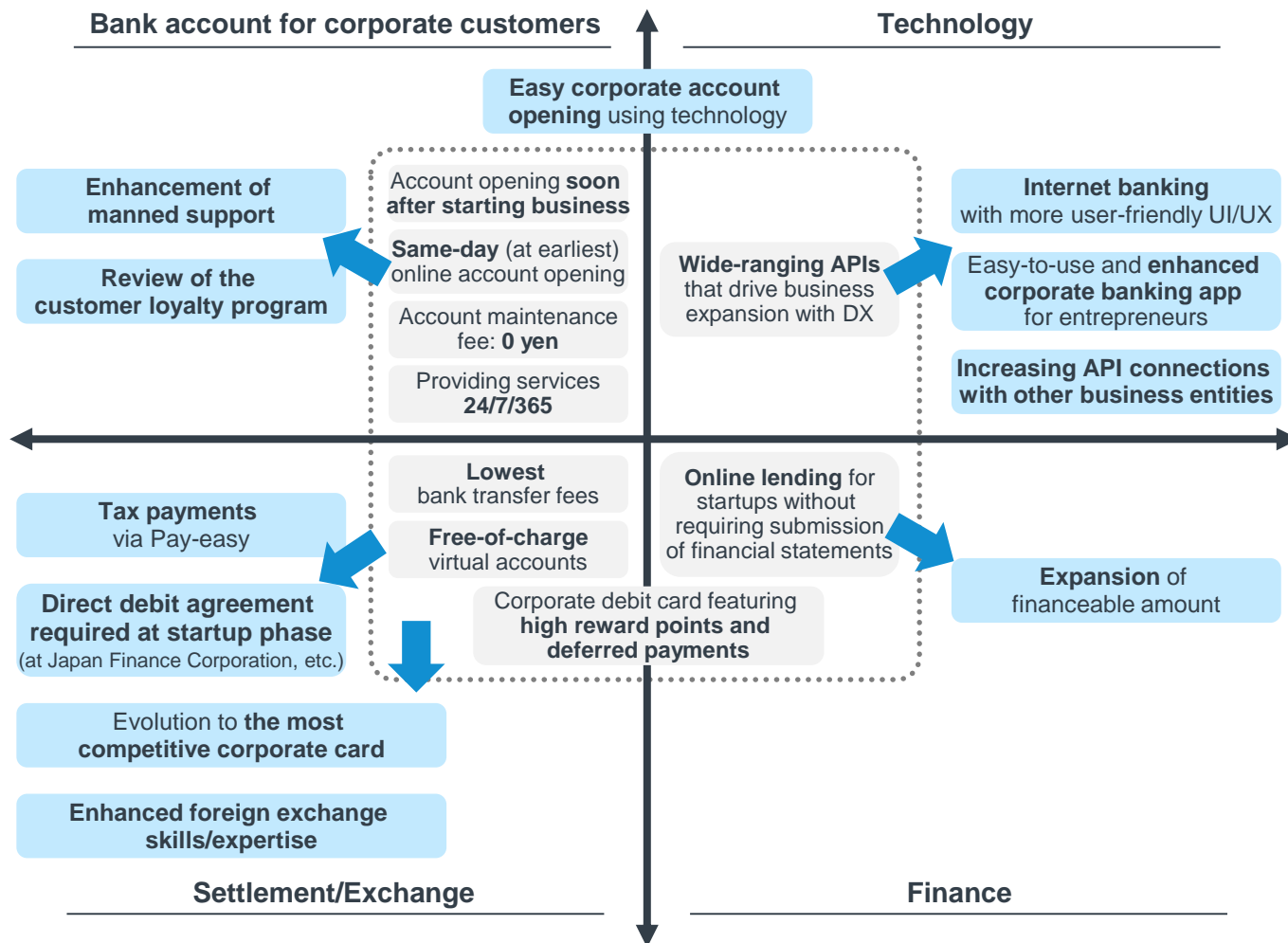
Enhanced productivity

Sustainability

Job satisfaction
Work style reforms

GANB's business strategy

Next-generation tech-first bank designed to support startups and DX



Continue working to achieve three No.1s under the New Mid-term Plan (FY2023–25)

