

Integrated Report  
—Annual Report—

2024

April 1, 2023 – March 31, 2024

## Management Philosophy

### Aozora Mission

# Mission

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

### Aozora Vision

# Vision

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

### Aozora's Key Priorities

# Action

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

## CONTENTS

<b>Introduction</b>		<b>Value Creation Strategy</b>	
2	Continuing to Take on Challenges	50	Aozora's Businesses
		50	At a Glance
		52	Business Groups
		69	Primary Group Companies
		74	Aozora's New Value Creation: Exploring the Potential of Generative AI
		76	Sustainability Promotion
		82	Initiatives to Address Climate Change (Response to TCFD Recommendations)
		88	Respect for Human Rights
		90	Social Contribution Activities
		92	Human Resources Strategy
		100	Creating a Comfortable Workplace for Employees with Disabilities
<b>Management Message</b>		<b>Value Creation Foundation</b>	
6	CEO Message	104	Corporate Governance
12	Management of Risk Appetite Framework	116	Risk Management
		118	Compliance
		121	Internal Audit
		122	Cybersecurity
		123	Toward Building Operational Processes Transcending Branches
<b>Value Creation Story</b>		<b>Corporate Data</b>	
16	The Source of Our Strength	124	Key Financial Data
18	Value Creation Process	126	Non-financial Information Index
20	Value Creation Drivers	129	Aozora Network
21	Capital and Business Alliance with Daiwa Securities Group Inc.	130	Organization Chart
22	Special Feature <b>Fostering</b> Fostering Start-ups, Diversifying Financing Methods		
23	Special Feature <b>Change</b> Engagement Investments Unique to Banks		
26	Special Feature <b>Change</b> GMO Aozora Net Bank's Services to Create Change		
28	Special Feature <b>Recovery</b> Business Recovery Initiatives		
32	Key Sustainability Issues (Materiality)		
34	Aozora's Sustainability Targets		
35	ESG Information		
36	CFO Message		
40	Financial and Non-financial Highlights		
42	Roundtable Discussion with Outside Directors and Messages from Newly Appointed Outside Directors		
46	Stakeholder Communication		

### Editorial Policy

The purpose of this document (Main Section and Financial and Corporate Data Section) is to provide our stakeholders with an overview of the Aozora Group and information regarding its value-creation initiatives. It has been prepared in an effort to help our customers, shareholders, and all other stakeholders understand the driving force of the Aozora Group's value creation.

This document provides financial and non-financial information, taking into consideration the International Integrated Reporting Framework published by the IFRS Foundation as well as the Ministry of Economy, Trade and Industry's "Guidance for Collaborative Value Creation."

This document (Main Section and Financial and Corporate Data Section) is an Annual Report (document explaining Aozora's business operations and financial condition) created in compliance with Article 21 of the Banking Act.

We hope that this document will help you better understand our stance of continuing to take on challenges and the initiatives we are taking to achieve further growth.

### Forward-looking Statements

This document contains forward-looking statements regarding Aozora's financial condition and results of operations. These forward-looking statements, which include Aozora'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.

# Continuing to Take on Challenges

To Contribute to the Development of Society  
through the Creation of New Value-added  
Financial Services

## Creation of New Value-added Financial Services

### Addressing Customers' Issues and Fostering Their Businesses and Assets

#### As a Pioneer of Venture Debt P22

We support and foster start-ups by providing venture debt, which has features of both equity financing and bank lending.



#### As a Provider of Wealth Accumulation Opportunities P67

We support wealth accumulation through BANK™, a financial service that enables a range of transactions via an app, the development and provision of financial products, and comprehensive consulting services for retail customers and business owners.

Creation of New Value-added Financial Services

# Supporting Customers' Change in Response to Social Changes

GMO Aozora Net Bank  P26

A Partner That Helps Customers Realize Their Envisioned Future with Technology

We help our customers incorporate banking functions such as remittances and deposits as part of their services and provide innovative services to end-users.



# Change

## Through Various Financing Methods

### Equity Investments with a Primary Focus on Engagement and Structured Equity Investments

 P23, 52

We aim to grow together with our corporate customers through in-depth dialogue and proposals to resolve the challenges they face.

### M&A

 P54, 56

We support SMEs in handing down valuable technologies and excellent human resources to the next generation.

### LBO Finance

 P58, 60

We support industrial transition and restructuring through financing arrangements, investments, and lending.

### Sustainable Finance

 P79

We help customers solve issues through multiple sustainable finance initiatives by leveraging the Aozora's ESG Support Framework.

Creation of New Value-added Financial Services

# Recovery of Customers' Businesses and Assets

Business Recovery Initiatives  P28

We provide support for the survival and growth of companies by reviewing their financial structures and business operations.



# Recovery

## Working with Regional Financial Institutions to Solve Their Clients' Issues

 P66

Through our nationwide network of regional financial institutions developed over 60 years, we provide recovery support for regional financial institutions' clients as well as collaborative support with regional financial institutions according to their clients' business stage.



## CEO Message

### Taking on Challenges and Pioneering New Paths

#### Hideto Oomi

Representative Director and President  
Chief Executive Officer (CEO)

#### Introduction

In FY2023, profit attributable to owners of parent was a net loss of 49.9 billion yen, as we fundamentally improved our balance sheet condition by making additional provisions to loan loss reserves for U.S. office loans and by restructuring our securities portfolio. We also made the decision to not pay a dividend in the third and fourth quarters. We offer our deepest apologies for causing significant concern and inconvenience to our shareholders and all other stakeholders.

Going forward, we will more sharply define the types and level of risks taken in light of Aozora's business model based on our risk appetite framework in order to ensure more effective risk recognition and management.

Despite these events, Aozora's customer-related business remained relatively strong. Our customer-related business includes institutional banking and structured finance, centered on our Strategic Investments Business, which we are focusing on. In FY2023, business-related profit from our customer-related business (excluding financial market-related and retail businesses) was 42.8 billion yen, an increase of 8.9 billion yen year on year, which represented relatively strong growth.

In this Integrated Report, we will briefly review our history and outline our strengths as well as our future vision.

→ The Source of Our Strength



#### A Bank That Blazes Trails Where People Find It Difficult

Aozora was founded in 1957 as Nippon Fudosan Bank, Limited, one of Japan's long-term credit banks. It was founded at a time when Japan was transitioning from its post-war reconstruction period to a period of high economic growth, when there was a serious shortage of long-term financing needed for capital investment. Kiyoji Hoshino, the first president of Nippon Fudosan Bank, shared the following remarks at a ceremony held when the Bank's business was first established.

"The purpose of the Bank's business is first to provide long-term financing to small and medium-sized enterprises (SMEs), and second to provide real estate collateral

lending... The Bank's primary purpose is to provide long-term financing and real estate collateral financing to SMEs because Japan's financial institutions have so far hesitated to provide financing to SMEs and commercial real estate financing mainly due to the extremely weak financial strength of Japan's SMEs and the existence of constraints imposed by the Act on Land and Building Leases on real estate... Going forward, Nippon Fudosan Bank will blaze a trail where people find it most difficult. As the one and only real estate bank in Japan, we ardently seek to demonstrate our authority and unique capabilities to contribute to Japan's industrial and business communities."  
(from "The Ten-year History of Nippon Fudosan Bank")

Nippon Fudosan Bank was founded on the belief that Japan's growth requires the availability of funds for new

## CEO Message

markets that other banks were hesitant to serve at that time. At a time when national priority was given to providing financing to heavy manufacturing and chemical industries that strengthen the nation, Nippon Fudosan Bank helped to improve people's lives by providing loans to business sectors that were still small at the time, such as distribution and real estate development industries. In 1977, we changed our name to Nippon Credit Bank, Ltd. and focused on project finance and related fields, while undertaking overseas business expansion. However, the importance of the long-term credit bank system, which was responsible for long-term financing, began to gradually diminish as Japan's high economic growth period ended, and companies' demand for capital investment financing was no longer as strong as before. This trend was also compounded by financial liberalization in Japan.

In the 1990s, Japan as a whole was affected by the collapse of its bubble economy. In 1998, Nippon Credit Bank failed and was put under special public management (nationalization).



Kiyoji Hoshino, first president of Nippon Fudosan Bank

### The Wellspring of Aozora's Strategic Investments Business

In 2001, we relaunched as Aozora Bank, Ltd. However, many customers left Aozora because they were concerned about doing business with us, and we saw little prospects for a bright future if we simply continued doing what we had done in the past. At the time, I had the opportunity to hear Mr. Masayoshi Son, President of SoftBank who was then a shareholder, speak about "time machine management." This approach to management involves bringing business models that had succeeded overseas to Japan and implementing them before anyone else. It provided a major insight for us as we considered the future course of our company. What services did Wall Street and the City offer in their financial businesses at the time that Japan did not? These discussions formed the wellspring of Aozora's Strategic Investments Business, which has become a focus area for Aozora to this day.

The first business area for us was LBO finance. In Japan, private equity funds (PE funds) began to be active at the time, but the number of investments was limited due to the negative market perception of "hostile takeovers" and

"vulture funds." In addition, because of the discontinuous changes that occurred under new management, traditional screening methods that evaluate past financial statements and collateral did not work effectively. We needed screening methods that would evaluate future business viability and goodwill. Furthermore, it takes time and effort to negotiate loan agreements because terms and conditions such as financial covenants and default events must be carefully defined. M&A is considered to be one management strategy option overseas, and based on our own experience of being a target of M&A, we anticipated the expansion of the market, and became a major lender in LBO finance from its inception in Japan.

The second business is real estate finance. Today, the estimated value of a property serving as collateral is calculated by discounting the cash flows to be generated from a targeted property, which is the expected rent after deducting operating expenses, by the expected yield (cap rate). At the time, it was typical to calculate property values using comparable transactions in nearby locations and official land prices. This was because land prices had risen significantly during Japan's bubble economy, and it was difficult to explain the prices using only cash flow and expected yields generated by a property. Learning that financing based on cash flow and expected yield was an accepted method overseas, we started real estate finance while also using lessons learned from commercial real estate loans that were made during the bubble economy.

The third business is business recovery finance. Overseas, a legal system was in place to provide temporary working capital to bankrupt companies in order to preserve their business value (debtor-in-possession (DIP) finance), and DIP finance had been used for business recovery. In Japan, the Civil Rehabilitation Act was enacted at the beginning of 2000, and with the legal system in place, we launched this business. In overseas markets, servicers, who collect loans and other claims on behalf of creditors, contributed significantly to the early workout of non-performing loans (NPLs). Based on this experience, the "Servicer Act" was enacted in Japan in 1999. Upon the enactment of the Servicer Act, we established Aozora Loan Services Co., Ltd. In both cases, we incorporated workout practices that



Former Nippon Fudosan Bank Head Office

were common overseas as our model and launched our recovery business.

### Capitalizing on Japan's Future Growth Through Aozora's Strategic Investments Business

Aozora provides LBO finance, real estate finance, and business recovery finance, as well as venture debt, which is a new structure for start-up support that we began recently, and equity investments in companies and funds. Aozora collectively refers to these types of investments and lending as Aozora's Strategic Investments Business. Unlike in the past, the financing required to drive Japan's future economic growth is focused on structured finance, which requires a high level of expertise, in areas such as business restructuring to improve corporate capital efficiency, clean energy development to mitigate global warming, and fostering venture companies and business recovery that facilitate Japan's economic vitality.

Aozora's Strategic Investments Business brings together financing methods that can provide the capital required to



## CEO Message

support Japan's economic growth. For this reason, we anticipate that investment and lending opportunities will grow even more rapidly. Another feature of this business is that it can generate relatively higher returns because there is less competition. Through Aozora's Strategic Investments Business, Aozora will explore new markets that people consider difficult. It is a business that has the potential for both contributing to society and generating attractive returns.

### Alliance with Daiwa Securities Group Inc.

In May 2024, Aozora announced a capital and business alliance with Daiwa Securities Group Inc.

In March 2024, the Bank of Japan changed its negative interest rate policy, signaling that Japan's economy has emerged from deflation and has started to grow for the first time in 30 years. This will lead to an increase in investment and lending opportunities for Aozora's Strategic Investments Business. However, it would be preferable to have additional capital to further expand Aozora's Strategic Investments Business, which relies on a strong balance sheet. In addition, as we expect more business related to M&A and investment, we began to consider that it would be better to expand our current securities product capabilities. While discussing this idea with several potential partners, we learned that Daiwa Securities Group Inc. was looking to strengthen its banking capabilities, so we began discussions about an alliance. Eventually, we agreed to form a capital and business alliance focused on integrated banking and securities services. As part of the alliance, we completed a 51.9 billion yen capital increase through third party allotment.

Daiwa Securities Group Inc. seeks to benefit from the investment by bolstering its lending and trust capabilities, as well as by increasing Aozora's corporate value. To that end, it intends to make every effort to support initiatives that pave the way for an increase in Aozora's corporate value, so I expect they will be a highly reliable partner. Although the capital increase will cause some dilution of shares, we will strive to offset the effects of the dilution by capitalizing on the benefits of the alliance early on and

growing beyond what would be achievable if we had proceeded alone. Aozora will become an equity method affiliate of Daiwa Securities Group Inc., but there will be no change in Aozora's independence and autonomy from before. Currently, we are discussing more specifics regarding areas of collaboration between our two companies. We will provide you with information on more specific synergies, including from the financial aspect, at the earliest opportunity.

### Surmounting Difficulties and Persevering

When I joined the Bank in 1989, Japan had a total of 23 city banks, long-term credit banks, and trust banks. Thereafter, the number of banks decreased as a result of industry consolidation, but they grew in size, eventually forming financial groups centered on holding companies. In the process, Aozora remained a compact sized bank that had not undergone any mergers. We felt a sense of crisis that we might lose ground as a financial institution if nothing was done. Since 2000, our top management priority had been to fully repay the capital we received from the Japanese government (public funds) when we were placed under special public management. As a result, we explored business areas with less competition at an early stage, and accumulated the capital needed to repay the public funds by reaping the benefits of first mover advantage in each market. As a result, we have developed into a bank that can make a positive impact despite its relatively small size, by blazing a trail where people find it difficult as stated in our founding message. This situation will not change in the future. Therefore, whenever we launch new products and services, we must always develop areas that others are hesitant to engage in because they are complicated, time-consuming, or difficult to solve, and we need to have the ability to "work through it" until we succeed. No matter how talented you are, you will not be successful unless you persevere. To date, Aozora's employees have aggressively taken on challenges and developed new businesses. Looking ahead, we will continue to blaze new trails and develop

our human resources to become experts and leaders in those areas.

To address these issues, the development and recruitment of highly specialized human resources are critical to promoting our business. For this, we emphasize employee education to improve expertise that others do not possess, through training focused on specialized areas, mid-career recruitment of advanced human resources, and work experience at external institutions.

Under the current Mid-term Plan "Aozora 2025," we plan to increase personnel expenses by approximately 2 billion yen by FY2025 to invest in human capital. We intend to support employees who are willing to take on challenges and reward them for their accomplishments. By increasing our investment in human capital, we seek to enhance employee skills and make Aozora a rewarding place to work that is chosen by outstanding professionals.

### Increasing Corporate Value

Last but not least, I would like to touch upon increasing our corporate value.

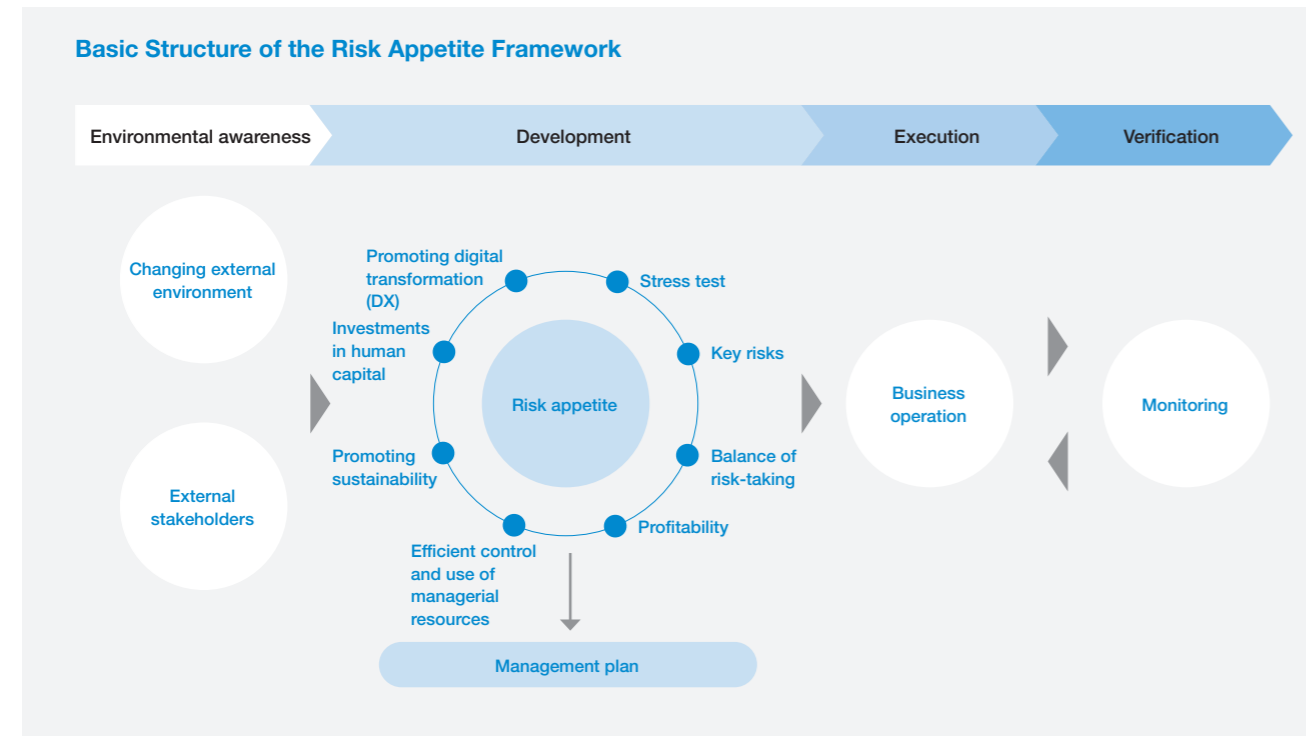
I believe that improving ROE and PER is the most direct route to attaining a PBR of 1 or higher. The primary engines for improving ROE will be Aozora's Strategic Investments Business, which will capitalize on Japan's economic growth, and GMO Aozora Net Bank, Ltd., an Internet bank targeting corporate customers. Together with the accomplishments that will arise from the capital and business alliance with Daiwa Securities Group Inc., we expect ROE to improve significantly in the near future. To improve PER, we will strive to lower the cost of capital by enhancing our risk management capabilities based on the lessons learned from the previous fiscal year. To this end, in FY2024, we have decided to more sharply define the types and levels of risks taken in light of Aozora's business model as our risk appetite, and to discuss it at Board of Directors meetings. First, we will ensure that we have a V-shaped turnaround in FY2024. We are currently discussing specific initiatives to address the new opportunities we have gained to improve PBR. We intend to present these initiatives to you in the form of a medium-term management plan as soon as possible.

We ask for your continued understanding and support for Aozora.



## Management of Risk Appetite Framework

While the banking sector continues to experience significant changes in its operating environment, Aozora remains committed to sustainably increasing its corporate value. In keeping with this commitment, we are focused on sound risk-taking while implementing effective risk controls through proper awareness of our business environment and potential risks. Aozora has established a risk appetite framework for business management that clearly identifies the type and level of risks (risk appetite) it assumes to achieve its business strategies and financial plans.



In FY2023, we decided to fundamentally address two balance sheet issues: exposure to U.S. non-recourse office loans and the restructuring of the securities portfolio, with the goal of reducing future potential risks and establishing a better foundation for future growth.

In the course of developing the management plan for FY2024, the Board of Directors discussed how to make the risk appetite framework clearer from the perspective of enhancing risk governance. We established the following basic risk appetite policy "The Aozora Group will strive to generate sustained and steady returns through sound risk-taking, thereby enhancing its capital and achieving corporate growth, with a view to realizing our management

philosophy: 'Contribute to the development of society through the creation of new value-added financial services.'"

Concurrently, we also established the Risk Appetite Policy. This policy clearly re-establishes the type and level of risks Aozora will assume, along with the risks that it will control.

We will work to reduce the exposures and risks associated with U.S. non-recourse office loans through debt collection. For securities portfolio management, we will limit the exposure of securities to a level where any losses incurred during times of stress can be absorbed by our financial strength.

### Basic Risk Appetite Policy

Aozora will strive to generate sustained and steady returns through the efficient control and use of managerial resources, including capital, balance sheets, and other resources, as well as sound risk-taking, thereby enhancing its capital and achieving corporate growth, with a view to realizing our management philosophy: "Contribute to the development of society through the creation of new value-added financial services."

### Risk Appetite Policy (Medium-term Policy)

- Ensure that balance sheet issues related to U.S. non-recourse office loans and securities portfolio management are fully addressed by correcting the overweighting of overseas assets.
- Allocate additional managerial resources to Aozora's Strategic Investments Business and implement initiatives to support Fostering, Change, and Recovery of customers' businesses and assets, with a view to realizing our management philosophy.
- Strive to generate sustained and steady returns and enhance capital by taking risks within the scope of Aozora's risk management capabilities and financial strength.

### Risk-taking Policy for FY2024

- Strive to ensure revenue growth by intensively allocating capital and other resources to Aozora's Strategic Investments Business focused on Japan, and by increasing investment and lending while considering capital efficiency.
- Manage overseas investments and lending by taking a selective origination approach, while striving to control exposure on a yen basis by continuing to closely monitor foreign exchange trends.
- The Market Group will work to restructure the securities portfolio aiming for sustainable medium- to long-term returns through establishing an appropriate ratio of domestic to foreign securities.

Meanwhile, we will allocate additional managerial resources to Aozora's Strategic Investments Business and further implement initiatives to support Fostering, Change, and Recovery of customers' businesses and assets.

Under the governance of the Management Committee, which is the highest decision-making body for business execution, and various committees, Aozora manages business operations in accordance with a management plan that reflects its risk appetite. Monitoring and reporting on the status of operations are provided to the Management Committee and various committees periodically and as needed. Appropriate actions are taken promptly, such as confirming whether or not the risk profile falls within the

scope of the risk appetite. In addition, the monitoring results are periodically reported to the Board of Directors and the Audit and Compliance Committee. Outside directors lead discussions about the appropriateness and efficacy of risk management, thereby ensuring the effectiveness of risk governance. Through these and other measures, we strive to lay the groundwork for steady and sustained earnings.

Through our recently announced capital and business alliance with Daiwa Securities Group Inc., we will restore our risk tolerance, efficiently control and use managerial resources, and practice sound risk-taking, with the aim of further increasing our corporate value.

# Value Creation Story

- 16 The Source of Our Strength
- 18 Value Creation Process
- 20 Value Creation Drivers
- 21 Capital and Business Alliance with Daiwa Securities Group Inc.
- 22 Special Feature **Fostering** Fostering Start-ups, Diversifying Financing Methods
- 23 Special Feature **Change** Engagement Investments Unique to Banks
- 26 Special Feature **Change** GMO Aozora Net Bank's Services to Create Change
- 28 Special Feature **Recovery** Business Recovery Initiatives
- 32 Key Sustainability Issues (Materiality)
- 34 Aozora's Sustainability Targets
- 35 ESG Information
- 36 CFO Message
- 40 Financial and Non-financial Highlights
- 42 Roundtable Discussion with Outside Directors and Messages from Newly Appointed Outside Directors
- 46 Stakeholder Communication

## The Source of Our Strength

### Our History of Taking on Challenges

Aozora has contributed to the development of society through the creation of new value-added financial services by observing and understanding changes in our society and developing businesses that meet the evolving demands of the times.

- 1957** Established as the Nippon Fudosan Bank, Limited in accordance with the Long-Term Credit Bank Law
- 1977** Changed name to the Nippon Credit Bank, Ltd.
- 1994** Established the Nippon Credit Trust Bank, Ltd. (currently GMO Aozora Net Bank, Ltd.)
- 1998** Special public management started and terminated listing of stock on the Tokyo Stock Exchange and the Osaka Securities Exchange
- 1999** Established NCB Services Co., Ltd. (currently Aozora Loan Services Co., Ltd.)
- 2000** Special public management ended (re-privatization)

#### 1st stage

#### Taking on Challenges: Aozora's Origins

Aozora was founded in 1957 as Nippon Fudosan Bank. At the time, there were already many banks, creating highly competitive and overcrowded markets in some regions. Despite these conditions, there remained a considerable number of customers who were being underserved. Within this environment, we began with taking on the challenges of providing long-term financing to support the development of SMEs and to offer commercial real estate loans, both of which were underserved markets at the time. With a pioneering spirit, we have built a network of regional financial institutions through the issuance of debentures and expanded our business overseas as well as undertaken initiatives for new financial technologies such as derivatives and securitized products.

As Japan was facing the collapse of its bubble economy, due to environmental changes and delays in business reforms, the Bank failed on December 13, 1998, and we were put under special public management (nationalization), and regrettably, caused considerable difficulty for numerous stakeholders, including our shareholders.

- 2001** Changed name to Aozora Bank, Ltd.
- 2005** Established Aozora Asia Pacific Finance Limited (currently Aozora Asia Pacific Limited)
- 2006** Converted to an "Ordinary Bank" and relisted on the Tokyo Stock Exchange
- 2006** Established Aozora Securities Co., Ltd.
- 2013** Established Aozora Regional Consulting Co., Ltd.
- 2014** Established Aozora Investment Management Co., Ltd.

#### 2nd stage

#### Taking on Challenges: Establishing New Business Models

Following re-privatization in 2000, we were relaunched as Aozora Bank. In addition to the employees with experience in the process of bringing onboard new financial technologies, new colleagues joined Aozora. This diverse mix of people worked together to develop Aozora's business. In the process, we have pioneered new financial markets such as LBO finance, business recovery finance, and real estate finance, as well as resumed overseas operations. In this way, Aozora has evolved into a specialized financial group.

We will continue striving together to remain a specialized financial group that serves society.

- 2015** Made a full repayment of public funds  
Established Aozora Real Estate Investment Advisors Co., Ltd.  
Established Aozora Europe Limited
- 2017** Established ABN Advisors Co., Ltd.
- 2018** Established Aozora Corporate Investment Co., Ltd.  
GMO Aozora Net Bank, Ltd. commenced internet banking services
- 2019** Launched BANK™ app
- 2020** Invested in Orient Commercial Joint Stock Bank, a commercial bank based in Vietnam  
Established Aozora North America, Inc.
- 2023** Established Aozora Asia Pacific Limited
- 2024** Entered into capital and business alliance with Daiwa Securities Group Inc.

#### 3rd stage

#### Taking on Challenges: Growing with Customers through a Unique Business Model

In 2015, Aozora made a full repayment of public funds received in conjunction with its earlier nationalization. Since that time, Aozora has been pursuing the expansion of new business areas in accordance with the needs of society. GMO Aozora Net Bank began its internet banking operations in 2018, offering more affordable and convenient financial services for SMEs and small businesses. We also launched BANK™, a simple and easy-to-understand app that provides access to financial services in order to meet new retail customer needs. In 2021, we launched Aozora's Strategic Investments Business, a business model that supports customers who are addressing new challenges. Under this business model, the Aozora Group, in an integrated manner, provides financial services that follow the corporate growth cycle.

A Highly Specialized Financial Group That Endures through the Times

Strengths and features developed throughout our history

Advanced expertise backed by experience

Mindset of taking on challenges to enter new fields ahead of the times

Teamwork to achieve creativity

Flat organization with high mobility

1957

2001

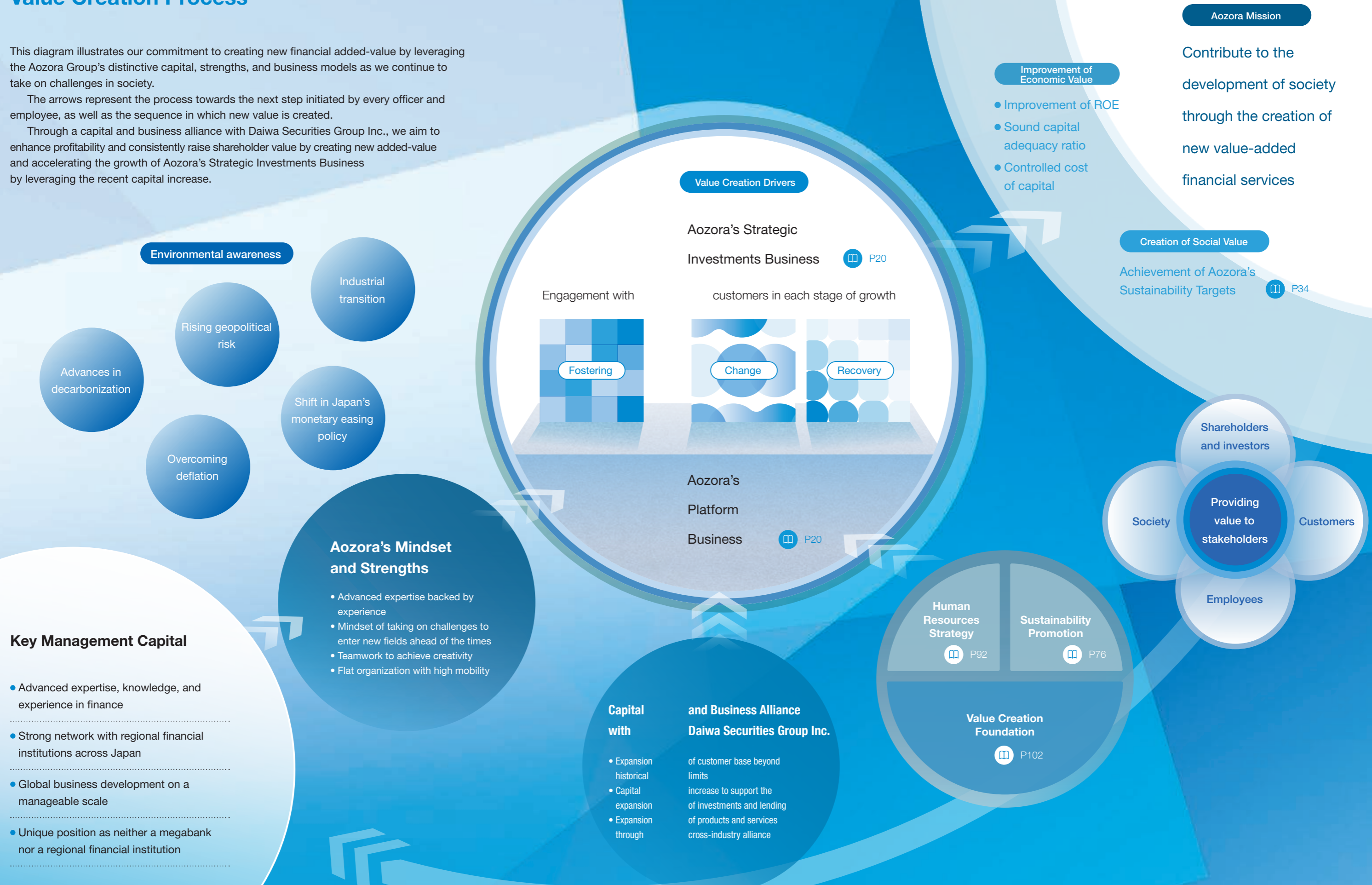
2015 to present

## Value Creation Process

This diagram illustrates our commitment to creating new financial added-value by leveraging the Aozora Group's distinctive capital, strengths, and business models as we continue to take on challenges in society.

The arrows represent the process towards the next step initiated by every officer and employee, as well as the sequence in which new value is created.

Through a capital and business alliance with Daiwa Securities Group Inc., we aim to enhance profitability and consistently raise shareholder value by creating new added-value and accelerating the growth of Aozora's Strategic Investments Business by leveraging the recent capital increase.



### Key Management Capital

- Advanced expertise, knowledge, and experience in finance
- Strong network with regional financial institutions across Japan
- Global business development on a manageable scale
- Unique position as neither a megabank nor a regional financial institution

### Aozora's Mindset and Strengths

- Advanced expertise backed by experience
- Mindset of taking on challenges to enter new fields ahead of the times
- Teamwork to achieve creativity
- Flat organization with high mobility

### Capital and Business Alliance with Daiwa Securities Group Inc.

- Expansion of customer base beyond limits
- Capital increase to support the of investments and lending of products and services
- Expansion through cross-industry alliance

### Aozora Mission

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

### Improvement of Economic Value

- Improvement of ROE
- Sound capital adequacy ratio
- Controlled cost of capital

### Creation of Social Value

Achievement of Aozora's Sustainability Targets P34

Shareholders and investors

Providing value to stakeholders

Customers

Employees

Society

## Value Creation Drivers

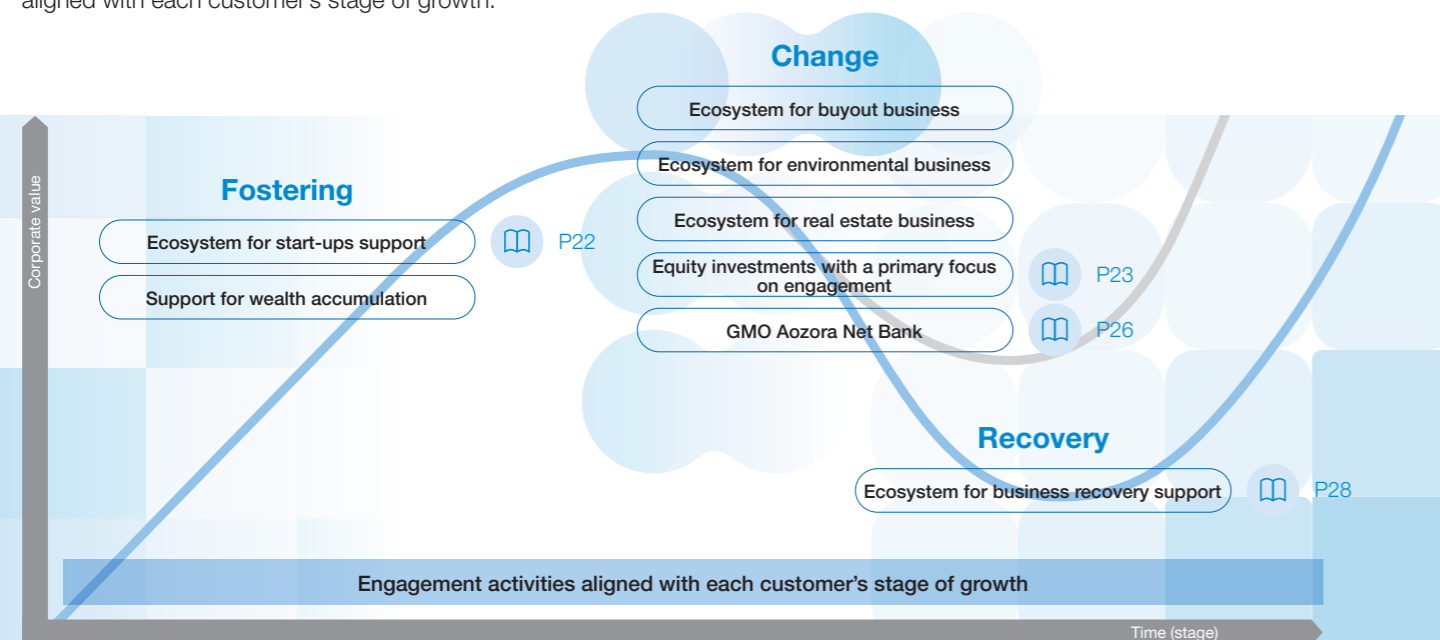
Aozora's Strategic Investments Business and Aozora's Platform Business are drivers of value creation for Aozora in fulfilling its management philosophy: "Contribute to the development of society through the creation of new value-added financial services."

### Aozora's Strategic Investments Business

#### Three phases where Aozora leverages its strengths

Aozora's Strategic Investments Business grows together with its customers by supporting their businesses and assets in the three phases where Aozora leverages its strengths: Fostering, Change, and Recovery.

We aim to grow with our customers by providing unique and highly specialized services through our engagement activities aligned with each customer's stage of growth.

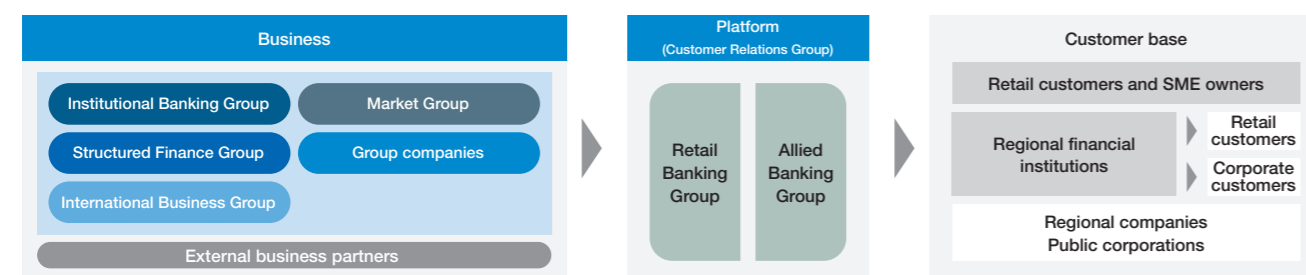


\* The above ecosystem refers to an ecosystem where Aozora and its customers and business partners perform their assigned roles, or work as a unit, to pursue the business development of customers at each stage of growth.

### Aozora's Platform Business

Aozora's Platform Business is a distinctive business of the Aozora Group. Through collaboration with Aozora's business groups and external business partners, this business effectively provides Aozora's advanced services and expertise to retail and regional financial institution customers to meet their specific characteristics and needs.

This business provides Aozora's broad financial and non-financial services to retail customers and SME owners. A diverse array of services will also be provided to regional financial institutions and their clients.



## Capital and Business Alliance with Daiwa Securities Group Inc.



- Accelerate the growth of Aozora's Strategic Investments Business through a capital increase of 51.9 billion yen
- Expand business opportunities through cross-industry collaboration between a bank and a securities firm

➔ Grow beyond our own limits while capturing the growth of the Japanese economy

### Specific Areas of Collaboration

Initially, the specific areas of the collaboration will be (i) wealth management, (ii) real estate-related business, (iii) M&A, and (iv) growth company support. Both groups will continue discussions and aim to increase the added value provided to our customers by expanding the collaboration across a wider range of areas.

#### Wealth Management

Provide higher value-added consulting services to Aozora's wide range of retail and corporate customers by utilizing Daiwa Securities Group's expertise, financial instruments/ services and systems for the Wealth Management Business Model

**Details of Collaboration**

- Utilizing Daiwa Securities Group's platform to provide a full range of products and services to Aozora's customers
- Providing Aozora's finance and trust functions to the retail and corporate clients of Daiwa Securities Group

#### Real Estate-related Business

Deepen the real estate-related business of both groups by partnering Daiwa Securities Group's real estate asset management business with real estate finance, one of Aozora's core strengths

**Details of Collaboration**

- Increase in assets and fees through real estate finance collaboration
- Increase in high-return assets through real estate equity collaboration
- Increase in asset efficiency of real estate-related businesses
- Expansion of investment products offered to retail customers

#### M&A

Respond to customer needs through the partnership of the two groups, including joint proposals which leverage Aozora's strengths in M&A and LBO finance and Daiwa Securities Group's strengths in M&A

**Details of Collaboration**

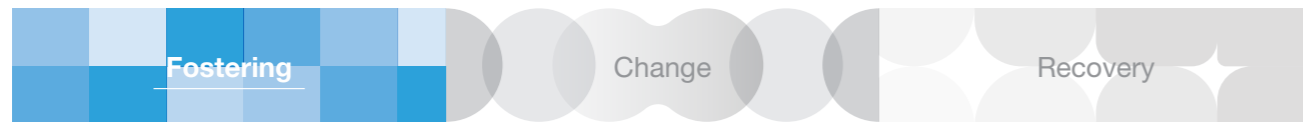
- Origination of transactions leveraging Daiwa Securities' global network
- Providing sound advice based on the characteristics of each transaction, leveraging each group's strengths
- Leveraging Aozora's expertise to provide a comprehensive service to finance

#### Growth Company Support

Form a new platform by combining Aozora's wide range of solutions focusing on the finance side, including venture debt, and equity investments through management of venture capital funds as well as support for fundraising and exit through IPO, in which Daiwa Securities Group has a strong presence

**Details of Collaboration**

- Opening of corporate accounts at GMO Aozora Net Bank for the clients of Daiwa Securities Group
- Increase in loan and investment opportunities such as Aozora's venture debt through introduction of Daiwa Securities Group's clients



## Fostering Start-ups, Diversifying Financing Methods

### Launch of Japan's First Venture Debt Fund

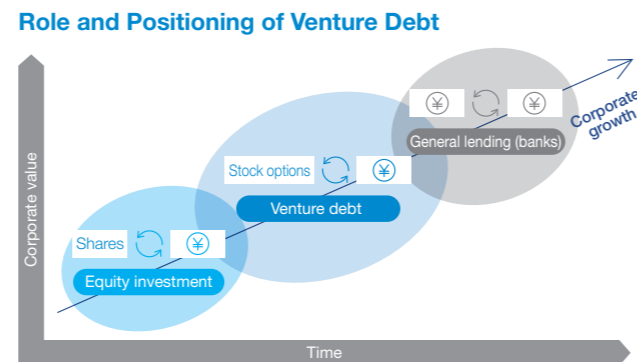
We seek to brighten Japan's future by supporting promising start-ups in Japan.

With this aspiration in mind, we established Aozora Corporate Investment Co., Ltd., a venture capital subsidiary, in 2018 and launched Japan's first venture debt fund the following year.

Start-ups are considered to be more difficult to foster in Japan than in Europe and the United States. Aozora focused its attention on a financial service for start-ups known as venture debt, commercializing it as a financial service that had been lacking in Japan.

By serving as a bridge between equity finance from venture capitalists and businesses and debt finance from banks, Aozora expands the number of financing options for start-ups, helping them diversify their financing sources.

Venture debt is a general term for financial products that combine features of both equity and debt financing. The products are designed to meet the funding requirements of start-ups that are seeking to secure financing during a critical growth phase while minimizing dilution of management's ownership stake. Venture debt is a financing method that bridges the gap between equity investment by venture capitalists and general bank lending.



**Akifumi Kubo**  
Representative Director, President and CEO  
Aozora Corporate Investment Co., Ltd.

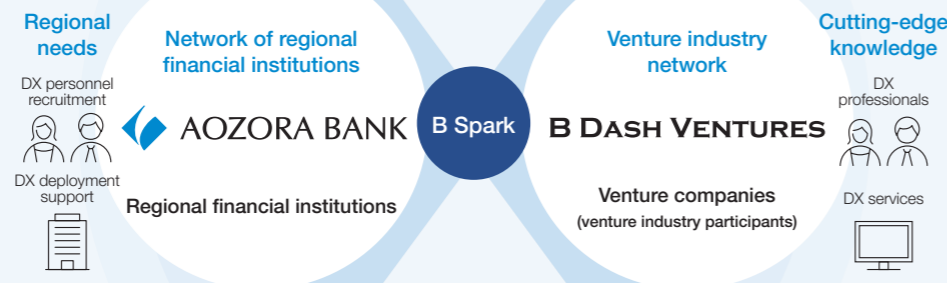
Ten years ago, faced with a lack of venture capital investment in start-ups, we decided to start providing investment and lending through venture debt. We were the pioneers who first introduced venture debt into Japan's financial services sector. In order to contribute to the sector's sound development, we aim to make debt financing, which was once out of reach for start-ups, more broadly available for them. Furthermore, we believe that start-ups that use venture debt will eventually develop into some of Japan's leading companies and serve as an engine behind the country's economic resurgence.

