To all of our shareholders

Aozora Bank, Ltd.

Questions and comments received from shareholders at
Aozora Bank's 90th Ordinary General Meeting of Shareholders (June 22, 2023)

We appreciate our shareholders for their attendance and livestream viewing of our 90th Ordinary General Meeting of Shareholders ("General Meeting") held on June 22, 2023. Shareholders' questions and comments are summarized below. We would like to ask for our shareholders' understanding and continued support.

1. Questions submitted in advance

We invited questions from our shareholders in writing and via email in advance of the General Meeting as was done last year. As a result, we received the following shareholder question below, which was not introduced at the General Meeting, but was replied to directly.

Question	Aozora's Response
How to calculate the capital adequacy ratio	When calculating their capital adequacy ratio, banks are subject to the Banking Act based on the international regulations. The resulting ratio differs from the capital adequacy ratio that general business entities calculate based on their balance sheet. Our capital adequacy ratio is calculated as follows: Capital adequacy ratio = Regulatory capital / Risk-weighted assets • Regulatory capital: Amount of adjusted net assets based on laws and regulations • Risk-weighted assets: Amount of assets multiplied by a specific ratio corresponding to their risk level As of March 31, 2023, our capital adequacy ratio was 9.43% on a consolidated basis, the result of 490.0 billion yen divided by 5,195.8 billion yen. For further details, please refer to the "Composition of Capital Disclosure" on Aozora's website.

2. Questions received at the General Meeting and livestream viewers' comments introduced at the General Meeting (Q&A session summary)

[Question #1 received at the General Meeting]

You recorded a significant amount of unrealized losses mainly on foreign bonds. To resolve this, are you planning to hold securities to maturity or implement further loss-cuts?
In addition, did you consider these options by preparing an action plan when implementing a loss-cut in FY2022?

[Response: Chairperson Tanikawa]

The majority of these foreign bonds are U.S. Treasuries and mortgage-backed securities, which have durations of approximately four and six years, respectively. Given scheduled bond maturities, unrealized losses will be reduced accordingly. In light of the volatile interest rate environment, we also plan to accelerate the loss-cut through the sale of bonds in addition to the scheduled redemption of bonds while effectively using risk hedging instruments. This policy has been factored into our FY2023 earnings forecast and new Mid-term Plan.
In FY2022, we prepared and implemented an action plan in order to respond to higher interest rates in the U.S. that we recognized as a risk factor. We also reduced the balance of our yen bonds. As U.S. interest rates continued to increase faster than anticipated, we reviewed and revised our action plan as necessary. However, we recorded unrealized losses due to inadequate foresight and we're taking this all quite seriously. For FY2023, we'll continue to implement a loss-cut while properly managing our securities portfolio to avoid increasing the level of unrealized losses.

[Question #2 received at the General Meeting]

My understanding is that your dividend payout ratio is set at 50% in principle. What was the payout ratio in FY2022? Will this 50% payout policy remain unchanged going forward?

[Response: Chairperson Tanikawa]

In FY2022, our dividend payout ratio was 206.2%, reflecting a significantly lower level for profit attributable to owners of parent. However, this didn't pose any issues as we had sufficient retained earnings.
The annual dividend forecast for FY2023 is set at 154 yen per share, the same as in FY2022, from the perspective of stable shareholder returns, based on the prerequisites of achieving the earnings forecast and maintaining our capital adequacy ratio, as well as in light of the steady growth of our customer-related business. Given our earnings forecast,

the resulting dividend payout ratio will be 74.9%. For FY2025, the final year of our new Mid-term Plan, the annual dividend is set at 158 yen per share with a dividend payout ratio of 50% on the assumption of achieving our earnings forecast. We'll continue striving to achieve our plan in order to ensure stable dividend payments to our shareholders.

[Question #3 received at the General Meeting]
Could you provide a breakdown of 1,104,062 million yen in "Other securities" on your non-consolidated balance sheet as of March 31, 2023?

[Response: Chairperson Tanikawa]
"Other securities" are comprised of a diverse portfolio of investments, including U.S. Treasuries, mortgage-backed securities and other foreign bonds as well as investment trusts and limited partnerships. We plan to implement a loss-cut mainly in foreign bonds that have the largest level of unrealized losses.

[Question #4 received at the General Meeting]
Do you have any specific action plan to improve PBR (Price Book-value Ratio)?