No.1 bank among small businesses and startups

No.1 embedded finance services

No.1 tech-first banking services

5. Promotion of Aozora Sustainability (1/2)

Aozora's Sustainability Targets

	Results	Targets			
	FY2022	FY2025	FY2030	FY2040	FY2050
Target 1: Investments Designed to Support Structural Transformation					
Growth Support for Venture Companies					
Number of venture-related investments	Total: 46 transactions>	130		
GMO Aozora Net Bank Small businesses & startups	Total: 62K account openings>	200K		
Contributing to Regional Communities through Business Recovery					
Number of business recovery fund-based transactions	Total: 64 transactions>	150		
Investments Designed to Support Structural Transformation					
Number of equity investments with a primary focus on engagement	Total: 77 transactions>	130		
Target 2: Response to Climate Change					
Sustainable financing amount	Total: 400 billion yen (approx.)>	1 trillion yen by FY2027		
↳ Includes environmental financing of	Total: 350 billion yen (approx.)>	700 billion yen		
Becoming Carbon Neutral					
CO2 emissions as a business entity (Scope 1 & Scope 2, compared to FY2020)	Emission: To be disclosed in the Annual Report (late July)>	0 (net zero)		
New CO2 emissions in the investment and loan portfolio (Scope 3: Category 15)	Emission: To be disclosed in the Annual Report (late July)>	0 (net zero)		
Amount of project financing for coal-fired power plants	Outstanding: 27.5 billion yen>	0		

5. Promotion of Aozora Sustainability (2/2)

Aozora's Sustainability Targets

Results	Targets			
	FY2022	FY2025	FY2030	FY2040

Target 3: Retail Banking Platform

Business/asset succession consulting
Number of consulting contracts* Total: 492 transactions> **1,000**

New Number of customers receiving non-financial services 274 customers> **3,000**

* Both results and targets were revised as Aozora reclassified some items under this category into the new targets set in the new Mid-term Plan "Aozora 2025".

New Target 4: Diversity & Inclusion (diversity of core personnel)

Percentage of female managers / female deputy managers 13.3% / 37.3%> **20% / 40% by FY2027**