#### Track Record

Aozora has been providing funds to start-ups under suitable conditions and with consistent discipline. This funding has been provided through direct engagement with start-ups, regardless of the expected expansion in business scale. In terms of venture debt funds, we started managing investment of 10 billion yen through Fund II in 2022, followed by 9 billion yen through Fund III in 2023. Two investee companies have so far successfully exited through IPOs and M&As. Several additional IPOs are expected during the current fiscal year.

### Column Gathering the Abilities of Start-ups to Accelerate DX in Japan

B Spark Inc., a group company of Aozora Bank, collaborates with start-ups to provide DX solutions to corporate customers. B Spark is also supporting the growth of start-ups by focusing on collaborations in innovative fields such as the Web 3.0.



## Engagement Investments Unique to Banks

Domestic equity investments with a primary focus on engagement have been gaining strong momentum. Mr. Yoshihiro Tanaka, Representative Director and CEO of Asuka Corporate Advisory Co., Ltd. (ACA) with approximately 20 years of experience in managing engagement funds, and Mr. Jun Shinozaki, Head of Aozora's Corporate Business Group, discuss the current state of these investments and their outlook for the future.



**Yoshihiro Tanaka**  
Representative Director and CEO of Asuka Corporate Advisory Co., Ltd. (pictured at left)  
ACA was founded in 2005 by an executive team with experience in corporate investment and management consulting services. Mr. Tanaka has worked to offer listed companies proposals for enhancing their corporate value based on publicly available information. In 2022, Aozora acquired a 33.4% ownership stake in ACA. In FY2023, ACA held training sessions for professionals in Aozora's Corporate Business Group. His motto is "Compassionate words have the power to change the world."

**Jun Shinozaki**  
Head of Corporate Business Group, Aozora Bank, Ltd. (pictured at right)  
Mr. Shinozaki is responsible for a wide range of businesses, including corporate finance, venture debt, unlisted and listed stocks investment. His primary focus is the further advancement of Aozora's Strategic Investments Business. His motto is "In victory, remember your humility; in losing, remember your fighting spirit."

### Difficulties in Equity Investments with a Primary Focus on Engagement

**Shinozaki** We launched our equity investments with a primary focus on engagement in 2021 and have since invested in the equity of over 40 companies. Initially, we heard some concerns expressed from people both within and outside Aozora as they questioned why we began these equity investments at a time when financial institutions were moving towards reducing their cross-shareholdings. However, we've continued our engagement and dialogue with investee companies and, as a result, we've been increasingly receiving their praise for Aozora's engagement proposals. We aim to accumulate knowledge and experience to the point where more companies would like to discuss our initiatives with us directly. In the six-month-long hands-on training program in 2023 hosted by ACA, attendees gained an academic and systematic understanding of equity investments with a primary focus on engagement, learned about selection of potential investment targets, and developed engagement proposals. There were some cases that have advanced into actual investments. The purpose of engagement is to enhance corporate value through dialogue.

However, there's no one-size-fits-all solution, and nothing can begin without dialogue. **In the past, our proposal that resonated deeply with one company was entirely rejected by another in the same industry.** Even so, it's important that the basic thrust of dialogue remains consistent. All we need is to establish a strong track record.

**Tanaka** It definitely takes time. We've long engaged in dialogue based on our motto: "**companies are lead actors and shareholders are the support crew.**" And even now, this stance remains unchanged. However, the times are changing as the number of investors with funding capacity grows. Money flows are increasingly moving in a specific direction, and investor activities are sparking more interest than corporate behavior. In fact, some share prices moved, only with the anticipation that companies would change at the suggestion of investors, even before these companies took any specific actions. To encourage market participants to understand changes in investee companies, for example, **it may be necessary for investors and companies to come together to highlight the product of their dialogue.** However, if the investor is thought to be the primary driving force behind a change, companies may lose credibility. It's very difficult to strike the proper balance.

## Why Are Banks Undertaking Equity Investments with a Primary Focus on Engagement and What Is Engagement Unique to a Bank?

**Shinozaki** We launched our equity investments with a primary focus on engagement in order to achieve three goals: (1) leveraging of our business analysis expertise developed through structured finance; (2) support for enhancing the corporate value of companies whose stock market valuations are lower than our internal assessment; and (3) strengthening approaches towards companies in areas beyond traditional banking services. Regarding Goal (2), the times have changed faster than we expected partly due to the measures by the Tokyo Stock Exchange to improve PBR of listed companies, but our viewpoint wasn't wrong. As for Goal (3), **we'll pursue dialogue unique to Aozora that is distinct from asset management companies and activists.** We hope that our customers' IR and finance staff will seek to introduce us to their senior management teams. We also want to contribute to enhancing the corporate value of investee companies through our in-depth analysis and customized proposals. We're utilizing approaches unique to a bank, including financial tools as well as proposals for M&A candidates, structured finance, and collaboration with venture funds.

**Tanaka** There are a wide range of approaches to pursuing engagement. For listed companies, there are numerous options such as measures to improve PBR, English-language disclosure, and ESG, as well as M&A, digital transformation (DX), and marketing. As you said, it's important to explore approaches unique to a bank in order to capture the customers' attention. However, even with such a diverse range of methods, what matters most is whether the customer will trust us as a shareholder through our proposal. I believe it's necessary to conduct honest and in-depth research, think carefully without relying on preconceived notions, and **occasionally come together with the investee company's corporate planning department to discuss its corporate vision for the future.** Even if dialogue seems



effective, it can take a long time before the dialogue takes hold, the company shows a change, the change becomes evident in certain results, and the change is eventually reflected in the stock price. However, once the ball starts rolling, changes occur quickly. I think you are already feeling signs of this momentum.

## Organizational Structure and Portfolio

**Shinozaki** In April 2024, we established the Engagement Investment Division in response to the expansion of our portfolio. The Engagement Investment Division and corporate banking staff both seek investment opportunities. The Engagement Investment Division works to ensure consistency in dialogue overall while assuming the function of headquarters. Many of our investees are leading niche companies whose strength lies in their business models. **In the future, we plan to expand our approach towards companies with a market capitalization of 15 billion yen or less, as well as post-IPO firms.** Because Aozora isn't a market leading player, we strictly follow our policy of acquiring shares whose price is declining. This will ultimately reduce investees' volatility as well as capital cost.

**Tanaka** ACA's engagement fund **actively invests in a limited number of companies, targeting SMEs.** In 2023, investment funds from overseas were used to invest in large companies first, then in smaller ones. However, these funds didn't reach SMEs, thereby creating a chance to discover undervalued companies. Japan has many SMEs that have excellent business models but are still undervalued. In terms of market cycles, 2024 is expected to be an exciting year. Above all, we hope to capture this value through engagement.

## Future Expansion Initiatives

**Shinozaki** Aozora is a bank with about 2,500 employees. Despite this, we encourage our employees to become supporters of our investees, and also offer behind-the-scenes support that contributes to the sale of their products. However, discussing how wonderful a company is within Aozora alone is somewhat meaningless. There are numerous companies that we want to introduce to the world by calling attention to their incredible achievements. There are also a number of companies that find it challenging to increase their market visibility. **We're currently creating a website designed to showcase our sustainable initiatives.**

An eventual goal is to disclose our engagement proposals publicly on the web.

**Tanaka** **In fact, I am thinking about publishing a book as the culmination of around 20 years of experience in engagement investments.** As a growing number of investors are disclosing information on their websites and

social media, we're also in the process of systematically organizing our experience in engagement with companies. I'd like to encourage other stock investors to make use of our experience. As entrepreneurs dedicate their lives to running their businesses, outsiders need to be determined and fully prepared when communicating thoughts and ideas about their operations. Engagement will be unsuccessful without this determination and level of preparation. I plan to eventually publish an essential guide to successful engagement. Let's come together to work on this book while incorporating Aozora's knowledge.



## Case Studies of Equity Investments with a Primary Focus on Engagement

### Case 1 A Case Study of Machinery Company A

#### Background to Starting Investment and Dialogue

- A niche leader with a 90% domestic share in a business area closely related to daily living. Almost debt free.
- Company A sometimes receives press coverage, but analyst coverage is extremely limited. Improving market visibility is a priority issue.
- Company A stock was covered by the hands-on training program hosted by ACA

#### Sharing of Problem Awareness

- Verbalization of craftsperson skills that require advanced technology and customer-specific responses, which could only be conveyed through a visit to the Head Office
- Potential of low-profit overseas business

#### Consideration of Specific Measures

- Prepare IR presentation materials with a compelling message that highlights Company A's strengths
- Discussion using Aozora's analytical reports on Company A's profitability and capital policies as a foundation for our analysis

#### Expected Enhancement of Corporate Value

- EPS growth through business expansion into adjacent markets and improving PER as a stable growth stock
- Elevate Company A's market visibility and strengthen sustainability initiatives, including human resources development

### Case 2 A Case Study of Service Company B

#### Background to Starting Investment and Dialogue

- A B2B recycling-related business with a top domestic share
- Evaluation of stable growth in Company B's outstanding business model that contributes to the circular economy\* as well as its growth in new business in peripheral markets using strong cash and deposit resources

#### Sharing of Problem Awareness

- Lack of disclosing specific short- to medium-term strategies for new business, despite the disclosure of long-term growth scenarios
- Meanwhile, Company B is positively evaluated by the stock market for its high growth potential. This gap needs to be bridged

#### Consideration of Specific Measures

- By using a range of share valuation approaches, break down the current stock price into two components: (1) value attributable to existing business and (2) value attributable to added growth potential. Then, visualize the value of the added growth potential component that has been factored in by the market, and discuss the future value of new business
- Propose a platform business through Aozora's close business partners (Entry into the emission rights-related business)
- Propose the setting of Corporate Venture Capital (CVC) with the aim to establish an innovation culture. Strengthen approaches towards start-ups in the Tokyo metropolitan area

#### Expected Enhancement of Corporate Value

- Build expertise in business expansion through new investments and achieve higher levels of growth
- Realize EPS growth in line with high expectations, thereby achieving continued stock price appreciation

\* An economic system in which products are manufactured and distributed and recycled on the assumption that resources will not be disposed of



## A Partner That Helps Customers Realize Their Envisioned Future with Technology

### GMO Aozora Net Bank's Services to Create Change

GMO Aozora Net Bank (GANB) is a specialized internet bank jointly established by Aozora Bank and GMO Internet Group. Leveraging the strengths of both, GANB is working alongside its customers to realize the futures they envision by leveraging technology.

#### BaaS byGMO Aozora: Working Behind the Scenes to Support the Financial Functions of Corporate Institutions' Services

The world has been dramatically changed by IT. The way banks operate is also changing with the times, and this transformation will continue. Within this environment, GANB was launched in July 2018 to create a new next-generation bank through banking and IT, combining the bank management expertise of Aozora Bank with the internet-related technology and know-how of GMO Internet Group.

GANB offers BaaS (Banking as a Service), a service that provides certain banking functions as parts and incorporates them into the services of its corporate customers to enhance convenience for them and the individual and corporate end-users of their services. Among the various functions possessed by banks, GANB mainly incorporates banking functions such as remittances

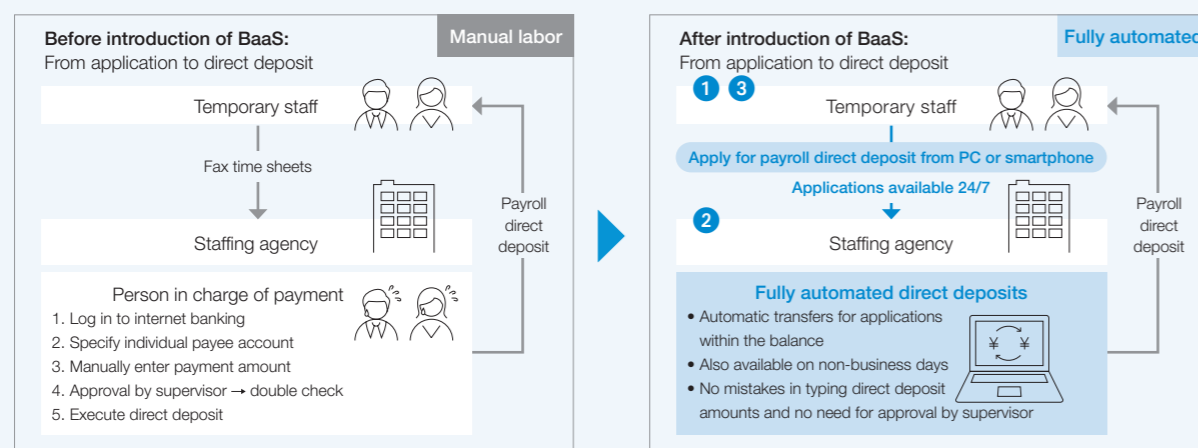
and deposits into the services of its customers as BaaS, enabling general corporate institutions, both financial and non-financial, to possess their own banking functions and provide innovative services to end-users. In addition, BaaS has significantly contributed to the operational efficiency of companies that have adopted the service and has expanded the possibilities for future business development for customers. Bill Gates, founder of Microsoft, said 30 years ago that "banking is necessary, but banks are not." BaaS has truly brought about an era of providing banking functions as a service and working behind the scenes with non-financial corporate institutions.

GANB continues to adapt to the changing times by working behind the scenes to support corporate institutions' services through BaaS.

#### Example of Introduction of BaaS Full Automation of Payroll Direct Deposit for a Staffing Agency

This company used to handle weekly and daily payroll payments for thousands of temporary staff members, with more than 10,000 payroll direct deposits made each month. With the introduction of GANB's BaaS, payroll direct deposit operations are now fully automated.

(1) Services change (2) Work styles change (3) Lifestyles change



#### GMO Aozora Net Bank CTO Message

##### Engineers Working at Banks!? The Engineers Who Support GANB's Systems and Services



We are all engineers!

GANB's in-house system development enables its engineers to quickly develop new services and conduct modifications that customers really want by directly hearing customers' feedback. In the approximately five years since beginning operations, GANB has a cumulative track record of approximately 1,000 development projects, demonstrating its high technological capabilities and organizational mobility.

GANB also continues to take on new challenges; in addition to boasting the largest lineup of banking APIs in Japan, it continues to expand BaaS as a pioneer in the industry. BaaS will also lead to the creation of new businesses for user companies, as well as automation and streamlining through DX. To contribute to the business of its corporate customers,

GANB is developing new innovations through the provision of "sunabar"—GMO Aozora Net Bank's API Laboratory, a free API testing environment that is always connected and requires no contracts, and "ichibar"—Embedded Finance Marketplace, which allows users to freely display and distribute parts of banking functions.

#### "All for our customers. Strive to be the No. 1 Tech Bank"

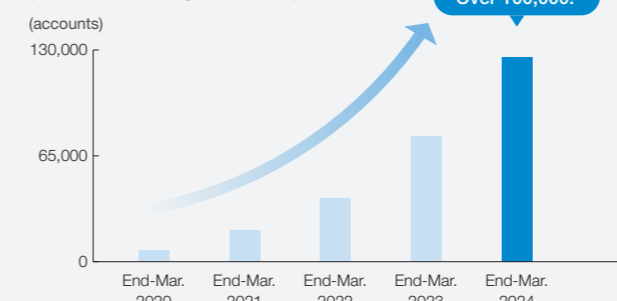
A progressive bank that thinks outside the box, having the speed of a tech company while still being a bank, combining technology, distinctive perspectives, a broad range of tools, knowledge, and a specialized network for the benefit of its customers.

GANB has three strategies of "No. 1 Bank among Small Businesses and Start-ups," "No. 1 Embedded Finance Services," and "No. 1 Tech-first Banking Services." Its mission is to provide the five values of "safety," "speed," "price competitiveness," "convenience," and "new experience" to its customers.

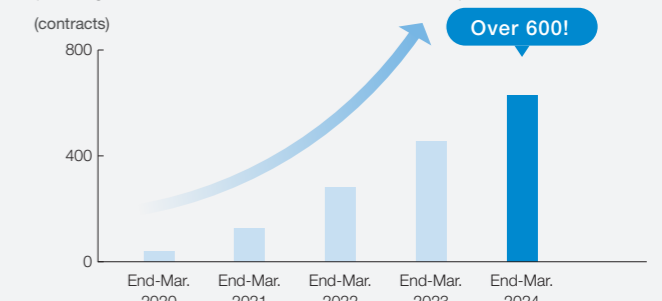
The number of corporate accounts has exceeded 120,000 in the five years since GANB began operation, due to its excellent features and specifications and its low cost, including handling fees.

The innovative initiative "BaaS byGMO Aozora" has reached a cumulative total of 629 service contracts as of the end of March 2024 as a result of continued enhancement of services and proposals tailored to customers' businesses. In recent years, the number of cases of BaaS used by general securities companies and other banks has been increasing.

Number of Corporate Accounts Opened (Cumulative, Excluding Cancellations)



Cumulative Number of Service Contracts for BaaS byGMO Aozora (Including Cumulative Number of API Connection Contracts)





## Business Recovery Initiatives

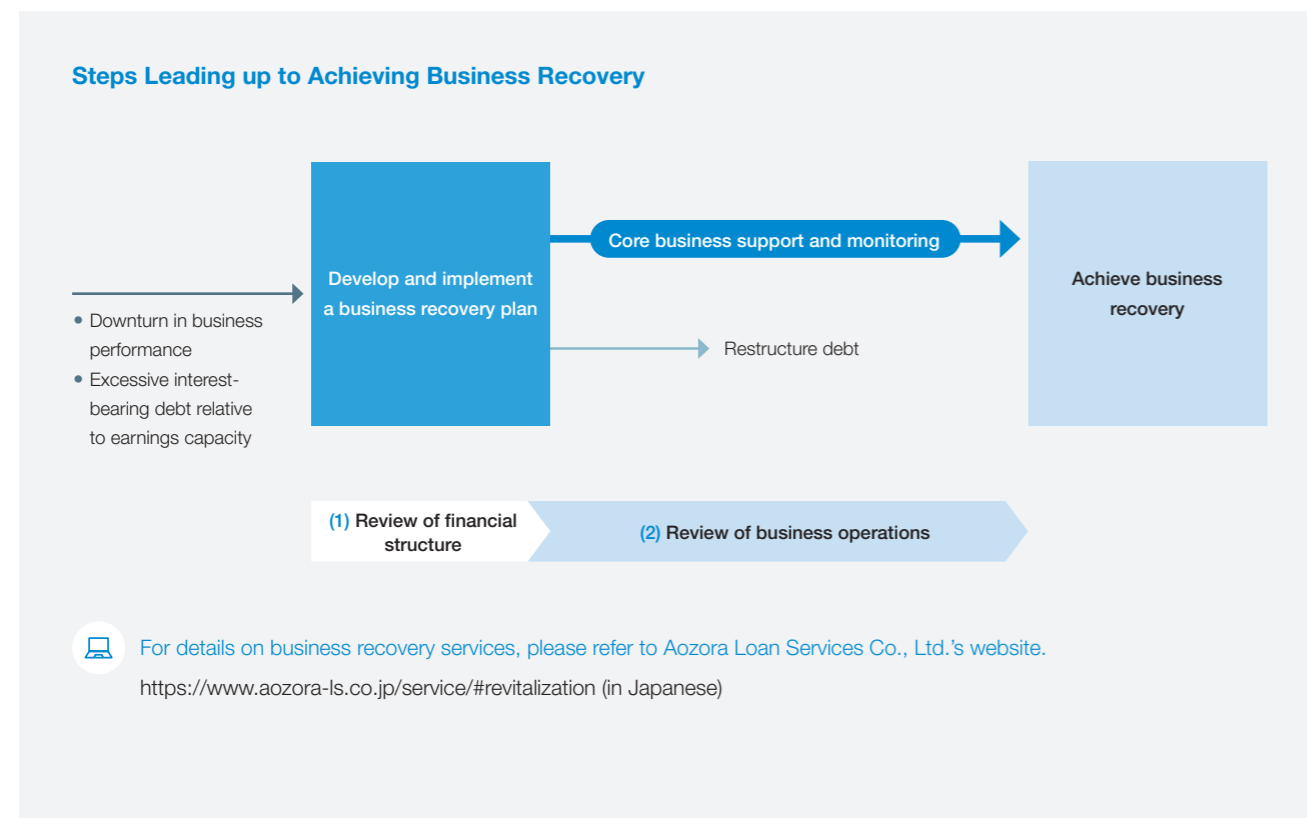
Some companies that are burdened with excessive debt and have fallen into distress may still be considered to have the potential to achieve future business profitability and viability. Supporting the business recovery of these companies is crucial to regional revitalization. **There are two major approaches to business recovery: a review of financial structure and a review of the underlying business operations.** Undertaking these two types of reviews enables companies in crisis to survive and achieve growth.

When reviewing a company's financial structure, a financial institution will assess its profitability under normal conditions and then adjust its amount of interest-bearing

debt to a repayable level.

Moreover, when reviewing a company's business operations, even if a financial institution is not an expert in specific businesses, it is in a position to have a broad perspective of a wide range of industries and a large number of companies. From this point of view, a financial institution is expected to identify the company's issues and encourage it to make improvements.

Aozora strives to thoroughly understand its customers in different regions and provides recovery support in cooperation with stakeholders including regional financial institutions.



## Regional Financial Institutions and Aozora Share Roles and Responsibilities in Support of Regional Economies

The features and strengths of Aozora's recovery business are presented through a case study in which regional financial institutions and Aozora's recovery fund worked together to facilitate the business recovery of an SME.

### Act 1

#### Review of Financial Structure

## Overcoming Numerous Hurdles

### Can Aozora Accomplish This Project?

"Mr. A, there is a project I would like to discuss with you."

Mr. A, who arranges business recovery projects at Aozora Loan Services, received a phone call. The call came from Financial Institution V.

Mr. A answered right away, "I can come to your bank next week. Please tell me the details when I visit."

The following week Mr. A visited Financial Institution V. There, he met with Section Manager B, who consulted Mr. A on Company P, one of Financial Institution V's clients.

Company P is a small and medium-sized enterprise (SME) that plays a pivotal role in regional infrastructure. It manages a wide range of operations, including gasoline stations, kerosene and LP gas sales, construction contracting, and management of merchandise stores in City V, which lies in the business area of Financial Institution V. Company P has been in business for over 80 years and is well known across City V.

City V is located in a region with a cold climate in East Japan, so kerosene is essential to residents in the winter. The penetration rate of city gas (natural gas delivered via a pipeline network) is around 60%, and Company P supplements the regional infrastructure by supplying propane gas in the region.

However, about 10 years ago, Company P attempted to create a multi-store network of home centers and gasoline stations. The plan suffered a setback. As a result, Company P was left with just the loans and fell into a state of excessive debt. It has suspended repayment of its borrowings and is now simply paying the interest on the debt.

Section Manager B began to passionately brief A on Company P's circumstances, "If the matter is not addressed, the interest payment burden will put pressure on cash flows and could make it difficult for Company P to pay its taxes and may cause wage payment delays. However, Company P is critical to the daily lives of City V's residents. Our bank would like to put Company P's business back on a sustainable path, even if it involves helping through debt restructuring. To that end, we would like Aozora's recovery fund to help this company recover."

Mr. A said, "I understand." He then questioned Section Manager B, "Have you consulted with the public-private partnership fund that your bank has invested in?"

Section Manager B replied, "Yes, we've already spoken with them. They were reluctant to discuss the project with us because of its small size. They also questioned the company's future viability as a business. However, I thought that Aozora would consider the project regardless of its size. That is why, in a last chance effort to salvage the situation, I have brought the subject up with you."

Mr. A instantly responded, "I see. We will immediately start considering the project internally at Aozora."

### Hurdles to Business Recovery

Aozora Loan Services conducted due diligence for about one month before deciding to implement a recovery plan

through a hurdle-based corporate business recovery through a second-stage company\* and determining the transfer price to the recovery fund.

Mr. A explained this information to Section Manager B, and the two were able to reach an overall agreement on the direction of the business recovery project.

The following three points were identified as issues at this stage of the project:

(1) How will the shareholder and business owner, i.e., the sponsor, of the second-stage company be found?

(2) How will consent on the recovery plan be secured from the four other partner banks?

(3) Can consent be secured from the credit guarantee association that has guaranteed a portion of the loans?

Regarding (1), Aozora received a referral from Financial Institution V and searched for candidates through a personal network supplied by a lawyer who represented the debtor. Consequently, Aozora reached an informal agreement with Company Q, a peer company in the same industry whose business area covered a city adjacent to City V, regarding investment in and the nomination of a representative director to the second-stage company.

Regarding (2), in order to establish a business recovery plan, consent on the plan would be required from all of the financial creditors, which means that a transfer of claims must be received from the financial creditors involving an effective reduction in the value of the claims. Notably, the key point of focus was whether Financial Institution W, the largest local institution, would agree to the transfer of its claims to the recovery fund, despite the fact that its loan balance was less than that of Financial Institution V among the partner banks.

Mr. A explained the situation to Financial Institution W and requested the transfer of

\* A business recovery strategy in which a business with the potential for continued viability is separated through methods such as a corporate split and the existing company is then dissolved through liquidation

# Protect Regional Infrastructure

its claims. As a result, the following response was obtained:

“Mr. A, we understand your strong commitment to this initiative. No other recovery fund would be as committed to the business recovery of such a small company. If we at Financial Institution W approve this project, other financial institutions will likely follow suit. We will positively consider the project, with a view to carrying out the transfer.”

## “We Want Aozora to Take on Risk”

Regarding (3), when a credit guarantee association makes a subrogation payment, public funds are used, so the transfer of a claim at subpar value places a financial burden on the public. Therefore, obtaining consent from a credit guarantee association is far from easy.

Mr. A explained the circumstances to the credit guarantee association. The association's Section Manager C said, “The transfer of the right of indemnity at subpar value would be an unprecedented measure that would require the approval of our local Prefectural Assembly. On the other hand, the credit guarantee association also has an obligation to contribute to the regional economy by preventing stagnation in regional economic activity. I would personally like to initiate a circular approval process to seek consent for the transfer.” He then said, “However,” followed by a brief pause.

“However?”

“We want you to make one promise. Once Aozora receives the claims, we would like Aozora to hold onto them for as long as possible, without immediately reselling them or obtaining refinancing, and to support the recovery of Company P. We want Aozora to

take on risk in order to make a meaningful contribution to the region.”

Mr. A accepted Section Manager C's explanation, and replied, “I understand. I will finalize the recovery plan based on your preconditions.”

Around six months later, a bank meeting was held at the Small and Medium-Sized Enterprise Revitalization Support Council of the prefecture to which City V belongs.

The meeting included a briefing on the business recovery plan, a briefing on the results of reviews of the business recovery plan by legal and accounting experts, and confirmation that all creditors had agreed to the plan. One month later, the new company took over the main business operations and assumed only a reasonable amount of interest-bearing debt.

The president of the new company was dispatched from Company Q. Financial Institution V also dispatched a corporate officer through a transfer. Company P made a fresh start.

## Act 2

### Review of Business Operations

## What You Can Accomplish as a Creditor

### A Restart Under Tumultuous Conditions

Following the establishment of the new company, the person in charge of this project from Aozora Loan Services changed from

Mr. A to Ms. D, who was responsible for business recovery support.

Mr. A received an unexpected report from Ms. D, who attended Company P's first Management Committee meeting.

“Mr. A, there is a major problem. The corporate officer who was dispatched from Financial Institution V resigned after falling out with the president.”

It is quite difficult for people who have worked in different cultures to unite and work within a single organization. This incident served as a painful reminder of this reality for Mr. A.

Ms. D went on to say, “During the meeting, the president broke down in tears and asked for my help. He asked, ‘What should I do now?’ That would put anyone in a tough spot, don't you think?”

Ms. D has the most experience in business recovery at Aozora Loan Services. However, the revival of Company P was a difficult task even for her. This event made the difficulty apparent right from the start.

## Remember the Support You Received

This was the starting point for Ms. D's business recovery initiatives. She attended monthly Management Committee meetings every month. Ms. D gave instructions to the company such as, “Please complete this task by the next meeting, and prepare this data by the next meeting.” The next month, Ms. D would visit the company to confirm their progress. When something could not be completed, she discussed the reasons with the participants, and revised the policy.

It was a process of repeated trial and error.

One year after the loans were transferred, the COVID-19 pandemic broke out. Company P, which was assumed to be immune to business cycles under normal conditions, saw a sudden drop in gasoline station sales and construction contracting orders, as well as a string of months in which performance fell short of monthly targets.

Cash flow was never easy either.

Despite these challenges, Ms. D devised sales improvement measures and presented them to key members of Company P during Management Committee meetings. “Let us consider our options and act. Even if we blame business conditions or the pandemic, no one will help us. Please remember that several financial institutions took losses to help this company recover.”

The company handed out discount coupons redeemable at its gasoline stations and merchandise stores to households to whom it delivered propane gas canisters. It also introduced a shopping point program. Campaigns were launched to mark the month in which the company was founded. The company devised and implemented all manner of initiatives. Community residents also backed the new stance of the long-established Company P, which was clearly different from before. The number of users remained stable and business performance began to recover.

## We Don't Have Enough Money!

“Ms. D, a new problem has come up.”

Five years after the claims were transferred, Ms. D visited Company P to attend a Management Committee meeting as usual. As soon as she entered the office, the president of Company P began speaking to her.

“Our gasoline wholesaler contacted us and advised us that upon the expiration of the current gasoline supply contract, they will be unable to extend it unless we provide a security deposit. They said the amount of the security deposit is XX million yen.”

The procurement of gasoline is a lifeline for Company P. Meanwhile, a guarantee of XX million yen would place a heavy financial burden on Company P. It would be unable to provide the security deposit unless it secured a new loan from a financial institution.

After some thought, Ms. D responded, “Why not approach your former partner bank Financial Institution V? If necessary,

I will accompany you and explain the circumstances.”

It is not easy for a financial institution to provide another loan to a customer once it has transferred the original claim. Ms. D considered the possibility that Financial Institution V would refuse the request for another loan and kept in mind the option of going to a different financial institution to make the request.

The president of Company P and Ms. D requested a meeting at a branch of Financial Institution V and explained the situation.

## A Financial Institution Supporting the Region

One week later, Ms. D received a telephone call from Section Manager B, who formerly handled the loan transfer from Financial Institution V to the recovery fund. Mr. B had since been promoted to the General Manager of the Credit Department.

“Five years ago, I worked closely with your colleague Mr. A at Aozora, and I received a lot of support from him. Since then, Company P has always been on my mind, and I'm relieved that the company has been able to stay in business. In fact, my own household is one of Company P's users. We purchase kerosene and propane gas from the company.”

“I see. Thank you for your continued concern about Company P,” said Ms. D. She then asked, “Can you update us on the review of our request for a loan to Company P to provide a security deposit?”

Mr. B took a breath and responded, “Company P has completed its debt restructuring, surmounted the COVID-19 pandemic, and made a fantastic comeback as a regional infrastructure company. I believe that Aozora's recovery fund has accomplished exactly what it is meant to do.”

Mr. B added, “If you would like, we would be happy to use this opportunity to provide a loan not only for the security deposit, but also to assist with your company's

refinancing of claims.”

Ms. D was surprised. “If you are able to do so, it would help achieve Company P's business recovery. I didn't expect your bank to be this supportive of Company P.”

Mr. B replied, “Regional financial institutions will continue to support the regional economy through Company P. From here on, it is our role as a regional financial institution to act. I truly respect and appreciate Aozora for all it has done.”








(This is a fictional account. The organizations and characters that appear in this account are all fictitious, and there are no relationships between them and actual organizations and people.)

## Key Sustainability Issues (Materiality)

Aozora has identified eight materiality issues that refer to “key challenge areas to realize the management philosophy in light of its importance to Aozora’s corporate management as well as expectations/demands from stakeholders and social trends.”

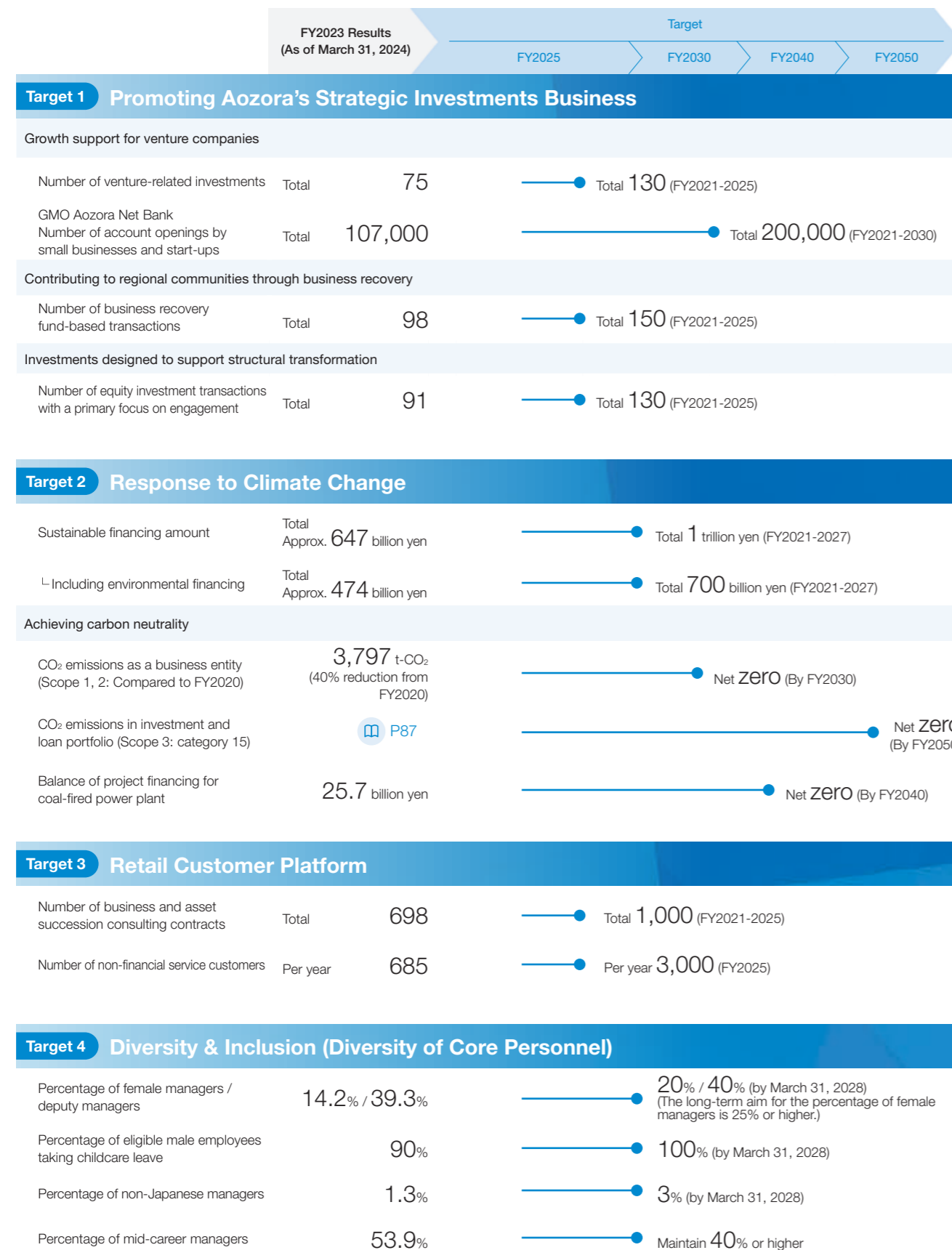
 For methods of identifying materiality, etc., please refer to page 78.

 For details about Aozora’s Sustainability Targets, please refer to page 34.

	Reasons for Identification as Materiality Issues (Opportunity and Risk)	Main Initiatives to Solve Challenges	Main KPIs
 <p>Response to climate change</p>	<p><b>Opportunity</b></p> <p>Aozora has an important role to play and an opportunity to expand its business through financing and other means to support the movement toward a decarbonized society, such as advancing green transformation (GX) and transitions in companies, promoting renewable energy, and creating innovative new technologies and fields. At the same time, delays in response could pose risks that significantly affect corporate management.</p> <p><b>Risk</b></p>	<ul style="list-style-type: none"> <li>Support for the decarbonization of companies by promoting sustainable finance, including environmental finance, and consulting on decarbonization</li> <li>Reduction of CO<sub>2</sub> emissions as a business entity (Scope 1 &amp; 2) and phased measurement and reduction of emissions (Scope 3) in the investment and loan portfolios</li> <li>Improvement of a risk management framework, including enhanced climate change scenario analysis, and the strengthening of risk tolerance</li> </ul>	<p><b>Aozora’s Sustainability Targets</b></p> <ul style="list-style-type: none"> <li>Sustainable financing amount: 1 trillion yen, including 700 billion yen for environmental financing (FY2021-2027)</li> <li>CO<sub>2</sub> emissions as a business entity: Net zero (FY2030)</li> <li>CO<sub>2</sub> emissions in investment and loan portfolio: Net zero (FY2050)</li> <li>Amount of project financing for coal-fired power plants: Zero balance (FY2040)</li> </ul>
 <p>Respect for human rights</p>	<p><b>Risk</b></p> <p>Any involvement in or neglect of human rights abuses may pose the risk of legal compliance violation, administrative penalty, as well as social criticism and damage to our reputation. While it is natural that we do not violate human rights as a business entity, it is extremely important to eliminate human rights abuse, discrimination, and corruption from all businesses and supply chains involving the Group and take proper measures through dialogue when improvements are necessary.</p>	<ul style="list-style-type: none"> <li>Establishment and implementation of a human rights due diligence framework based on international norms (production of a human rights issues map)</li> <li>Further raising of awareness of human rights and elimination of harassment in the workplace</li> <li>Ensuring anti-bribery and corruption measures</li> </ul>	<ul style="list-style-type: none"> <li>Number of human rights e-learning participants: 2,147 (FY2023)</li> </ul>
 <p>Promoting industrial transition</p>	<p><b>Opportunity</b></p> <p>Aozora has an important role and an opportunity to expand our business to support the structural transformation of customers who are taking on new challenges during the time of industrial transition by providing unique and value-added financial services and proactive involvement in their management through the promotion of Aozora’s Strategic Investments Business.</p>	<ul style="list-style-type: none"> <li>Support for structural transformation through equity investments with a primary focus on engagement, M&amp;A advisory, LBO finance, transition support, real estate business, etc.</li> <li>Support for solving management issues faced by regional financial institutions and their clients through Aozora’s network of regional financial institutions</li> </ul>	<p><b>Aozora’s Sustainability Targets</b></p> <ul style="list-style-type: none"> <li>Number of equity investments with a primary focus on engagement: Total 130 transactions (FY2021-2025)</li> </ul>
 <p>Expanding corporations’ access to financial services (start-ups/business recovery)</p>	<p><b>Opportunity</b></p> <p>Aozora has an important role to play and an opportunity to expand its business by ensuring that all individuals and companies have access to the financial services they need to obtain opportunities for economic activity and by contributing to corporate growth and community revitalization, particularly focusing on the two areas of support for the growth of start-ups and support for companies’ business recovery and restart in the community.</p>	<ul style="list-style-type: none"> <li>Support for funding with a focus on venture debt available through our venture capital subsidiary, Aozora Corporate Investment</li> <li>Business support that contributes to business expansion and increasing corporate value at each phase of growth (GMO Aozora Net Bank (GANB), B Spark)</li> <li>Support for companies’ business recovery and restart through recovery funds provided by Aozora Loan Services</li> <li>Strengthening of collaboration with regional financial institutions and other partners, investment in business recovery claims, and provision of solutions at each stage of recovery</li> </ul>	<p><b>Aozora’s Sustainability Targets</b></p> <ul style="list-style-type: none"> <li>Number of venture-related investments: Total 130 (FY2021-2025)</li> <li>Number of business recovery fund-based transactions: Total 150 (FY2021-2025)</li> </ul>
 <p>Promoting DX</p>	<p><b>Opportunity</b></p> <p>The accelerated advancement of digital technology is having irreversible and widespread effects on all companies and individuals, including the loss of existing business areas and lifestyle changes. The Group increases its corporate competitiveness and provides new opportunities for business expansion by advancing digital transformation (DX) within the Group and improving the productivity of operations and the quality of products and services, while focusing on services that support its customers’ DX.</p>	<ul style="list-style-type: none"> <li>Provision of DX solutions and support for the growth of start-ups through B Spark, a DX support company for corporate customers, and GANB, a bank with a next-generation tech-first approach, and support for the growth of start-ups.</li> <li>Improvement of UI/UX and customer convenience in the BANK™ app and online services</li> <li>Appropriate management, storage, and utilization of diverse information assets (data) and strengthening of digital marketing</li> <li>Fostering open communications, improving business efficiency and productivity, and promoting working styles that are not bound by location</li> <li>DX talent development</li> </ul>	<p><b>Aozora’s Sustainability Targets</b></p> <ul style="list-style-type: none"> <li>GANB Account openings by small businesses &amp; start-ups: Total 200,000 (FY2021-2030)</li> <li>Number of DX talent development program participants: 172 (FY2023)</li> </ul>
 <p>Business and asset formation, transfer to the next generation</p>	<p><b>Opportunity</b></p> <p>In Japan’s aging society, Aozora has an important role to play and an opportunity to expand its business by helping individuals lead fulfilling lives and pass on their assets to the next generation and by helping SMEs, which are a source of competitiveness in domestic industries, solve succession and human resource challenges for passing on the business to the next generation.</p>	<ul style="list-style-type: none"> <li>Support for medium- to long-term wealth accumulation through the provision of Aozora Core Funds and other products</li> <li>Expansion of non-financial services to meet a wide range of customer needs, such as business succession, asset succession, and utilization of real estate</li> </ul>	<p><b>Aozora’s Sustainability Targets</b></p> <ul style="list-style-type: none"> <li>Number of non-financial service customers per year: 3,000 (FY2025)</li> <li>Number of business and asset succession consulting contracts: Total 1,000 (FY2021-2025)</li> </ul>
 <p>Governance/compliance</p>	<p><b>Risk</b></p> <p>Improper corporate governance, neglect of compliance, triggering of damage to creditworthiness and delayed response to system failures are risks that have a material impact on all of the stakeholders involved in the operations of financial institutions as well as the sustainability of corporate management. It is extremely important to maintain management discipline and ensure soundness through the enhancement of the proper risk governance framework in response to external environmental changes and by upgrading compliance risk management.</p>	<ul style="list-style-type: none"> <li>Enhancement of a risk management framework, maintenance of financial strength, and reinforcement of compliance</li> <li>Strengthening of an operational resilience framework (cybersecurity and crisis management)</li> <li>Strengthening and improving the effectiveness of internal audit governance</li> <li>Refinement of the crisis management structure and methods, implementation of support for multiple offices</li> </ul>	<ul style="list-style-type: none"> <li>Number of cases opened by the Aozora Hotline whistle-blower program: 16 (FY2023)</li> <li>Number of compliance cases found: 0 (FY2023)</li> </ul>
 <p>Improving sustainability of human capital</p>	<p><b>Opportunity</b></p> <p>Any personnel shortage/outflow as well as insufficient progress on skill/expertise transfer to the next generation mainly due to the slow development of the HR system and working environment are risks that have a material impact on the sustainability of Aozora’s corporate management. On the other hand, in order to enhance corporate competitiveness, it is important to make investments in human capital that support Aozora’s value creation, such as the provision of highly professional and distinctive financial services.</p> <p><b>Risk</b></p>	<ul style="list-style-type: none"> <li>Developing, hiring, and deploying human resources in line with business strategies, and redeployment of human resources to focus areas</li> <li>Support for career development, creation of a more comfortable workplace, and high job satisfaction</li> <li>Creation of a work environment where personnel with a diverse range of backgrounds/values can play an active role; improvement of diversity, equity &amp; inclusion</li> </ul>	<p><b>Aozora’s Sustainability Targets</b></p> <ul style="list-style-type: none"> <li>Percentage of female managers: 20% (by March 31, 2028)</li> <li>Percentage of female deputy managers: 40% (by March 31, 2028)</li> <li>Percentage of eligible male employees taking childcare leave: 100% (by March 31, 2028)</li> <li>Percentage of non-Japanese managers: 3% (by March 31, 2028)</li> <li>Percentage of mid-career managers: Maintain 40% or higher</li> </ul>

## Aozora's Sustainability Targets

Aozora established Aozora's Sustainability Targets as long-term business targets aimed at creating economic and social value. Our record up to FY2023 is as follows.