[Response: Chairperson Tanikawa]
PBR is an indicator closely related to ROE (Return on Equity). We aim to realize better capital efficiency-related KPIs, including ROE and business-related profit RORA, set forth in our new Mid-term Plan. Our current PBR is approximately 0.7x, away from the 1.0x milestone marked by the Tokyo Stock Exchange. First and foremost, we intend to increase our share price through improved market recognition by achieving our plan for FY2023. KPIs under the new Mid-term Plan include ROE targets of 8% for the final year, an interim goal for us, and the next step is to achieve ROE of 10% in the subsequent Mid-term Plan. At that stage, our PBR is expected to exceed 1x. To this end, we'll strive to achieve our targets for FY2023 first and then for FY2025, which will serve as a bridge to the following Mid-term Plan.

[Question #5 received at the General Meeting]
I hear that Aozora Bank's share price stays lower than expected because of low name recognition. What initiatives do you have in place to enhance your presence?

[Response: Chairperson Tanikawa]
Since raising public awareness of our bank has long been an issue, we've made multiple efforts to elevate our name recognition. As of March 31, 2023, we had approximately

130,000 shareholders. Among them, the number of retail investors increased considerably to over 120,000. In addition, more than 700,000 customers have deposit accounts with us. We feel like our name recognition has been steadily increasing, as demonstrated by the fact that we ranked high in some consumer polls among retail customers. That being said, there is still more that we can do. We'll implement a range of initiatives going forward, including our appearance on a TV program that will broadcast this July.

[Question #6 received at the General Meeting]
What measures do you have in place for your subsidiary GMO Aozora Net Bank (GANB)?

[Response: Deputy President Oomi]
GANB is an internet banking business. Nearly half of the employees are engineers who work to develop in-house systems under GANB's key strategy of providing fast, affordable and wide-ranging banking services in the internet era. Its most valued features include the lowest level of bank transfer fees in the industry as well as system connection services with business partners focused on fin-tech companies. By growing these business areas going forward, GANB is expected to become an leading bank in the new era.

[Response: Chairperson Tanikawa]
Let me provide some additional information. As disclosed in our GANB-related news release dated June 19th, we've agreed to transfer GANB's class shares acquired by Aozora to GMO Internet Group on the five-year anniversary of GANB's official launch of its internet banking business in accordance with the conditions of the original contract. GANB is a very unique internet bank entity that we manage jointly with GMO Internet Group. We intend to remain committed to supporting GANB by leveraging the strengths of both the Aozora Group and the GMO Group.

[Question #7 received at the General Meeting]
Will your loss-cut to a portion of unrealized losses in foreign bonds have any impact on your dividend forecast for FY2023?

[Response: Chairperson Tanikawa]
We intend to continue reconstructing the securities portfolio during the new Mid-term Plan. Our FY2023 plan has factored in the implementation of a loss-cut to a portion of unrealized losses. We believe that by achieving this plan, we can generate sufficient earnings to pay a total annual dividend of 154 yen per share.

[Question #8 received at the General Meeting]
As for “Marketable securities impaired” on page 36 in “Other matters subject to measures for electronic provision”, the impairment criteria for “bankrupt borrowers” and “normal borrowers” seem to be listed the other way around. Am I correct in this understanding?

[Response: Chairperson Tanikawa]
The order is in fact correct. Based on the criteria, we recognize an impairment of bankrupt, near-bankrupt and risky borrower claims when market value becomes lower than our acquisition cost. For normal claims, an impairment applies when market value falls by approximately 50% or more compared to our acquisition cost, because market value could temporarily decline mainly due to the impact of interest rates.

[Question #9 received at the General Meeting]
There are many subsidiaries called AZB Funding. What are they?

[Response: Chairperson Tanikawa]
These subsidiaries are established as an SPC (Special Purpose Company) associated with overseas loans and located in different locations depending on their assigned roles. The SPC is widely used in financial practices mainly for purposes of reducing funding costs and facilitating fund settlement. Once its mission is accomplished, the SPC is closed and a new SPC will be established as needed.

[Question #10 received at the General Meeting]
With regard to credit-related expenses, do you make a provision for loan loss reserves when a borrower goes bankrupt? Do they also cover other claims including risky borrowers?

[Response: Chairperson Tanikawa]
Most of credit-related expenses are associated with loans, including loan loss reserves, write-off of loans and losses on the disposition of loans. Loan loss reserves are broken down into general loan loss reserves for overall claims, including normal credit and “need attention” credit, and specific loan loss reserves for specified claims such as higher risk borrowers. Under our conservative reserve policy, we strive to minimize credit risk through the mixed use of these reserves. Credit-related expenses in FY2022 were 1.7 billion yen as a result of various elements, including reversals and provisions related to loan losses as well as increases and decreases in loan outstandings.