Percentage of male employees taking childcare leave 91%> **100% by FY2027**

Percentage of non-Japanese managers 2.8%> **3% or higher at any time**

Percentage of mid-career managers 49.6%> **40% or higher at any time**

3

Mid-term Financial Targets & Capital Policy

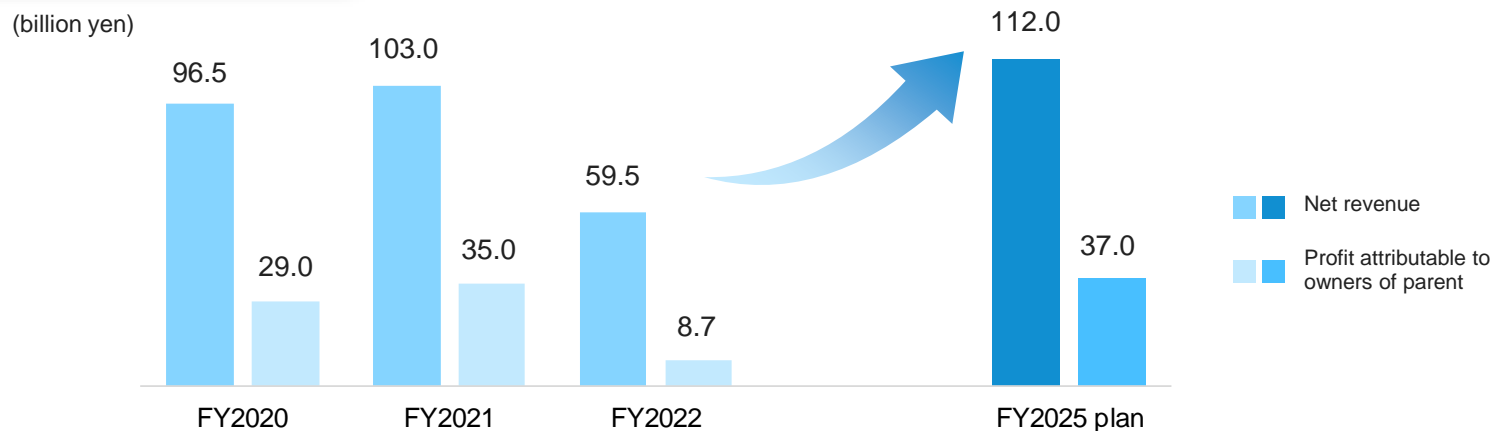
Mid-term financial targets

Key performance indicators

		FY2021 (results)	FY2022 (results)	FY2025 (targets)
Capital efficiency	ROE	7.2%	1.9%	8% (medium- to long-term: 10%)
Financial strength	Capital adequacy ratio	10.4%	9.4% (preliminary basis)	9% or higher
Productivity	Business-related profit*1 per employee	19 million yen	4 million yen	20 million yen
Business Group Earnings	Business-related profit*2 RORA	1.1%	0.2% (preliminary basis)	1.3%
Earnings level	Profit attributable to owners of parent	35.0 billion yen	8.7 billion yen	37.0 billion yen

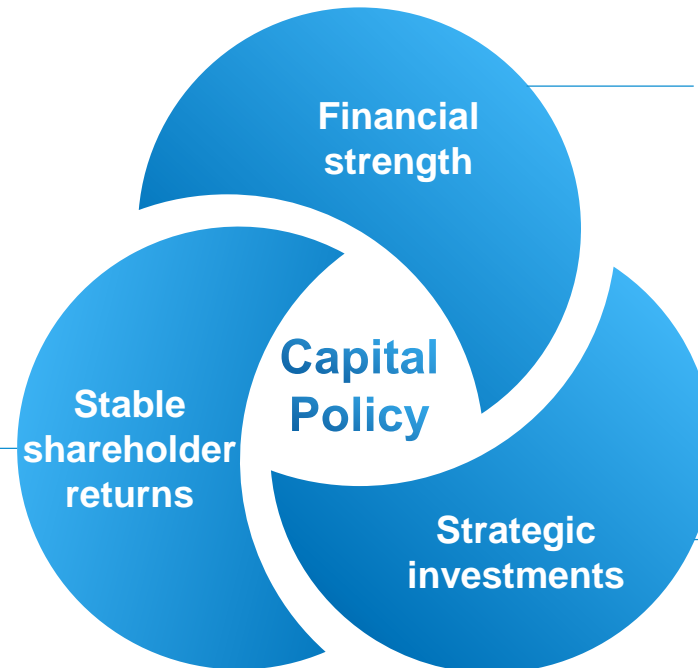
*1 Business profit + Gains/losses on stock transactions, *2 (Business profit + Gains/losses on stock transactions)/Risk-weighted assets

Target earnings (net revenue and profit attributable to owners of parent)



Capital policy

Maintain a proper balance among “**stable shareholder returns**”, “**strategic investments**” and “**financial strength**”



1. In principle, shareholder returns through dividends based on net earnings
2. Stable shareholder returns while maintaining financial strength
3. **Aim to increase the annual dividend to 158 yen per common share** at a payout ratio of 50% by achieving the earnings target for FY2025, the final year of the Mid-term Plan
4. Maintaining dividend payments on a quarterly basis