## ESG Information

### Evaluation by Third Parties



### Support for and Participation in External Initiatives



### Inclusion in ESG Indexes (As of June 2024)



Latest information is available on our website <https://www.aozorabank.co.jp/english/sustainability/promotion/>

## CFO Message

We will strive to sustainably increase our corporate value by focusing on Aozora's Strategic Investments Business.

**Takashi Kato**  
Director and Senior Managing Executive Officer  
Chief Financial Officer (CFO)



### FY2023 Financial Results in Review

In FY2023, business-related profit from customer-related business (excluding financial market-related and retail businesses) was 42.8 billion yen, an increase of 8.9 billion yen from the previous fiscal year, mainly driven by Aozora's Strategic Investments Business. To establish a foundation for sustained growth, we made the decision to significantly reduce our future risks by addressing two key balance sheet issues. First, we (1) made additional provisions to our loan loss reserves for U.S. non-recourse office loans and (2) disposed of securities as part of the restructuring of our securities portfolio.

As a result, in FY2023, net revenue was 50.9 billion yen, a decrease of 8.6 billion yen year-on-year, and profit attributable to owners of parent was a net loss of 49.9 billion yen, a decrease of 58.6 billion yen year-on-year.

#### Summary of FY2023 Financial Results (billion yen)

Consolidated	FY2023 results	Change (year-on-year)
Net revenue	50.9	(8.6)
Including customer-related business (excluding financial market-related and retail businesses)	42.8	8.9
Including retail business	(4.1)	1.0
Including financial market-related business	(45.6)	(28.0)
Business profit*	(8.5)	(11.1)
Profit attributable to owners of parent	(49.9)	(58.6)

\* Including gains/losses on equity method investments

With regard to U.S. non-recourse office loans, the U.S. office market faced adverse conditions coupled with extremely low levels of liquidity due to higher U.S. interest rates and a shift to remote work accelerated by COVID-19. After the second half of 2023, price discovery, which had remained uncertain until then, was anticipated to eventually improve with a gradual increase in office building transactions together with an expected return-to-office movement as well as a pause in the rise in U.S. interest rates. As for office loans originated by Aozora, we observed some polarization between properties with good value and those facing a decline in value depending on the specific characteristics of each property. Under these conditions, in the third quarter of FY2023, we revaluated these problematic loans, taking into consideration the risk of further price declines over the next 1-2 years, and made additional provisions to our loan loss reserves, thereby limiting the risk of future losses.

For the restructuring of our securities portfolio, with respect to the unrealized losses mainly on foreign bonds which were primarily due to a rise in U.S. interest rates, we began a disposal of these securities in the third quarter of FY2023 with the aim to secure added flexibility in portfolio management and improve profitability in FY2024 and beyond. Unrealized losses on securities as of March 31, 2024 (including unrealized gains/losses on hedging instruments) were a net loss of 51.1 billion yen, an improvement of 30.4 billion yen from December 31, 2023, mainly due to the sale of securities as planned and an increase in unrealized gains on equities.

Following the Bank of Japan's introduction of "Quantitative and Qualitative Monetary Easing with a Negative Interest Rate" in 2016, Aozora looked to more profitable overseas markets and expanded its business mainly in the U.S. and Europe, where finance-related legal frameworks are well established, by leveraging its strengths such as manageable size and high level of agility. However, we believe that our aggressive risk-taking in specific regions and areas such as U.S. office loans as well as insufficient preparation for market volatility beyond expectations resulted in the significant loss in our FY2023 financial results. We will work to address these issues going forward.

We achieved substantial growth in our customer-related business, Aozora's focused area, driven primarily by Aozora's Strategic Investments Business ( [page 20](#)).

In terms of results by business segment, the Structured Finance Group's business-related profit increased by 8.9 billion yen year-on-year to 27.8 billion yen, mainly due to loan-related fee income from the execution of large-scale LBO transactions and gains on the sale of REITs and equity investments. In the Institutional Banking Group, business-related profit increased by 3.5 billion yen year-on-year to 6.5 billion yen, mainly due to stable growth in earnings from the sale of derivatives. The International Business Group recorded business-related profit of 11.2 billion yen, a decrease of 4.5 billion yen year-on-year, mainly due to a continued risk/return-oriented selective portfolio management, a revaluation of Asian funds, and a decline in gains on the sale of overseas equities.

#### Business-related Profit by Business Segment\*

Segment	FY2023	Change (year-on-year)
Institutional Banking Group	6.5	3.5
Structured Finance Group	27.8	8.9
International Business Group	11.2	(4.5)
Market Group	(45.6)	(28.0)
Customer Relations Group	(2.9)	(0.5)
Allied Banking Group	1.1	(1.5)
Retail Banking Group	(4.1)	1.0
Total (including other)	(6.9)	(18.0)

\* Business-related profit: Business profit + Gains/losses on stock transactions

G&A expenses were 61.8 billion yen, an increase of 2.4 billion yen year-on-year, which was within the range of the original budget of 63 billion yen, as we maintained our focus on cost control. Investments in human capital are a key priority at Aozora. We plan to increase investments in human capital by a total of 2 billion yen over the three years through FY2025, centering on shifting resources to business areas of focus, including mid-career professionals, rewarding

employees for their achievements, and investing in human resources development, including training opportunities. With the combined wage increase in FY2023 of 5.5%, which is the sum of pay-scale increases, promotions, and salary increases, we intend to continue the necessary investments in our human capital going forward. Our basic financial strategy seeks to achieve our KPI targets, including business-related profit per employee, by increasing expenses in principle but achieving a level of revenue growth that exceeds the increase in expenses. We will continue to invest in human capital.

Credit-related expenses were a net expense of 46.9 billion yen, of which U.S. non-recourse office loans accounted for the majority with a net expense of 44.6 billion yen. Other asset classes have remained in good quality. We intend to correct over-reliance on overseas assets, mainly those in the U.S., going forward. As for domestic assets, we will also tighten risk management with the same level of caution that we apply to overseas assets while taking into consideration future yen-interest rate trends.

With regard to our financial targets under the Mid-term Plan "Aozora 2025," we were not able to reach any of the targets, except the capital adequacy ratio target of 9% (the result was 9.2% as of March 31, 2024). From FY2024 onward, we will further promote customer-related business focusing on Aozora's Strategic Investments Business, with the aim to achieve all of our financial indicators.

### Business Strategy for FY2024

We have set the following financial targets for FY2024: ROE of 4.6%, capital adequacy ratio of 9.2%, business-related profit per employee of 9 million yen, business-related profit RORA of 0.5%, and profit attributable to owners of parent of 18 billion yen.

#### Key Performance Indicators (KPIs)

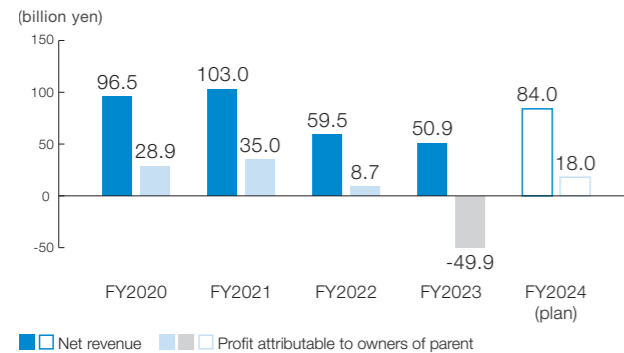
		FY2021	FY2022	FY2023	FY2024 (plan)
Capital efficiency	ROE	7.1%	1.9%	—	4.6%
Financial strength	Capital adequacy ratio	10.4%	9.4%	9.2%	9.2%
Productivity	Business-related profit* <sup>1</sup> per employee	19 million yen	4 million yen	-2.5 million yen	9 million yen
Profitability	Business-related profit RORA* <sup>2</sup>	1.1%	0.2%	-0.1%	0.5%
Earnings level	Profit attributable to owners of parent	35 billion yen	8.7 billion yen	-49.9 billion yen	18 billion yen

\*<sup>1</sup> Business profit + Gains/losses on stock transactions

\*<sup>2</sup> (Business profit + Gains/losses on stock transactions)/Risk-weighted assets

## CFO Message

Earnings Targets  
(Net Revenue and Profit Attributable to Owners of Parent)



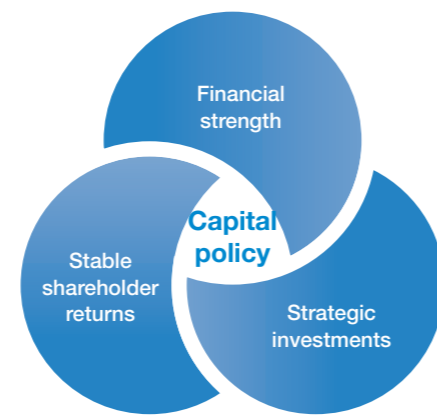
The impact of the capital and business alliance with Daiwa Securities Group Inc. ( [page 21](#) ) as well as the capital increase through third party allotment have not been incorporated into our earnings and KPI targets for FY2024.

Based on these considerations, we have set our basic risk-taking policy for FY2024 ( [page 12](#) ), which is to seek revenue growth by increasing investments and loans through the focused allocation of capital and resources to Aozora's Strategic Investments Business intended primarily for the domestic market while taking into consideration capital efficiency. Aozora's risk-return profile in the domestic market is expected to return to a normal level mainly in light of higher interest rates in response to the Bank of Japan's policy changes. With regard to overseas investments and loans, we intend to take selective origination measures overall through proper exposure management on a yen basis while remaining cautious about forex and other trends. In the Market Group, we will work to restructure the securities portfolio to achieve sustainable revenue over the medium to long term by striking a proper balance between domestic and overseas assets.

### Capital Policy

There is no change in our capital policy, which is to maintain a proper balance among "stable shareholder returns," "strategic investments," and "financial strength." The capital and business alliance with Daiwa Securities Group Inc. will have the effect of increasing our capital adequacy ratio by slightly more than 1 percentage point, from 9.2% as of the end of FY2023. We intend to efficiently reinvest the additional capital while remaining aware of capital adequacy going forward, with the aim to increase earnings by pursuing synergies through the alliance, including enhancement of products/services and acceleration of Aozora's Strategic Investments Business. Meanwhile, in

response to the share dilution resulting from the capital increase through third party allotment under the alliance, we will need to grow each business and restore earnings per share (EPS) to pre-dilution levels by demonstrating the effects of the alliance at an early stage. We will maintain our FY2024 full-year dividend forecast per common share at the FY2023 level of 76 yen as well as dividend payments on a quarterly basis in FY2024.



### Initiatives to Enhance Corporate Value Over the Medium to Long Term

With regard to enhancing our corporate value over the medium to long term, we will work to achieve a PBR of 1x or higher, as illustrated in the equation below, by "increasing ROE" through a range of initiatives as well as by "increasing PER" through business management with a full consideration of the cost of capital.

$$\text{PBR} = (1) \text{ ROE} \times \text{PER} \quad \text{PER} = 1 / (2) \text{ Cost of shareholders' equity}$$

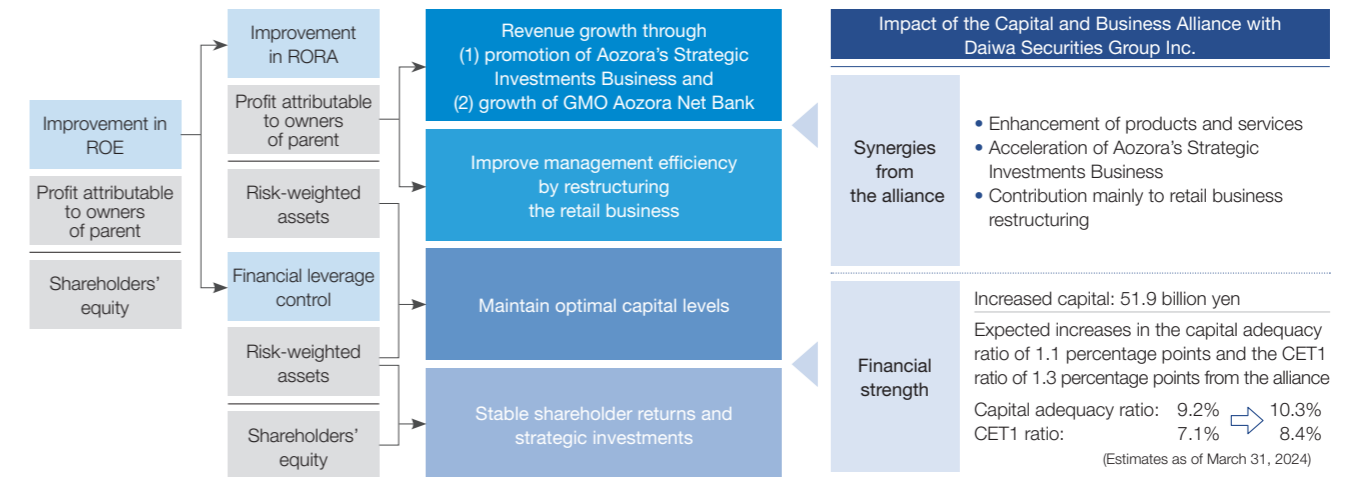
With regard to increasing ROE, as described in (1), we plan to increase profit attributable to owners of parent by achieving higher revenue through our focus on Aozora's Strategic Investments Business and growth of GANB ( [page 26](#) ) as well as enhancing management efficiency through the restructuring of our retail business. As for shareholders' equity, which is in the denominator of ROE, we will maintain optimal capital levels by appropriately managing risk assets, with a view to achieving stable shareholder returns and making strategic investments. Coupled with benefits from the capital and business alliance with Daiwa Securities Group, Inc., we aim to increase our ROE over the medium to long term.

Next, to increase PER, we will need to reduce the cost of shareholders' equity, as described in (2), which is the reciprocal of PER. To this end, it will be imperative for us to further accelerate the growth of Aozora's Strategic Investments Business and GANB for the improvement of

expected growth and to reduce earnings volatility in accordance with our basic risk appetite policy.

Through these initiatives, we intend to approach a PBR of 1x or higher by achieving higher ROE compared to the cost of shareholders' equity.

#### (1) Initiatives to increase ROE



#### (2) Management that is conscious of the cost of capital

<b>Increase expected growth</b>	<ul style="list-style-type: none"> <li>Further earnings growth in Aozora's Strategic Investments Business through the capital and business alliance</li> <li>Strategic investments in GANB and other growth areas</li> </ul>
<b>Reduce volatility in earnings</b>	<ul style="list-style-type: none"> <li>Sustainable and stable earnings through efficient management and utilization of management resources and sound risk-taking in accordance with the basic risk appetite policy. Building a portfolio with effective risk diversification</li> </ul>

### Dialogue with Stakeholders

In our dialogue with stakeholders, including shareholders, institutional investors, and rating agencies, it is important for us to offer factual and relevant information for their better understanding of Aozora.

We focus on conveying the distinctiveness and history of Aozora's business as well as effectively articulating our growth strategies. We will also work to develop clear and informative presentation materials. Communicating with investors is a key priority at Aozora.

Based on this approach, we held eight teleconferences and presentation meetings with institutional investors and analysts as well as three retail investors meetings in FY2023. Engaging in dialogue with our shareholders and investors is also an opportunity for us to learn. We will continue endeavoring to carry out proactive investor relations.

Aozora remains committed to enhancing its corporate value while reflecting stakeholder feedback in our management. We ask for your continued support and understanding.

### Tax Compliance

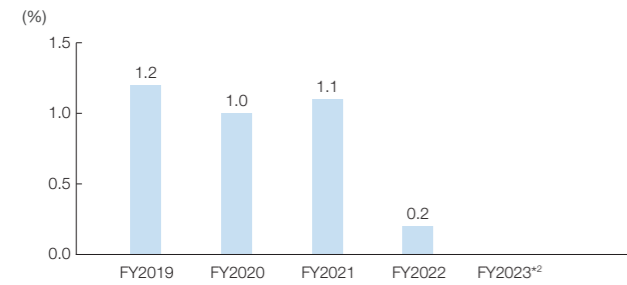
As a business enterprise, we have a social responsibility to comply with all tax laws and pay taxes as required when conducting our business. In accordance with the "Tax Compliance Policy" (see the Financial and Corporate Data Section), Aozora will comply with all tax laws and regulations, tax treaties, and related rules in each country, while also working to enhance corporate value through effective tax planning and to improve the tax law knowledge of officers and employees through training and similar activities.

# Financial and Non-financial Highlights

Note: Amounts stated are rounded down to the nearest unit.

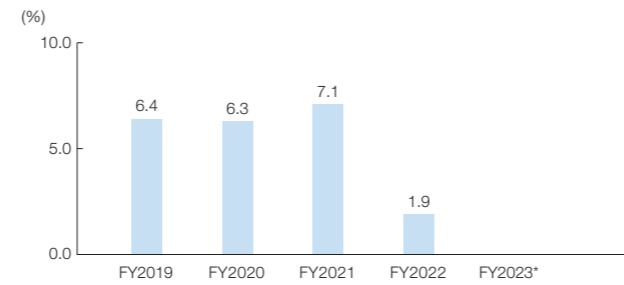
## Financial Highlights

Business-related Profit RORA\*1



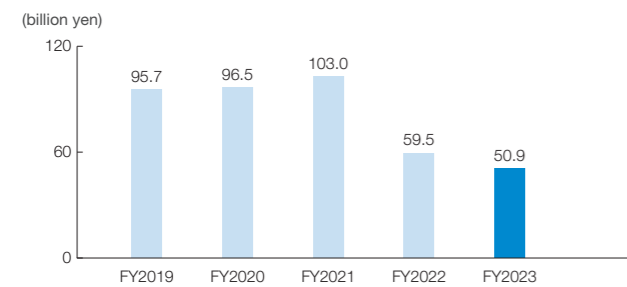
\*1 Business-related profit RORA: Business profit + Gains/losses on stock transactions) / Risk-weighted assets  
\*2 Not shown due to negative value

ROE

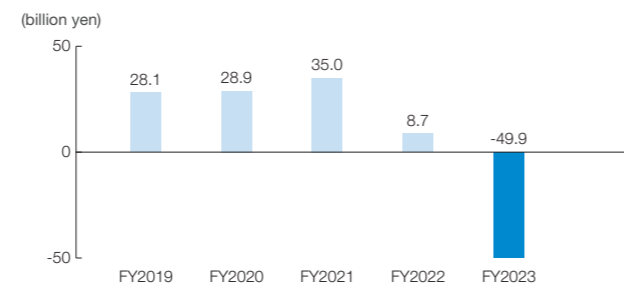


\* Not shown due to negative value

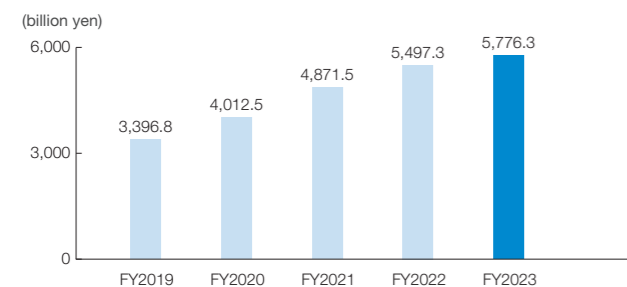
Consolidated Net Revenue



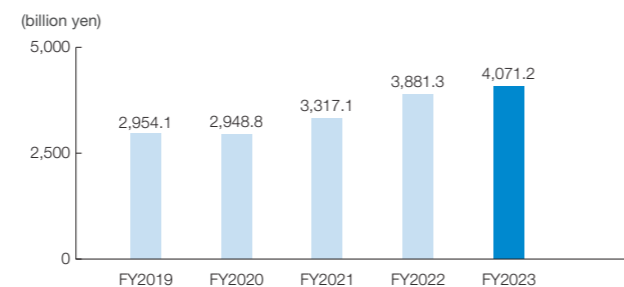
Profit Attributable to Owners of Parent



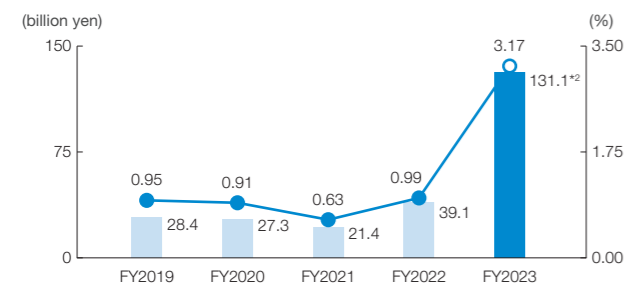
Deposits / Negotiable Certificates of Deposit



Loans and Bills Discounted



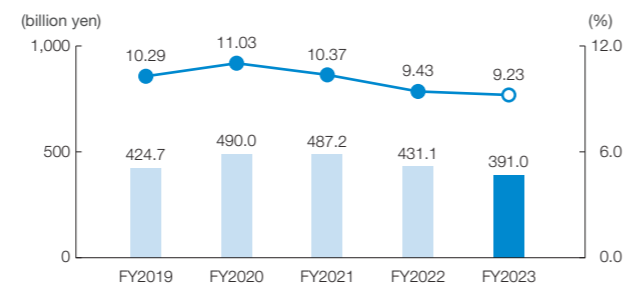
Non-performing Loans Based on the FRA\*1 (Consolidated) / NPL Ratio



\*1 Financial Reconstruction Act

\*2 Including 108.1 billion yen of U.S. office loans

Consolidated Net Assets / Consolidated Capital Adequacy Ratio (Domestic Standard)

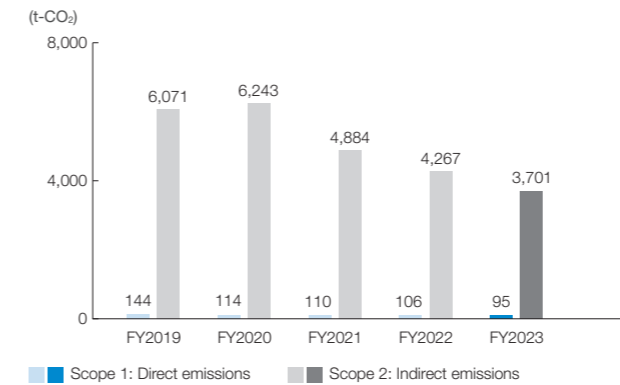


\* Consolidated net assets

\* Consolidated capital adequacy ratio (domestic standard)

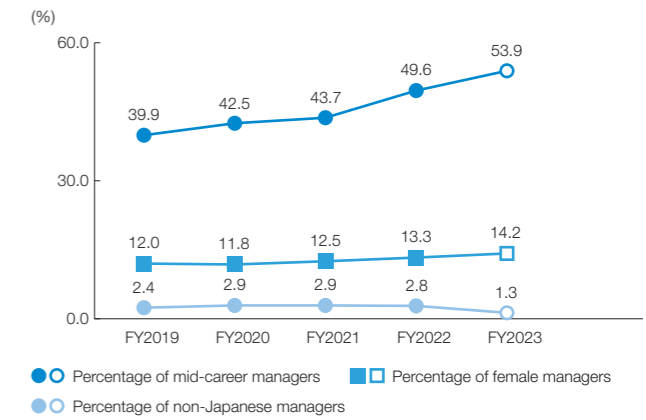
## Non-financial Highlights

CO<sub>2</sub> Emissions

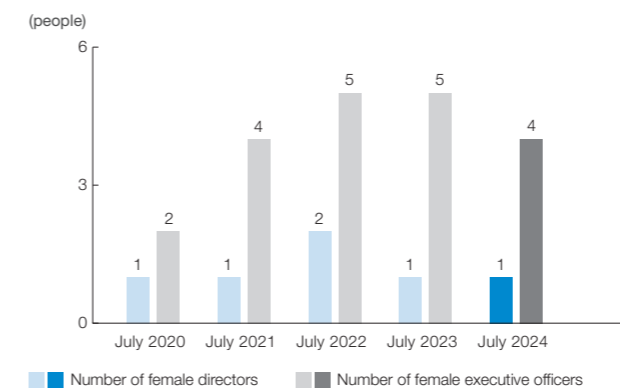


■ Scope 1: Direct emissions ■ Scope 2: Indirect emissions

Percentage of Mid-career Managers / Percentage of Female Managers / Percentage of Non-Japanese Managers

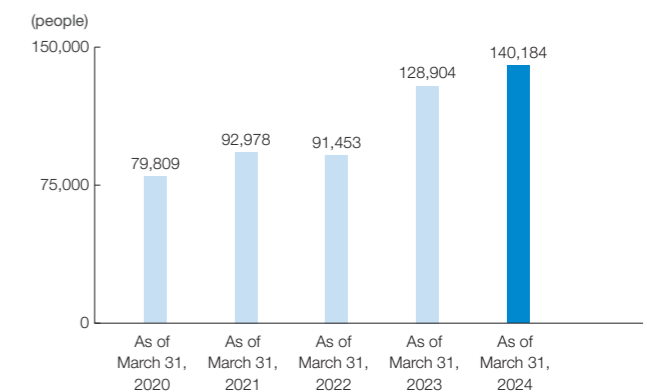


Number of Female Directors / Number of Female Executive Officers

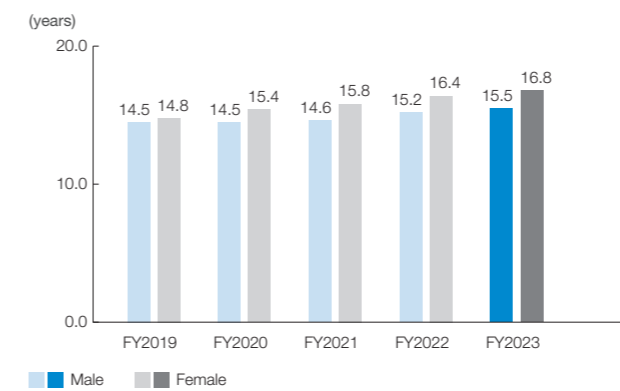


■ Number of female directors ■ Number of female executive officers

Number of Retail Shareholders

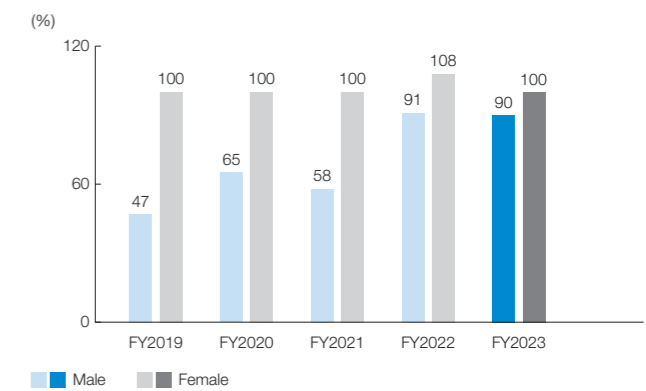


Average Length of Service



■ Male ■ Female

Rate of Childcare Leave Taken\*



■ Male ■ Female

\* The rate of childcare leave taken is calculated by the number of employees who took childcare leave during the applicable fiscal year (a) divided by the number of employees with children born during the applicable fiscal years (b), rounded down to a single decimal place. Note that the aforementioned (a) includes employees on childcare leave with children who were born before the applicable fiscal year but who have newly taken childcare leave in the applicable fiscal year, thus it is possible that the rate could exceed 100%.

## Roundtable Discussion with Outside Directors

### Increasing Aozora's Corporate Value Over the Medium to Long Term



**Hideyuki Takahashi**  
Chairperson of the Audit and Compliance Committee

He has served as Director and Deputy President, Group CFO, and Deputy Chairman of the Board of Directors of Mizuho Financial Group, Inc. as well as Representative Director and President of Mizuho Research & Technologies, Ltd. and he has a wealth of experience, credentials, and deep insight as a member of senior management of corporate institutions in the banking and non-financial sectors, as well as extensive knowledge of finance and accounting and corporate governance of financial institutions. He was appointed as an Outside Director of the Bank in June 2023.

**Sakie Tachibana Fukushima**  
Chairperson of the Nomination and Remuneration Committee

She has served as Director of Korn/Ferry International (U.S. Headquarters), a U.S. listed firm as well as President and Chairman of Korn/Ferry Japan. She has also served as an outside director of several Japanese listed companies and has a wealth of experience, credentials, and deep insight as a member of senior management of corporate institutions, as well as extensive knowledge of the management of global human resources and corporate governance. She was appointed as an Outside Director of the Bank in June 2022.

**Hideaki Saito**  
Nomination and Remuneration Committee Member

He has served as President and CEO of AXA Direct Life Insurance Co., Ltd., President and CEO of Japan Systems Co., Ltd. and Partner of consulting firms and has a wealth of experience, credentials, and deep insight as a member of senior management of corporate institutions and a strategic consultant, as well as extensive knowledge of DX/IT. He was appointed as an Outside Director of the Bank in June 2023.

### Review of FY2023 Financial Results and Expectations for the New Management Structure

**Fukushima** In reviewing the financial results for FY2023, I always confirmed three main points at the Board of Directors meetings. The first point is whether we have a differentiating factor in our strategy. In other words, I evaluate whether Aozora is taking actions that are unique in its response to market trends. The Board of Directors discussed the improvement measures to address our concerns about the need for Aozora to enhance its capabilities in order to differentiate itself with regards to IT adoption, which is a global trend in the financial sector. I have high expectations for the contribution of GMO Aozora Net Bank going forward.

The second point is whether we are delivering on our promises in executing our business. While it is the responsibility of the business executives to carry out their commitments, it is important to promptly inform outside directors of any problems that may arise. I also believe that the role of the outside directors is to constantly

supervise whether commitments are being carried out in line with their "words" from both an "offensive" and "defensive" perspective.

The third point is to ensure that the action plans, including the budget, are not based on wishful thinking. Given the volatile conditions in the U.S. real estate sector, I believe that additional caution is required in the future to ensure that responses can be taken at an earlier stage.

**Takahashi** I was appointed as an Outside Director about a year ago. I closely examined Aozora at the time and believed that its strategy of pursuing Aozora's Strategic Investments Business was the right one. However, as Aozora's balance sheet issue, I was concerned that the level of risk relative to its capital was slightly high. This issue was discussed at meetings of the Audit and Compliance Committee (ACC) and the Board of Directors. The business execution side has also addressed this issue. In the FY2023 financial results, actions were taken to significantly reduce Aozora's future risk. As a result, Aozora reported losses in its financial results. In addition, we discussed a clearer definition of Aozora's risk appetite at the Board of Directors

meetings and created a basic risk appetite policy from the perspective of enhancing our risk governance.

The business environment is expected to remain uncertain in FY2024 and I believe that it is ever more important to incorporate risk governance discussions into the management process even more effectively than before.

**Saito** I believe that through the opinions expressed at the Board of Directors meetings, we were able to contribute to Aozora's financial results for FY2023. However, as the proverb goes, "Danger past, god forgotten." Even if market conditions turn around and our financial results improve, I believe that it is critical to continue monitoring based on the lessons learned from recent events. As an Outside Director, I would like to reiterate what I have just said in the future.

**Fukushima** Under the leadership of new CEO Oomi, the management structure was renewed in April 2024. When selecting Mr. Oomi as new CEO, the Nomination and Remuneration Committee mainly comprised of outside directors evaluated him from an objective perspective based on a 360° evaluation and interviews. The evaluation criteria included the ability to provide powerful leadership for Aozora's Strategic Investments Business, and priorities were given to whether the candidate is a visionary, and has global business experience and digital knowledge.

The process and structure of the succession plan were developed beginning in 2022, and implemented this time. The Nomination and Remuneration Committee's role is to select a leader who is best qualified to carry out the strategy for improving business performance that we have promised to shareholders and other investors. Discussions at the Nomination and Remuneration Committee under the corporate governance structure of a "Company with Audit & Supervisory Board" sometimes followed a process of trial and error. However, in the end, I believe that we were able to select the best leader through this nomination process. Based on the three points I mentioned at the beginning of this roundtable discussion, I expect CEO Oomi to deliver on his "words" to improve Aozora's business performance while building win-win relationships and making the most of the capital and business alliance with Daiwa Securities Group Inc.

**Saito** Although there is a viewpoint of separating supervisory and business execution functions, I believe that the selection process was very transparent under the current structure. Also, since it was my first year as an Outside Director, I thought it would be effective to have a system that would allow us to identify human resources in a more specific manner. I believe this is related to human resources strategy, but it would be more convincing if we could clarify the overall picture of our talent portfolio from a

demand and supply perspective, in other words, what kind of personnel are needed from a business standpoint, as well as how we will develop our current personnel, and what types of external human resources will be recruited.

**Takahashi** The ACC primarily discusses two themes: risk management-related issues and compliance and internal control. Deliberations are carried out exhaustively and over an adequate period of time. Audit & Supervisory Board members, including outside auditors, participate as observers, and actively engage in in-depth discussions. I highly value the effectiveness of these deliberations. A clearer definition of our risk appetite was discussed at the Board of Directors meeting and was based on deliberations at the ACC. I believe that the ACC played an important role during FY2023.

Looking at the issues ahead, because the ACC's agenda items now cover such a wide range of topics, I would like the ACC to discuss further strengthening audit and supervisory monitoring functions as well as risk governance functions in collaboration with the Audit & Supervisory Board.

### Assessment of Aozora's Strategic Investments Business

**Takahashi** Aozora's Strategic Investments Business targets a customer base that includes SMEs, who have so far not had very much access to strategic investments business solutions in Japan. While megabanks and major securities firms have not been able to fully cover this segment, regional banks have been unable to provide adequate support because a certain level of expertise is required to provide strategic investments business solutions. Notably, customers primarily in Japan's regional areas were left without access to these services. Given that this ongoing situation has led to the so-called lost 30 years of Japan's economy, I believe that making Aozora's Strategic Investments Business available to this customer base is



## Roundtable Discussion with Outside Directors

exactly the right strategy that will also contribute to the development of Japan's economy.

Meanwhile, it is true that our customer base is inferior to those of megabanks or major securities firms, so our challenge going forward is how to address this issue.

I understand that the capital and business alliance with Daiwa Securities Group Inc. is intended to supplement this kind of shortfall.

**Saito** I believe that a series of trials Aozora has undertaken since its re-privatization has led to our current Strategic Investments Business. It is also important for us to discuss what is required to achieve sustainable growth of Aozora as a group. I think that carefully assessing the extent of growth in customer needs across Japan over the long term will lead to the further establishment of Aozora's risk-taking policy and risk management system.

**Fukushima** Aozora's Strategic Investments Business operates on a business model that captures market needs and then provides investments and lending that match those needs across the full spectrum of debt to equity. I believe that Aozora's strength stems from its growth strategy of Fostering, Change, and Recovery. I believe that its only issue is differentiating itself from its competitors, so I expect Aozora to take full advantage of the capital and business alliance with Daiwa Securities Group Inc.

### Utilizing Human Capital

**Fukushima** The concept of human capital, as opposed to human resources, has gained increasing acceptance in Japan in recent years. It has become commonplace to see human capital as an asset. Having provided support to companies in a diverse array of business sectors, I strongly feel that human capital is a truly unique and irreplaceable asset in the services and financial sectors. Therefore, human capital strategy is critical to Aozora's growth. Although technology is becoming increasingly important, it is people who effectively use it, making human capital management vital to growth strategies. One of Aozora's issues is its lack of diversity in human capital relative to its global business strategy. In particular, a pressing concern is a shortage of non-Japanese human capital, in addition to gender diversity. Furthermore, although every company faces the same problem, another issue that must be addressed urgently is a shortage of human capital in new technologies such as AI.

**Saito** I believe that the perspective of diversity is essential to human resources strategy. An additional future priority is to broaden the diversity of directors, who are currently predominantly older men. I have the impression



that the development of professional staff among mid-career and young employees has been progressing. Therefore, encouraging multi-tasking, which promotes diversity of experience in each individual, and personnel exchanges should enhance overall organizational quality. Also, while the term "IT professionals" is frequently used, the necessity of including "IT" as a prefix is indicative of a lack of progress with the adoption of IT. Rather than viewing IT as a special initiative, I believe effective use of IT in daily operations is more important.

**Takahashi** When I was appointed as Outside Director, the first thing I noticed was that Aozora has many employees who are diligent, while at the same time inward-looking and somewhat quiet. Aozora was the only bank that had not undergone industry consolidation out of the 20-plus major banks that existed in 1980 when I initially entered the workforce. This historical trajectory may have laid the groundwork for Aozora's current culture. Amid a social landscape marked by intensified rivalry in the financial industry, I believe that Aozora should organize the values of its corporate culture into values that must be preserved and those that must be modified and update those values while embracing diversity. In my view, this is a necessary course of action for Aozora's human resources strategy.

### Toward Enhancing Aozora's Corporate Value Over the Medium to Long Term

**Saito** I have gained experience in the management styles of both Japanese and foreign companies. I have been involved in a diverse array of business sectors, including the IT, insurance, and finance industries. Leveraging this experience, I aspire to assume the role of a disrupter and a catalyst of sorts in Board of Directors meetings by providing perspectives that are different than what has been seen before in various situations.

**Fukushima** My areas of expertise are global governance and human capital, so I plan to contribute in those areas. In governance, I've seen both ends of the spectrum, from an approach focused on maximizing shareholder value, which I learned firsthand as an internal director of a listed U.S. firm, to an approach focused on serving all stakeholders, as exemplified by the old Japanese phrase "Sampo-yoshi" (good for all three sides – the buyer, the seller, and society), which I saw as an outside director of 13 Japanese companies. Harnessing this experience, I'd like to consider the ideal governance design for Aozora that will contribute to increasing corporate value from both institutional design and implementation perspectives. As I previously said, I would like to contribute to a strategy that views human capital as an important asset.

**Takahashi** In FY2023, I believe that the Board of Directors was able to operate with a certain degree of effectiveness in a series of business operations including financial results. Meanwhile, considering Aozora's financial results in FY2023 and the capital and business alliance with Daiwa Securities Group Inc., I feel that expectations for the Board of Directors have risen to an even higher level.

With that in mind, I believe that FY2024 is the time to discuss how we can further develop Aozora's strengths and how to ensure achievement of the numbers that we have committed to externally, going back to the basic concept of governance. I believe that these discussions are a necessary step toward ensuring that the lessons learned in FY2023 are passed on to the next stage.



### Messages from Newly Appointed Outside Directors



**Koichi Tadano**  
Audit and Compliance  
Committee Member

I served as president of Tadano Ltd., a company specializing in the design, manufacturing, and sales of lifting equipment such as crane vehicles, from 2003 to 2021, for a total of 18 years. During my term of office as president, I focused on expanding overseas sales, while maintaining sales in Japan, and as a result, the proportion of overseas sales, which was initially 30%, now accounts for two-thirds of our total sales. Managing a manufacturing company, which can be categorized as a capital-intensive industry, requires a medium- to long-term view and a global outlook at all times, and I believe I can contribute to Aozora by making use of the experience I have developed over many years.

Currently, the world is facing complex, fast, and extreme changes with increasing geopolitical risks and rapid technological advancements in digitalization, such as AI, and we are witnessing a significant turning point in our history. Although I have no prior experience in the financial sector, I am committed to the enhancement of Aozora's corporate value and exerting my efforts in supervising and supporting management from different perspectives.



**Hiromasa Kawashima**

After joining Daiwa Securities Co., Ltd. in 1992, I mainly engaged in operations in the Human Resources Division and Investment Banking Division. After serving as Head of the Executive Office and Head of Internal Audit Department, I served as Audit & Supervisory Board Member of Daiwa Securities Co., Ltd. from April 2020 and as Member of the Board of Daiwa Securities Group Inc. for four years from June 2020. I currently serve as Deputy Head of Corporate Planning, Deputy Head of Human Resources and the Head of Legal of Daiwa Securities Group Inc. I believe that the capital and business alliance between Aozora and Daiwa Securities Group Inc. will make it possible for the two companies, which have different strengths and management resources, to work together to improve their consulting and solution capabilities to address issues faced by retail and institutional customers. I will strive to further deepen the collaboration between the two companies toward the enhancement of Aozora's corporate value by leveraging the experience and knowledge I have accumulated at a securities company.

# Stakeholder Communication

## Communication with Customers

### Customer Survey

Aozora conducts a customer satisfaction survey of its corporate and retail customers each year. Based on the results of the surveys, we are committed to responding to diverse needs and improving our customer satisfaction levels. In accordance with Aozora's Basic Policy on Customer-Oriented Business Management, we will remain focused on providing specialized financial services.

### Customer Seminars

- Aozora holds a series of seminars which are of relevance and interest to our customers.
- Seminar on how to use money, a valuable financial resource, effectively in order to lead a more fulfilling life
  - Seminar on the 2024 logistics problem
  - Business succession seminars

### Events and Communications in Collaboration with Customers and Regional Financial Institutions

We held information fairs for each region at the Head Office and our Fuchu Annex. Many officers and employees participated in these events.

### Reception for Regional Banks

We regularly host receptions for senior management of our regional bank customers.

See page 66.