[Comment #1 received from shareholders who viewed the General Meeting via livestream]

In the event of a military conflict in the Taiwan Strait, what impact will it have on your business? Also, to what extent will your net earnings decrease in a year's time?

[Response: Chairperson Tanikawa]

Our credit exposure to Taiwan and China is quite limited, and we expect little impact directly from any potential conflict. However, the financial and economic sectors would be affected in other areas, such as supply chains and domestic stock markets. Following this, we'll promote comprehensive risk management in our overall operations, including domestic securities investments, while considering the impact of geopolitical risk.

As for the amount of decrease expected in a year, we currently have no specific information. Please be informed that we remain well-prepared for this kind of risk.

[Comment #2 received from shareholders who viewed the General Meeting via livestream]

I think your debit card campaign for retail customers is very rich in content. What is your purpose for running this campaign? I'm worried that the promotion could be scaled down or terminated at short notice due to reasons including a decrease in net earnings.

[Response: Chairperson Tanikawa]

This campaign is offered as part of our initiatives to enhance our services for retail customers. As a result, the number of customers using our debit card is increasing. Going forward, we'll offer a variety of creative campaigns for customers who have an account with us in order to encourage their use of our debit card.

[Comment #3 received from shareholders who viewed the General Meeting via livestream]

Do you have a plan to introduce the More Time system (which allows for immediate data processing among member banks during nights and holidays)? When it comes to bank transfer using your service, I feel it very inconvenient.

[Response: Chairperson Tanikawa]

Aozora's transfer service site is accessible 24 hours/day. However, transfer requests we receive during nights and holidays are processed on the business day following the date of request. While there is no specific plan to change our service time for processing transfer requests, we'll continue our review of this topic in light of increasing needs for same time bank transfers during nights and holidays.

[Question #11 received at the General Meeting]

With regard to the promotion of digital transformation (DX), can you discuss your policy as well as planned budgets for developing DX talent and raising awareness of DX literacy among Aozora officers and employees?

[Response: Chairperson Tanikawa]

We recognize the pressing need to develop DX talent for the creation of new services and operational improvements. It’s been two years since we began training tailored to all levels of officers and employees, from senior management to managers and junior employees. Above all, in order to foster key personnel driving DX, we offer a set of training programs combined with outside training and e-learning, from which trainees can make their own choices of courses, such as data specialists and app development. We’ll actively promote our key talents development programs, which are attended by dozens of participants each year, ranging from junior employees to senior managers.

In terms of our budget, we intend to increase investments in human capital, including the fostering of external staff, by 2 billion yen over the next three years, as I mentioned before. We’ll also implement our initiatives to further develop our DX talent.

[Question #12 received at the General Meeting]

The U.S. economy is highly likely to enter a recession. Were your overseas non-recourse loans originated based on a proper coverage ratio?

[Response: Chairperson Tanikawa]

We’ve selectively originated overseas real estate non-recourse loans, mainly in the U.S., based on an LTV (ratio of loan to value) of approximately 60–65% and other conservative conditions. In the U.S. real estate market, residential/multi-family and logistics sectors remain strong and the office market is under increasing pressure, but the situation varies depending on individual properties. We conducted a comprehensive review of our major U.S. real estate non-recourse loans in FY2022 and made additional provisions. It was these provisions that constituted a majority of our credit-related expenses for FY2022. We’ll continue to make provisions as necessary while maintaining our cautious approach towards extending new loans.

3. Other comments received from shareholders who viewed the General Meeting via livestream

We have consolidated our response to another important comment received from a viewer of the livestream below.

(The comment is listed here in its unedited form.)

Comment	This is a proposal, not a question. While you discussed a wide-ranging set of initiatives for FY2023 onwards, implementing IT-driven measures is essential for the further promotion of financial business going forward. Following this, I propose that in addition to focusing on DX as an independent initiative, all other initiatives incorporate the perspective of making maximal use of IT and AI. For example, how do you leverage IT and AI to support customers' business transformation or recovery? These initiatives need more specific planning that drives the effective use of IT and AI. I ask that you please take up my proposal for the future of your business.
Response	Thank you for your important comment. We understand that you pointed out the importance of incorporating DX in specific initiatives. Towards the achievement of our new Mid-term Plan "Aozora 2025", we're committed to working on data utilization with the goal of business development and productivity growth. Following your comment, we'll make efforts to comprehensibly communicate our business strategies, including on these initiatives.