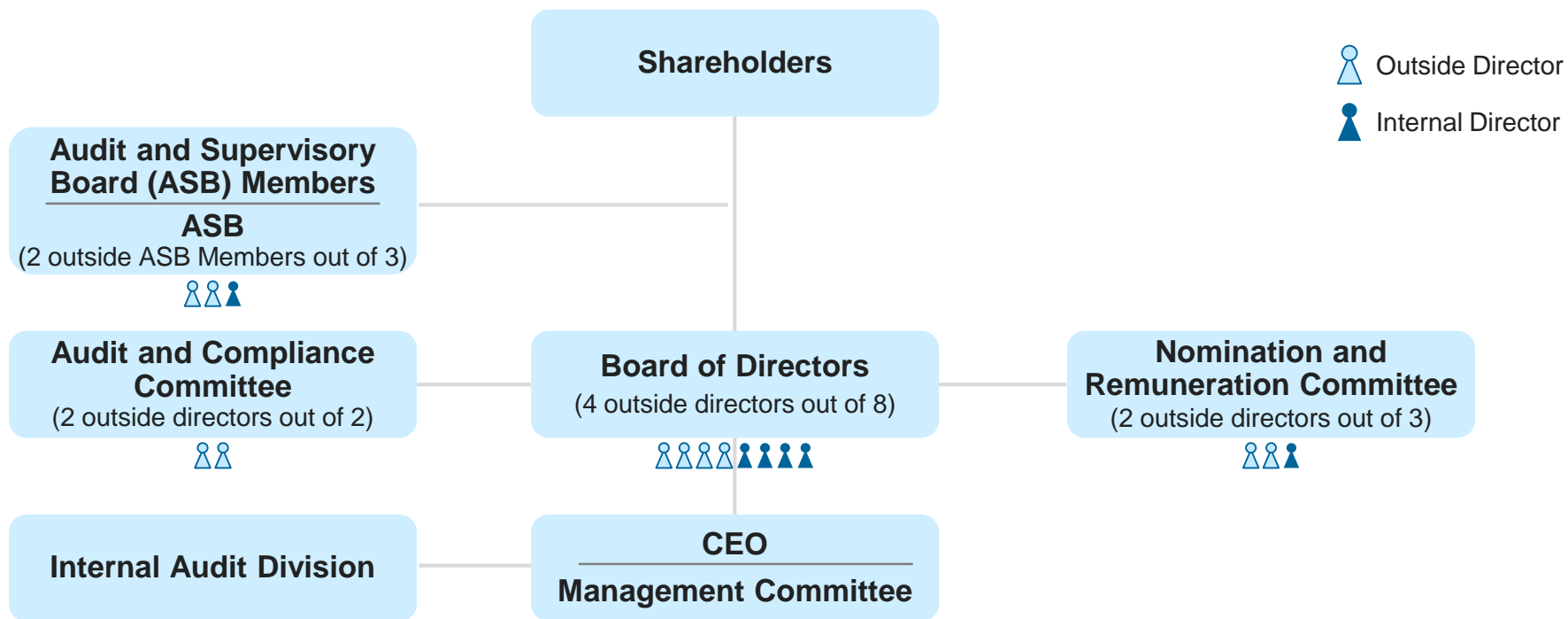
1. **Capital adequacy ratio (domestic standard) of 9% or higher**

- (1) Management with the awareness of the CET1 (Common Equity Tier 1) ratio of 7%, the minimum level required by the international standard
- (2) **ROE targets of 8% for FY2025, the final year of the Mid-term Plan, and 10% in the medium- to long-term** while maintaining a proper balance with financial strength

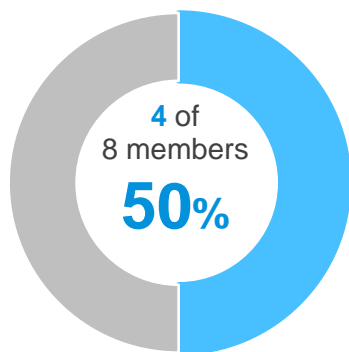
1. Focus on Aozora's Strategic Investments Business by deploying capital mainly to business areas with growth potential
2. Support for the enhancement of customers' corporate value through equity investments with a primary focus on engagement