## Communication with Shareholders

### General Meeting of Shareholders

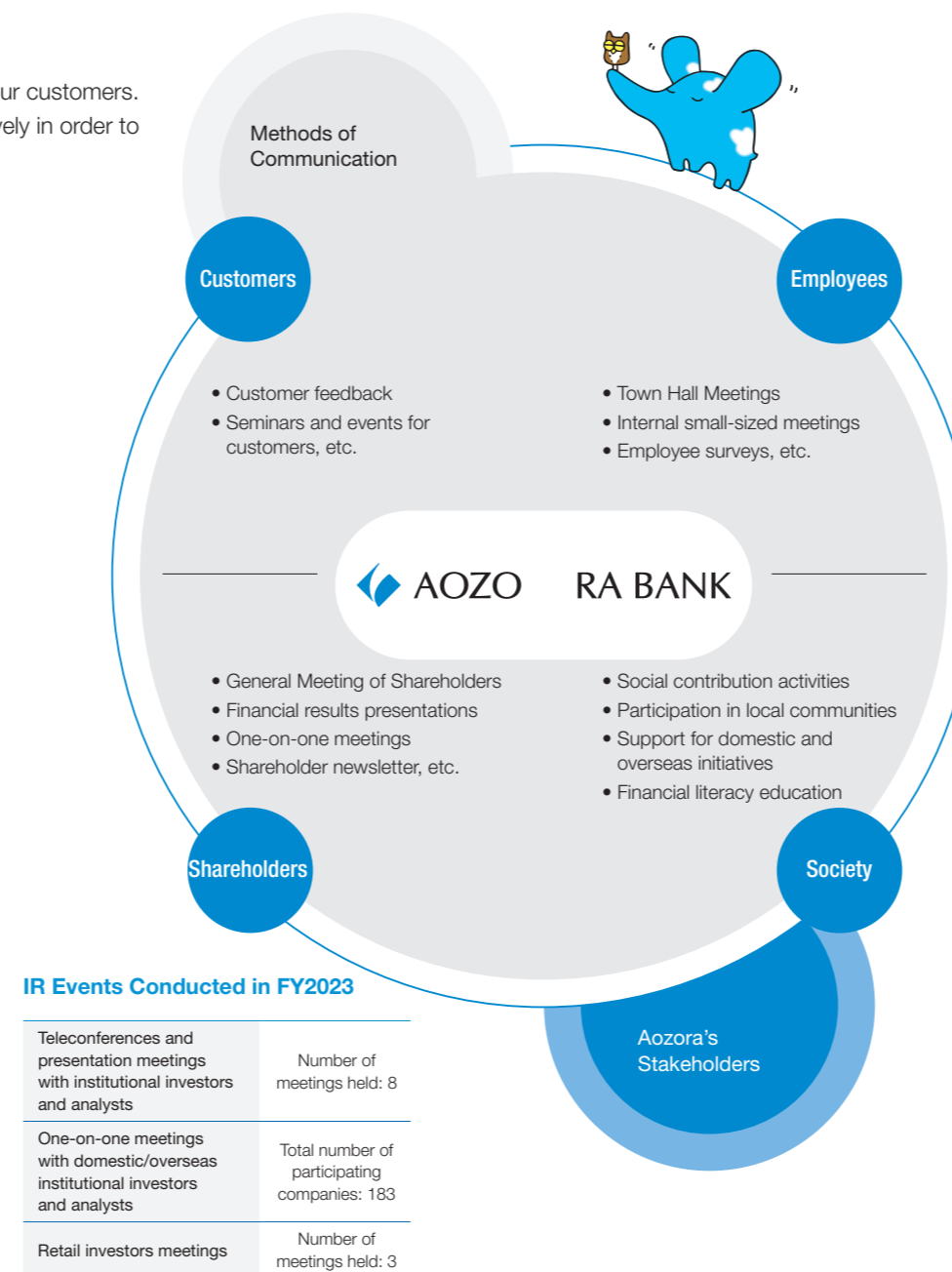
Aozora offered a livestream option for the Ordinary General Meeting of Shareholders in addition to the in-person event, which allowed for the participation of shareholders who resided in remote areas or did not wish to attend in person. We also publish the Aozora Tsushin and Aozora Photo News Journal on our website as shareholder communication tools.

### Investors Meetings

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

### Shareholder Survey

Aozora conducts an annual shareholder survey as part of its shareholder communication program. A large number of shareholders respond to the survey, and we reflect their valuable feedback in our management.



### IR Events Conducted in FY2023

Teleconferences and presentation meetings with institutional investors and analysts	Number of meetings held: 8
One-on-one meetings with domestic/overseas institutional investors and analysts	Total number of participating companies: 183
Retail investors meetings	Number of meetings held: 3

## Communication with Employees

An organization whose members could see each other directly

### Town Hall Meeting

On June 8, 2024, the Town Hall Meeting 2024 was held via a hybrid format both in person and online. Mr. Oomi, the new president and CEO, delivered his vision for Aozora's future with officers and employees.



### Internal Small-sized Meetings

In internal small-sized meetings, the management team and Aozora Group's employees interact and discuss their thoughts and ideas on a broad range of topics.



### Examples of Other Initiatives

- Employee survey
- Message from management
- Aozora Photo News

## Communication with Society

Aozora provides TV educational programs that establish a foundation for improving knowledge of asset formation and financial services. We also provide financial literacy education through a Basic Banking Seminar, which consists of Aozora-sponsored seminars for students of the Faculty of Economics at Sophia University.

Aozora received Sophia University's "Good Practice in Teaching Selected by Students" award in the fall semester of the 2023 academic year.



At the Awards Presentation Ceremony for Sophia University's "Good Practice in Teaching Selected by Students" award for the fall semester of the 2023 academic year



# Value Creation Strategy

- 50 Aozora's Businesses
  - 50 At a Glance
  - 52 Business Groups
    - 52 Institutional Banking Group (Corporate Business Group, M&A Advisory Group)
    - 56 Business Succession Initiatives
    - 58 Structured Finance Group (Acquisition & Structured Finance Group, Environment Business Group)
    - 60 Our Strength in LBO Finance
    - 62 Structured Finance Group (Special Situations Group, Real Estate Finance Group)
    - 64 International Business Group (International Business Group)
    - 66 Customer Relations Group (Allied Banking Group, Retail Banking Group)
    - 68 Market Group (Financial Markets Group)
  - 69 Primary Group Companies
- 74 Aozora's New Value Creation: Exploring the Potential of Generative AI
- 76 Sustainability Promotion
  - 82 Initiatives to Address Climate Change (Response to TCFD Recommendations)
  - 88 Respect for Human Rights
  - 90 Social Contribution Activities
  - 92 Human Resources Strategy
- 100 Creating a Comfortable Workplace for Employees with Disabilities



Aozora's Businesses

## Institutional Banking Group



**Jun Shinozaki**  
Managing Executive Officer  
Head of Corporate Business Group



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



**Hiroshi Kaneko**  
Executive Officer  
Deputy Head of Corporate Banking Group

### Corporate Business Group (CBG)

CBG aims to solve customers' issues and address social issues. We provide a broad range of structured finance, in which we have a strong track record. We also offer sustainable finance, support for DX, and market risk hedging products. Furthermore, CBG is accelerating the promotion of equity investments with a primary focus on engagement (dialogue-driven investments), structured equity investments, and an ecosystem for start-ups support focusing on venture debt. In the process, we will develop a deep understanding of our customers' businesses and provide value-added advice to resolve the challenges customers and society face based on in-depth dialogue. The advice we offer will make full use of Aozora's managerial resources.

### Major Businesses

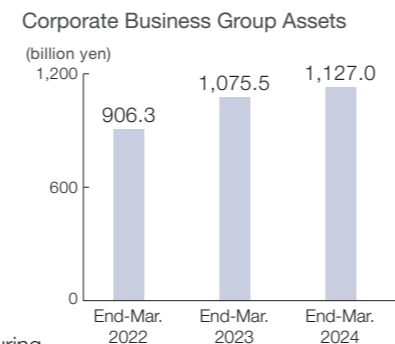
- Investment and lending services for corporate customers (corporate finance, structured finance, equity investments with a primary focus on engagement, structured equity investments, and venture debt, among other services)
- Provide solutions in collaboration with other business groups (providing market risk hedging products, business matching related to green transformation (GX) and DX, among other solutions)

### Strengths

- Timely responses through a flat organization and cross-organizational collaboration framework
- Staffed with members with extensive experience and knowledge about specialty finance and equity investments
- Opportunities for investments and lending from debt to equity, ability to provide products to meet market risk hedging needs

### Focus Areas

- Provide financing that captures customer needs for structural transformation and restructuring against the backdrop of business succession, business recovery, DX, and GX
- Equity investments (in listed stocks) with a primary focus on engagement (dialogue-driven investments) and structured equity investments
- Support for start-ups through the Aozora's start-ups support ecosystem focusing on financing support via venture debt



**Shota Okada**  
Merchant Banking Div.

### Structured Equity Investments in Collaboration with Joint Investors

Structured equity investments are investment and lending transactions in which Aozora, in collaboration with joint investors, acquires a portion of the shares of a subsidiary sold by a company as part of its business carve-out, which involves the sale of a business division or subsidiary. In a recent transaction, Aozora made a minority investment of less than 50% by providing a share acquisition finance to, and an investment in, a target-fund. Aozora was commended for its rapid proposal of terms and conditions and time-constrained due diligence during the initial phase, which led to the execution of the transaction.

Mature Japanese companies have a high demand for phased successions, carve-outs, and business and capital restructuring, whereas there are only a few players who acquire minority shares. Aozora's highly innovative initiatives in these areas are expected to meet the growing demand. Furthermore, Aozora, in collaboration with the joint investors on this transaction, has used this opportunity to establish a framework for taking a collaborative approach to future projects as an ongoing strategic partner.

### Value Creation from the Perspective of Derivatives Sales Professionals

In the face of increased volatility risk in foreign exchange markets, interest rates, and commodity prices (for crude oil, non-ferrous metals, and other commodities), Aozora seeks to assist its corporate customers in maintaining stable business results. To this end, we evaluate our customers' hedging needs based on industry and value-chain characteristics, perform risk analysis using multiple simulations, and propose optimal tailor-made hedging products.

#### Steps Leading up to Contract Execution

- Identify the latent needs of customers for addressing concerns associated with the announcement of financial results through dialogue with them
- Provide timely and well-targeted proposals that lead to innovative solutions to issues faced by customers from a wide range of potential product designs
- Adopt new risk hedging techniques that provide optimal solutions for customers at zero cost

## TOPICS

### Interview with Staff Members



**Shusuke Murota**  
Corporate Business Div. VII

**Mariko Suzuki**  
Derivatives Sales Div.

**Q: What types of requests for guidance do you often receive from customers?**

**Murota:** We receive a wide range of requests to assist with management issues, such as funding, business succession, M&As, and derivatives. In derivative transactions, we receive many questions from customers who are concerned about volatility risk in foreign exchange and in commodity prices for crude oil and non-ferrous metals.

**Q: Could you please explain why your recent transaction was successful?**

**Murota:** I believe that we earned praise from our customers because we developed a viable hypothesis by using the opportunity of their earnings presentation to delve more deeply into their requirements, and we responded quickly through collaboration across divisions within Aozora.  
**Suzuki:** Notably, in the lead-up to the customer's earnings announcement, we proposed hedging the risk of foreign exchange volatility (the risk of a stronger yen against the U.S. dollar) ahead of a shift in monetary policies in Japan and the U.S. I feel that the customer highly valued this idea.



**Q: What do you strive to keep in mind in your daily sales activities?**

**Murota:** I try to deeply understand our customers. For this, I strive to stay closely attuned to developments both within and outside Aozora, in order to monitor not only customers but also trends affecting their industries.

**Q: What makes your work in sales interesting?**

**Murota:** It's interesting to have the opportunity to do business with companies from a diverse range of industries and gain insight into the perspectives of their business leaders. Issues and concerns vary from customer to customer. While it's challenging to find solutions for each of them, it allows me to explore issues from a range of perspectives and I greatly enjoy the challenge.

**Q: What do you find interesting about working in the Market Group?**

**Suzuki:** It's interesting to be able to have discussions with customers about foreign exchange and other market developments, and to propose products that address their needs. To quickly offer a better proposal than anyone else, I look at trends happening at the frontlines of the market and the background to those trends. Just thinking about those things can make an entire day go by in a flash.

**Q: What do you think are Aozora's unique strengths?**

**Suzuki:** I believe that our unique strength is that we are a relatively flat and manageable-sized organization and know each other quite well, so when an issue arises, we can readily confer with one another. Although we sometimes have different views on things, we share a strong desire to collaborate to meet our customers' expectations, and we have a well-established culture in which we can frankly and openly discuss our thoughts and ideas. When we enter into a contract with a customer for a transaction, we may receive messages of praise from not only supervisors and older and younger coworkers, but also executive officers. These messages are a significant source of motivation. I genuinely believe that our workplace values teamwork and allows everyone to work positively and enjoyably every day.

**Q: What do you think are the challenges that lie ahead in your sales activities?**

**Murota and Suzuki:** We strive to be a trusted partner to our customers and earn their appreciation by being attentive to their needs and helping them solve their management issues. In these ways, we want to work hard so that we can actually feel that we are contributing to society. To achieve this goal, we want to continue our individual professional development while also obtaining the support of others around us.



The Aozora's Businesses

# Institutional Banking Group

## M&A Advisory Group (MAG)



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

There are many SMEs in Japan and the number of aging business owners of SMEs has been increasing and their average age has now surpassed 60.

The limited availability of successors has been addressed in the past few years, owing to the widespread adoption of M&As and progress in areas such as the business succession taxation system and business succession funds. However, rapid changes in the recent business environment have resulted in an increase in the closure of some businesses. There is a growing need to pass the SMEs' valuable technologies and skilled human resources to the future generation.

Through our M&A advisory services and business succession funds, we will support both domestic and overseas customers to solve issues such as enhancement of their corporate value, structural transformation in their businesses, and business succession, with a view to contributing to the development of society.

### Major Businesses

- M&A advisory services, consulting on business growth and recovery strategies, business succession and related issues, and corporate valuation
- Support for domestic customers' overseas expansion primarily in Asia and Oceania
- Business succession fund and buyout fund services

### Strengths

- Network comprising Japanese and overseas M&A advisory firms with strengths in regional and industry specialization
- Network comprising our overseas offices and financial institutions in Asian countries, including our equity method affiliate Orient Commercial Joint Stock Bank (OCB, see [page 65](#)) in Vietnam
- Provide solutions in collaboration with our corporate business divisions, as well as business succession, venture and buyout funds, and regional financial institutions

### Business Promotion Framework

M&A advisory services	M&A Advisory Div.
	ABN Advisors (100% owned by Aozora Bank)
Fund services	AJ Capital (50% owned by Aozora Bank)
	AZ-Star (40% owned by Aozora Bank)

### Focus Areas

- Consulting services on issues such as business succession, carve-outs (including the sale of subsidiaries and businesses), and MBOs
- Support for the overseas expansion and withdrawal of Japanese companies primarily in Asia and Oceania
- Formation and investment in business succession funds in collaboration with regional financial institutions aiming for regional revitalization

### Collaboration with Regional Financial Institutions

We provided business succession support for a high-performance lens manufacturer in the Hokuriku region through joint investment with AJ Capital and a specialist investment firm affiliated with a regional financial institution. We also arranged for two regional financial institutions to participate in a leveraged buyout (LBO) loan.



## Expanding M&A Solutions

# TOPICS

### (1) Initiatives to Address Business Succession Needs of Business Owners

We support the business succession of business owners who have a business relationship with us in our retail financial services (see [page 56](#)).

Our Fukuoka Branch holds business succession seminars for retail customers and locally based companies, which are jointly hosted by Aoyama Zaisan Networks Kyushu Co., Ltd., a provider of consulting services including business succession, and AJ Capital.

We introduce our M&A and Business Succession Consultation Desk ("Gateway to the Future") at Aozora's Head Office and branches across Japan.



Business succession seminar at the Fukuoka Branch



Digital signage advertisement at Aozora's Head Office and branches across Japan

### (2) Initiatives for Cross-border M&As

We are working to support the overseas expansion of customers primarily in Asia and Oceania. In collaboration with Vietnam-based Orient Commercial Joint Stock Bank, we supported a renewable energy-related company to close a Japan-Vietnam cross-border transaction in 2023.



Solar power plant operated by a Vietnamese company

In FY2023, we formed new business alliances regarding M&A advisory services with AIBJ Inc., Kusumoto Chavalit & Partners Ltd., Musashi Capital Pte. Ltd., and World Link Japan, Inc.



### (3) Business Succession Fund

AJ Capital has established and manages business succession funds to resolve the business succession issues of SMEs and support regional revitalization.

In October 2023, Succession Fund II reached a final closing. A total of 15 investors, including 12 regional financial institutions, contributed a total capital of 5.1 billion yen to the fund.

### (4) Initiatives to Revitalize Regional Economies

We have had M&A advisory experts stationed permanently at the Nagoya and Fukuoka branches since 2023, focusing on business succession support in the Chubu and Kyushu regions.

ABN Advisors (100% owned by Aozora) also has M&A advisory experts permanently based in Sapporo to promote business succession support in the Hokkaido region (see Primary Group Companies on [page 72](#)).



ABN Advisors members in Sapporo

## Business Succession Initiatives



Aozora provides customized solutions to meet the business succession needs of individual customers through collaboration between the Retail Banking Management Division and the M&A Advisory Division, which has specialized knowledge regarding M&A. We spoke with Aozora's staff who are actively involved in solving business succession issues faced by our customers.

### Optimal Solutions for Business Succession

**Retail Banking Management Div.** In recent years, in addition to asset management services, we have received an increasing number of requests for advice from individual customers regarding their future plans for the companies they manage. We feel that many of these customers are especially concerned about how to go about achieving business succession or closing down their company in an orderly manner. The Retail Banking Management Division supports customers who are confronted with these issues on the frontlines. We believe that we can provide optimal solutions to our customers by working closely with the M&A Advisory Division, which specializes in solving a comprehensive range of issues faced by corporate customers primarily through M&As and business succession. Through this collaboration between the Retail Banking Management Division and the M&A Advisory Division, we promote Aozora's Platform Business [📄 \(page 20\)](#).

**M&A Advisory Div.** According to a survey by Japan Finance Corporation, more than 60% of business owners aged 60 and older are planning the closure of their business due to reasons such as difficulty in finding a successor. Growing numbers of business succession consultations from Aozora's customers confirm this trend, and we know firsthand that this is a particularly pressing social issue. In FY2023, the number of consultations at Aozora reached an all-time high as we captured the business succession needs of customers who were facing these types of succession issues and potential business closures. Looking ahead, we will continue to assist in solving issues while remaining attentive to our customers' needs.

### Advancing to a New Stage as a Comprehensive Life Stage Consultant Transcending the Bounds of Finance

**Retail Banking Management Div.** The problems faced by business-owner customers also evolve with their stages in life. For example, M&A is not always the optimal solution to issues related to business succession and closure, as well as inheritance. Given that individual customers' issues can be addressed with a range of possible solutions, Aozora conducts extensive discussions among teams with different backgrounds and seeks the optimal solution through such means as working closely with other business groups and specialized departments, referring customers to affiliated companies, and collaborating with business partners. We believe that these types of activities are one of Aozora's key strengths in providing tailor-made solutions and that they are highly valued by our customers. We will continue to meet a diverse array of needs by broadening our business areas to include comprehensive consulting services that transcend the traditional boundaries of finance.

**M&A Advisory Div.** When we receive a referral to a customer with business succession needs and speak directly with the customer, we find that it is quite often the case that the optimal proposal is not a sale of the business. The most important consideration for us is to determine the best possible option for the customer that Aozora can provide, rather than relying only on M&As. We will continue to provide comprehensive consulting services that are tailored to each customer's stage in life, without going into these discussions with preconceived solutions.

## Examples of Specific Initiatives to Solve Issues

### Initiatives to Support the Business Closure of a Printing Company through M&A

A business-owner customer with whom Aozora had asset management transactions needed to close down a printing company he managed. In response, Aozora proposed the transfer of the printing company's shares (M&A) in order to mitigate the drawbacks of closing down the business, such as the administrative burden of a business closure and a decrease in residual assets. Our business relationship with the customer began with asset management services. Aozora then provided comprehensive consulting encompassing the resolution of issues faced by a company managed by the customer.

#### Interview with the Customer

My family's printing company was passed down to me from my predecessor, but there was no successor to me. Given my own health issues, I had realized that I needed to close down the business while I still had some flexibility and options. I was approached by representatives of Aozora, which presented several alternatives to closing down the business. Aozora's team remained by my side while we explored several options and had thorough discussions. Although the final outcome differed from the initial plan, we completed a stock transfer that I found to be completely acceptable.

Because I've devoted my life to my company, I would now like to use the proceeds from the stock transfer and the time that it has freed up to enjoy traveling with my spouse.



### Initiatives for a Smooth Inheritance through M&A

In an inheritance matter involving the relatives of a customer with whom Aozora had an asset management relationship, Aozora clearly identified the need for the monetization of real estate, which was the primary asset being inherited by the heirs, and for the maximization of the net proceeds. In response to these requirements, Aozora proposed a real estate M&A within a short period of time. Aozora's comprehensive consulting capabilities were rated highly by the customer. We used M&A as a tool to facilitate the smooth transfer and disposition of real estate amongst the heirs.

#### Interview with the Customer

We had been pleased with Aozora's sound advice in response to the consultations we had previously sought on real estate held by our family and inheritance strategy. When we recently consulted Aozora on a new family inheritance matter, Aozora provided prompt, specific, and appropriate advice, including a briefing on inheritance and related processes to several of the heirs, coordination with certified tax accountants, judicial scriveners, and other professionals, and approaches to selling inherited real estate.

Initially, this matter involved multiple heirs and various estates, which caused us great concern. However, we were ultimately satisfied with the final outcome. Aozora provided services that were closely attuned to the needs of all of the heirs.



Aozora's Businesses

# Structured Finance Group

## Acquisition & Structured Finance Group (ASG)



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

We have been active as an arranger in LBO financing since the inception of LBOs in Japan. Aozora's buyout business, including LBO loans, has grown along with the development of the market. Through collaboration with many private equity (PE) funds, we have provided risk financing by extending LBO loans and making limited partnership (LP) investments in PE funds. These loans and investments have been provided in response to changes in industrial structure and business succession.

Recently, we have been serving as an arranger for some of the most prominent large-scale projects in Japan, including carve-outs by major companies, which involve sale of business units or subsidiaries, and going-private transactions aimed at restoring growth and structural transformation. We have also been engaging in numerous small and medium-sized transactions such as business owner succession.

We will contribute to the market's sound development mainly by providing high-quality investment and lending, industry information, and sound advice on LBO finance to investors, and also accepting trainees from them.

### Major Businesses

- Transaction arrangement for M&A-related financing including LBO and MBO, and multiple types of structured finance, along with syndicated loan origination and investment and loan execution
- LP investment in PE funds

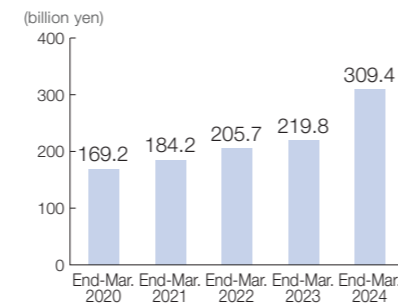
### Strengths

- Positioned as one of Japan's leading players in the LBO financing market with involvement in many large-scale projects
- Established a robust network with many PE funds, including global funds
- Provides one-stop services spanning advisory to various financing through integrated management with Group companies and investment funds in collaboration with M&A-related divisions
- High level of expertise among professionals, excellent agility and flexibility, and extensive experience and track record in Japan and overseas

### Focus Areas

- Further enhance the efficiency of investments and loans and promote underwriting of mid- to large-sized projects, leveraging our strong distribution capabilities
- Provide attractive LBO investment and financing opportunities to investors such as regional financial institutions through the arrangement of syndicated loans, as well as debt funds, fund of funds, and other financing vehicles.
- Emphasize collaboration and dialogue with a diverse array of participants in the LBO financing market in order to contribute to the development of a sound LBO market

Balance of LBO Financing



A study session with trainees

### Accepting Trainees from Regional Financial Institutions

We provide LBO training and case study sessions and occasionally accept trainees to assist in the solution of business succession challenges and various issues faced by customers of regional financial institutions across Japan.

Trainees participate in an on-the-job training (OJT) program that includes monitoring of the existing customers and handling of new projects. Trainees can enhance their proficiency regarding risk management through hands-on experience in a variety of risk analyses related to LBO financing (suitability of acquisition plans, structure, loan condition negotiations with sponsors, projection and goodwill

assessment, and predictive risk management of existing projects).

Through these activities, we strive to foster and develop a robust LBO loan market by sharing our knowledge and expertise in LBO financing with regional financial institutions.

## Environment Business Group (EBG)

In January 2022, we established a specialized group for environmental financing in order to facilitate the transition to clean energy and next-generation energy through finance. This group was formed by merging extensive financing experience centered on renewable energy in Japan and advanced knowledge gained from finance in Europe and the U.S., which are leading environmental regions and countries.

Since 2022, we have held the top-level origination position in Japan, arranging domestic project financings totaling over 130 billion yen. Furthermore, we have contributed to the widespread adoption of clean energy and regional economic development by offering syndicated loans worth a total of 90 billion yen to regional financial institutions via our financial institutions platform. Overseas, we conduct business from a global perspective leveraging our overseas office network.

In addition, our efforts have led to an arrangement of financing for a geothermal power plant project in collaboration with local financial institutions by combining our knowledge from Japan and overseas.

### Major Businesses

- Transaction arrangement and syndicated loan origination for environment-related project finance primarily for renewable energy
- Initiatives in the new area of environmental finance, including green energy finance and transition finance
- LP investments in environment-related equity funds and infrastructure funds

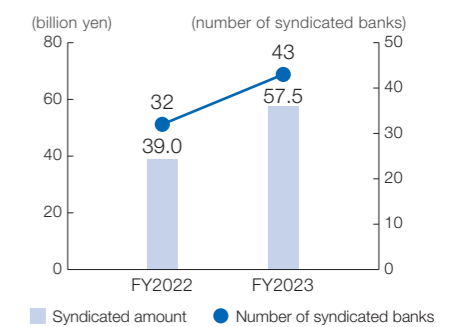
### Strengths

- Advanced expertise, knowledge, and networks developed through financing initiatives for various renewable energy projects domestically and overseas
- Collaborative approach with regional financial institutions through our financial institutions platform
- Excellent agility and flexibility, along with extensive experience in Japan and overseas

### Focus Areas

- Aozora is making steady strides toward achieving its targets of a cumulative total of 1 trillion yen in sustainable financing, including 700 billion yen in environmental financing, by FY2027, as laid out in Aozora's Sustainability Targets.
- In Japan, we are collaborating with regional financial institutions via syndicated loans and other means to contribute to the widespread adoption of clean energy and the development of local economies with a focus on solar power. We are seeking expansion in business fields such as non-FIT projects, geothermal power, and offshore wind power.
- Overseas, we will gather information and accumulate knowledge by participating in financing projects in Europe and the U.S., which have well-developed environmental financing markets. While bringing together a variety of information gained from our overseas offices and other resources, we will develop business in a way that connects domestic and overseas operations.

Track Record in Syndicated Environmental Financing



### Arrangement of Financing for a Geothermal Power Plant Project

In FY2023, we expanded our activities under the banner of developing new energy sources. We were successful in arranging our first financing of a geothermal power plant project with the cooperation of The Kumamoto Bank, Ltd., The Higo Bank, Ltd., and Japan Green Investment Corp. for Carbon Neutrality.

This is the second geothermal power plant to be developed in Oguni-machi, Aso-gun, Kumamoto Prefecture based on the operating company's desire to contribute to regional revitalization and a decarbonized society through its power generation business. The plant is scheduled to begin commercial operations in March 2026.

We will continue to support our customers' initiatives to find solutions to their own issues and wider societal challenges. We will also continue to proactively contribute to the sustainable development of society by promoting the development and practical use of renewable energy and related technologies that produce high efficiency and low environmental burden.



The first geothermal power plant has already started commercial operations.

Aozora's Businesses

# Our Strength in LBO Finance

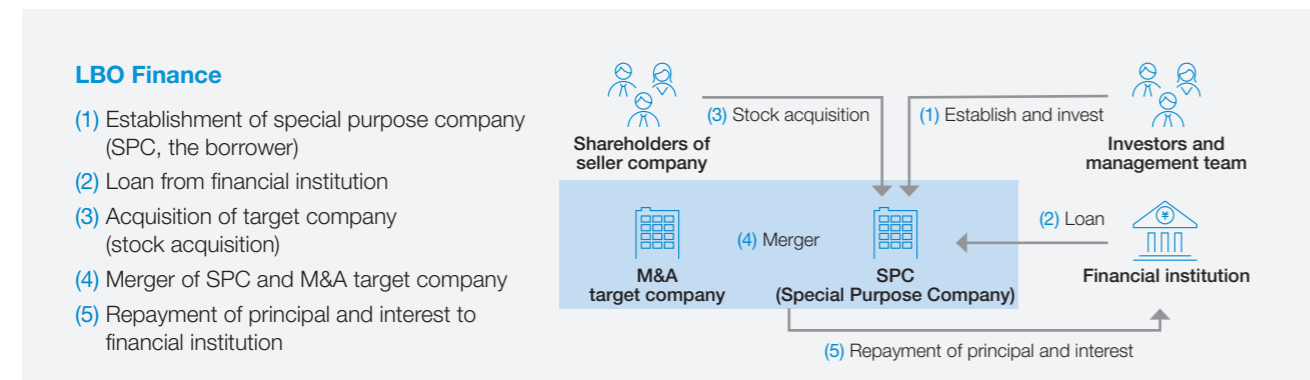


Aozora is leveraging more than 20 years of experience in LBO finance to support industrial transition and meet the growing needs for business restructuring and succession through finance, and continues to provide new value to society as a whole.

## What Is LBO Finance?

LBO finance is a financing method used in corporate acquisitions, business acquisitions, and M&As. While traditional corporate finance relies on the creditworthiness of the buyer, LBO finance is characterized by its reliance on the future cash flows generated by the target company. This approach allows companies and investors who are buyers to make large-scale acquisitions with relatively limited

investments of their own capital, as the term “leveraged buyout (LBO)” suggests. The diagram below shows a typical LBO finance structure. When making an acquisition, a special purpose company (SPC) is established. The SPC obtains financing secured by the shares of the target company that will generate the cash flow, and executes the acquisition.

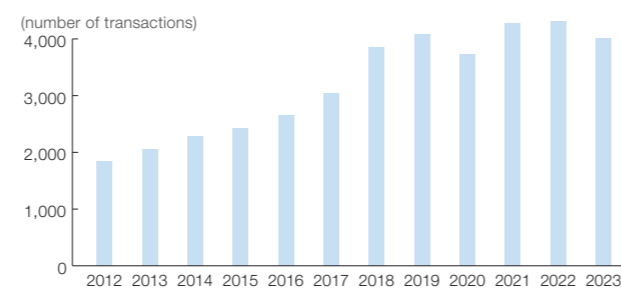


## LBO Market Trends

In recent years, LBO finance needs associated with business successions at SMEs and the restructuring of subsidiaries and business at large companies have been increasing.

In-depth risk analysis capabilities and continuous monitoring are essential to successful LBO finance given the high degree of specialization it requires. Aozora has been focusing on developing a sound LBO market in Japan by sharing the LBO finance expertise we have accumulated over the years with domestic financial institutions.

Number of M&A Transactions by Japanese Companies



(Source: RECOFDATA Corporation)

## Aozora's Strengths

**Track record of large-scale financing arrangement (financing amount of over 10 billion yen)**

Number of transactions arranged per year

Approx. 15 projects

**Share of large-scale financing of over 10 billion yen in Japan (based on the number of transactions)**

Market share

Approx. 30%\*

\* Aozora's estimate

**Professionals with extensive track records**

- Knowledge of diverse industries and business sectors
- Risk analysis capabilities through financial model development and legal due diligence

## Providing Value by Leveraging Strengths

### Case 1 Solution through LBO Finance – A Company Split by Offering Strategic Finance Solutions –

There was a company which had a strong core business, but its business continuity was at risk as it was facing issues such as a deteriorating financial condition due to the heavy investment burden of loss-making business, and litigation with customers. A private equity fund approached Aozora requesting a proposal to acquire the company's strong core business by carving it out through a corporate split. In order to separate the core and loss-making businesses while keeping the company in operation, there would be a number of technical issues including the separation of business operations, debt and credit relationship, intellectual property, and infrastructure, which made the acquisition extremely challenging.

Our strong team of experienced professionals, in-house legal counsel, and staff with accounting certification engaged in numerous discussions with parties involved in the transaction, identified and prioritized the issues, and structured the transaction to minimize risk. Our proposal was considered the best among the competitors, and we were appointed the sole arranger for the transaction.

Following the corporate split, the company was able to initiate its growth strategy for the strong core business at an early juncture and has been able to achieve enhancement of its corporate value. The financing was syndicated among several leading financial institutions, leading to the formation of a more robust banking group.

### Case 2 Providing Lending and Investment Opportunities in Quality Transactions through Syndication

Using Aozora's expertise and trust gained over many years as an arranger of LBO finance, we have provided regional financial institutions with investment and lending opportunities in quality transactions, while focusing on developing a sound market by sharing risk analysis and monitoring methodologies. Participation in the syndication by leading financial institutions has paved the way for the formation of strong bank syndication groups for acquisition target companies and for improving Aozora's project arrangement capabilities.

### Case 3 Contributing to the Development of a Sound LBO Finance Market through Human Resources Development

Aozora regularly conducts presentations for regional financial institutions and accepts short-term trainees from them in an effort to enhance the business environment and knowledge base of the LBO market in Japan and support financial institutions strengthen their risk analysis capabilities and establish a monitoring framework for LBO finance. We also share information on the ratings methodologies and risk management systems specific to LBO finance with not only the front office divisions of regional financial institutions, but also their credit and risk management divisions (see [page 58](#)).

Aozora's Businesses

# Structured Finance Group

## Special Situations Group (SSG)



**Kimiaki Satou**  
Executive Officer  
Head of Special Situations Group

SSG is the only finance team among Japanese banking groups that provides all three functions of loan purchasing, provision of new credit, and reconstruction support.

We contribute to the revitalization of regional economies and industries through our recovery business. Our recovery business is offered through Aozora Loan Services Co., Ltd. (loan purchasing), a leading company in the servicing industry; the Special Situations Division (provision of new credit), which provides services such as DIP finance; and Fukushima Recovery Co., Ltd. (reconstruction support), which provides reconstruction support to SMEs in Fukushima Prefecture.

### Major Businesses

- Investment and lending for distressed businesses and support for their business recovery and restart
- Initiatives to address the recovery financing needs of regional financial institutions and companies, such as DIP finance
- Establishment and management of recovery funds and reconstruction funds tailored to specific regions and types of businesses

### Strengths

- Track record of more than 20 years in the recovery business
- Network covering approximately 90% of regional financial institutions in Japan
- Network of more than 300 attorneys and consultants in the recovery field

### Business Promotion Framework

Loan purchasing	Aozora Loan Services Co., Ltd., Aozora Asset Co., Ltd. and others
New credit	Special Situations Div., Aozora Bank
Reconstruction support	Fukushima Recovery Co., Ltd. and others

### Focus Areas

- Recovery support for customers of regional financial institutions
- Expansion of recovery financing for companies and assets impacted by the COVID-19 pandemic



Aozora Loan Services  
Business Recovery Support Division

### Supporting the Recovery of Customers' Businesses

Aozora Loan Services Co., Ltd. was established in 1999 when the Act on Special Measures Concerning Claim Management and Collection Business was enacted. Aozora Loan Services primarily services non-performing loans assumed from other financial institutions, not those of Aozora's. It has been involved in a wide range of assets in terms of size, industries, and regions.

Use of "recovery-type servicers" is being encouraged as part of government-led measures to support companies in the post-COVID-19 era. Servicers (loan servicing companies) used to work in the business of non-performing loan servicing, but recently there have been more consultation from financial institutions related to business recovery.

The Business Recovery Support Division proactively supports companies that are striving for recovery and restart. This support is mainly provided by holding seminars and study sessions, as well as assisting with expanding sales channels. The Business Recovery Support Division has established a unique position as a recovery-type servicer.

## Real Estate Finance Group (RFG)



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

RFG is responsible for real estate investment and lending in Japan and overseas. As Japan's real estate securitization market has developed, we have expanded our business areas beyond loans to real estate companies to include real estate non-recourse loans and real estate equity investments. We have also extended our business coverage areas to North America and Europe.

We work to help our customers solve their issues through our ability to provide highly specialized real estate finance based on the experience, track record, and expertise we have accumulated in real estate finance over many years. We also strive to solve the social challenges that lie beyond the issues faced by our customers.

### Major Businesses

- Loans whose borrowers are real estate companies and REITs
- Non-recourse loans secured by real estate collateral in Japan, North America, and London
- Real estate fund investments targeting properties in Japan, Europe, and the U.S.

### Strengths

- Experience, track record, and expertise accumulated in real estate finance since Aozora's inception
- Ability to provide highly specialized real estate finance
- Diverse mix of personnel with varied backgrounds

### Focus Areas

- Provision of new financial services for real estate businesses in collaboration with GMO Aozora Net Bank
- Monitoring of cyclical real estate market trends to invest in high-quality projects that are expected to be profitable
- Sustainable finance initiatives that support the SDGs, such as financing for green buildings

### Real Estate Finance Group

Real estate corporate loans	Corporate Business Div. I Corporate Business Div. V
Structured finance for real estate	Real Estate Finance Div. Global Real Estate Structured Debt Div.
Real estate asset management	Aozora Real Estate Investment Advisors

#### Members with a wide range of expertise

- Licensed Real Estate Appraisers: 3
- Real Estate Transaction Specialists: 29
- ARES Certified Masters: 17
- Small and Medium Enterprise Management Consultants: 2
- Securities Analysts: 5
- JCCI Official Business Skill Test in Bookkeeping (2nd Grade): 14

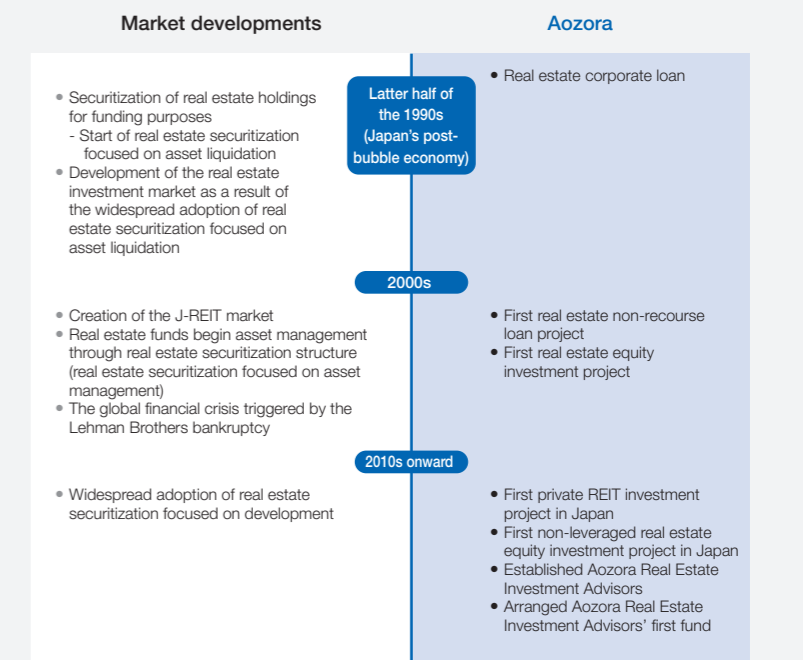
### Evolving with Real Estate Securitization in Japan

In addition to our strengths in due diligence based on real estate-related lending, we have strengthened our ability to identify high-quality projects through our engagement in real estate securitization since 2000.

In recent years, we have also made non-leveraged equity investments in carefully selected investment targets.

In addition to our standalone investments, Aozora Real Estate Investment Advisors Co., Ltd., our 100%-owned subsidiary, operates an asset management business and has made joint investments with several regional financial institutions.

In the past few years, the number of our investments reaching their exits has increased. Investment performance has exceeded initial estimates, and higher-than-anticipated returns have been delivered to regional financial institutions.



## Aozora's Businesses

# International Business Group

### International Business Group (IBG)



**Mitsuhiro Segawa**  
Executive Officer  
Head of International Business Group

IBG is focused on generating stable revenue as one of Aozora's revenue contributors. IBG is active mainly in the U.S. and European corporate loan markets through our overseas subsidiaries in New York and London. We strive to maintain and improve the quality of our loan portfolio by leveraging our seamless monitoring framework centered on our three offices in New York, London, and Tokyo.

We also intend to steadily capture growth in Asia through cooperation with leading local partners and fund investments. In that context, we are selectively making equity-related investments that can possess potential upside opportunities.

### Major Businesses

- Corporate finance, structured finance, and related businesses in North America and Europe
- Investment in private equity funds, debt funds, and other vehicles in the Asia-Pacific region
- Development of businesses in Vietnam—Collaboration with Orient Commercial Joint Stock Bank (OCB)

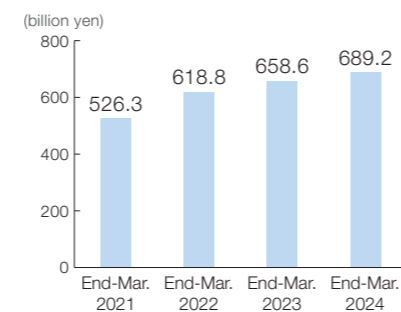
### Strengths

- Maintaining and improving portfolio quality through the selective origination of high-quality assets based on in-depth analysis and flexible risk control through seamless monitoring
- Capturing growth in Asia through a partner strategy including OCB
- Centralized credit risk management through sharing of investment and lending policies and governance of subsidiaries

### Focus Areas

- Direct participation in local markets through overseas subsidiaries in North America, Europe, and Asia
- Efficient business expansion leveraging our offices and network of local partners
- Development of investment and lending including new markets, considering financial expertise in Europe and the U.S. and new global financial trends

Overseas Corporate Loan Outstandings\*



\* Overseas (North American, European, and Asian) corporate loan outstandings (internal management basis)



Members of the International Human Resources Development Team

### Promoting Localization and Developing International Human Resources to Sustainably Grow the International Business

IBG is promoting the recruitment of local staff at overseas offices. At the same time, we have established an International Human Resources Development Team. Working closely with the Human Resources Division, the team seeks to enhance the identification and development of international human resources within the Aozora Group.

We provide opportunities for many employees to learn about Aozora's international business and experience what it is like, regardless of their current responsibilities. These initiatives have resulted in the identification of individuals with the potential to become international human resources and an increase in the number of employees seeking overseas assignments.

We will continue to promote localization and the identification and development of international human resources, with a view to achieving the sustainable growth of our international business.

### Initiative Examples

- Overseas trainee program designed to broaden junior employees' experience early in their careers
- Small-sized meetings in which employees with overseas experience share their daily work and life abroad
- Short-term trainee program in which trainees gain hands-on experience in IBG's multiple divisions
- Bank-wide training on hands-on skills for overseas corporate loans and fund investments, as well as understanding contract documents in English

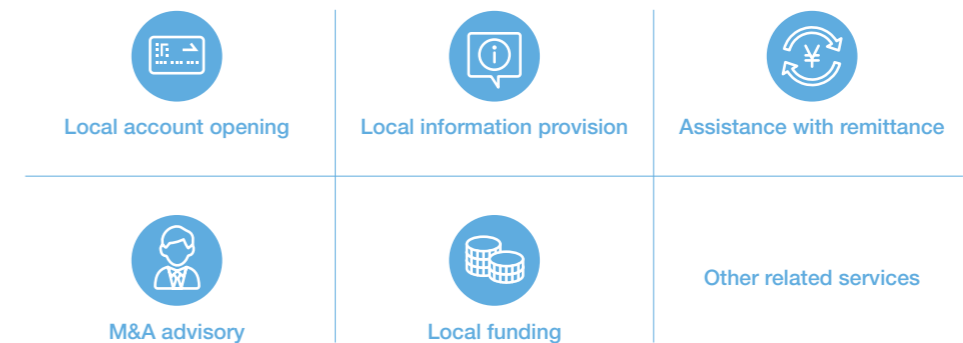
### Orient Commercial Joint Stock Bank (OCB)

In 2020, Aozora acquired a 15% stake in Orient Commercial Joint Stock Bank (OCB), which is headquartered in Ho Chi Minh City, Vietnam. OCB provides support mainly for Vietnamese subsidiaries of Japanese corporate customers of Aozora and regional financial institutions. This support service is provided primarily through the OCB Japan Desk, which is staffed with members on assignment from Aozora, including financial services such as opening deposit accounts, loans, and foreign currency remittances, as well as business matching through the local network, and also opening local bank accounts for Japanese citizens residing in Vietnam.

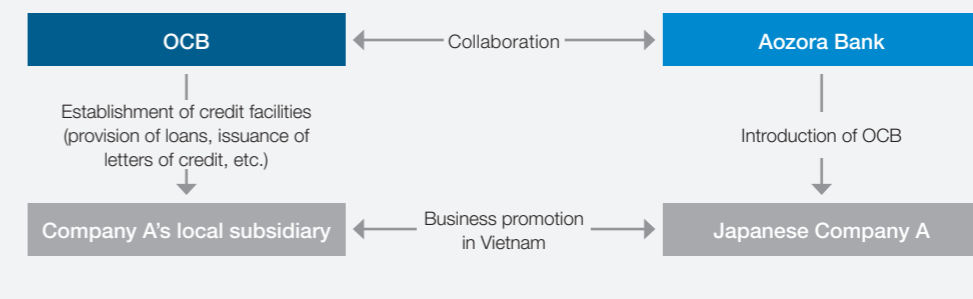
<b>Established</b>	1996
<b>Total assets</b>	Approximately 1,392.7 billion yen (1 Vietnamese dong = 0.0058 yen)
<b>Number of employees</b>	6,822
<b>Number of branches</b>	159 (figures are as of December 31, 2023)
<b>Stock market listing</b>	Ho Chi Minh Stock Exchange

### Support for Japanese Companies in Vietnam-related Business through Network with OCB

#### Extensive lineup of services



#### Case study



### A Visit by OCB Chairman Tuan and Director Maya to Aozora (April 2024)

As a long-term strategic partner of OCB, Aozora has nominated a director to serve as a member of OCB's Board of Directors. Aozora also contributes to OCB's long-term growth by providing governance and operational assistance, including dispatch of some of our employees to serve as staff for the Japan Desk, which is situated within OCB's head office.



## Aozora's Businesses

# Customer Relations Group

### Allied Banking Group (ABG)



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

ABG serves as a business platform in the Aozora Group with responsibility for financial institutions, regional corporations and public institutions nationwide. Financial institutions and regional corporations face numerous challenges, including the end of negative interest rates, accelerated initiatives to support the recovery and business succession of regional corporations in the post-COVID-19 era, and the use of new technologies such as generative AI. We have a strong network of regional financial institution customers across Japan, which has been developed through our doing business with them for over 60 years. Based on this strong network, we will identify customers' evolving issues and offer our Fostering, Change, and Recovery solutions, thereby contributing to the enhancement of the value of customers and regions.

#### Major Businesses

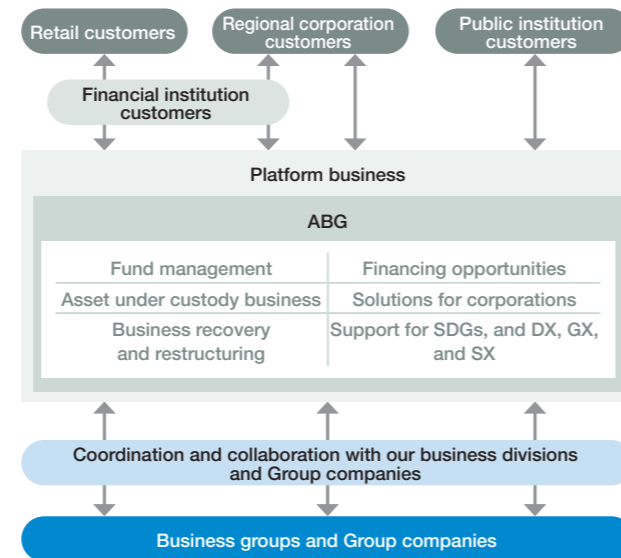
- Provision of information about derivative-embedded deposits and loans and Group companies' private placement investment trusts, as well as investment products leveraging our trust functions
- Inviting our financial institution customers to participate in syndicated loans arranged by Aozora and providing opportunities to participate in environmental financing and LBO financing
- Proposal for solutions to various management issues faced by regional financial institutions' clients in collaboration with regional financial institutions

#### Strengths

- Strong network developed by engaging in a broad range of businesses with regional financial institution customers across Japan for over 60 years
- One-stop and comprehensive business capabilities developed through thoughtful communication with customers leveraging our sales branches
- Prompt responses to diverse customer needs based on a flat organization structure and cooperative relationships with our specialized teams, Group companies and business divisions

#### Focus Areas

- Solutions for the new fund management and funding needs of financial institutions in response to shifts in the macro environment, such as changes in monetary policy
- Support for regional financial institutions to advance their retail businesses to address a changing mindset toward asset accumulation in response to the start of the new NISA system
- A broad range of business collaborations with regional financial institutions according to the business stage of their clients impacted by environmental changes such as higher raw material costs and personnel shortages

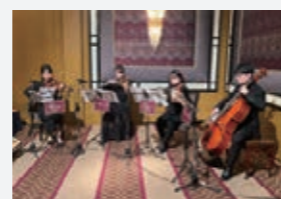


#### Reception for Regional Banks

Aozora periodically hosts receptions for the top management of regional banks, whom we invite as our guests. These receptions have been a cherished tradition that has continued since we started the business with regional financial institutions. They are an invaluable opportunity for communication representing our close relationships with them.

The reception held in FY2023 attracted 150 guests, primarily the presidents and CEOs of regional banks. The guests were welcomed with a live performance by the Sophia Philharmonic Orchestra of Sophia University.

Many guests visited an exhibit that highlighted Aozora's generative AI initiatives. There was a lively exchange of thoughts and ideas about the benefits, difficulties, and other aspects of financial institutions' use of generative AI.



### Retail Banking Group (RBG)



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

RBG provides unique and highly specialized services primarily through BANK™, a financial service that allows customers to engage in transactions via a smartphone app, as well as through our Call Center branches, and external shared office spaces.

The BANK™ app is used by customers across a wide range of age groups for transactions. We have enhanced the services available through BANK™, such as providing deposits with attractive interest rates, investment trusts, debit cards, and "BANK The Story," a support service that guides customers on how to wisely spend money to enrich one's life. Additionally, "BANK The Partner" has been launched as a service that helps customers achieve their life planning goals.

We are also implementing "customer-oriented business management" in our consulting services. We provide asset management, wealth transfer, and business succession-related services as an entire Group, with a view to solving the challenges faced by each customer.

#### Major Businesses

- Provision of financial services through BANK™
- Provision of financial products such as investment trusts, products available in our financial instruments intermediary services and insurance
- Provision of comprehensive consulting services for retail customers and company owners

#### Focus Areas

- Support for wealth accumulation by our retail customers and strengthening consulting services on wealth transfer to future generations
- Proposals on asset formation through investment trusts using the new NISA system
- Provision of consulting services on business succession, M&A and related issues to company owners
- Assisting customers in improving their financial literacy by enhancing BANK™ services, including the launch of "BANK The Partner"

#### Strengths

- Deposits with attractive interest rates through efficient operations
- Provision of BANK™, a simple financial service that is easy for customers to use, along with friendly and considerate support through our Call Center and branches
- Comprehensive consulting spanning financial and non-financial areas, leveraging a network of specialists from both within and outside Aozora



Members of "BANK The Partner"

#### Launch of "BANK The Partner," a Money Service for Your Wonderful Life

We launched "BANK The Partner" in March 2024, which is exclusively focused on providing advice as a partner and does not sell any products. "BANK The Partner" currently offers three services: "BANK The Academy," a seminar to help improve financial literacy; "BANK The Planning," which provides fair and impartial consultations on life planning; and "E-mail delivery service," which delivers the latest information on a real-time basis. Looking ahead, we will continue to enhance the services and their content.

#### Launch of Advertising Service

We started displaying news article-style advertisements on "BANK The Story," in February 2024, thereby enhancing information sharing. These advertisements provide our retail customers with a wide range of useful information mainly including our corporate customers' products and services. By displaying these advertisements, we will further enhance proposals on how to wisely spend money to enrich one's life.

#### Response to the New NISA System

We upgraded the BANK™ app. in October 2023 in order that our customers with investment trust accounts can apply for a NISA account through the app. We have also expanded the lineup by introducing additional new products for both the Tsumitate Investment and Growth Investment Quota of the NISA tax-exempt investment limit. We are supporting retail customers' wealth accumulation using the new NISA system by thoughtfully responding to their inquiries and concerns via our branches and the Asset Management Support Desk within our Call Center.

Aozora's Businesses

# Market Group

## Financial Markets Group (FMG)



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

FMG will address on an ongoing basis the major changes occurring in the financial environment both in Japan and overseas. The business is now expected to be managed in a rising yen-interest rate environment following the end of the Bank of Japan's negative interest rate policy. In derivatives sales and trading, we will provide optimal solutions to meet the diverse needs of our retail, corporate, and financial institution customers through our broad product lineup. Furthermore, in ALM and securities investment, we will generate consistent returns by developing strategies for yen and foreign currency funding while balancing the need for stability, as well as conducting flexible portfolio management based on strong risk controls.

### Major Businesses

- Derivatives sales and trading
- ALM and securities investment

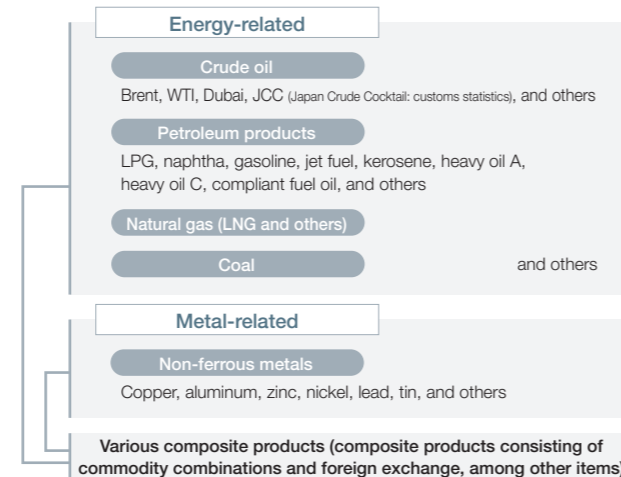
### Strengths

- Client proposals using a broad range of derivative products, such as interest rate, foreign exchange, and commodity products, through collaboration with divisions responsible for product development, sales, and trading
- Provision of customized products through in-depth consulting in response to customer needs
- Flexible and active portfolio management in response to changes in the market environment, focusing on highly liquid securities

### Focus Areas

- Development and provision of hedging and fund management products for foreign exchange, interest rates, commodities, and other risks in a timely manner
- Offering competitive pricing and conducting efficient position management for customers
- Enhancing strategies for yen and foreign currency funding that are capable of flexibly adapting to changing market conditions, such as an increase in yen interest rates

### Examples of the Underlying Assets of Commodity Derivatives



**Akira Moroga**  
Chief Market Strategist

### Market Information Delivered by a Chief Market Strategist

Akira Moroga, Chief Market Strategist, delivers a broad range of market information through the media, including TV, newspapers, and financial information vendors, in order to respond effectively to the global financial markets, which are changing on a daily basis.

Mr. Moroga also actively engages in a number of activities to meet customer needs, such as meeting with our corporate and financial institution customers to share presentations and conduct seminars.

In other activities, Mr. Moroga serves as a guest lecturer for courses offered in collaboration with the Faculty of Economics at Sophia University, contributing to the advancement and enhancement of education and research.

### Comments by Akira Moroga, Chief Market Strategist

The markets are dynamic, reflecting not only economic indicators but also numerous current events, including international political trends, monetary and fiscal policies, and resource price changes.

Over the past 30 years at Aozora, I've gained a broad range of experience in our financial markets business, including foreign exchange and interest rate trading and hedge fund investments. Drawing from this experience, I plan to communicate information about the market environment and our future outlook as simply and clearly as possible.

# Primary Group Companies

## Aozora Investment Management

Aozora Investment Management marked the 10th year of its establishment in February 2024.

Since then, it has been committed to its corporate philosophy of "assisting customers with the important task of building wealth and providing products that help them lead affluent lives," and has been offering investment opportunities worldwide through its leading asset management strategies.

The NISA system was drastically expanded and made permanent from January 2024, which has triggered a shift from savings to investments in earnest. We will continue to contribute to the long-term wealth accumulation of our customers through our initiatives such as the development of "Zenzo Plus," an advanced version of "Zenzo," while properly identifying, and helping proceed to, their individual goals.

We will continue to develop and provide customer-oriented products to become a long-term and positive presence in the lives of our customers and help them explore a brighter future.



**Akemi Hashimoto**  
President & CEO

### Major Businesses

- Development and distribution of publicly offered investment trusts for retail customers' wealth accumulation
- Development and provision of private placement investment trusts which contribute to regional financial institutions' fund management

### Strengths

- Customer-oriented product designs — Offering diversified investment opportunities on a global scale through excellent management approaches
- Enhanced follow-ups — Customized support for product distributors
- Provision of easy-to-understand information — Timely delivery of high-value-added information to beneficiaries

### Specific Initiatives

In September 2023, we began distributing "Monthly Say! Channel" videos which convey information on current economic trends in a clear and approachable manner.

In response to the start of the new NISA system, we have also developed "Zenzo Plus" and "Rokuyon" designed to support long-term wealth accumulation, which started in January 2024. This was followed by the registration of "Tetsusan" in February as a product eligible for the Tsumitate Investment Quota.



## ESG Activities for the Next Decade

Aozora Investment Management is undertaking a range of cross-sectional initiatives within the company to become "an asset management company that opens up the future for the next decade."

As an asset management company, we establish and manage investment trusts by taking into consideration ESG as the primary selection criterion, and also participate in the Plastics Smart campaign promoted by the Ministry of the Environment as part of our social contribution activities.

First, as our immediate issue, we believe that it is important to live with plastic smartly. We reviewed our in-house supplies made of polypropylene, and then switched plastic file folders to paper file folders as well as plastic carrier bags to Ecomark-certified nonwoven bags. We have also introduced ballpoint pens that are made almost 100% of post-consumer recycled resin, alongside participating in activities to collect used contact lens cases that are raw materials for the pens.

Our executives and employees will continue to share ideas and work together to pass on an affluent society to the next generation.



## Aozora's Businesses

### Primary Group Companies

#### Aozora Securities



**Satoru Mizumachi**  
Representative Director  
and President

Aozora Securities primarily engages in supporting retail customers in their wealth accumulation and securities investment management consulting services for regional financial institutions.

As we are in the midst of a major turning point in international affairs and financial markets, we will strive to better understand the diverse needs of our customers and provide value-added proposals in accordance with our Basic Policy on Customer-Oriented Business Management.

We have been working to create new financial added-value as a securities firm in the Aozora Group, including the commercialization of security tokens as described below.

#### Major Businesses

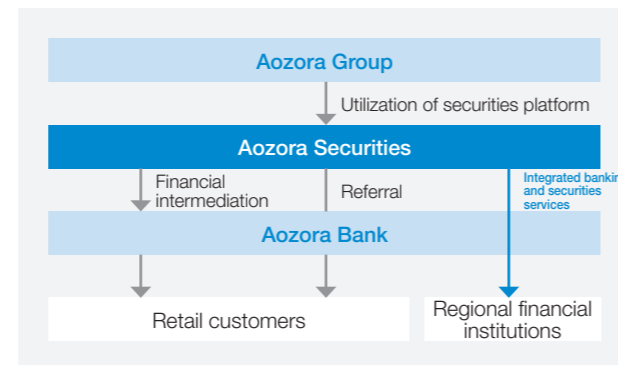
- Provision of products to retail customers through Aozora's Retail Banking Group
- Management of equities and a diverse range of bonds
- Sales of financial products to institutional investors in collaboration with Aozora Bank

#### Strengths

- Role as a business platform in the securities sector of the Aozora Group, including financial intermediation, underwriting, and equities
- Timely development of new products in response to customer needs, including real estate products in small-lot and loan asset securitization products
- Provision of products tailored to the needs of institutional investors through a consulting-based sales approach

#### Specific Initiatives

In our retail business, we are strengthening our customer-oriented business management initiatives and also working with Aozora Bank to create new value, including involvement in digital securities. In our financial institutions business, we propose optimal strategies to support the seamless management of securities portfolios, including products that meet increasingly diverse needs.



#### New Value Creation Areas in Finance

##### Security Token Business Initiatives

We are currently working on the commercialization of security tokens (ST), also known as "digital securities." STs are electronically issued securities that can provide new value to customers by taking advantage of the features of block-chain and other technologies.

Our current plan is to provide STs that enable small-lot investments in single or multiple real estate properties mainly to retail customers. For the future, we will offer new value through tokenization to a wider range of stakeholders in addition to retail customers as well as for a variety of assets not limited to real estate.

The tokenization market, including STs, is still developing and requires new ideas and ingenuity. As a means to embody Aozora's management philosophy, we intend to take on challenges in the area of creating new financial added-value and contribute to the development of society.

#### Aozora Loan Services

##### Major Businesses

- Support for customers' business recovery and restart
- Management and collection of normal and delinquent loans

##### Strengths

- Emphasis on compliance as well as our philosophy of "protecting borrowers' interests" as a bank-affiliated servicer with proven experience and a 25-year track record.
- Response to a wide range of projects, from recovery-oriented to business closure-oriented projects and from large to small projects, leveraging regional recovery funds
- Support for customers' business recovery and restart efforts through the long-term holding of loans receivable in cooperation with external experts



**Kimiaki Satou**  
Representative Director  
and President

#### GMO Aozora Net Bank



**Takehito Kaneko**  
Chairman,  
Representative Director

**Takeshi Yamane**  
President,  
Representative Director

##### Major Businesses

- Provision of "corporate accounts," "domestic transfers," "debit cards," and "business loans" services for corporate customers including small businesses and start-ups
- Provision of banking functions through BaaS (Banking as a Service), including API connections

##### Strengths

- Provision of online services such as "Pay-easy" (highly tailored to corporate needs), repayment of loans from the Japan Finance Corporation, as well as payment of national tax and social insurance premiums via direct debit
- Prompt provision of services that meet the needs of corporate customers by leveraging the strengths of our in-house systems development
- Maximization of the value of financial services in tandem with business partners by offering each of our banking functions as a standalone service through BaaS

#### Aozora Regional Consulting

##### Major Businesses

- Advisory services on business assessments and solutions to management issues regarding the corporate clients of regional financial institutions
- Consultation on solutions to regional issues and promotion of business matching for regional revitalization

##### Strengths

- Accumulated track record in advisory services for regional financial institutions
- Provision of advisory services by leveraging Aozora's unique network across industrial, academic, governmental and financial sectors
- Conducting seminars on new themes such as personal wealth accumulation, environmental issues and finance, and financial innovation



**Nobuyuki Horiuchi**  
Representative Director  
and President

## Aozora's Businesses

### Primary Group Companies

#### Aozora Real Estate Investment Advisors

##### Major Businesses

- Origination and management of real estate investment funds
- Intermediation of trust beneficiary rights in real estate, private placement of ownership interests in funds
- Real estate finance consulting

##### Strengths

- Real estate finance resources developed within the Aozora Group
- Fund operations and risk management in strict compliance with the standards of a disciplined financial institution for a diverse network of investors centered on regional financial institutions
- Provision of solutions based on the position of being involved in real estate finance from diverse perspectives, including those of a lender, investor, arranger, servicer, and trustee



**Takashi Imai**  
Representative Director  
and President

#### Aozora Corporate Investment



**Akifumi Kubo**  
Representative Director  
and President

##### Major Businesses

- Venture capital business
- Investments and lending focused on venture debt\*<sup>1</sup>
- LP investment business for domestic emerging venture capital (fund of funds)

\*<sup>1</sup> A general term for financial products with features of both equity and debt finance, such as convertible bonds and straight corporate bonds with stock options

##### Strengths

- First mover advantage in venture debt investments and lending by leveraging knowledge of equity and debt finance
- Financial and business support system tailored to each growth phase in collaboration with Group companies

#### ABN Advisors

##### Major Businesses

- M&A advisory services
- Consulting on business succession and other important issues for SMEs throughout Japan

##### Strengths

- Provision of customized solutions with reliability and reassurance that are tailored to each customer's situation as a bank-affiliated M&A specialist company
- Advisory staff are primarily comprised of personnel in their 20s to early 30s with knowledge in solving business succession issues



**Keiichi Yamamoto**  
Representative Director  
and President

#### Aozora Europe Limited

##### Major Businesses

- Portfolio management with a focus on corporate loans in Europe
- Information collection and analysis for products that contribute to the development of the Group's international operations, including European private credit
- Gathering and delivering information on ESG and SDGs

##### Strengths

- Sourcing, risk management, and monitoring by professional staff well-versed in European markets
- A system for building well-diversified, high-quality portfolios that respond quickly to changes in social and industrial structures as well as geopolitical risks



**Shinichi Takeda**  
Managing Director

#### Aozora North America, Inc.



**Anthony Pui**  
President

##### Major Businesses

- Management of the North American corporate loan portfolio

##### Strengths

- Deal sourcing and risk management by local employees well-versed in North American corporate loans
- Real-time local monitoring of trends in the North American corporate loan market, issuers, and various industries
- Establishment of systems that can respond quickly and appropriately to rapid market fluctuations and other risks

#### Aozora Asia Pacific Limited

##### Major Businesses

- Management of the investment and lending portfolio in the Asia-Pacific (APAC) region
- Information collection and analysis in the APAC region

##### Strengths

- Nearly 20-year presence in the APAC region's investment and lending market, based in Hong Kong
- Uncovering unique and attractive business opportunities through close networking with leading local players
- Deployment of professional personnel with experience in East Asia, Southeast Asia, India, and Oceania




**Shin Kato**  
Managing Director

## Aozora's New Value Creation

### Exploring the Potential of Generative AI

The use of AI capabilities in a wide range of operations, such as for improving customer service, enhancing internal controls as well as streamlining internal and back-office operations, is expected to boost our corporate competitiveness.

Expand AI human resource development programs and external networks to begin developing personnel who will be the foundation for AI utilization




**2022.4-** **step 1**

In FY2022, we began using an external AI human resource development program, in which approximately 100 employees have participated to date. This program is designed for beginners to learn the basics of AI, allowing them to build the skills required as AI users and acquire practical capabilities through exercises.

We also develop data analysis personnel mainly through workshops with different industries as well as participation in data analysis competitions focused on financial data.

Create an environment for the business use of generative AI under a flexible project management structure (system implementation)



**2023.7-** **step 2**

A third-year employee was selected from among candidates as project manager for prototype development under a flexible project management structure. We have also promptly established an environment for the use of generative AI by working closely with our legal division, including in-house legal counsel, while giving top priority to information management that is important to banks.

Leverage the human resources and systems we have cultivated and expand to full-scale business use



**2024.3-** **step 3**

With participation of approximately 600 employees recruited in-house, we are focusing on finding applications for the business use of generative AI. We have identified specific application cases, for example, for streamlining internal operations such as internal document searches, the creation of FAQs, and translation, as well as for quicker information sharing such as the preparation of meeting minutes using voice-recognition AI.

In FY2024, we plan to accelerate our initiatives for the launch of full-scale business use.

### Comments from the Project Manager



**Yuki Omori**  
Application Management Division

I started using ChatGPT in my personal life right after it was released, and I was fascinated by its potential. Driven by my desire to spread the amazing power of ChatGPT throughout the entire Bank, I launched a generative AI project.

I was primarily focused on the aspects of taking on challenges and learning. We are working daily to achieve business transformation through the use of AI, but information on technologies such as AI is updated almost every day. We are constantly exploring ways to keep up with updated information as quickly as possible, relate it to our business, and achieve transformation.

Various problems emerged in the course of the project, including technical difficulties and communication issues with internal experts. However, sharing such problems among the team and working together with senior colleagues to come up with solutions have led us to a more cohesive team and better results.

I would like to continue exploring the potential of AI even further and work on maximizing its business applications, without being afraid to take on new challenges.

# Sustainability Promotion

Connection with  
Aozora's Strategic  
Investments Business

- [Fostering](#)
- [Change](#)
- [Recovery](#)



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

**We will make ongoing efforts toward a better future and actively contribute to the sustainable development of society.**

Aozora aims to create both social and economic value by promoting sustainability that is integrated with its management strategy in all of its financial services and activities as a business entity.

We have set Aozora's Sustainability Targets as management goals centered around our focus areas and we are actively promoting them. In addition, under Aozora's ESG Support Framework, which supports customers' environmental, social, and governance initiatives, we have expanded our support services by introducing new sustainable financing and collaborating with outside partners. We will support our customers in resolving their ESG challenges from both a financial and non-financial perspective.

Challenges for achieving sustainability are varied, and must be carefully addressed from a long-term perspective. It is important that each of us recognize problems, take an interest, think of them as our own business, and then take action to solve them.

We will continue to move forward steadily and contribute to the sustainable development of society, aiming for a better future as envisioned by each of us.

## Aozora's Basic Approach to Sustainability Promotion

Through communications with our stakeholders, we will use our imagination in identifying current and future issues, and continue to take on the challenge of achieving both economic and social value

## Governance

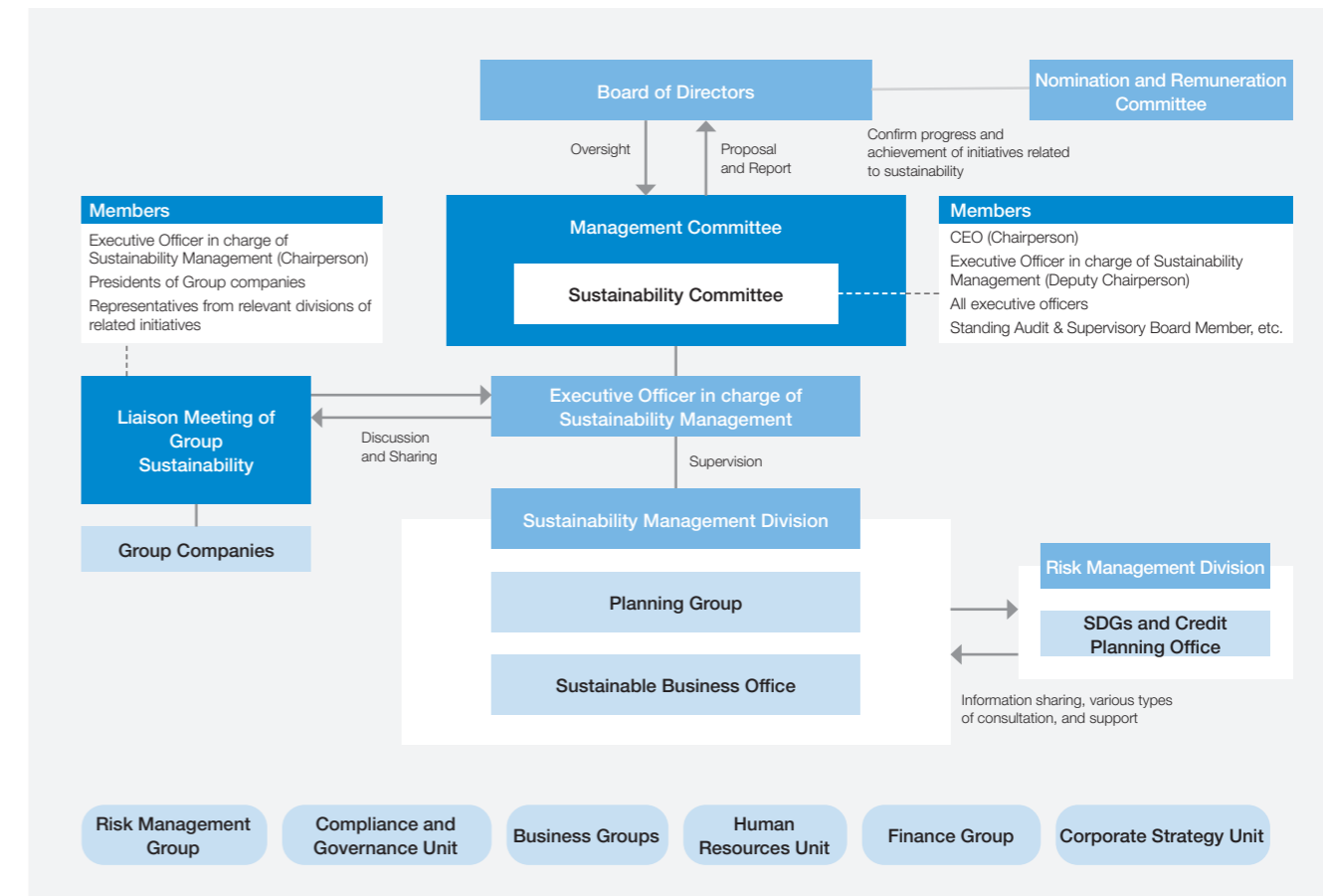
### Sustainability Promotion System

Under the supervision of the Board of Directors, Aozora has established a sustainability promotion system led by the Sustainability Committee to advance sustainability initiatives that are integrated with its overall management strategy.

The Board of Directors, which is composed of directors with diverse backgrounds, including those with expertise and experience related to sustainability, resolves matters

regarding the setting and reviewing of Aozora's Sustainability Targets, which are management goals centered on Aozora's focus areas, and regularly reviews the status of their progress.

The status of progress and achievement of Aozora's Sustainability Targets is considered an important qualitative factor in determining their remuneration.



\* Please refer to page 19 of FY2023 Securities Report for the main agenda of the Sustainability Committee and Liaison Meeting of Group Sustainability in FY2023 (Japanese only).

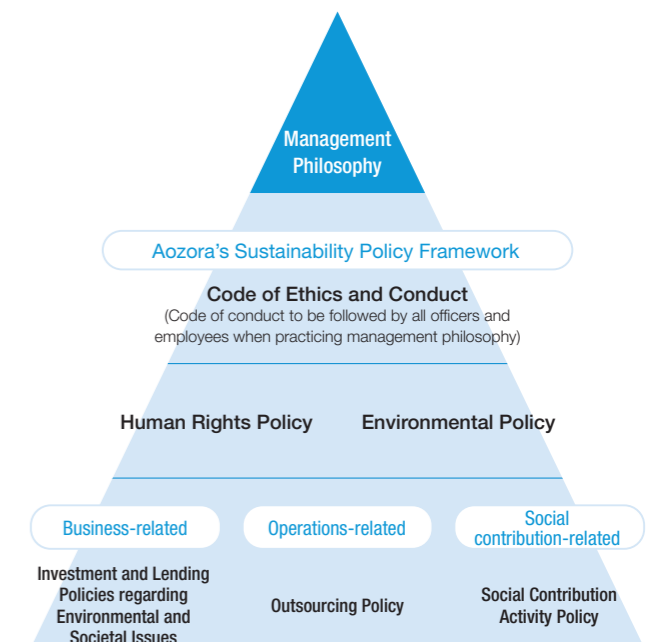
## Sustainability Policy Framework

We have established sustainability-related policies, including our Human Rights Policy and Environmental Policy, based on the Code of Ethics and Conduct, which is a code of conduct to implement our management philosophy.

### Initiatives Taken in FY2023

- Revised our Human Rights Policy and Environmental Policy in consideration of response to international standards and moves to clarify responsibilities in supply chains
- Revised Investment and Lending Policies regarding Environmental and Societal Issues from the perspectives of engaging in transition finance, respect for human rights, and preserving biodiversity
- Established the Social Contribution Activity Policy to clarify the significance and positioning of donations, volunteer activities, and other social contribution activities of the Group

We will continue to review these policies as needed in the future in response to trends in society.



# Sustainability Promotion

## Strategy

### Key Sustainability Issues (Materiality)

In this context, Aozora defines Materiality as “issues we should focus on to realize our management philosophy, based on social trends and stakeholder expectations and demands, as well as their importance in regard to corporate management across the Group.”

Aozora has selected as its Materiality issues “response to climate change” and “respect for human rights” to address global issues on a worldwide basis; “promoting industrial transition,” “expanding corporations’ access to financial services,” “promoting DX,” and “business and

asset formation, transfer to the next generation” to create social and economic value through focus businesses; and “governance/compliance” and “improving sustainability of human capital” as the management foundation essential for Aozora’s sustainability.

Aozora will continue to flexibly review Materiality issues in response to changes in the business environment while building a PDCA cycle that is integrated with our management strategy, and will steadily promote Group-wide efforts to resolve issues.

### Aozora's ESG Support Framework

Aozora provides both financial and non-financial solutions to support customers’ initiatives to solve environmental, social, governance and other sustainability issues through the Aozora’s ESG Support Framework.

In the financial area, we have obtained a second opinion from Rating and Investment Information, Inc. (R&I), which has determined that our evaluation framework and evaluation system for our green loans, social loans, sustainability-linked loans and Positive Impact Finance were compliant with international principles and Japan’s guidelines. (Aozora’s ESG Framework Loan). This enables us to make appropriate sustainable finance proposals in accordance with our

customers’ recognition of the issues and circumstances.

In the non-financial area, we support customers’ initiatives for decarbonization through collaboration with companies providing solutions related to decarbonization. We will build up and expand the range of our solutions such as support for establishing management systems and initiatives for human capital going forward, not limited to the decarbonization area.

Given that the development of human resources who are experts in sustainable business is an important issue for financial institutions, we have been focusing on this area by proactively holding training and study sessions.

### Overview of Aozora's ESG Support Framework



### Promoting Sustainable Finance

Aozora has set the goal of sustainable financing at 1 trillion yen (including environmental financing of 700 billion yen) by FY2027 (for seven years) as part of Aozora’s Sustainability Targets.

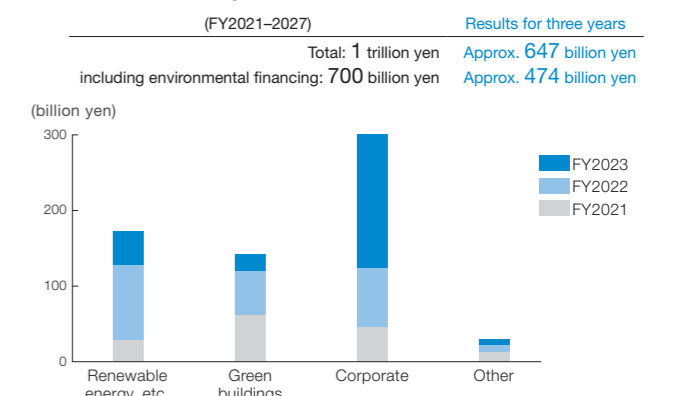
We are striving to achieve these targets by proactively engaging in corporate finance, including green loans and sustainability-linked loans, as well as environment-related project finance mainly related to renewable energies we have been focusing on and green building finance.

In terms of sustainable financing for corporate customers (corporate finance certified by a third-party entity), we have been expanding the initiatives, including the arrangement of green loans, social loans, sustainability-linked loans, and Positive Impact Finance in Japan.

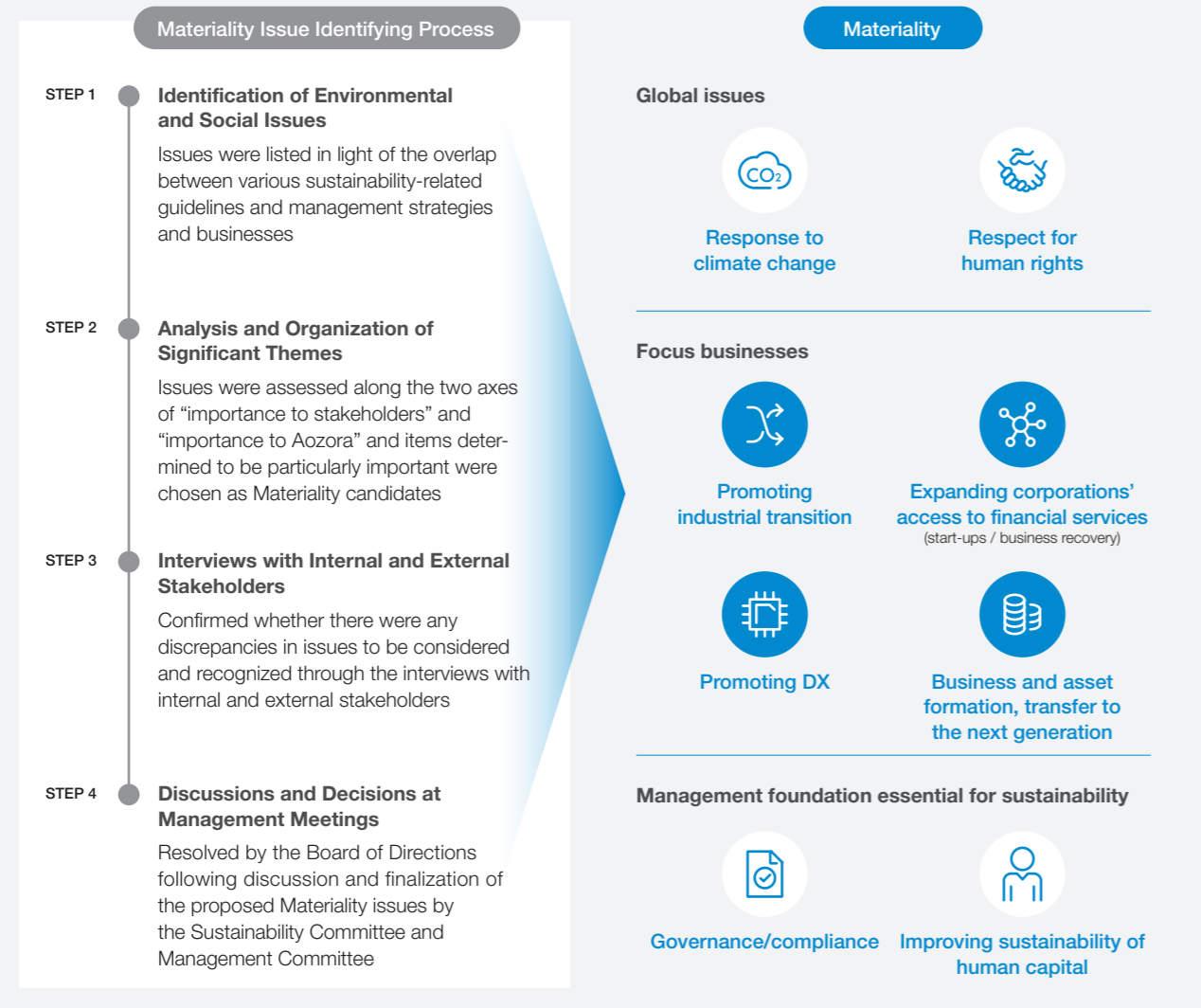
We started Aozora Positive Impact Finance initiatives in FY2023 and continuously support our customers in their

development and expansion of positive impacts or mitigation of negative impacts on the environment, society, and economy arising from their activities by providing comprehensive analysis and evaluations on these impacts.

### Sustainable Financing Amount



We have selected the following eight Materiality issues, taking into consideration the Materiality issue identifying process.



# Sustainability Promotion

## Risk Management

### Risk Appetite Framework / Key Risks

We have established a Risk Appetite Framework to appropriately manage risk toward achieving business strategies and financial plans, and to enhance corporate value in a sustainable way.

In addition, we have established an integrated risk management framework that categorizes risk by risk factors including credit risk, market risk, liquidity risk, and operational risk, and manage risk according to each risk characteristic to identify, evaluate, and control risk overall.

When recognizing key risks, risks related to sustainability are incorporated into each key risk category and used in discussions for business plans by the Board of Directors,

Management Committee, and Sustainability Committee. We have specifically identified the following as risks related to sustainability.

- Increase in credit costs: Decline in the corporate value of our investment and loan portfolio companies due to delayed response to climate change or respect for human rights
- Delays in Aozora's structural transition or business model conversion: Higher foreign currency funding costs and loss of sustainable financing opportunities due to lower ESG ratings from an external evaluation of being negative about our sustainability promotion.

 For details of the Risk Appetite Framework, please refer to page 12, and for details about Key Risks, please refer to page 117.

### Investment and Lending Policies regarding Environmental and Societal Issues

Regarding issues that may have a negative impact on the environment or on society, we have established Investment and Lending Policies regarding Environmental and Societal Issues that outline policies for “cross-sectoral” and “specific sector,” and prohibit or discourage investments and lending to companies or projects that may have a negative impact.

The Policies are also intended to reduce the risk of transactions with companies that have social issues such as environmental and human rights concerns and do not take appropriate actions in consideration of stakeholder expectations.

 For details on Investment and Lending Policies regarding Environmental and Societal Issues, please refer to the Financial and Corporate Data Section.

## Metrics and Targets

### Aozora's Sustainability Targets

We have announced the establishment of Aozora's Sustainability Targets aimed at creating economic and social value and shared across the entire Group.

Aozora's Sustainability Targets are comprised of four categories, including promoting Aozora's Strategic

Investments Business and response to climate change. We have set medium- to long-term numerical targets centered on Aozora's focus areas and commit to contributing sustainably to the environment and society.

 For details on Aozora's Sustainability Targets, please refer to page 34.