4 Appendix

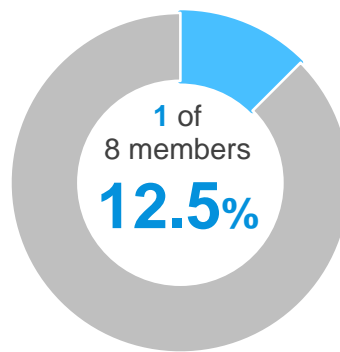
Corporate Governance



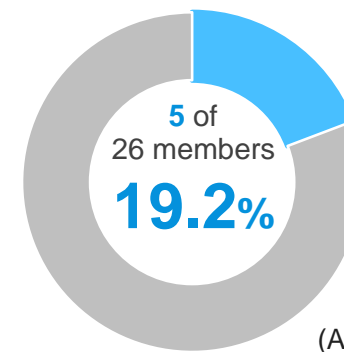
Ratio of outside directors



Ratio of female directors



Ratio of female executive officers



(As of July 31, 2023)

Management Oversight

Board of Directors (as of June 22, 2023)

- **Mr. Kei Tanikawa** Representative Director and President, CEO
- **Mr. Koji Yamakoshi** Representative Director and Deputy President
- **Mr. Hideto Oomi** Representative Director and Deputy President, Head of Institutional Business Promotion Group
- **Mr. Masayoshi Ohara** Director, Senior Managing Executive Officer, CRO
- **Mr. Ippei Murakami** Former President and Representative Director, Nisshin Seifun Group Inc.
- **Ms. Sakie Tachibana Fukushima** President and Representative Director, G&S Global Advisors Inc.
- **Mr. Hideyuki Takahashi** Former Director and Deputy President, Group CFO, Mizuho Financial Group, Inc.
- **Mr. Hideaki Saito** President and CEO, Japan Systems Co., Ltd.

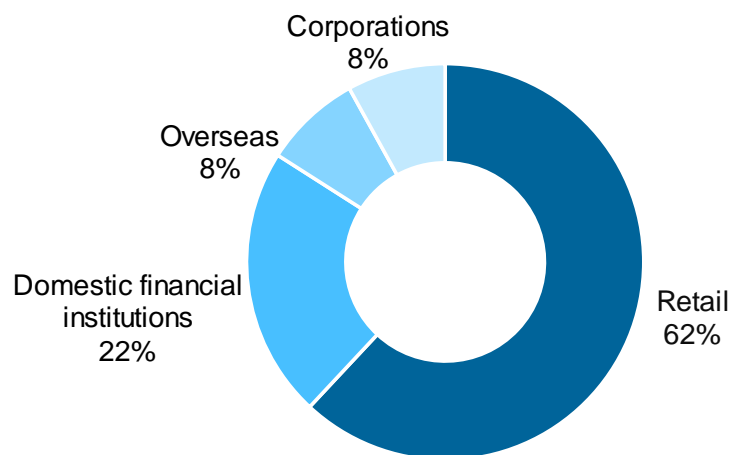
ASB members (as of June 22, 2023)

- **Mr. Satoshi Hashiguchi** Standing ASB Member
- **Mr. Toraki Inoue** Former Partner, Asahi & Co. (currently KPMG AZSA LLC)
- **Mr. Junichi Maeda** Former Representative Senior Managing Director, The Hokkoku Bank, Ltd.

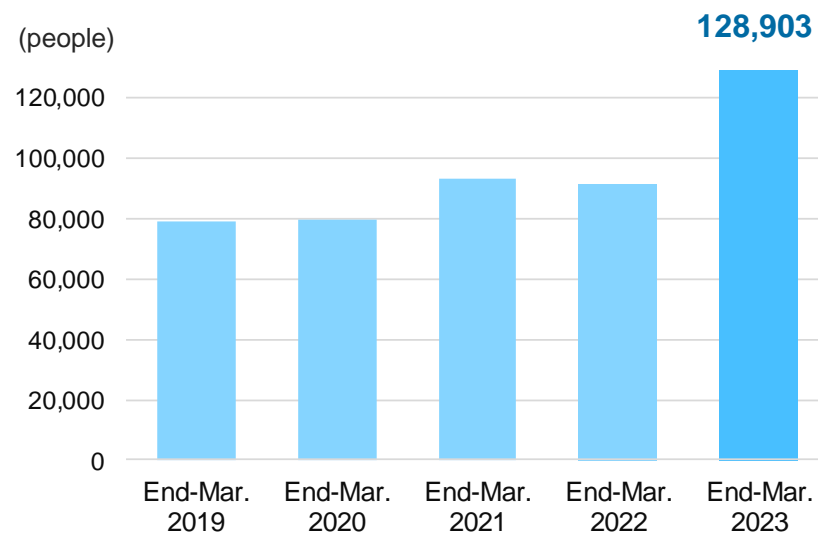
Name		Expertise of Directors and ASB Board Members						
		Corporate Management	Banking and Finance	Financial Accounting	Legal, Compliance/ Risk Management	Global Affairs	IT/DX	Sustainability
Directors	Internal Directors	Kei Tanikawa	●	●		●		
		Koji Yamakoshi	●	●		●		
		Hideto Oomi	●	●			●	●
		Masayoshi Ohara		●		●		●
	Outside Directors	Ippei Murakami	●		●	●		
		Sakie Tachibana Fukushima	●				●	●
		Hideyuki Takahashi	●	●	●	●		●
		Hideaki Saito	●	●			●	●
ASB Members	Standing ASB Member	Satoshi Hashiguchi		●		●		
	Outside ASB Members	Toraki Inoue	●		●	●		
		Junichi Maeda	●	●		●		

Shareholder Composition

Shareholder composition (as of March 31, 2023)



Number of Aozora Bank's retail investors



Aozora at a Glance

Franchise


- **Headquarters:** 6-1-1 Kojimachi, Chiyoda-ku, Tokyo
- **Total Assets:** JPY 7,184.0 billion yen
- **Credit Ratings:** BBB+ / A- / A (S&P / R&I / JCR)
- **Office Network:**
 - Domestic: 20 offices nationwide
 - Overseas: New York, London, Shanghai, Singapore, Hong Kong
- **Major Subsidiaries:**
 - GMO Aozora Net Bank, Ltd.
 - Aozora Loan Services Co., Ltd.
 - Aozora Securities Co., Ltd.
 - Aozora Regional Consulting Co., Ltd.
 - Aozora Investment Management Co., Ltd.
 - Aozora Real Estate Investment Advisors Co., Ltd.
 - ABN Advisors Co., Ltd.
 - Aozora Corporate Investment Co., Ltd.
 - Aozora Asia Pacific Finance Limited
 - Aozora Europe Limited
 - Aozora North America, Inc.
- **Full-time Employees:** 2,442 (consolidated basis, as of March 31, 2023)