## Polices on Initiatives in Sectors That Have or May Have a Negative Impact on the Environment and Society

		Businesses, etc. to which investments and lending are prohibited
Cross-sectoral	Credit prohibited	<ul style="list-style-type: none"> <li>• Businesses which have a negative impact on wetlands registered under the Ramsar Convention</li> <li>• Businesses which have a negative impact on UNESCO World Heritage Sites (with the exception of businesses that have received the advanced consent of the government of the relevant country and UNESCO)</li> <li>• Businesses which violate the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) (in consideration of the reservation clause of each country)</li> <li>• Customers that are associated with businesses involved in child labor, forced labor, or human trafficking</li> <li>• Customers that are associated with businesses involved in, or intended to involve, illegal acts with respect to the laws and regulations of the country in which they are located, acts that violate international environmental or human rights norms if the country in which they are located is behind in environmental or human rights legislation, and acts against the public order / conventional morality, as well as antisocial forces</li> </ul>
	Credit that requires close attention	<ul style="list-style-type: none"> <li>• Businesses which have a negative impact on the regional societies of indigenous peoples</li> <li>• Businesses that require the expropriation of land leading to the involuntary relocation of inhabitants</li> <li>• Businesses which have a negative impact on areas of high conservation value</li> <li>• Businesses which cause or aid human rights violations in conflict areas</li> </ul>
Project financing (Equator Principles)		When considering providing financing or project finance advisory services for projects which fall within the scope of the Equator Principles, Aozora will verify adherence to the requirements set out in the Principles.
Specific sector (credit restricted/prohibited)	Coal-fired power generation	Aozora will not provide financing for the construction of new coal-fired power plants or expansion of coal-fired power generation facilities. Furthermore, the Group will proactively provide investments and lending to support its customers' initiatives that help contribute to the transition to a decarbonized society, including carbon dioxide capture, usage, and storage technologies.
	Coal mining	When considering making investments or lending for the development of a new coal mine, Aozora will verify the customer's consideration of environmental and social issues. Aozora will not make any investments or lending for mountaintop removal (MTR) coal mining that has a substantial impact on the environment, nor for the development of new coal mines that supply power generation operators with coal.
	Oil and gas	When considering investments and lending for oil sands, shale oil and gas, oil and gas pipelines, and development in the Arctic Circle (the area 66°33' north of the Equator), Aozora will verify the customer's consideration of environmental and social issues.
	Large-scale hydroelectric power generation	When considering investments and lending for new large-scale hydroelectric power generation (with an embankment of 15 meters or higher, as well as output of 30,000 kW or above), Aozora will verify the customer's consideration of environmental and social issues.
	Deforestation	When considering investments and lending for businesses involved in deforestation for timber, paper, pulp, etc., Aozora will verify the customer's consideration of environmental and social issues.
	Palm oil	When providing investments and lending for the development of palm oil plantations, Aozora requests that its customers publicly announce that they will make an NDPE (No Deforestation, No Peat, No Exploitation) commitment. When considering investments and lending for businesses associated with the distribution, etc., of palm oil, Aozora will verify the customer's consideration of environmental and social issues, including whether it has obtained RSPO (Roundtable on Sustainable Palm Oil) certification.
	Tobacco manufacturing	When considering investments and lending related to tobacco manufacturing, Aozora will verify the customer's consideration of environmental and social issues, including health hazards as well as child and forced labor.
	Inhumane weapons	Aozora will not make any investment or loan related to the manufacturing of inhumane weapons such as cluster munitions.
Nuclear power, plastics, shipping, mines	When considering investments and lending for related businesses, Aozora will gather information regarding the customer's consideration of, and stance on, addressing environmental and social issues.	

# Initiatives to Address Climate Change (Response to TCFD Recommendations)

## Governance

Addressing sustainability is a key element in the response to climate change and, under the supervision of the Board of Directors, Aozora has established a program led by the Sustainability Committee to advance sustainability initiatives that are integrated with our management strategy.

\* Please refer to page 76 for governance related to sustainability programs.

## Strategy

As initiatives towards becoming carbon neutral advance throughout the world, Aozora clearly recognizes the role that it should play in order to contribute to realizing a decarbonized society as a financial institution and has identified response to climate change as a Materiality issue.

\* Please refer to page 32 for details about Materiality.

Specific recognition and initiatives regarding risks and opportunities related to climate change are as follows. To respond to environmental changes in the future, we will review multiple cases and risk classifications.

### Opportunities Related to Climate Change

Opportunity cases	Timeframe
<ul style="list-style-type: none"> <li>Expand initiatives in green energy finance, transition finance, and decarbonization innovation finance, and promote decarbonization domestically and overseas</li> <li>Increase loan initiatives for Aozora's ESG Support Framework and expand opportunities to provide solutions taking into account customers' needs regarding support for transitioning to decarbonization</li> <li>Continue sales of "Juunen Toiro" and "Manten Kansoku," which are ESG-related investment trusts, and newly establish impact-related investment trusts</li> <li>Advise on building sustainability promotion systems for business partners and build and strengthen relationships</li> <li>Identify new business opportunities through collaboration with companies engaged in environment-related businesses (including venture companies)</li> <li>Generate further synergies with Aozora's Strategic Investments Business (support industrial transition)</li> </ul>	Short- to medium-term
<ul style="list-style-type: none"> <li>Increase financing opportunities for new energy-related technology developments in areas such as hydrogen and ammonia, CCS and DAC</li> <li>Increase financing opportunities for fundamental fuel conversion and energy-saving promotion in the manufacturing and transport sectors</li> <li>Increase diversity of transaction opportunities with retail customers who share our new value of "contributing to the realization of a decarbonized society"</li> </ul>	Medium- to long-term

### Risks Related to Climate Change (Transition Risk, Physical Risk)

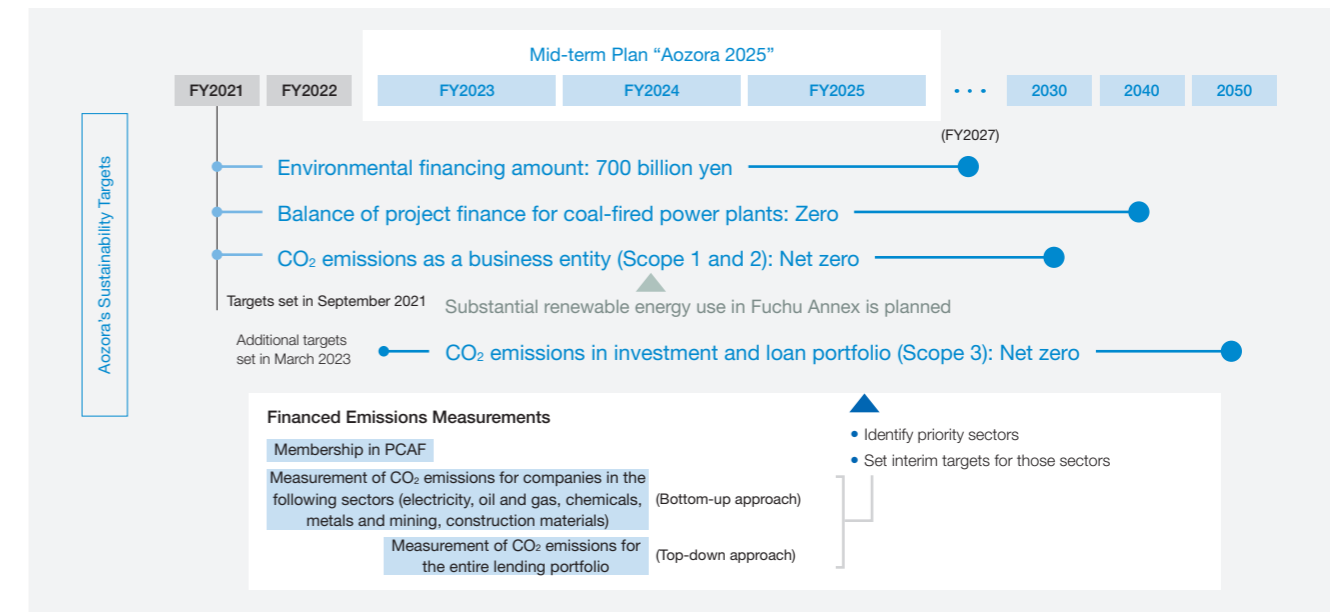
Risk Classification	Transition Risk Examples	Timeframe	Physical Risk Examples	Timeframe
Credit risk	<ul style="list-style-type: none"> <li>Risks arising from impairment to the credit portfolio and losses due to deterioration in customers' business performance or financial condition caused by policies, technological advances, changes in consumer preferences, etc.</li> </ul>	Short- to long-term	<ul style="list-style-type: none"> <li>Risks arising from impairment to the credit portfolio and losses due to deterioration in customers' business performance or collateral damage caused by a natural disaster</li> <li>Risks arising from significant adverse impact on Aozora or customers' businesses due to a greater frequency in cases of heatstroke or viral pandemics</li> </ul>	Short- to long-term
Market risk	<ul style="list-style-type: none"> <li>Risks arising from incurring losses or damage resulting from fluctuations in the values of securities held, financial derivatives, etc., caused by such issues as a decrease in customers' earnings or impairment of existing assets</li> </ul>	Short- to long-term	<ul style="list-style-type: none"> <li>Risks arising from incurring losses or damage resulting from fluctuations in the value of the securities portfolio, etc. due to market disruption caused by the impact of extreme weather, or changes in the medium- to long-term outlook or the expectations of market participants</li> </ul>	Short- to long-term
Liquidity risk	<ul style="list-style-type: none"> <li>Risks arising from limited funding sources, deposit outflows or cash flow pressure due to a decline in Aozora's creditworthiness due to factors such as a delayed response to transition risk</li> </ul>	Short- to long-term	<ul style="list-style-type: none"> <li>Risks arising from increased demand for funding from customers affected by extreme weather, and an increased outflow of funds for reconstruction and recovery</li> </ul>	Short- to long-term
Operational risk	<ul style="list-style-type: none"> <li>Risks arising from increases in equipment expenses for measures to reduce CO<sub>2</sub> or to strengthen business continuity</li> </ul>	Short- to long-term	<ul style="list-style-type: none"> <li>Risks arising from incurring losses or damage due to interruption of operations at the Head Office, branches, and data centers as a result of damage caused by extreme weather</li> </ul>	Short- to long-term
Reputation risk	<ul style="list-style-type: none"> <li>Risks arising from deterioration in Aozora's reputation due to lack of a response to climate change or assessments by stakeholders of our response being inappropriate or insufficient</li> <li>Risks arising from deterioration of Aozora's reputation and adverse impact on employment due to continued transactions with customers who are not sufficiently environmentally conscious and due to our delays in its transition</li> </ul>	Short- to long-term	<ul style="list-style-type: none"> <li>Risks arising from deterioration of Aozora's reputation and suspension of business due to lack of support for customers affected by extreme weather</li> </ul>	Short- to long-term

\* Definitions of short-, medium-, and long-term: Aozora defines short-term as up to 3 years; medium-term as 3-10 years, and long-term as 10-30 years. Short-term is defined to align with duration of the Mid-term Plan (up to 3 years).

## Roadmap to Becoming Carbon-neutral

As part of our medium- to long-term initiatives for the risks and opportunities related to climate change, Aozora has developed a roadmap and specific plan of action to achieve becoming carbon-neutral in line with the items of the Paris Agreement.

We will update our action plan as necessary and promote communication with our stakeholders through proper disclosures regarding the progress.

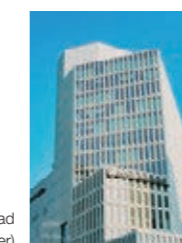


## Initiatives to Achieve Net Zero CO<sub>2</sub> Emissions as a Business Entity

We will continue working towards achieving net zero emissions in Scope 1 and Scope 2 by FY2030, which is one of Aozora's Sustainability Targets. Towards this goal, we will focus on initiatives to reduce environmental load as a business entity by promoting upgrades to energy-saving equipment/devices as well as adopting self-supply sources and responding to vendors.

### ■ Conversion to Renewable Energies, Reduction of Electricity Used

Aozora's Head Office, which is located in the Sophia School Corporation Sophia Tower, uses only renewable energy-driven electricity. In addition, the Head Office is equipped with highly insulated glass, a natural ventilation system, and rooftop greenery. With office areas employing LED lighting with automatic dimming control systems, the environmentally friendly building also minimizes power consumption compared to the level of traditional equipment.



Aozora Bank Head Office (Sophia Tower)

We are also gradually transitioning to green electricity at each branch office, starting with the Nagoya Branch, followed by the Nihonbashi Branch in April 2023, and the Sapporo Branch in conjunction with its relocation in August 2023.

### ■ Upgrading to Energy-saving Equipment at Offices

Fuchu Annex proceeds with its upgrade to energy-saving equipment in consideration of impact on the environment, and as of the end of FY2023, approximately 80% of lighting in the annex had been converted to LED, and the air conditioning system has eliminated air-cooled chillers and replaced them with the latest water-cooled air conditioning system. Moreover, nearly all lighting in almost all branches has been converted to LED.

# Initiatives to Address Climate Change (Response to TCFD Recommendations)

## ■ Converting to Ecofriendly Vehicles and Installing EV Battery Charging Devices

Aozora has made progress in replacing company cars at our Head Office and branch offices with ecofriendly vehicles, which accounted for 92% of our fleet as of May 2024. In addition, we installed battery chargers for electric vehicles and PHV on the first floor of the Head Office in FY2023, making it available not only for company cars but also for our customers' use.

## Supporting Customers' Initiatives to Decarbonize

Companies left behind in engaging climate change have the possibility of facing significant risks such as enormous carbon burdens in the future, therefore Aozora believes we have an important role in supporting customers' initiatives to decarbonize.

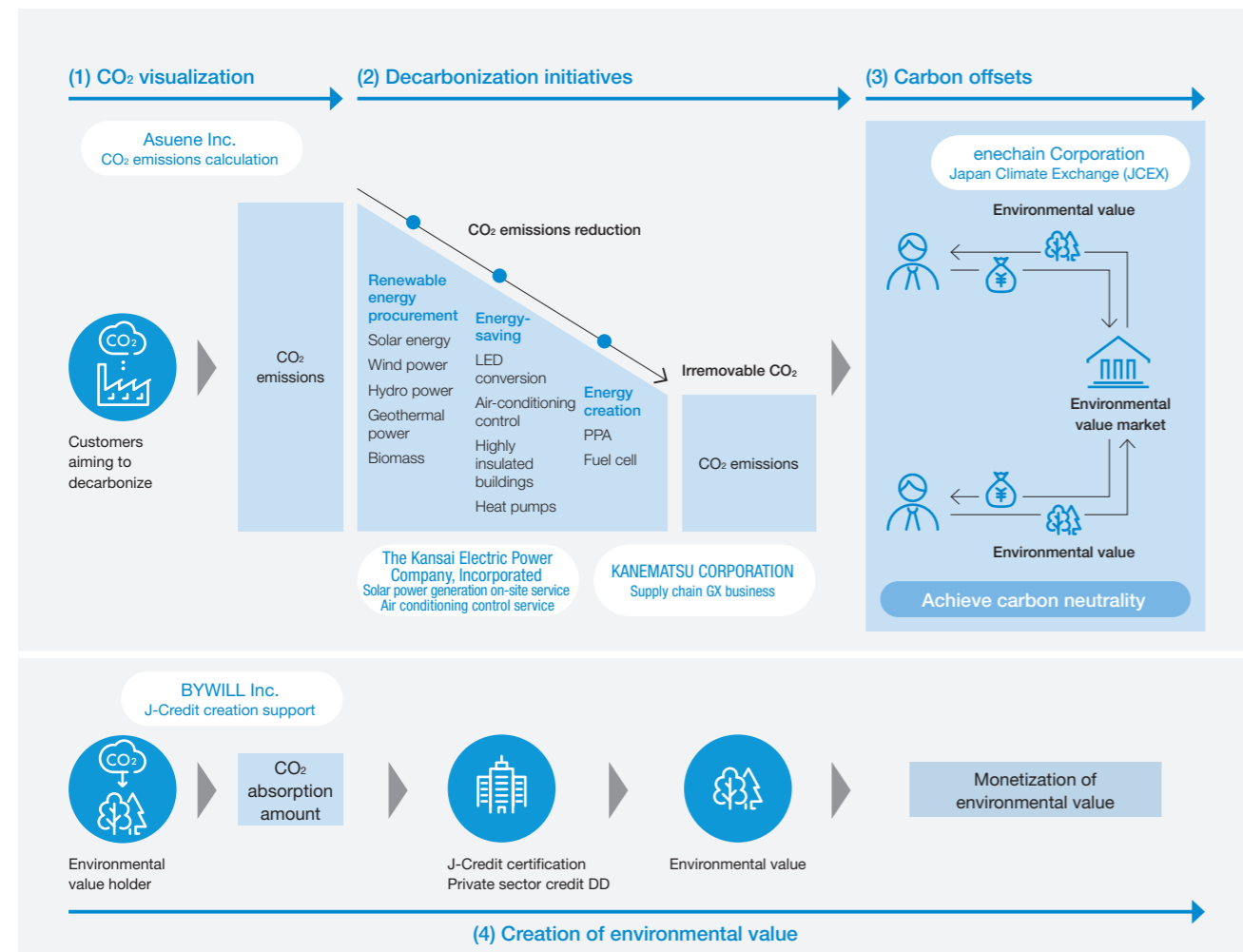
## ■ Carbon Offset Initiatives

Aozora is focused on reducing CO<sub>2</sub> emissions at our Fuchu Annex, which also serves as a data center. In FY2022, we applied carbon offsets using J-Credits\* for the hot and cold water used in the building. In FY2024, we plan to substantially convert the consumed energy to renewable energy.

\* J-Credit: A program in which the government certifies the amount of greenhouse gas emissions (such as CO<sub>2</sub>) reduced through introduction of energy-saving equipment and the use of renewable energy, or amount removed through appropriate forest management, as "credit."

Moreover, advances in customers' decarbonization led to net zero CO<sub>2</sub> emissions in Aozora's investment and loan portfolio, so we have built a decarbonization support framework and provide multifaceted support.

## Customers' Decarbonization Support System in Aozora's ESG Support Framework



## Status of Carbon-related Assets

Aozora discloses the status of outstanding loans and percentages by sector for carbon-related assets, taking into account the TCFD recommendations.

Carbon-related Assets (loan outstandings) (As of March 31, 2024)

Sector	Loan outstandings (billion yen)	Percentage	Sector	Loan outstandings (billion yen)	Percentage
Oil and gas	63.7	1.6%	Metals and mining	46.5	1.1%
Coal	—	—	Chemicals	98.7	2.4%
Electricity*	76.4	1.9%	Construction materials	15.2	0.4%
<b>Energy sub-total</b>	<b>140.0</b>	<b>3.4%</b>	Capital goods (buildings, etc.)	157.4	3.9%
Air cargo transportation	5.7	0.1%	Real estate management/development	1,122.8	27.6%
Air passenger transportation	2.6	0.1%	<b>Materials, construction materials sub-total</b>	<b>1,440.6</b>	<b>35.4%</b>
Maritime transportation	8.0	0.2%	Beverages	9.5	0.2%
Rail	23.0	0.6%	Agriculture	0.1	0.0%
Road transportation	12.2	0.3%	Packaged foods/meat	14.2	0.4%
Vehicles/components	21.5	0.5%	Paper/forest products	31.1	0.8%
<b>Transportation sub-total</b>	<b>72.9</b>	<b>1.8%</b>	<b>Agriculture, beverages, and forest product sub-total</b>	<b>55.0</b>	<b>1.4%</b>
<b>Total for all sectors</b>	<b>1,708.6</b>	<b>42.0%</b>			

\* Excludes renewable energy providers

## Scenario Analysis

The results of our quantitative scenario analysis until 2050 are as follows. Apart from these cases, we have also started initiatives to ascertain the impact of NGFS scenarios\* on corporate finances. Looking ahead, we will expand our knowledge of analysis methods and strive to enhance accuracy.

	Transition Risk	Physical Risk
<b>Scenario</b>	IEA (International Energy Association) World Energy Outlook STEPS (3°C) scenario, NZE (1.5°C) scenario	IPCC (Intergovernmental Panel on Climate Change) RCP 8.5 scenario (4°C scenario) / RCP 2.6 scenario (2°C scenario)
<b>Method of analysis</b>	Preliminary calculation of loss reserves increases after assessing the degree of impact on corporate customers' business results (damage to their creditworthiness) based on parameters and public information, etc. in addition to considering the increase in investment burden in the future	Preliminary calculation of increase in loss reserves arising from damage to properties after assessing the rate of damage due to the properties inundated with floods / high tides (effects of direct harm to properties and suspended business activities)
<b>Subject of analysis</b>	Electricity, energy, automotive, and real estate sectors (excluding non-recourse loans, REITs) as well as raw materials sector** (accounted for 18.4% of total loan outstandings) * as of March 31, 2023	Collateral for domestic and overseas real estate non-recourse loans (accounted for 15.1% of total loan outstandings) * as of June 30, 2021
<b>Results of analysis</b>	<ul style="list-style-type: none"> <li>Recognized that the electricity sector faced rising costs from carbon price increases, in addition to importance of the development of technologies for reducing GHG emissions and changes in the electricity mix</li> <li>Recognized that for the energy and automotive sectors it was important to respond to changes in market needs towards transition to a decarbonized society</li> <li>Recognized that the raw materials sector was comparatively highly vulnerable to rising costs from carbon price increases</li> </ul>	Confirmed that there are only a limited number of properties with a risk of damage due to flooding / high tides as many properties were robust collateral and located in areas less susceptible to natural disasters
<b>Loss reserves expected to increase</b>	In comparison with the current loss reserves, we expect an increase of up to 20 billion yen by 2040, and an increase of up to 4 billion yen in 2050 as the financial condition improves with the progress of the transition to a net-zero society	An increase of around 1 billion yen is expected in the period until 2050
<b>Valuation of financial impact, etc.</b>	Estimated loss reserves increased compared to the previous fiscal year, mainly due to considering the future investment burden in the analyzed sectors	New analysis was not conducted in FY2023, as the assumption that the impact of increased natural disasters and extreme weather is not of a nature that changes over several years We will ascertain changes in the situation, and review as necessary

\* Climate change scenarios from the Network for Greening the Financial System (NGFS)

\*\* Transition risk analysis scope: Important sectors in the credit portfolio were identified using a risk map based on the degree of impact from climate change. The selected sectors were raw materials, real estate (excluding non-recourse loans and REITs), as well as the electricity, energy, and automotive sectors, which have comparatively small exposure but a significant impact.

# Initiatives to Address Climate Change (Response to TCFD Recommendations)

## Risk Management

We manage climate change risk as an important financial risk within the traditional financial risk categories, including credit risk, market risk, liquidity risk, and operational risk, and integrate the management of this risk into our existing risk management framework. In addition, we incorporate climate change risk into Aozora's "Key Risks" and use it in discussions of our risk appetite and business planning to enhance the effectiveness of risk management.

When we initiate individual projects, we respond in accordance with the Aozora Bank Group Investment and Lending Policies regarding Environmental and Societal Issues. These policies are reviewed as necessary through discussions by the Management Committee and the Sustainability Committee in response to changes in the business environment, social demands, and business activities.

- For any credit transactions that are believed to fall under the prohibited credit category, the Credit Committee or Investment Committee is responsible for making credit decisions by comprehensively reviewing the background, features, and other factors of each transaction
- Our policy prohibits the financing of new projects for coal-fired power plants as well as the expansion of existing power generating facilities
- We identify, assess, and manage environmental and social risks based on Equator Principles when making investments or loans for large scale development projects
- When considering projects, we obtain the greenhouse gas emissions data of the customer where available
- We recognize the need to understand and respond to climate change, natural capital, and biodiversity in an integrated manner

### Adopting the Equator Principles

The Equator Principles are a framework to identify, assess, and manage risks and the impact on the environment and society that accompany development projects.

financing projects accompanying large-scale developments, verifies that they are carried out appropriately, avoiding or mitigating any impact on the natural environment or local communities.

Aozora has signed the Equator Principles and when

\* Please refer to Aozora's website for the number of projects financed under the Equator Principles in 2023. <https://www.aozorabank.co.jp/english/sustainability/equator/>

## Metrics and Targets

Climate change-related targets based on Aozora's Sustainability Targets are as follows.

	Targets	FY2023 Results
CO <sub>2</sub> emissions as a business entity (Scopes 1 and 2)	Net zero by FY2030	40% reduction (vs. FY2020)
CO <sub>2</sub> emissions from the investment and loan portfolio (Scope 3: category 15)	Net zero by FY2050	Refer to page 87*
Amount of project financing for coal-fired power plants	Zero balance by FY2040	25.7 billion yen
Sustainable financing amount	1 trillion yen by FY2027 (seven years) Including environmental finance of 700 billion yen	Approx. 647 billion yen Including environmental finance of approx. 474 billion yen

\* CO<sub>2</sub> emissions from the investment and loan portfolio (Scope 3: category 15) measurements based on the balance as of March 31, 2023.

## CO<sub>2</sub> Emissions from the Investment and Loan Portfolio (Scope 3: category 15)

Oil and gas	Electricity	Air cargo transportation	Air passenger transportation	Maritime transportation	Rail	Road transportation	Vehicles/components	Metals and mining	Chemicals	Construction materials	Capital goods (buildings, etc.)	Real estate management/development	Beverages	Agriculture	Packaged foods/meat	Paper/forest products	Other	Total
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### [Loans] Financed Emissions (kt-CO<sub>2</sub>)

\* Balance in the coal sector is zero, so is not listed.

Scope 1, 2	146	763	20	40	9	47	122	8	918	558	268	85	16	11	58	581	44	1,120	4,815
Scope 3	326	335	11	22	5	26	68	130	1,525	3,275	730	318	90	45	27	264	75	3,656	10,925

### Data Quality Score (1 rated highest, 5 rated lowest)

Scope 1, 2	3.1	2.8	4.8	4.0	4.0	4.0	4.0	4.4	2.3	2.3	2.0	4.2	4.2	4.0	4.0	4.2	4.0	4.1	3.8
Scope 3	3.9	4.5	4.8	4.0	4.0	4.0	4.0	4.4	3.4	3.4	2.8	4.2	4.2	4.0	4.0	4.2	4.0	4.1	4.1

### Financed Emissions Measurements Loan Outstandings (1 billion yen)

Loan outstandings	54	199	6	4	3	23	14	19	49	107	53	59	316	12	5	17	33	1,337	2,310
Measurement coverage rate (%)	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100

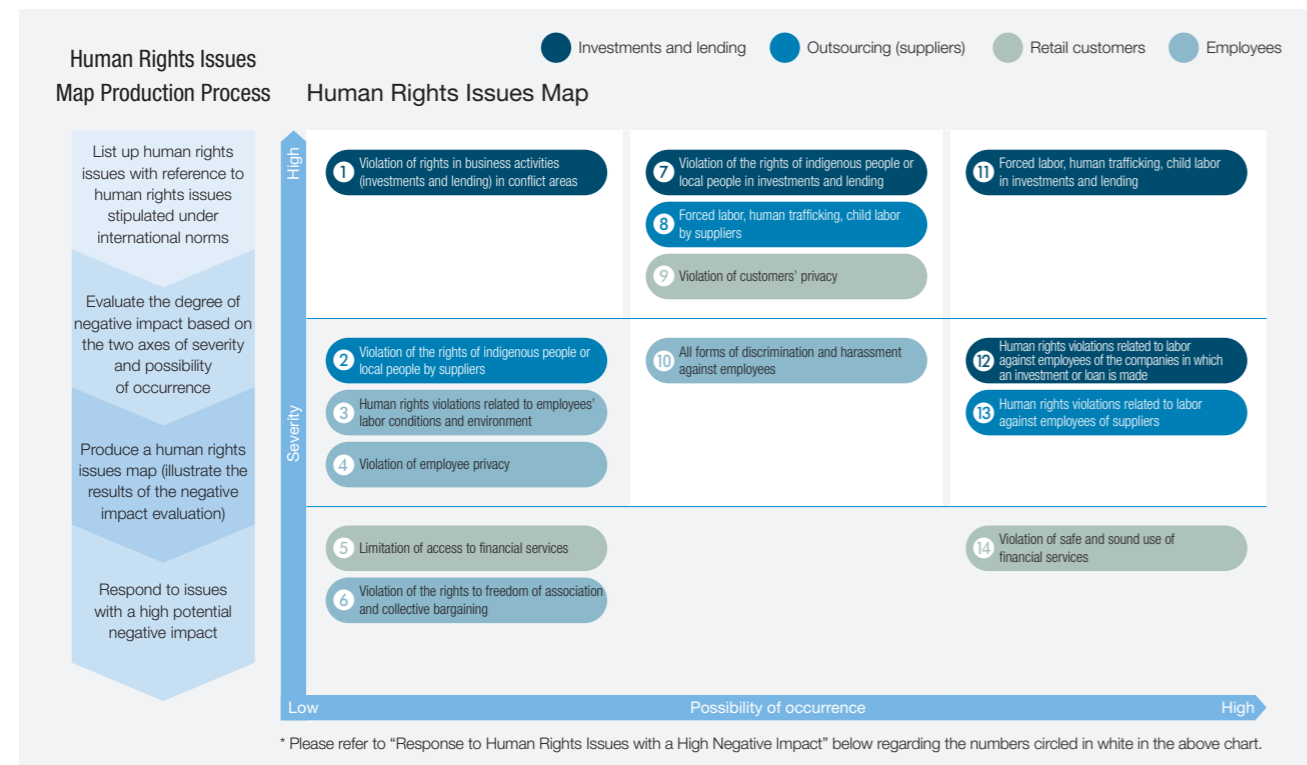
Applicable assets	Corporate loans, project financing
Applicable fiscal year	FY2022
Formulas used in calculations (PCAF scores 1-4)	Financed emissions = attribution factor x GHG emissions <Attribution factor> Loan outstandings ÷ (interest-bearing debt + equity of customers or projects) <GHG emissions> Customer's disclosed Scope 1-3 values, or estimated values if unknown
Formulas used in calculations (PCAF score 5)	Financed emissions = loan outstandings x emission factors per asset value taken from the PCAF database

\* Measurement results may change significantly due to additional data availability and accuracy accompanying expanded disclosure by customers and advances in estimation methodologies. Aozora plans to discuss the timing of setting interim targets and the target scope, etc.

## Respect for Human Rights

“Respect for human rights” is one of our Key Sustainability Issues (Materiality). While we do not violate human rights as a business entity, we also eliminate any human rights abuses, discrimination, or corruption from all businesses and supply chains involving Aozora and take appropriate countermeasures through dialogue when improvements are necessary in order to fulfill our social responsibilities. We identified and evaluated human rights issues with a high potential negative impact and developed a human rights issues map as a component of our human rights due diligence in FY2023. We will continuously inspect and review the map in tandem with changes in the business environment.

### Identification and Evaluation of Human Rights Issues with a High Negative Impact



### Response to Human Rights Issues with a High Negative Impact

Human Rights Issue	Current Response
1 7 11	Our Investment and Lending Policies regarding Environmental and Societal Issues ban investments and lending sector-wide for businesses engaged in child labor, forced labor, and human trafficking. When considering investments and lending to businesses that may violate human rights in conflict areas or aid in doing so, we examine whether customers have made efforts to reduce and avoid risks and make decisions on transactions with caution. We signed the Equator Principles and conduct initiatives considering the negative impact that large-scale development projects may have on the environment and societies.
12	Aozora determines a policy for responding to each individual case according to reputational information and other matters related to individual business partners.
8 13	We create a basic check sheet regarding outsourcing management for annual reviews of whether there is negative or reputational information related to matters such as outsourcees' violation of human rights. Furthermore, when we place an order for construction, etc., we also produce an outside vendor risk evaluation check sheet to examine and evaluate risks related to the environment and human rights.
9	Aozora has formulated the personal information protection policy (Privacy Policy) and disclosed it at branches and on its website, while implementing organizational, personnel, and technical safety management measures such as the establishment of rules for managing personal data, training, and system improvements.
10	Aozora's Code of Ethics and Conduct, which sets ethical and behavioral standards for our officers and employees, declares efforts to create workplaces free of discrimination and harassment, and we produce and disseminate a Compliance Handbook. We also regularly conduct training covering the various forms of harassment and have established the Aozora Hotline Program as a whistle-blower program.

## Response to Natural Capital and Biodiversity

Our corporate activities are dependent on our “natural capital,” which is a blessing of the earth’s natural environment and the diverse creatures living in it. We recognize that conserving natural capital is an important issue closely related to climate change and that we must address the issue from both aspects of opportunity and risk management as a financial institution.

We have established an Environmental Policy and Investment and Lending Policies regarding Environmental and Societal Issues, and are taking initiatives for achieving a sustainable environment and society.

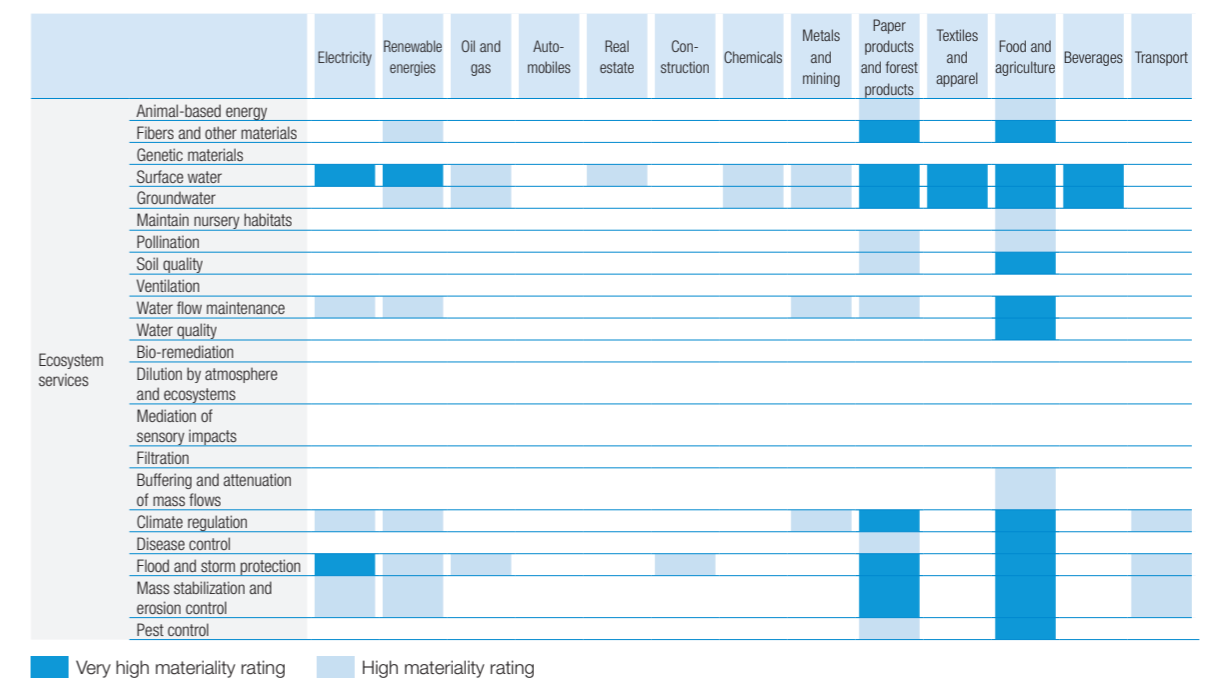
We also made an analysis of each sector’s dependencies on natural capital and their impacts utilizing ENCORE\* in accordance with the LEAP approach\*\* in order to identify relationships between our business and natural capital. We will deepen our analysis of nature-related risks and opportunities by utilizing our customers’ disclosed information, and promote comprehensive disclosure of our initiatives addressing environmental issues.

\* A tool to evaluate dependencies and impacts on nature

\*\* A systematic evaluation approach for nature-related risks and opportunities. LEAP is comprised of the four phases of Locate, Evaluate, Assess and Prepare.

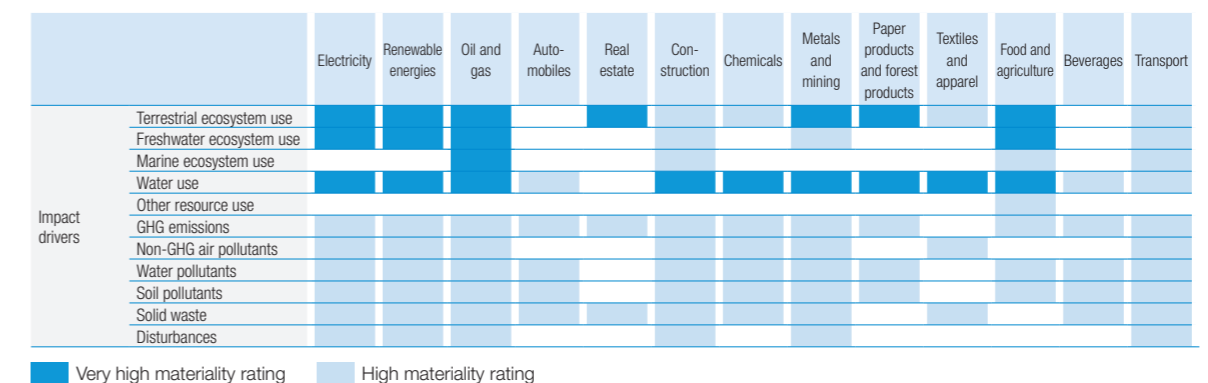
### Heat Map of Dependencies

- Many sectors are dependent on surface water, groundwater, and flood and storm control ecosystem services, of which “paper products and forest products” and “food and agriculture” sectors are strongly dependent on ecosystem services.



### Heat Map of Impacts

- A wide range of sectors have a significant impact on environment-related capital through terrestrial ecosystem use and water use.



## Social Contribution Activities

Aozora works to address social issues through the provision of financial services and participation in social contribution activities as a way to “contribute to the sustainable development of society” and “participate in society as a good corporate citizen” as stated in our management philosophy and Code of Ethics and Conduct.

### Initiative Policy

Aozora has defined its social contribution activities as “activities undertaken without requiring compensation to address social issues that are difficult to address directly through business and that are socially important yet under-supported.” We have determined the scope of activities, from the perspective of themes of particularly high urgency and themes of high interest to officers and employees, as our key areas of focus for donations and volunteering.

In FY2023, many officers and employees took part in the following social contribution activities.

#### Aozora's Main Areas of Activity

- (1) Environmental preservation (support for initiatives to reduce environmental load)
- (2) Support for the next generation who will be responsible for the future (support including financial and economic education for fostering the healthy growth of the next generation who will be responsible for the future and support for the next generation in difficult circumstances due to a range of possible factors)
- (3) Support for regions and communities (promoting regional revitalization in cooperation with local organizations in regions which have close relationships with corporate activities, such as regions where the Group conducts its business)
- (4) Support for disaster recovery (e.g. urgent support for large-scale natural disasters and humanitarian crises)

### Social Contribution Activity Results for FY2023

Main areas of activity	Amount	Number of participating volunteers
Environmental preservation	3 million yen	88
Support for the next generation who will be responsible for the future	9 million yen	60
Support for regions and communities	7 million yen	53
Support for disaster recovery	12 million yen	2
<b>Total</b>	<b>31 million yen</b>	<b>203*</b>

\* Many officers and employees took part in voluntary towel and dust cloth donations and food drive activities, but they are not included in the number of participants above as it is difficult to ascertain how many people actually took part.

### Matching Donation Program

In FY2023, we conducted a matching donation program to help widen the views of individual officers and employees and encourage their own involvement in society. This initiative collected donations from the officers and employees and added a contribution from Aozora, enabling them to participate in a social contribution activity together.

The program has continued since FY2022. In FY2023, as a new initiative, we conducted a vote among officers and employees to select organizations to receive donations. The number of participants further increased as the program allowed officers and employees to make a donation by choosing an organization in which they had a particular interest from among groups sharing the main areas of activity with Aozora.

In FY2023, we made donations to 10 organizations, including the Nature Conservation Society of Japan, NPO eboard, and Gold Ribbon Network.



Presentation ceremony for a certificate of appreciation from Gold Ribbon Network

### Food and Goods Donations

We donated towels, dust cloths, and food to Good Neighbors Japan, an NPO that supports needy families and provides assistance in times of disaster. We have been engaged with this initiative since FY2021.

### Voluntary Towel and Dust Cloth Donations

We collected towels and dust cloths from our officers and employees and donated them to be used for cleaning up and wiping away mud in times of disaster caused by typhoons or heavy rains. The donated towels and dust cloths are stored by the NPO and used in times of disaster.



Food collected in a food drive activity

### Food Drive Activities

We conducted food drive activities, in which we asked our officers and employees for their unconsumed and unopened food as donations for people in need. The collected food was delivered to single-parent families in need.

### Environmental Preservation

Tokyo's Chiyoda Ward, where Aozora's Head Office is located, designates June 6 and November 6 each year as the Chiyoda Ward cleanup days in an effort to promote cleaning and beautification activities. Volunteers from Aozora participated in a cleanup effort around the Yotsuya Head Office and Sophia University campus as part of its environmental preservation and regional contribution activities. The employees and students of Sophia University also participated, leading to a total of 88 volunteers.

### Support for the Next Generation Who Will Be Responsible for the Future

#### Joint Projects with Sophia University

Part of the tenant fees we pay to Sophia University are used mainly as scholarships for overseas students, which contributes to expanding educational opportunities for them. Since the relocation of our Head Office to the Sophia University campus in 2017, we have strengthened our partnership with the university in various ways, including the Aozora-sponsored “Basic Banking Seminar” in collaboration with the Faculty of Economics, Sophia University, and a joint project on financial education for junior and senior high school students who visit Aozora.

### Support for Regions and Communities

#### Participation in the Kanazawa Hyakumangoku Festival

Employees from the Kanazawa Branch, together with their families, join the “Odori Nagashi” parade in the “Kanazawa Hyakumangoku Festival” every year. The Branch also participated in the “Ishikawa Hyakumangoku Cultural Festival 2023” as a public relations volunteer over 44 days from October 14, 2023.



Members who participated in the Kanazawa Hyakumangoku Festival

### Utilization of Support for Disaster Recovery and Volunteer Leave System

Aozora donated 11.7 million yen, including donations from its officers and employees, in support of the areas affected by the 2024 Noto Peninsula Earthquake. We have also introduced the volunteer leave system to encourage our officers and employees to serve as disaster relief volunteers. The system allows them to take leave for volunteer activities on weekdays and to provide conditional subsidies that partially cover their cost of participation.

To facilitate the use of the volunteer leave system, Aozora has worked to establish an environment where our officers and employees can take leave more easily. To this end, we held a session to provide guidance and tips on participating in disaster relief volunteering.

We provide our officers and employees with opportunities to deepen their understanding of social issues and pursue personal growth. We also facilitate their contribution to regional communities and the overall society from the perspective of our corporate social responsibilities.

# Human Resources Strategy

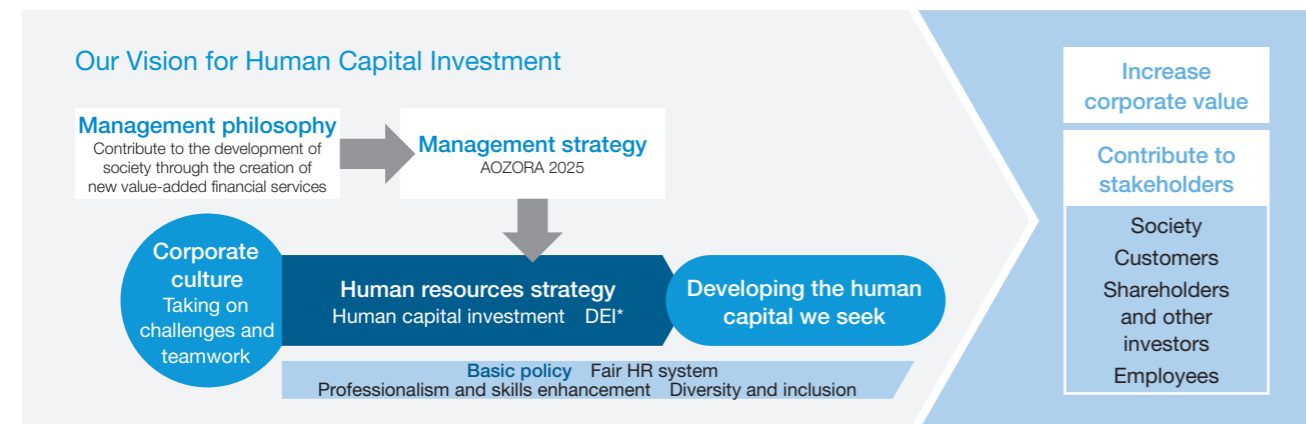
## Aozora's Human Resources Strategy



**Chiharu Hirota**  
Executive Officer  
Head of Human Resources Unit

Aozora's management philosophy is to contribute to the development of society through the creation of new value-added financial services. While we are a manageably sized entity with approximately 2,500 employees, we provide high-quality financial services by harnessing our high level of expertise and capacity to offer proposals. We believe that the human capital that delivers these services is our primary source of value creation and is one of our most valuable assets.

Under our Mid-term Plan "Aozora 2025," which lays out our management strategy, we are focusing on Aozora's Strategic Investments Business, which seeks to serve customers in three phases: Fostering, Change, and Recovery. We are also working to resolve the issues confronting customers and regional communities. As part of our human resources strategy for realizing this management strategy, we will shift human resources to growth and focus areas. Furthermore, we will make efforts to hire and develop diverse and talented human capital, give back to employees, and improve engagement. We will continue to invest in human capital over the long term, regardless of changes in the business environment. By implementing human resources strategies that are linked to our management strategy, we will work to maximize employees' abilities while enhancing their productivity, with the aim of increasing Aozora's corporate value over the medium to long term.



\* Diversity, equity, and inclusion

## Investment in Human Capital to Support Our Human Resources Strategy

### Bolstering Investment in Human Capital

As part of human capital investment, Aozora emphasizes not only extrinsic rewards but also intrinsic rewards.

In terms of extrinsic rewards, we are not only implementing human capital recruitment and development measures in accordance with pay-scales and the human resources strategy, but have also been working on HR reform since FY2020 under the key phrase of taking on challenges and teamwork, as laid out in Aozora's Key Priorities, aiming for the appointment of outstanding human resources regardless of age or gender by eliminating barriers between career courses or generations. At the same time, we have been striving to maintain a competitive remuneration system by reviewing compensation packages to better reward those who take on challenges or produce results.

In terms of intrinsic rewards, we have been working for many years to develop a good work environment for employees, improve employees' well-being, and provide a variety of career building support programs in order to improve employee engagement.

As a result of these efforts to bolster investment in human capital, in FY2023 business-related profit from customer-related business performed strongly despite pressure on our overall business performance. This also led to a high employee retention rate. Looking ahead, we will continue to promote customer-related business centered on Aozora's Strategic Investments Business by continuously bolstering human capital investments, with the goal of achieving the Mid-term Plan's targets, such as

business-related profit per employee. Furthermore, we will continue to make every effort to make Aozora a destination

### Recruitment and Assignment of Human Resources

As part of its human resources strategy to realize its management strategy, Aozora strives to secure human capital that can appropriately respond to changes in the business environment, act proactively, and embody the principle of taking on challenges and teamwork. We also strive to secure human capital that has the necessary skills for our focus areas such as Aozora's Strategic Investments Business and DX.

Aozora's recruitment strategy involves carefully selecting high-potential new grads as part of the new grad hiring process. Mid-career hires have also been a major focus for many years. We bring onboard highly specialized mid-career hires with a varied range of experience and values, who begin contributing to Aozora immediately and go on to have successful careers with us. (Mid-career hires account for 39% of the total number of employees.) As part of efforts to strengthen our hiring capabilities, we have institutionalized alumni hiring (re-hiring of Aozora's retirees) and referral hiring (hires referred by employees) beginning in FY2024.

Turning to the appointment of employees, one notable characteristic of our human capital is the presence of a small but elite group of employees with diverse values and

chosen by talented human resources seeking job satisfaction, as well as a business enterprise chosen by all stakeholders.

experience who have the opportunity to play active roles at Aozora, regardless of new grad or mid-career hires. In our 2020 HR system reform, we already abolished the "Ippan-shoku (non-professional career category)" and eliminated barriers to work and career paths. As a result, career courses have been concentrated into three types: Global Professional, Regional Professional, and IT Professional, which was created with the objective of strengthening IT competitiveness. For positions that require even greater specialization, we also employ contract-based Professionals and Specialists (job-based employment) in accordance with job description, skills, and experience. All hires are appointed as future candidates for management positions or highly skilled professionals. We strive for the optimal assignment of human resources, considering individual employee aptitude, abilities, and career orientation. Moreover, we analyze and visualize human resources assessment data, including employee skills, experience, career orientation, evaluation, and personality factors, and use this data to guide the strategic hiring and assignment of human resources.

### Human Resources Development Strategy

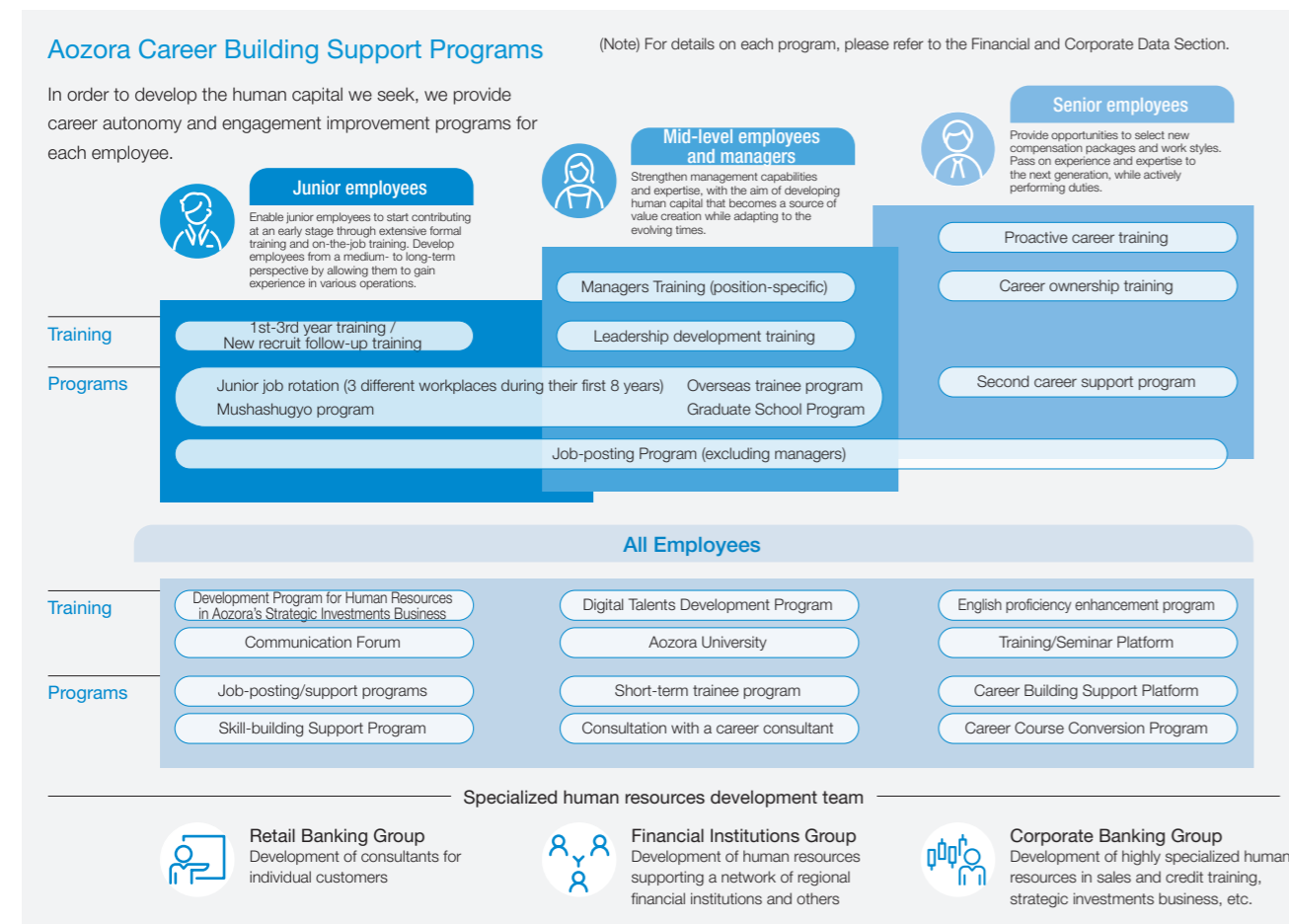
A feature of Aozora's human resources development strategy is based on the offering of a wide range of training programs that encourage employees to take on new challenges while respecting their diverse career plans and individual initiatives. Our aim is to encourage employees to take greater responsibility for their own growth and development based on their own needs and aspirations.

As part of our human resources development policy, we strive to ensure that junior employees can start to contribute at an early stage through position-specific training and business skills training offered by the HR Division as well as education and hands-on experience based on specialist training programs available where they are assigned. We also develop new grads from a medium- to long-term perspective by allowing them to gain experience in various operations at three different workplaces, including sales divisions/branches, during their first eight years, and by providing them with a variety of career building opportunities as prospective upper management candidates. Mid-level employees and managers in their 30s and 40s are placed in positions that enable them to strengthen their management

capabilities and expertise. Through these measures, we hope to develop human capital capable of facing and overcoming challenges, learning to persevere, and becoming a source of value creation. Notably, we are aiming to shift managers' mindsets by making human resources development a primary responsibility of managers. We offer seniors opportunities to change their mindsets and select new compensation packages and work styles. We believe that senior employees play an important role in passing on their experience and expertise to the next generation, while actively performing their duties.

One key feature of our training is that most of our programs are provided in-house by personnel with coaching and other certifications and employees well versed in highly specialized operations. In light of changing circumstances, we also offer practical, high-quality training through outside instructors and other professionals. We will continue to seek to develop human capital that pioneers new fields and possesses the expertise as a leading expert in each field, thereby benefiting society.

# Human Resources Strategy



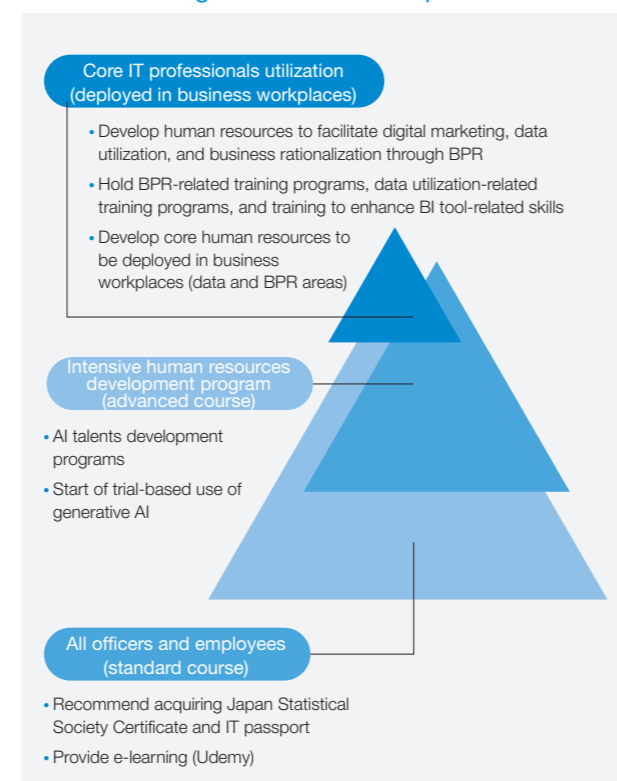
## Development Program for Human Resources in Aozora's Strategic Investments Business

We started the new Development Program for Human Resources in Aozora's Strategic Investments Business which is our focus area. This program is an updated version of the previous human resources development program carried out since FY2022. We develop core talent for Aozora's Strategic Investments Business through the program and its implementation in each business group.

## Digital Talents Development

In FY2021, we started the Digital Talents Development Program to allow all employees to take the initiative to engage in DX. In FY2023, the number of employees participating in AI talents development programs, which have been ongoing since the previous fiscal year, steadily increased. Furthermore, we held study sessions and training programs related to the use of generative AI for officers and employees to coincide with the start of trial-based use of generative AI in the second half of FY2023. A broad range of training programs were also provided to facilitate the use of BPR, digital marketing, and data. Looking ahead, we will continue to develop human resources capable of utilizing data and information in business workplaces.

## Overview of Digital Talents Development



## Career Autonomy Initiatives

Through interviews and Career Plan Sheets, which are submitted by each employee annually to report on their transfer requests and future career plans, the HR Division and Group heads closely monitor employees' preferences, capabilities, and aptitude. Since FY2023 we have assigned a career consultant to the HR Division and established a system that can always respond to employees' career consultations by offering support and addressing concerns about their careers.

Furthermore, we undertake initiatives that allow employees to expand their scope of experience so that they can take the initiative to build their own careers. As part

of these initiatives, we provide opportunities for employees to gain diverse work experience and change their mindset through various voluntary systems. These systems are offered to voluntary applicants and include the overseas trainee program and short-term trainee program in other departments in Japan, Job-posting Program (internal recruitment), and Job Support Program (in-house side jobs). More and more employees are taking the initiative to build their careers by utilizing these programs. We will continue to create an environment for employees to develop their abilities and build their careers, with the aim of being a company of choice for highly talented employees.



**Ryo Sakamoto**  
Deputy Manager,  
Special Situations Div.

### Interview

### Experience of a Participant in the Overseas Trainee Program

I joined Aozora as a new graduate in 2012. After working at a branch, I was assigned to the Derivative Sales Division, where I was responsible for forex derivative sales for corporate customers. I applied to Aozora's internal English proficiency enhancement program and had been taking English conversation lessons for six months. That was when the overseas trainee program announced a call for applicants. I applied to the program to challenge myself and made it through the selection process. I was assigned to Aozora Europe Limited (AEL), Aozora's overseas subsidiary in London, for two years beginning in 2020. I decided to take on the challenge of working overseas, despite having no prior experience living or working abroad, because I had reached the milestone age of 30 after working for 4 years in the Derivative Sales Division, and I believed I had nothing to lose and everything to gain. My wife, who also works for Aozora, used the Aozora Career Support Leave Program\* to accompany me to London with our children.

At AEL, I was responsible for investment in leveraged loans in Europe. I was also involved in the launch of a fund investment advisory service, which was a new service. The opportunity to participate in the launch of a new business was an invaluable experience. After returning to Japan, I was assigned to the Special Situations Division, where I am primarily involved in recovery finance. Aozora's recovery business is one of its highly distinctive services. We assist in the rebuilding of businesses by offering recovery finance through business recovery schemes to companies that have experienced a decline in business performance and have fallen into hard times. I am often thanked by our customers, which is why I believe that this work is very rewarding and worthwhile on a daily basis. I believe that the experience I gained at AEL has shaped who I am today.

I strongly encourage younger employees to take on the challenge of participating in the overseas trainee program. You will always be interacting with other people, even in a foreign country, so the language barrier can be overcome. I'm delighted that I was able to take part in the program.

\* A long-term leave system for employees including those who wish to accompany their spouses who are relocated to other regions/countries

## Improvement in Employee Engagement

In order to drive Aozora's growth, we believe that it is important to foster a comfortable working environment for employees and enhance each employee's job satisfaction by respecting their diverse values, lifestyles, and career plans.

We conduct an annual employee survey to monitor employee satisfaction and needs. We gather a wide spectrum of employee feedback, present it to management and executive officers, and discuss it at Executive Officers' Meetings. We incorporate this feedback into a variety of operational measures, in addition to our HR system. We aim to establish an environment that is conducive to employee success and enhances their job satisfaction by implementing PDCA cycles that involve monitoring employee needs and

reflecting those needs in measures.

According to the results of the FY2023 employee survey, around 80% of the respondents said that Aozora offers a comfortable workplace environment, which was about the same percentage of respondents as in the previous survey. In contrast, the percentage of respondents who selected positive answers regarding job satisfaction decreased from 58% to 56%, indicating that improving job satisfaction remains an important issue. Meanwhile, the percentage of respondents who felt a corporate culture of support for taking on challenges increased from 37% to 39%, which was an encouraging result for the future. Furthermore, a similar trend was observed by Wevox,

## Human Resources Strategy

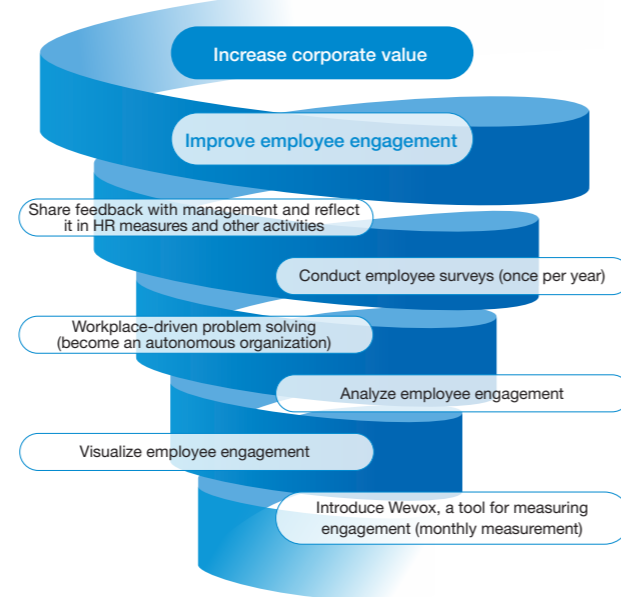
a system for measuring employee engagement through monthly surveys. This trend shows that efforts to make workplace-driven improvements are steadily bearing fruit.

We believe that job satisfaction can be successfully improved through the process in which each employee understands the management philosophy and strategy, accepts responsibility and ownership for transferring and implementing them at the operational level, and proactively engages in their duties. To create opportunities for the management philosophy and strategy to be widely adopted by the organization, we held Town Hall Meetings and small-sized meetings where employees can directly communicate with management, as well as Communication Forums attended by all employees on several occasions. We began holding Communication Forums in FY2020, and in FY2023, we held these events 30 times to encourage wider adoption of the management philosophy. These events not only provide an opportunity to learn about the management philosophy and review job satisfaction, but they also serve as a valuable venue for interaction among employees of various generations and groups.

We will continue to enhance employee job satisfaction through measures that increase intrinsic rewards, such as

improving engagement, thereby laying the groundwork for increasing Aozora's corporate value over the medium to long term.

### PDCA Cycles for Improving Employee Engagement



## Establishing Comfortable Workplaces

### Enhancing Employee Well-being—Health and Productivity Management and Financial Wellness

Being physically and mentally healthy as well as being socially stable and fulfilled are the prerequisites for employees to flourish as human capital. Aozora is working to improve employee well-being by promoting the enhancement of health and productivity management and financial wellness, with the view to maintaining and enhancing employee health and productivity.

#### Health and Productivity Management Initiatives

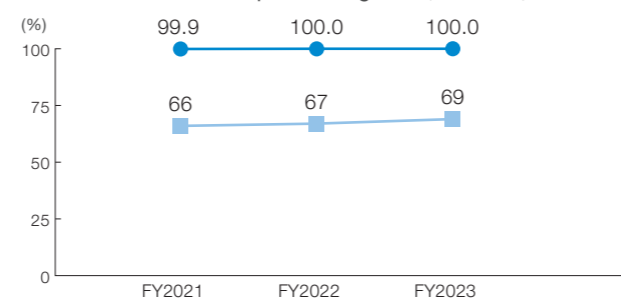
Aozora has formulated a data health promotion plan and works together with Aozora Bank Health Insurance Society (a single health insurance society) to maintain and promote the mental and physical health of employees to establish work environments where employees can work for a long time with peace of mind. In addition to initiatives including programs that subsidize full-scale health checkups and cancer screenings for employees and their families, we also work to prevent mental health and lifestyle-related illness. As part of these efforts, an occupational health physician and specialized medical staff provide follow-up services based on the results of regular health checkups and stress checkups.

Initiatives such as these have brought significant benefits, resulting in a high percentage of self-reported health\* among employees and being certified as a Health and Productivity Management Organization every year.

#### Initiatives to Improve Employees' Health Literacy

- Started "Training on the Importance of Physical and Mental Health Management" for new hires, led by an occupational health physician
- Held a seminar for all employees titled "How to Read and Understand the Results of Your Regular Health Checkups"
- Held a seminar, led by an outside instructor, titled "Improving the Breast Cancer Screening Rate and the Necessity of Early Detection and Treatment"

Regular Health Checkup and Full-scale Health Checkup Screening Rate (Aozora Bank)



■ Full-scale health checkup screening rate: insured individuals (aged 30 and over)  
 ● Regular health checkup screening rate (excluding those on leave)  
 [Full-scale health checkup subsidy support]  
 Provided every year to all employees aged 30 and over  
 Amount of financial support: Women: 71,500 yen (including gynecological option)  
 Men: 49,500 yen

#### Improve Employees' Financial Wellness

For employees to be able to fully demonstrate their abilities and flourish, we believe that it is important that they be able to work in a state of financial stability and not have anxieties about their future life. Based on this belief, we have established a program to realize financial wellness for our employees.

First, we have a compensation system in place that takes into account price increases. Based on this system, the starting salary level was raised for two consecutive years and the pay-scale was raised for three consecutive years. In addition, we have not only established a corporate pension plan to prepare for post-retirement life, but also offer training sessions to explain how to approach financial planning, as well as to present the lump-sum retirement payment and corporate pension plan, in order to provide opportunities for employees to gain a better understanding of these topics. As part of our benefit package, we also provide generous financial support for younger employees, including an allowance supporting repayment of scholarships and rent subsidies. We have also permitted secondary employment to help employees develop their skills and expand their scope of experience. By expanding these programs, we have established a comfortable work environment that supports the financial stability of employees and their families.

## Diversity, Equity & Inclusion

One of Aozora's Key Priorities for realizing its management philosophy is to "respect one's colleagues and support professional growth of all team members." Based on this priority, we are working to implement diversity, equity, and inclusion by encouraging wider adoption of various activities, such as unconscious bias training. By establishing an environment in which employees can fully demonstrate their abilities, we seek to pave the way for recruiting, retaining, and ensuring the success of human capital with a diverse array of values and experience that are vital to realizing our management strategy.

#### Ensuring Diversity of Core Talent in Appointments and Other Areas

Since FY2021, Aozora has been moving forward on strengthening initiatives to ensure diversity in the appointment of core talent and other areas, establishing its human resource development and environmental policies while setting targets for the ratio of women, non-Japanese, and mid-career hires in management positions. The ratio of mid-career hires in management has already reached approximately 54%, leading toward ensuring diversity in management decision-making positions.

### List of Programs and Measures to Enhance Financial Wellness

Compensation	Wealth Accumulation Support
<ul style="list-style-type: none"> <li>Attractive compensation system</li> <li>Raised pay-scale for three consecutive years FY2022: 0.5% FY2023: 10,000 yen increase in monthly salary FY2024: 3.5%</li> </ul>	<ul style="list-style-type: none"> <li>Employee stock ownership plan (incentive pay: 10%)</li> <li>Self-support-type individual pension plan (financial assistance: 5%-20%)</li> <li>Asset accumulation savings</li> </ul>
Welfare Programs	
<ul style="list-style-type: none"> <li>Cafeteria-style benefits menu (annual subsidy up to 20,000 yen)</li> <li>Allowance supporting repayment of scholarships</li> <li>Rent subsidy</li> <li>Permission for secondary employment and side jobs</li> <li>Childcare and nursing care leave programs</li> </ul>	<ul style="list-style-type: none"> <li>Second career support program (for those aged 55 and over)</li> <li>Full-scale health checkup subsidy support (including gynecological option)</li> <li>Additional benefit for high medical expenses (maximum co-payment amount 20,000 yen / month)</li> <li>Corporate pension plan</li> </ul>
Contingency Planning	
<ul style="list-style-type: none"> <li>Medical leave program (paid leave possible for up to 18 months)</li> <li>Medical mutual aid (mutual aid society)</li> </ul>	<ul style="list-style-type: none"> <li>Group term insurance</li> <li>Special condolence money program</li> <li>Bereaved scholarship program</li> </ul>

### Human Resource and Working Environment Development Policies

Policies	Actions
Hiring and appointing people not just on ability, but emphasizing diversity	<ul style="list-style-type: none"> <li>Continue to employ mid-career hires as well as new graduates</li> <li>Strengthen recruitment of female professionals</li> <li>Promote appointment of human resources while considering diversity</li> </ul>
Support female employees' career development	<ul style="list-style-type: none"> <li>Support female employees in taking on the challenge of undertaking operations where they do not have experience</li> <li>Support career formation through such means as leadership development training for women</li> </ul>
Create a working environment where all employees can play an active role	<ul style="list-style-type: none"> <li>Focus on investing in human capital in terms of both extrinsic and intrinsic rewards</li> <li>Continue efforts to improve employee engagement</li> <li>Create environments where employees with disabilities can work with peace of mind</li> </ul>

### Goals and Progress

Categories	Current ratios	Target ratios
	As of March 31, 2024	As of March 31, 2028
Female managers	14.2%	20% or higher
Female deputy managers	39.3%	40% or higher
Non-Japanese managers	1.3%	3% or higher
Mid-career managers	53.9%	Maintain 40% or higher
Male employees taking childcare leave	90%	100% or higher

(Note) For other notes, please refer to the notes section of "Non-financial Information Index" on page 127.

\* According to Aozora's Employee Survey on Health Awareness and Literacy in FY2023, 83% of employees answered, "I am healthy."

# Human Resources Strategy

## ■ Creating Opportunities for Female Employees

Aozora is distinguished by the average years of service of female employees, which is above 16 years and surpasses that of male employees. This has been the result of various measures taken to prevent female employees from having to retire because of childcare or nursing care. The gender mix of employees is approximately equal between men and women. Many female employees are working in various workplaces throughout Aozora.

Aozora has set its own target for the ratio of deputy managers who are candidates for female managerial positions, in addition to its target for the ratio of female managers. In this way, we are striving to expand our core talent pool in order to create even more opportunities for women to succeed. Women will continue to be appointed to all manner of decision-making positions, including executive officers. We are aiming to raise the ratio of female managers to 20% or higher by March 31, 2028, and to over 25% in the long term.

In FY2020, we conducted HR reform. This reform abolished “Ippan-shoku (non-professional career category)” and integrated it with the professional category, allowing everyone to pursue their career goals. As a result, career-course-based limitations on roles and responsibilities were completely removed.

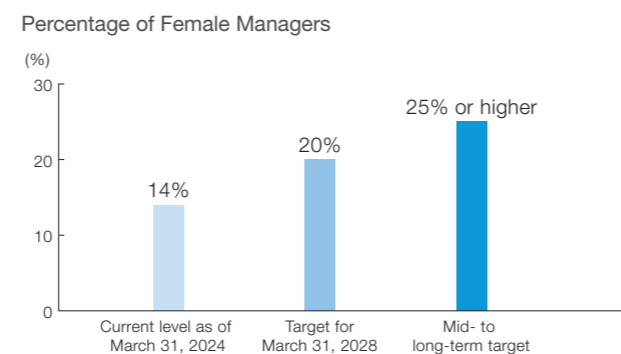
Beginning in FY2023, we have implemented new measures to support female managers and female deputy managers who are one step closer to managers. These measures include providing female leadership training in workplaces with a large number of women in the former “Ippan-shoku” category and support for network building among individuals from different groups. Furthermore, in order to prevent female employees from retiring due to childcare, we organize numerous events for child leave users who will soon return to the workplace, as well as consultations with career consultants on the topic of balancing childcare and work. In addition, the aforementioned alumni program offers a pathway for retired employees to re-enter the workforce at Aozora.

Some female employees have moved beyond their fixed roles to take on new challenges by taking advantage of measures to broaden their scope of experience, relocating to other locations, and engaging in other new ways of working, such as working remotely at the Head Office from regional branches.

As a result of these initiatives to create opportunities for female employees, the number of women being promoted from the former “Ippan-shoku” to managers has been steadily increasing.

In terms of the wage gap between men and women, women only earn 65% of what men earn, leaving room for improvement. As a result of the career course integration in FY2020, we have been able to achieve equal pay between men and women on the same career course, rank, and salary table. However, the most significant explanation for the wage gap between men and women is that there are still very few

female managers. Other factors contributing to the wage gap between men and women include relatively few female employees who are active in focus areas such as Aozora’s Strategic Investments Business, as well as the fact that many female employees with long years of service work in support groups such as back-office operations and have remained low-ranking. It will take time for the effects of the career course integration and generational change to manifest. However, we expect the gap in annual salary between men and women to narrow as more women become managers or are promoted, regardless of their former job types. This trend will be facilitated by creating opportunities for female employees and assisting them in enhancing their skills.



## ■ Compulsory Childcare Leave Under the Fathers’ Post Natal Childcare Leave Program to Encourage Men to Take Childcare Leave

At Aozora, women have a 100% rate of taking childcare leave. Meanwhile, although the acquisition rate among men has increased dramatically over the last two years, it has not yet reached 100%. We view improving the acquisition rate among men as a priority. In 2022, Aozora introduced the Fathers’ Post Natal Childcare Leave Program. This program is notable for lowering the hurdles for taking leave, with features such as allowing employees to take up to four weeks of paid leave, allowing leave to be taken in installments, and enabling employees to do some work while on leave. Beginning in FY2024, Aozora changed this program to make taking five days of childcare leave per year compulsory for eligible employees. Through this redesigned program, we will strive to foster a more comprehensive understanding of the importance of balancing childcare and work in the workplace, regardless of gender, in order to achieve our target of having 100% of male employees take childcare leave.

## ■ Activities of Aozora Ally

In 2022, Aozora launched Aozora Ally to work closely with employees from diverse backgrounds, including those with disabilities or members of the LGBTQ community, toward the entrenchment of diversity, equity, and inclusion. In FY2023, Aozora Ally continued to engage in activities to cultivate a workplace culture that values diversity, such as holding a training session titled “Training to Deepen Understanding

of the LGBTQ Community” for all employees to address this topic of growing public interest. We will continue to

create work environments where all employees can work comfortably and energetically.



**Hitomi Ono**  
Manager, Portfolio Management Group  
Real Estate Finance Div.

### Interview Experience of a Manager Who Rejoined Aozora

I joined Aozora as a new graduate in the former “Ippan-shoku” category and was in charge of loan administration at the Head Office. While I had good personal relationships with those around me, in my eighth year with Aozora, I changed jobs to an Australian financial institution to advance my career. Because I lacked confidence in my English skills at the time, I made a considerable investment in learning English through activities such as regular attendance at an English conversation school. Thereafter, I switched positions to a U.S. asset management firm, where I worked in sectors such as corporate rehabilitation, real estate, and non-performing loans. I resigned from my job when I got married. After spending around six months as a homemaker, I began to feel isolated and lonely, so I decided to work as a temporary employee for another company. However, I had a growing sense that my temporary job was not fulfilling enough. When I started to look for a company where I could work full-time, I was referred to Aozora. In 2015, I decided to rejoin. The deciding factor was the high level of personal integrity and character of Aozora’s employees.

After rejoining Aozora, I was responsible for managing non-recourse loans in the Real Estate Finance Division. My performance was recognized, and I was selected to serve as a manager in middle- and back-office operations in the Real Estate Finance Division in 2022. Real estate finance is an area in which Aozora has strengths, and we are held in high regard in the banking industry as a major player in this field. Working in this division is highly rewarding and very enjoyable since it allows me to approach my work from a higher level as a manager.

I would like to tell my younger female colleagues that if you devote yourself to your work with a high level of awareness, someone will always notice and recognize you. I also feel that, while the job of a manager may appear challenging, it leads to personal growth, provides greater rewards, and will allow you to enjoy your work even more.



**Tran Bao Ngoc**  
On assignment at Orient Commercial Joint Stock Bank (OCB)  
Asia Pacific Div.

### Interview Experience of an Employee Who Works on the Frontlines of Global Business

My ties with Aozora began when I received an offer from Aozora while working at the Ho Chi Minh Branch of a Japanese financial institution. I am currently on assignment as a trainee for the Japan Desk of OCB, a medium-sized Vietnamese bank in which Aozora has invested. I work here as a manager. My main responsibility is to act as a bridge between Japanese companies entering Vietnam and OCB. I was assigned to OCB in 2021, and I had to face numerous challenges before being recognized within OCB. However, I am now receiving birthday messages from OCB’s chairman. It is customary in Vietnam to offer birthday messages and flowers in the office. I feel like my efforts have been rewarded.

I’ve long been interested in Japan, and I studied abroad at a Japanese graduate school. Nonetheless, I am sometimes surprised by the cultural differences between Vietnam and Japan. Vietnam is a developing economy with a strong growth rate, but competition is fierce. There is a significant workforce turnover rate, with frequent changes in officers and employees. Working styles vary as well. In Vietnam, the emphasis is on speed, and plans are adjusted as they are carried out. Japanese people carefully develop a solid plan and meticulously carry it out. In these situations, I try to overcome the cultural differences by practicing my motto of the “3Ps”: Patient, Positive, and Passionate. Another feature of Vietnam is the prevalence of women in management positions. My rough estimate is that more than 60% of managers are female. All of them have an aggressive approach to business. In contrast, I have an impression that most of the Japanese company employees are men who are mild-mannered and kind. Women in Vietnam also have a heavy load of childcare and housework, but they still enjoy working aggressively. I would like to see Japanese women take on more challenges in their work and careers.

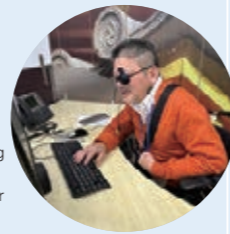
## Creating a Comfortable Workplace for Employees with Disabilities

Aozora considers the individual needs of employees with disabilities based on their specific disabilities and provides an environment where these employees can work like other employees. In recognition of this, we received the Tokyo Metropolitan Government's "Excellent Company Award for the Employment of People with Disabilities."

### A Safe Working Environment

Our staff members, including occupational health physicians, nurses, public health nurses, mental health & welfare counselors, corporate-employed job coaches, and 2nd grade certified skilled professionals of career consulting, work in partnership to take care of the individual needs of employees with disabilities.

An employee working while seated in an electric wheelchair



A satisfying workplace environment with job assistance equipment for those with visual impairments and support from others



### Initiatives Led by Employees with Disabilities

The president and other executive officers engage in direct dialogue with employees with disabilities, actively exchanging opinions to create a comfortable work environment. Based on ideas proposed by employees with disabilities, we held Aozora-wide seminars to learn sign language for use in the event of a natural disaster and installed anti-collision safety mirrors. We periodically conduct study sessions to deepen understanding of disabilities, where employees with disabilities serve as instructors, as well as Aozora's unique Simulated Hearing Impairment Program, which was proposed and designed by employees with disabilities. The pages of this section were prepared by employees with disabilities.

Simulated Hearing Impairment Program



Anti-collision safety mirror



### Initiatives to Support Employment

Aozora introduced its initiatives at the Vocational Rehabilitation Workshop held by the Japan Organization for Employment of the Elderly, Persons with Disabilities and Job Seekers. We also sent an instructor to a training session run by the "Skill Improvement Project for Cooperation with Employment Support Project Organizations" under the Tokyo Metropolitan Government's Bureau of Social Welfare and Public Health, which was attended by supporters of workers with disabilities. In addition, we have programs in place at psychiatric day care centers and labor transition support offices as a means to support preparing for the stable employment of people with disabilities who are seeking jobs.

A study session where an employee with a disability served as an instructor



A sign language class held by employees with hearing disabilities



### Discussion –Working Actively in a Diverse Range of Areas–



**Wakana Inoue**  
Syndication & Trust Div.



**Ayuka Sudo**  
Institutional Banking Management Div.



**Manea Akaiwa**  
Institutional Banking Management Div.

#### About Your Job Responsibilities

- Inoue:** My main responsibilities are payment settlement operations related to syndicated loans and corporate bonds.
- Sudo:** My main duties are to support institutional banking personnel. I primarily prepare credit-related applications for loans and so forth.
- Akaiwa:** I'm responsible for credit-related operations, such as compiling data for financial statements.

#### Career History and Job Satisfaction

- Inoue:** Previously, I engaged in back-office loan operations, especially remittance of funds and collection. While I have a hearing disability, I can now work autonomously to some extent, so I thought I'd like to take on a new challenge. That's when I first became interested in syndicated loan operations. I took part in the Job Support Program to gain experience in syndication operations. I believe that the participation made me acquire new knowledge on a deeper level.
- Akaiwa:** I participated in the short-term trainee program on international operations. I also took many opportunities offered as Aozora's self-development support initiatives, including the English proficiency enhancement program and Sophia University's adult education partnership program. As a result, I've gained a wide range of experience.
- Sudo:** I've also joined the short-term trainee program. As I'm visually impaired, I always use enhanced vision equipment, which sits on my desk. When I attend a training session, my supervisor and coworkers assist me in carrying the equipment to the venue, escorting me there, as well as taking care of materials distributed in advance. Thanks to their support, I can participate in this short-term trainee program with peace of mind. I'd like to continue to actively participate in the program.
- Akaiwa:** Ms. Inoue, did you make any special requests when you were transferred to your current division?
- Inoue:** The supervisors of my former and current divisions met in advance and confirmed with me about my situation, such as how I usually communicate with others and how to use the UD Talk® app. As a result, I've had no trouble since the transfer.
- Sudo:** I feel that Aozora firmly supports us to achieve what we want to accomplish. In fact, employees with disabilities at Aozora work in various business groups and divisions. This environment may inspire us to think more deeply about our own career paths.

#### Toward Creating a Safe Environment to Work Actively

- Akaiwa:** When I joined Aozora, I was surprised at first to see employees with disabilities leading some activities, such as sign language classes where employees with hearing disabilities serve as instructors. I have a mental disability. When I saw my senior colleagues with disabilities playing active roles just like those without disabilities, I thought that this was an environment where I could be myself.
- Inoue:** During the COVID-19 pandemic, everyone wore face masks, which made communication difficult. Around that time, I was given the opportunity to make a presentation to officers and employees about a hearing disability as well as how the pandemic has impacted my work. This session led many people to further understand my condition and also expanded the range of my activity. Previously, I was afraid that I couldn't exchange as much information as people around me. However, as they're becoming more supportive in communication with me, I now confirm the meaning of messages mainly by repeating what others say and asking them to read the notes I take.
- Sudo:** These activities allow you to see things in a new light and also articulate them in language, don't they? I believe there are certain things that we can share with people around us as a result of building trusting relationships and interacting with them over time.
- Inoue:** By working diligently and expanding the range of activity, both those around me and I can discover new things. Going forward, I'd like to continue these efforts.
- Akaiwa:** I feel that Ms. Inoue and Ms. Sudo have built trusting relationships with others and paved the way for employees with disabilities to follow and succeed. Let's continue working to open up more paths for future generations in each division.

# Value Creation Foundation

- 104 Corporate Governance
- 116 Risk Management
- 118 Compliance
- 121 Internal Audit
- 122 Cybersecurity
- 123 Toward Building Operational Processes Transcending Branches

# Corporate Governance

## Corporate Governance Philosophy

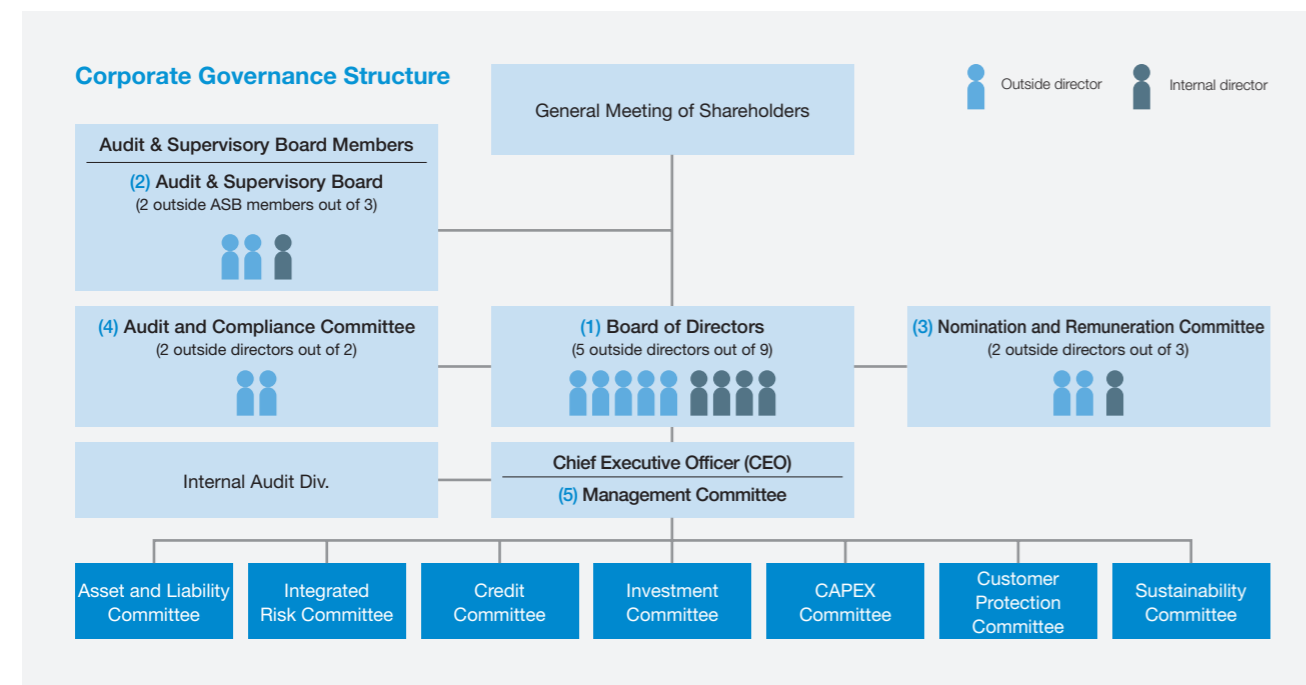
The objective of establishing Aozora's corporate governance policy is to ensure management discipline and to create a framework of checks and balances in order to continue reflecting our management philosophy in the execution of our daily business operations. For this purpose, Aozora continues to work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

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

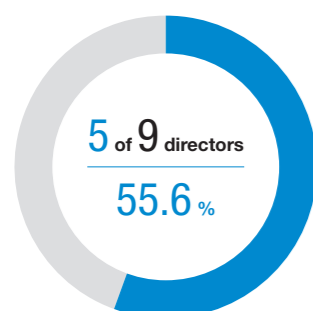
In order to improve efficiency through the separation of management oversight and business execution as well as

transparency by establishing an appropriate corporate governance structure, the Board of Directors, including the outside directors, determines basic management policy and management strategies and oversees the execution of business operations. Executive officers, including the Representative Directors, conduct daily business operations with authority delegated to them by the Board of Directors.

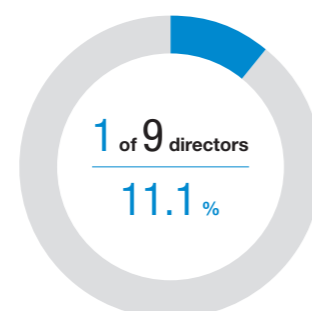
The Management Committee is the highest decision-making body for the execution of daily business, and is comprised of members from among the executive officers, who are approved and appointed by the Board of Directors. This structure improves the speed of decision-making, while at the same time the Executive Officers' Meeting, which comprises all executive officers, is held in order to exchange important information. Sub-committees are also established to improve efficiency of the execution of business operations.