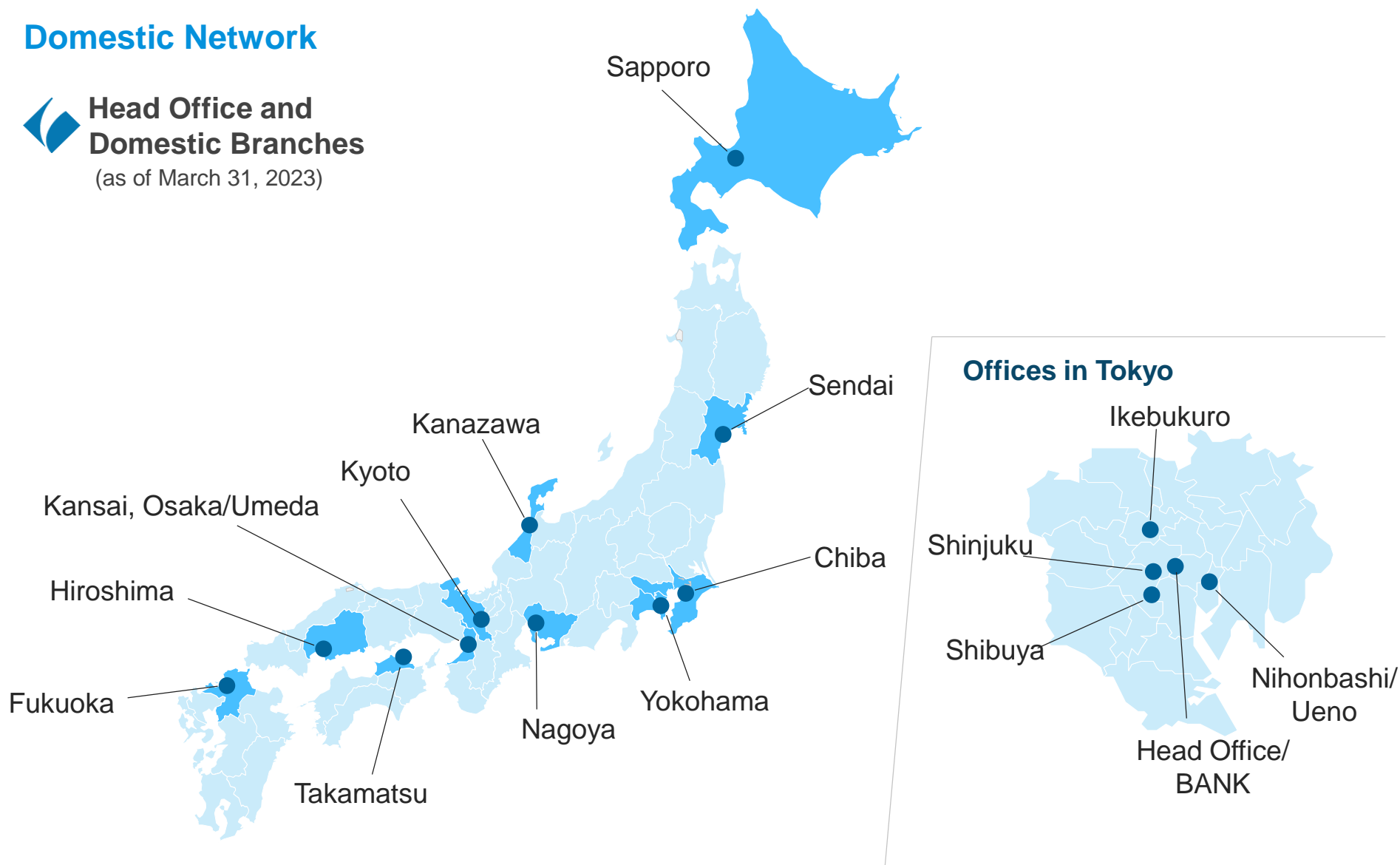
History

- 1957:** Established as The Nippon Fudosan Bank, Limited
- 1977:** Changed name to The Nippon Credit Bank, Ltd.
- 1998:** Temporarily nationalized
- 2000:** Re-privatized
- 2001:** Changed name to Aozora Bank, Ltd.
- 2006:** Listed on the First Section of the Tokyo Stock Exchange
- 2012:** Announced Comprehensive Recapitalization Plan
- 2015:** Early and full repayment of public funds
- 2017:** Headquarters relocated to Chiyoda-ku, Kojimachi
- 2022:** Listed on the Prime Market segment of the Tokyo Stock Exchange following the restructuring of its market segments

Aozora Network

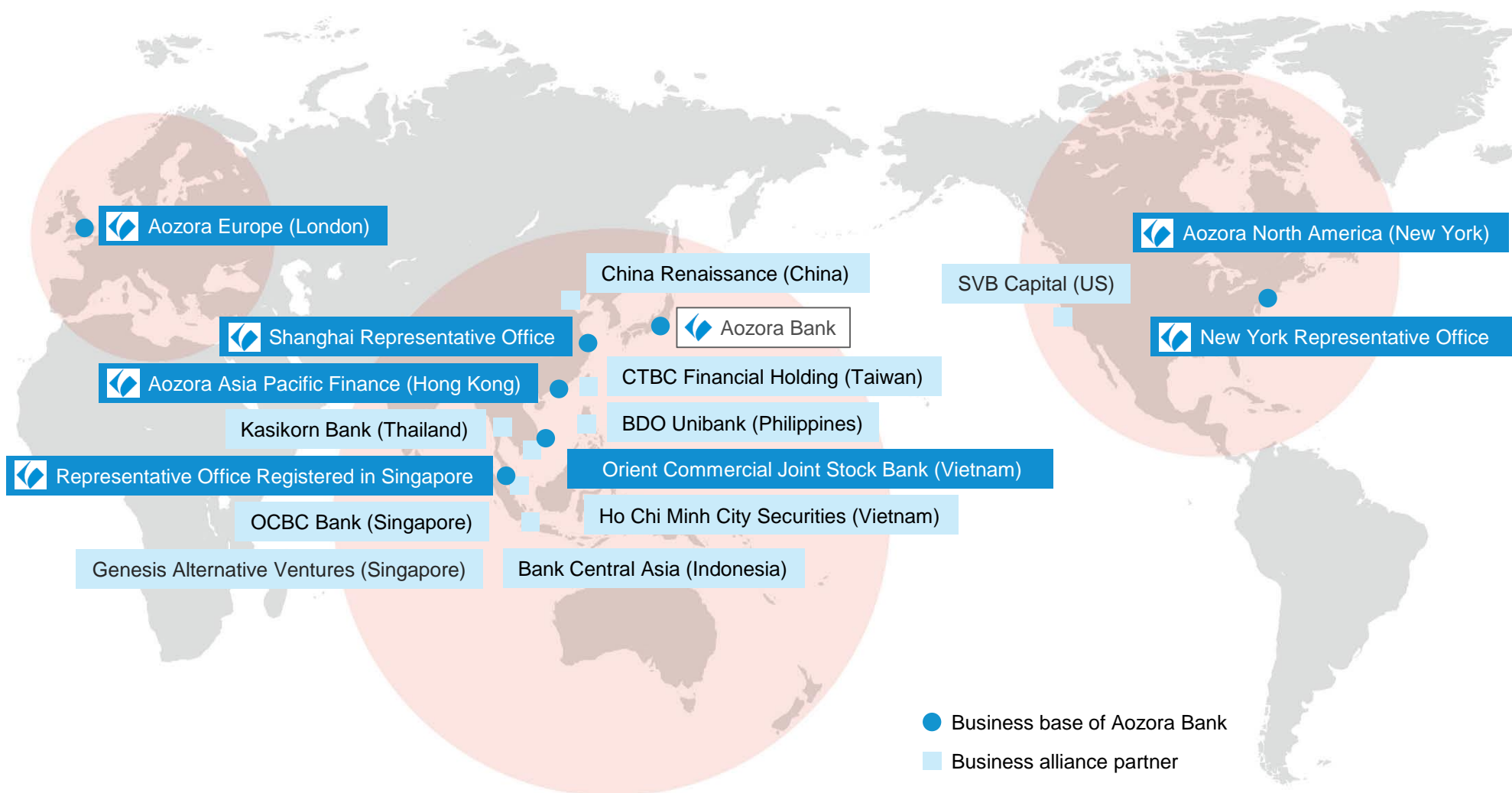
Domestic Network

 **Head Office and Domestic Branches**
(as of March 31, 2023)



Aozora Network

Overseas Network



Contact

AOZORA BANK, LTD.

Corporate Communication Division

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Ms. Yumi Adachi y2.adachi@aozorabank.co.jp

Ms. Mio Ueno m3.ueno@aozorabank.co.jp

Mr. Shota Kamegi s.kamegi@aozorabank.co.jp

This presentation 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 including the effects of changes in general economic conditions, changes in interest rates, stock markets and foreign currency, and any ensuing decline in the value of our securities portfolio, incurrence of significant credit-related cost and the effectiveness of our operational, legal and other risk management policies