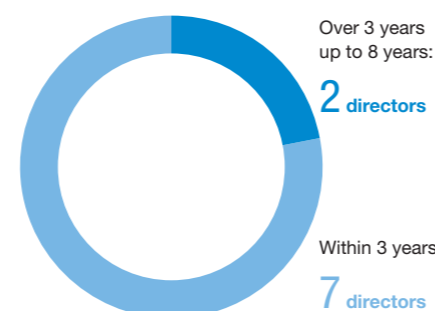
Ratio of Outside Directors



Ratio of Female Directors



Directors' Length of Tenure



## (1) Board of Directors

Chairperson: **Koji Yamakoshi**  
Directors: **9** (5 outside directors)

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

## (3) Nomination and Remuneration Committee

Chairperson: **Sakie Tachibana Fukushima**  
Directors: **3** (2 outside directors)

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

## (5) Management Committee

Chairperson: **Hideto Oomi**

The Management Committee is held on a weekly basis, in principle, and determines important matters related to Aozora's execution of daily business in accordance with the policies set forth by the Board. The Management Committee has the following sub-committees to which it delegates authority: ALM Committee, Integrated Risk Committee, Credit Committee, Investment Committee, CAPEX Committee, Customer Protection Committee, and Sustainability Committee. Sub-committees are comprised of members with substantive knowledge and experience in multiple aspects of Aozora's business operations, as well as sound decision-making capabilities.

## Composition of the Board of Directors

- The Board of Directors shall not have more than 12 Directors, which is the maximum number of Directors stipulated in the Articles of Incorporation.
- Nomination of Director candidates shall be based on the "Basic Policy for Nominating Directors and Audit & Supervisory Board Member Candidates, and Appointing and Dismissing Senior Management Including the CEO."
- The composition of the Board of Directors shall take into consideration diversity and mix of experience, with a wealth of knowledge and expertise in areas including banking and finance, financial accounting,

## (2) Audit & Supervisory Board

Chairperson: **Satoshi Hashiguchi**  
Audit & Supervisory Board Members: **3** (2 outside ASB members)

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

## (4) Audit and Compliance Committee

Chairperson: **Hideyuki Takahashi**  
Directors: **2** (2 outside directors)

The Audit and Compliance Committee, which is comprised of outside directors, reviews the adequacy and effectiveness of matters relevant to the establishment of internal control systems, including internal and external audits, risk management, compliance, and credit audits.

- risk management, legal and compliance, and so forth, in addition to deep insight of the Aozora's business.
- The Board of Directors shall be comprised of internal directors who possess extensive knowledge and experience in business execution and outside directors who supervise management from an objective standpoint. Judgment of outside director's independence shall be made based on the "Independence Criteria for Outside Directors and Outside Audit & Supervisory Board Members" and the percentage of independent outside directors, in principle, shall be a half or more.

# Corporate Governance

## Board of Directors, Audit & Supervisory Board Members

### Outside Directors: 5



**Sakie Tachibana Fukushima**

Job title:	Outside Director (Independent)
Length of tenure:	2 years
Board meeting attendance:	100%
Aozora shares owned:	782

Sept. 1974 Instructor, Department of East Asian Languages and Civilizations, Harvard University  
 June 1980 Braxton International  
 Sept. 1987 Bain & Company, Inc.  
 Aug. 1991 Korn/Ferry International-Japan (currently Korn/Ferry Japan)  
 May 1995 Member of the Board of Directors, Korn/Ferry International (U.S. Headquarters)  
 Sept. 2000 Regional Managing Director, Korn/Ferry International-Japan  
 July 2001 President and Representative Director, Korn/Ferry International-Japan  
 May 2009 Chairman and Representative Director, Korn/Ferry International-Japan  
 July 2010 President and Representative Director, G&S Global Advisors Inc. (current)  
 Apr. 2011 Vice Chairperson, Japan Association of Corporate Executives (through April 2015)  
 June 2016 Outside Director, Ushio Inc.  
 June 2019 Outside Director, KONICA MINOLTA, INC.  
 June 2020 Outside Director, Kyushu Electric Power Company, Incorporated (current)  
 June 2022 Outside Director, Aozora Bank, Ltd. (current)



**Hideyuki Takahashi**

Job title:	Outside Director (Independent)
Length of tenure:	1 year
Board meeting attendance:	100%
Aozora shares owned:	61

Apr. 1980 The Industrial Bank of Japan Ltd. (currently Mizuho Bank, Ltd.)  
 Apr. 2007 Senior Corporate Officer, Executive Officer, Strategic Planning Group, Mizuho Corporate Bank, Ltd. (currently Mizuho Bank, Ltd.)  
 Apr. 2009 Managing Executive Officer, Head of Financial Institutions, Mizuho Corporate Bank, Ltd.  
 Apr. 2010 Managing Executive Officer, CFO, Head of Financial Control & Accounting Group, Mizuho Corporate Bank, Ltd.  
 Apr. 2012 Managing Executive Officer, Group CFO, Mizuho Financial Group, Inc.  
 Apr. 2013 Director and Deputy President, Group CFO, Mizuho Financial Group, Inc.  
 Apr. 2014 Director, Mizuho Financial Group, Inc.  
 June 2014 Director and Deputy Chairman of the Board of Directors, Chairman of the Audit Committee, Chairman of the Risk Committee, Mizuho Financial Group, Inc.  
 June 2017 President & CEO, Mizuho Research Institute Ltd. (currently Mizuho Research & Technologies, Ltd.)  
 June 2019 Chairman, The Kyoritsu Co., Ltd. Outside Director, Sunshine City Corporation (current)  
 June 2020 Outside Corporate Auditor, Hanwa Co., Ltd. (current) Outside Director, Audit & Supervisory Committee Member, WOWOW Inc.  
 Jan. 2022 Representative Director and President, Topaz Advisory, Inc.  
 Jan. 2023 Advisor, Topaz Capital Inc.  
 June 2023 Outside Director, Aozora Bank, Ltd. (current)



**Hideaki Saito**

Job title:	Outside Director (Independent)
Length of tenure:	1 year
Board meeting attendance:	100%
Aozora shares owned:	154

Apr. 1986 The Norinchukin Bank  
 Apr. 1989 Chief Researcher, Banking Bureau, Ministry of Finance  
 Apr. 1998 The Boston Consulting Group  
 July 2006 Partner and Managing Director, The Boston Consulting Group  
 Apr. 2010 Managing Director, Cisco Systems G.K.  
 Apr. 2011 Senior Managing Director, Cisco Systems G.K.  
 Feb. 2013 President and CEO, NEXTIA Life Insurance Co., Ltd. (currently AXA Life Insurance Co., Ltd.)  
 July 2019 Partner, Bain & Company  
 Aug. 2021 President and CEO, Japan Systems Co., Ltd. (current)  
 Jan. 2022 Representative Director, NetCam Systems Corporation (current)  
 May 2023 Representative Director, Blueship Co., Ltd.  
 June 2023 Outside Director, Aozora Bank, Ltd. (current)  
 Mar. 2024 Director and Representative Executive Officer, Blueship Co., Ltd. (current)



**Koichi Tadano**

Job title:	Outside Director (Independent)
Length of tenure:	—
Board meeting attendance:	—
Aozora shares owned:	—

Apr. 1977 Marubeni Corporation  
 June 1988 Tadano Iron Works Co., Ltd. (currently Tadano Ltd.)  
 June 1991 General Manager of Office of the President, Tadano Ltd.  
 Jan. 1997 Director and President of FAUN GmbH (currently Tadano Faun GmbH)  
 June 1997 Director, Tadano Ltd.  
 Apr. 1999 Director and Managing Executive Officer, Tadano Ltd.  
 Apr. 2001 Director and Senior Managing Executive Officer, Tadano Ltd.  
 Apr. 2002 Representative Director and Senior Managing Executive Officer, Tadano Ltd.  
 June 2003 President, CEO, and Representative Director, Tadano Ltd.  
 Apr. 2021 Chairman of the Board and Representative Director, Tadano Ltd. (current)  
 June 2024 Outside Director, Aozora Bank, Ltd. (current)

### Internal Directors: 4



**Hiromasa Kawashima**

Job title:	Outside Director
Length of tenure:	—
Board meeting attendance:	—
Aozora shares owned:	—

Apr. 1992 Daiwa Securities Co. Ltd.  
 Oct. 2012 Head of Executive Office, Daiwa Securities Group Inc. Head of Executive Office, Daiwa Securities Co. Ltd.  
 Apr. 2016 Head of Internal Audit Department, Daiwa Securities Group Inc. Head of Internal Audit Department, Daiwa Securities Co. Ltd.  
 Apr. 2020 Audit & Supervisory Board Member, Daiwa Securities Co. Ltd. Audit & Supervisory Board Member, Daiwa Real Estate Asset Management Co. Ltd.  
 June 2020 Member of the Board, Daiwa Securities Group Inc.  
 Apr. 2024 Senior Managing Director, Daiwa Securities Group Inc. (current) Executive Managing Director, Daiwa Securities Co. Ltd. (current)  
 July 2024 Outside Director, Aozora Bank, Ltd. (current)



**Koji Yamakoshi**

Job title:	Chairman, Director
Length of tenure:	4 years
Board meeting attendance:	100%
Aozora shares owned:	5,555

Apr. 1986 The Nippon Credit Bank, Ltd. (currently Aozora Bank, Ltd.)  
 Apr. 2007 General Manager of Special Finance Division  
 Dec. 2009 Deputy Head of Specialty Finance Group, and General Manager of Special Situations Division  
 July 2012 Executive Officer, Deputy Head of Specialty Finance Group  
 Nov. 2012 Executive Officer, Head of Specialty Finance Group  
 July 2016 Managing Executive Officer, Head of Specialty Finance Group  
 Jan. 2017 Managing Executive Officer, Head of Specialty Finance Group, and General Manager of Global Real Estate Structured Debt Division  
 July 2018 Managing Executive Officer, Head of Business Banking Group and Head of Corporate Banking Group  
 July 2019 Senior Managing Executive Officer, Head of Business Banking Group and Head of Corporate Banking Group  
 June 2020 Director, Senior Managing Executive Officer, Head of Business Banking Group and Head of Corporate Banking Group  
 July 2020 Director, Senior Managing Executive Officer, Head of Corporate Banking Group  
 June 2021 Representative Director, Deputy President and Executive Officer, Head of Corporate Banking Group  
 July 2021 Representative Director, Deputy President and Executive Officer  
 Apr. 2024 Director, Chairman and Executive Officer (current)



**Hideto Oomi**

Job title:	Representative Director and President Chief Executive Officer (CEO)
Length of tenure:	3 years
Board meeting attendance:	100%
Aozora shares owned:	10,311

Apr. 1989 The Nippon Credit Bank, Ltd. (currently Aozora Bank, Ltd.)  
 Aug. 2007 General Manager of Leveraged Finance Division  
 Dec. 2009 General Manager of Acquisition & Project Finance Division  
 Oct. 2011 General Manager of Hiroshima Branch  
 Nov. 2012 General Manager of Business Strategy Division  
 July 2016 Executive Officer, Special Assignment  
 July 2019 Managing Executive Officer, Head of Corporate Strategy Unit, Office of Corporate Secretary and Special Assignment  
 June 2020 Managing Executive Officer, Head of Corporate Strategy Unit, Head of Trust Business Group, Office of Corporate Secretary and Special Assignment  
 Apr. 2021 Managing Executive Officer, Head of Strategic Investments Group, Head of Trust Business Group, Head of Corporate Strategy Unit and Office of Corporate Secretary  
 June 2021 Representative Director, Deputy President and Executive Officer, Head of Strategic Investments Group, Head of Trust Business Group, Head of Corporate Strategy Unit and Office of Corporate Secretary  
 July 2021 Representative Director, Deputy President and Executive Officer, Head of Strategic Investments Group and Head of Trust Business Group  
 Apr. 2022 Representative Director, Deputy President and Executive Officer, Head of Institutional Business Promotion Group  
 Apr. 2024 Representative Director, President and Chief Executive Officer (CEO) (current)



**Masayoshi Ohara**

Job title:	Representative Director and Deputy President
Length of tenure:	1 year
Board meeting attendance:	100%
Aozora shares owned:	3,011

Apr. 1988 The Nippon Credit Bank, Ltd. (currently Aozora Bank, Ltd.)  
 Oct. 2011 General Manager of Financial Institutions Division I  
 July 2012 General Manager of Human Resources Division  
 Aug. 2013 Deputy Chief Risk Officer (CRO) and General Manager of Market Risk Management Division  
 July 2014 Executive Officer, Head of Financial Markets Group  
 July 2017 Managing Executive Officer, Head of Financial Markets Group  
 July 2018 Managing Executive Officer, CRO and Chief Credit Risk Officer (CCRO)  
 July 2019 Senior Managing Executive Officer, CRO and CCRO  
 July 2021 Senior Managing Executive Officer and CRO  
 June 2023 Director, Senior Managing Executive Officer and CRO  
 Apr. 2024 Representative Director, Deputy President and Executive Officer (current)

# Corporate Governance



## Takashi Kato

Job title:	Director and Senior Managing Executive Officer
Length of tenure:	—
Board meeting attendance:	—
Aozora shares owned:	6,664

Apr. 1989 The Nippon Credit Bank, Ltd. (currently Aozora Bank, Ltd.)  
 Aug. 2010 General Manager of Treasury Investment Division  
 July 2012 Deputy Head of Financial Markets Group, and General Manager of Treasury Investment Division  
 July 2014 Deputy Head of Financial Markets Group  
 July 2016 Executive Officer, General Manager of Kansai Branch, and General Manager of Kansai Financial Institutions Division  
 July 2018 Executive Officer, Head of Financial Markets Group  
 July 2019 Managing Executive Officer, Head of Financial Markets Group  
 July 2021 Senior Managing Executive Officer, Head of Allied Banking Group  
 July 2023 Senior Managing Executive Officer, Head of Corporate Strategy Unit and Office of Corporate Secretary  
 June 2024 Director and Senior Managing Executive Officer, Head of Corporate Strategy Unit and Office of Corporate Secretary  
 July 2024 Director and Senior Managing Executive Officer, Chief Financial Officer (CFO) (current)

## Outside ASB Members: 2



## Toraki Inoue

Job title:	Audit & Supervisory Board Member (Independent)
Length of tenure:	8 years
Board meeting attendance:	100%
ASB meeting attendance:	100%
Aozora shares owned:	273

Dec. 1985 Registration as CPA  
 June 1987 New York Office, ANDERSEN  
 Oct. 1995 National Partner, ANDERSEN  
 Oct. 1997 Worldwide Partner, ANDERSEN  
 July 1999 Partner, Asahi & Co. (currently KPMG AZSA LLC)  
 July 2008 Toraki Inoue Certified Public Accountant Office (current)  
 June 2010 Representative Director and President, Accounting Advisory Co., Ltd. (current)  
 June 2011 Outside Audit & Supervisory Board Member, Pioneer Corporation  
 Sept. 2011 Supervisory Director, GLP J-REIT (current)  
 Apr. 2012 Guest Professor of International Accounting Study Group, Expert Graduate School, Chuo University  
 Apr. 2013 Instructor of Global Business Study Group, Expert Graduate School, Meiji University  
 Mar. 2016 Outside Audit & Supervisory Board Member, Kao Corporation  
 June 2016 Outside Audit & Supervisory Board Member, Aozora Bank, Ltd. (current)  
 Apr. 2017 Instructor of International Accounting Study Group, Expert Graduate School, Chuo University  
 Oct. 2018 Standing Corporate Auditor, Kyulux, Inc. (current)  
 Nov. 2020 Outside Audit & Supervisory Board Member, ETVOS Co., Ltd. (current)  
 June 2024 Outside Audit & Supervisory Board Member, Hokuetsu Corporation (current)

## Standing ASB Member: 1



## Junichi Maeda

Job title:	Audit & Supervisory Board Member (Independent)
Length of tenure:	1 year
Board meeting attendance:	100%
ASB meeting attendance:	100%
Aozora shares owned:	618

Apr. 1987 The Bank of Japan (BOJ)  
 Sept. 2000 General Manager, Matsue Branch, BOJ  
 Aug. 2006 Director-General, Personnel and Corporate Affairs Department, BOJ  
 Mar. 2009 General Manager, Nagoya Branch, BOJ  
 June 2011 Senior Managing Director, The Hokkoku Bank, Ltd.  
 Jan. 2012 Senior Managing Director, General Manager of Audit Department, The Hokkoku Bank, Ltd.  
 Apr. 2012 Senior Managing Director, General Manager of Management Administration Division and Legal Office, The Hokkoku Bank, Ltd.  
 June 2013 Representative Senior Managing Director, The Hokkoku Bank, Ltd.  
 June 2021 Outside Director, Custody Bank of Japan, Ltd.  
 June 2023 Outside Audit & Supervisory Board Member, Aozora Bank, Ltd. (current)



## Satoshi Hashiguchi

Job title:	Audit & Supervisory Board Member
Length of tenure:	6 years
Board meeting attendance:	100%
ASB meeting attendance:	100%
Aozora shares owned:	2,156

Apr. 1984 The Nippon Credit Bank, Ltd. (currently Aozora Bank, Ltd.)  
 Nov. 2002 Joint General Manager of Financial Engineering Division  
 Apr. 2004 Joint General Manager of Treasury Division  
 Apr. 2006 General Manager of Securities Investment Division  
 Apr. 2008 Joint General Manager of Fund Investment Division  
 Apr. 2009 General Manager Treasury Funding Division  
 Aug. 2010 General Manager of Financial Institutions Division I  
 Oct. 2011 General Manager of Nagoya Branch  
 Oct. 2013 General Manager of Internal Audit Division  
 June 2018 Standing Audit & Supervisory Board Member (current)

Notes:  
 1. Four of the outside directors as well as the outside Audit & Supervisory Board members satisfy the requirements for independence set forth by the Tokyo Stock Exchange and Aozora's "Independence Criteria for Outside Directors and Outside Audit & Supervisory Board Members" and are designated as independent.  
 Hiromasa Kawashima has not been designated as independent because he is an officer of Daiwa Securities Group Inc., which is a major shareholder.  
 2. Length of tenure refers to service as of June 25, 2024.  
 3. Board meeting and ASB meeting attendance refers to meetings held during FY2023.  
 4. Number of Aozora shares owned as of March 31, 2024.

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

As a "Company with Audit and Supervisory Board" as defined in the Companies Act, Aozora has established a corporate governance structure with the Board of Directors and Audit & Supervisory Board in order to ensure management discipline and mutual checks and balances.

The Board of Directors is comprised of internal directors who possess extensive knowledge and experience in business execution and outside directors who supervise management from an objective standpoint, aiming for

efficiency, objectivity, and transparency. To promote sustainable growth and enhance Aozora's corporate value over the medium- to long-term, extensive knowledge is required not only in "corporate management," "banking and finance," "financial accounting," "legal, compliance/risk management," and "human capital," which are fundamental to the management of financial institutions, but also in "global affairs," "IT/DX," and "sustainability," which require higher levels of expertise.

	Name	Committee members		Expertise of Directors and Audit & Supervisory Board Members									
		Nomination and Remuneration Committee	Audit and Compliance Committee	Corporate management	Banking and finance	Financial accounting	Legal, compliance/risk management	Human capital	Global affairs	IT/DX	Sustainability		
Directors	Internal	Koji Yamakoshi			●	●		●		●			
		Hideto Oomi	●		●	●				●	●		
		Masayoshi Ohara				●		●	●			●	
		Takashi Kato				●		●		●			
	Outside	Sakie Tachibana Fukushima	Independent	● Chair-person		●				●	●		●
		Hideyuki Takahashi	Independent		● Chair-person	●	●	●	●			●	
		Hideaki Saito	Independent	●		●	●				●	●	
Audit & Supervisory Board Members	Internal	Koichi Tadano	Independent		●	●					●		
		Hiromasa Kawashima				●		●	●				
	Outside	Satoshi Hashiguchi			Observer		●		●		●		
		Toraki Inoue	Independent		Observer	●		●	●		●		
	Junichi Maeda	Independent		Observer	●	●		●	●				

# Corporate Governance

## Evaluation of Board Effectiveness

Aozora works to further enhance the effectiveness of its Board of Directors through a continuous improvement process (PDCA cycle) of analyzing and evaluating Board effectiveness each fiscal year as well as considering and providing solutions to new and existing issues.

### Self-evaluations by Directors

In light of its fiduciary duties and accountability to Aozora's shareholders, the Board of Directors continues to perform self-evaluations with the aim of promoting sustainable growth and enhancing Aozora's corporate value over the medium- to long-term based on the assessment of and views on its management and oversight functions that leverage directors' and Audit & Supervisory Board members' knowledge, experience, and capabilities. In FY2023, self-evaluations were conducted based on a questionnaire of all members of the Board present during the target period, and the results were shared after thorough Board discussions.

### Structure of the Board of Directors

Aozora's Board of Directors ensures objectivity and transparency as more than half of the Board are outside directors.

While operating as a "Company with Audit and Supervisory Board," Aozora also has the Nomination and Remuneration Committee, which is comprised of 50% outside directors and is also chaired by an outside director, as well as the Audit and Compliance Committee, which is comprised of only outside directors. Both committees act to complement the oversight of executive officers, including representative directors, and conduct checks and balances of them.

Outside directors' meetings were convened three times

throughout FY2023 to allow for the discussion and exchange of views on multiple topics, including Aozora's executive structure, key business issues in light of the rapidly changing business environment, and the operation of the Board of Directors, from an independent outside director's perspective.

The Board of Directors primarily focused its discussions on the themes listed under "Board of Directors, Audit & Supervisory Board, and Committee Meetings" below, based on preliminary explanations and directors' roundtable meetings.

In addition, the nomination of independent outside directors and the appointment of a CEO based on the CEO succession plan were resolved by the Board of Directors after deliberation at, and recommendations from, the Nomination and Remuneration Committee. With the appointment of a new CEO, Aozora transitioned to a new management structure as of April 1, 2024.

### Evaluations in FY2023

In FY2023, the Board determined that its roles and responsibilities continued to be properly fulfilled under the aforementioned framework through constructive discussions and an exchange of ideas on important issues, including business strategy, as well as the effective oversight and monitoring of management executives. The Board also assessed that overall Board management was proper and effective.

The Board of Directors for FY2024 will strive to make the Board's roles and responsibilities more effective and proper by engaging in management issues based on the self-evaluation and conducting a PDCA cycle while further utilizing the sub-committees under the Board as well as the outside directors' meetings.

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

### Main Agenda Items for FY2023

#### ■ Board of Directors (13 meetings held / 2 hours and 32 minutes average deliberation time)

- Confirmation of progress of the business plan for FY2023, the first year of the new Mid-term Plan
- U.S. non-recourse office loan management status and response policy
- Securities portfolio management status and response policy
- Business operations of subsidiary GMO Aozora Net Bank

- Integrated risk report, compliance program, annual internal audit plan
- Revision of quarterly financial results, full-year earnings forecasts, and dividends
- Development of business plan for FY2024
- Nomination of independent outside director and Audit & Supervisory Board member candidates
- Appointment of CEO based on CEO succession plan and transition to new management structure
- Consideration of alliances with other companies
- Others

#### ■ Audit & Supervisory Board (14 meetings held)

- Progress and results of year-end audit, interim audit, and quarterly review
- Key Audit Matters (KAM)
- Status of self-assessment and write-off/reserve
- Status of internal audit implementation
- Consent to the nomination of candidates for Audit & Supervisory Board members and alternate Audit & Supervisory Board members
- Consent to the reappointment of an independent accounting auditor and remuneration proposals

#### ■ Nomination and Remuneration Committee (6 meetings held)

- Compensation plan for sustainable growth and compensation amount
- Nomination of independent outside director and Audit & Supervisory Board member candidates
- Appointment of CEO based on CEO succession plan and transition to new management structure

#### ■ Audit and Compliance Committee (6 meetings held)

- Status of internal audit
- Matters regarding integrated risk management
- Status of progress of compliance program
- Status of asset assessment

## Support System for Outside Directors and Audit & Supervisory Board Members

To support its directors and Audit & Supervisory Board members, Aozora invites outside instructors to conduct training as needed. In addition, newly appointed outside directors and outside Audit & Supervisory Board members attend informational sessions on operations multiple times by the executive officers in charge of each business group and supporting unit.

Directors and Audit & Supervisory Board members that were newly appointed in FY2023 collected and shared information on Aozora's main governance-related regulations

and operations before assuming office. They also participated in several individual briefing sessions to deepen their understanding of Aozora's overall business, financials, IT, human resources, risk management, and sustainability. Even after assuming their new positions, they continued to receive reports on business conditions directly from the executive officers in charge and have interviews with the management of Group companies to gain a better understanding of the current state of the Group's business.

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

### Basic Guidelines for Nominating Director Candidates

Candidates should:

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

The composition of the Board of Directors shall take into consideration diversity and mix of experience, with a wealth of knowledge and expertise in areas including banking and finance, financial accounting, risk management, legal and compliance and so forth in addition to having a thorough understanding of the Aozora's business.

### Basic Guidelines for Nominating Audit & Supervisory Board Member Candidates

Candidates should:

1. Possess substantial management knowledge and expertise
2. Have knowledge of important financial rules and regulations, finance and accounting

3. Be objective, impartial, and able to perform duties from an independent standpoint
4. Be able to earn the trust of Aozora's stakeholders
5. Have the ability to communicate effectively with shareholders, the Board of Directors, and senior management to ensure management soundness and transparency

### Reappointment of Directors and Audit & Supervisory Board Members

For reappointment of directors and Audit & Supervisory Board members, the above basic guidelines, performance of his/her duties, and contribution to Aozora's management during his/her term of office shall be considered each fiscal year. The maximum term of office of each official corporate title of full-time director shall be set out in the internal regulations of the Management Committee. The maximum term of office for outside directors shall be 10 terms or 10 years. The maximum term of office for outside Audit & Supervisory Board members shall be 3 terms or 12 years.

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

- (1) Basic guidelines for appointing senior management
  1. Possesses substantial knowledge and expertise required for proper business operations

## Corporate Governance

- Has superior foresight and insight, ability to make decisions on business operations and exercise sound judgment
- Demonstrates leadership with subordinates and the ability to assume responsibility for important management functions related to Aozora's business strategy

### (2) Basic guidelines for dismissing senior management

- Acts against the public interest
- Becomes unable to continue performing duties due to health problems
- Causes serious damage to Aozora's corporate value due to negligence or similar reasons

### Basic Guidelines for Appointing and Dismissing the CEO

#### (1) Basic guidelines for appointing the CEO

In addition to the basic guidelines for appointing senior management:

- Has superior top management leadership skills
- Has substantial management experience and accomplishments

- Optimal candidate for the continued improvement of Aozora's corporate value

#### (2) Basic guidelines for dismissing the CEO

In addition to the basic guidelines for dismissing senior management:

- Fails to adequately exercise top management leadership
- Determined to be unqualified as CEO due to failure in fulfilling shareholders' mandate

### Development of CEO Succession Plan

We have developed a succession plan that incorporates the items below, with the aim of appointing CEO successors who can contribute to the sustainable enhancement of Aozora's corporate value for smooth business succession in the future.

- Overall policy including a roadmap
- Capability requirements for CEO in light of strategic directions and environmental changes
- Candidate selection and training plans

director, accounting advisor, and/or Audit & Supervisory Board member.

- A person who is a major business partner (2% or more of consolidated net revenue of Aozora or consolidated net sales of the said major business partner) of Aozora or its subsidiaries or an executive of said major business partner.
- A consultant, accounting expert, and/or legal expert, who has received significant sums of money or other assets (more than an average of 10 million yen per year over the last three years) from Aozora or its subsidiaries in addition to any directors' remuneration, and/or a person who belongs to a consulting firm, accounting firm, and/or legal firm, etc. which has received significant amounts of money or other assets (2% or more of consolidated sales revenue of the said firm) from Aozora or its subsidiaries.
- A person who has been any of the following (1) to (3) during the last 10 years prior to his/her taking office.
  - A person who has been an executive and/or non-executive director of the parent company of Aozora
  - An Audit & Supervisory Board member of the parent company of Aozora (limited to cases when the outside

Audit & Supervisory Board member shall be designated as independent)

- A person who has been an executive of fellow subsidiaries of Aozora.
- A person who has "recently" fallen under any of 1 through 4 above. ("Recently" means a time deemed to be substantively the same as the present. For example, a person is not deemed to be independent if that person was an executive of a major business partner at the time when a proposal to the General Meeting of Shareholders regarding his/her appointment was decided.)
- A close relative (a spouse or family member within the second degree of kinship, excluding those who are not an "important person") who falls under any of 1 through 5 above. ("Important person" means, for example, an executive officer/manager-level employee of a company, and in the case of 3 above, a holder of professional qualification such as a Certified Public Accountant and Attorney-at-Law.) In the case of 1 above, those who fall under each item at present.

## Procedure for Nominating Director Candidates and Other Senior Management Candidates

### Procedure for Nominating Director Candidates, and Appointing and Dismissing Senior Management Including the CEO

The Nomination and Remuneration Committee, of which the majority comprises outside directors, deliberates on the nomination of director candidates as well as the appointment and dismissal of the CEO and other senior management, and makes recommendations to the Board of Directors.

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

In cases where the CEO or other senior management falls under any of the above basic guidelines for dismissal, in principle, the Board of Directors will determine whether or not

to dismiss them in accordance with the recommendations of the Nomination and Remuneration Committee.

### Procedure for Nominating Audit & Supervisory Board Members

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

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

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

Outside directors, outside Audit & Supervisory Board members, and their candidates who do not fall under any of the following categories shall be deemed to be independent.

- (1) A person who currently is, or has been during the last 10 years prior to his/her taking office, an executive (executive director, executive officer, or other employee) of Aozora or its subsidiaries.

- (2) A person who had served as a director, accounting advisor, and/or Audit & Supervisory Board member (excluding a person who served as an executive) of Aozora or its subsidiaries at some time during the 10 years prior to his/her taking office, had also served as an executive of Aozora or its subsidiaries in the 10 years prior to his/her taking office as such

## Directors' Remuneration

### Basic Guidelines for Determining Remuneration for Directors, etc.

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

- Remuneration framework in line with Aozora's vision  
Aozora aims to build a remuneration framework that reflects business performance in line with its objectives and values.
- Remuneration framework appropriately reflecting Aozora's performance  
Aozora's remuneration framework is based on "pay for performance" and reflects our commitment to sustainable growth, sound risk-taking through appropriate risk management, compliance, and customer protection.
- Remuneration framework aligned with the interests of shareholders and other stakeholders  
Aozora has adopted a remuneration framework that is consistent with the values of its shareholders and other stakeholders.
- Effective governance in remuneration decisions  
Aozora ensures that remuneration decisions are made with full independence and transparency as well as freedom from specific influence.

### Policy on Determination of the Amount and Calculation Method of Remuneration for Directors

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

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

- Chairperson: Sakie Tachibana Fukushima,  
Outside Director  
Member: Hideaki Saito, Outside Director  
Member: Hideto Oomi, Representative Director  
and President

The Nomination and Remuneration Committee members in charge of determining the amount of each directors' remuneration for FY2023 were as follows:

- Chairperson: Sakie Tachibana Fukushima,  
Outside Director  
Member: Hideaki Saito, Outside Director  
Member: Kei Tanikawa, Representative Director  
and President

Note: Mr. Hideto Oomi replaced Mr. Kei Tanikawa as Representative Director and President as of April 1, 2024 and became a member of the Nomination and Remuneration Committee.

## Corporate Governance

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

### (i) Base Remuneration (Fixed Remuneration)

Base remuneration, which comprises a fixed amount that varies by type of position (full-time or part-time), job title, and responsibilities, is paid on a monthly basis during the tenure of each director.

Data from an outside specialized agency is used to determine whether the level of base remuneration is appropriate.

For President and Deputy President, base remuneration is determined within a remuneration range predetermined by the type of position while taking into consideration factors including the levels of their responsibilities and experience.

### (ii) Bonus (Performance-based Remuneration)

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

- Achievement rates of business profit and net earnings
- Results achieved for key performance indicators (KPIs), such as ROE, capital adequacy ratio, business-related profit (Business profit + Gains/losses on stock transactions) per employee, and business-related profit RORA ((Business profit + Gains/losses on stock transactions)/Risk-weighted assets)
- Assessment of undue risk-taking and occurrence of serious compliance violations
- Implementation and introduction of initiatives and strategies from a mid- to long-term perspective, including the launch of new businesses
- Progress and achievement of sustainability initiative targets announced by Aozora

Among the aforementioned performance indicators, achievement rates of business profit and net earnings are the basic indicators for Aozora's business results. Achievement rate for ROE, capital adequacy ratio, business-related profit per employee and business-related profit RORA as KPIs are key indicators for the targets in Aozora's Mid-term Plan. The achievement rates of these indicators, therefore, are taken into account as quantitative evaluation

criteria for determining bonus amounts. In order to encourage not only short-term business results but also mid- to long-term initiatives, Aozora also fully considers important qualitative evaluation criteria for determining bonus amounts, such as the assessment of undue risk-taking and occurrence of serious compliance violations, and the implementation/introduction of initiatives and strategies from a mid- to long-term perspective, including the launch of new businesses, as well as the progress and achievement of sustainability initiative targets announced by Aozora.

The targets and results of the indicators used to determine performance-based remuneration for FY2023 are stated below. Based on these results, bonuses (performance-based remuneration) were not paid to full-time directors.

	Original earnings forecast announced at the beginning of FY2023	FY2023 results
Business profit	25.5 billion yen	(8.5 billion yen)
Net earnings*1	24 billion yen	(49.9 billion yen)

	Mid-term Plan targets*2	FY2023 results
ROE	8% or higher	—*3
Capital adequacy ratio	Minimum 9%	9.2%
Business-related profit per employee*4	20 million yen	(2.5 million yen)
Business-related profit RORA*5	1.3%	(0.1)%

\*1 Profit attributable to owners of parent

\*2 Mid-term Plan "Aozora 2025" (FY2023-25)

\*3 Not stated due to a loss attributable to owners of parent

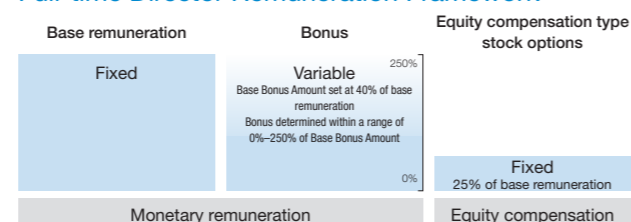
\*4 Business-related profit = business profit + Gains/losses on stock transactions

\*5 Business-related profit RORA: Business-related profit / Risk-weighted assets

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

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

### Full-time Director Remuneration Framework



### Reasons for the Board of Directors' Judgment That Remuneration for Individual Directors in FY2023 Was in Accordance with the Above Policy

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

### Policy on Determination of the Amount and Calculation Method of Remuneration for ASB Members

ASB members discuss and determine their individual remuneration amounts in consideration of deliberations and

proposals made at the Nomination and Remuneration Committee.

ASB members only receive base remuneration (fixed remuneration), which is paid on a monthly basis during their tenure in accordance with the policy below.

### Base Remuneration (Fixed Remuneration)

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

### Remuneration of Directors and ASB Members (April 1, 2023 to March 31, 2024)

Category	Number (number of individuals)	Remuneration in total (million yen)		
		Fixed remuneration	Performance-based remuneration (bonus)	Non-monetary remuneration (stock options)
Directors (excl. outside directors)	5	223	177	45
ASB member (excl. outside ASB members)	1	29	—	—
Outside directors	6	56	—	—
Outside ASB members	3	24	—	—

Notes:

1. The number and remuneration in the above table include those for one internal director, two outside directors, and one outside Audit & Supervisory Board member who retired at the close of the 90th General Meeting of Shareholders on June 22, 2023.
2. Based on the results for FY2023, bonuses were not paid to full-time directors.
3. No director or ASB member received a total remuneration of 100 million yen or more.

### Sub-committees under the Management Committee

Name of committee	Chaired by	The number of meetings held in FY2023	Purpose
Asset and Liability Committee	CFO	16	Monitor and evaluate important matters and deliberate and determine management policies regarding asset and liability management, including plans for the sources and uses of funds
Integrated Risk Committee	CRO	15	Develop risk management procedures and verify and approve risk analysis methods Maintain proper internal governance and launch new businesses/products
Credit Committee	CCRO	81	Approve credit transactions and establish a credit risk asset portfolio aligned with management policies
Investment Committee	CCRO	45	Approve investment transactions, establish investment policies, ensure accurate understanding of investment risk, build and maintain a secure and profitable portfolio
CAPEX Committee (approval and management of IT-related proposals)	CTO	17	Approve and monitor IT projects and facilities-related projects required to realize business plans and strategies
CAPEX Committee (approval and management of facilities-related proposals)	Head of Corporate Strategy Unit	10	Approve and monitor IT projects and facilities-related projects required to realize business plans and strategies
Customer Protection Committee	Head of Compliance and Governance Unit	23	Establish and improve the customer protection management framework from the perspective of customer explanation, support, customer information, outsourcing, and conflict of interest
Sustainability Committee	CEO	8	Basic matters of Group-wide sustainability promotion as well as important matters regarding sustainability promotion mainly in Aozora's business and initiatives as a business entity

# Risk Management

## Basic Policy

Aozora positions risk management as the foundation supporting our value creation process and is aware of its extreme importance. Through efficient management and utilization of managerial resources and sound risk-taking, we will realize Aozora's management philosophy to "contribute to the development of society through the creation of new value-added services" with a basic policy

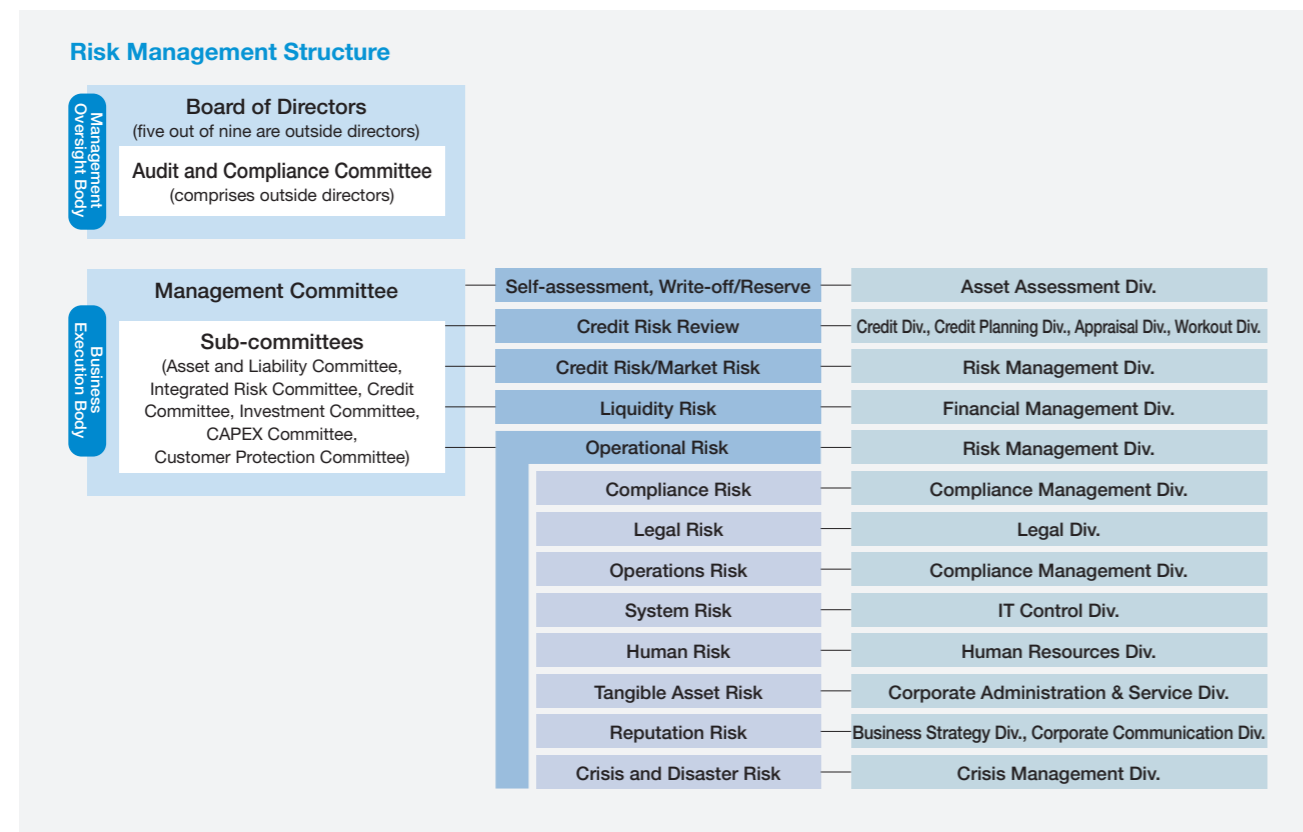
of sustainable and stable accumulation of earnings, capital adequacy, and corporate growth.

Under the basic policy, we are working to enhance our risk management through the establishment of a system to appropriately ascertain and control risks individually and in the aggregate, and through appropriate and disciplined management based on regulations stipulated for each risk category.

## Management Structure

Aozora's risk management structure is organized into two major groups. The first is the Board of Directors and the Audit and Compliance Committee which is comprised of outside directors. The second major group is the Management Committee, which is comprised of Aozora's executive officers, and sub-committees to which it delegates authority. In the course of business, the Management Committee and sub-committees analyze and take into consideration a range of risks arising from the origination of loans and investments, the delivery of services to customers, and

business operations from a broad perspective. In addition, monitoring and reporting on the status of risks are conducted regularly or as needed by each risk management department to the Management Committee and subcommittees, which leads to our flexible and timely responses. The status of risks is also regularly reported to the Board of Directors and the Audit and Compliance Committee, and the appropriateness and effectiveness of risk management are discussed to ensure the effectiveness of risk governance.



## Key Risks

Aozora recognizes the following items as its key risks among the many risk factors posed by the environment in our business operations in FY2024. We discuss

our risk appetite and business planning based on key risks, and also strive for a higher level of risk management.

Key Risks / Summary of Risk Details	Countermeasures
<b>Increase in credit costs</b> <ul style="list-style-type: none"> <li>Deterioration in economic environment due to market fluctuations</li> <li>Change in market environment due to heightened geopolitical risk</li> <li>Decline in corporate value due to climate change response, etc.</li> </ul>	<ul style="list-style-type: none"> <li>Comply with loan management and investment policies, carefully analyze borrowers' business risks, pay attention to portfolio diversification, and selectively incorporate quality projects.</li> <li>Closely monitor real estate market conditions in target regions for overseas real estate non-recourse loans and move forward on maximizing collection of U.S. office workout loans.</li> <li>Develop guidelines to avoid credit concentration risk and conduct capital control including stress tests.</li> <li>Strive for timely analysis of the status of business partners and transactions, ascertain signs, and conduct proactive credit management.</li> <li>Support customers' sustainable finance initiatives through Aozora's ESG Support Framework and promote consulting on decarbonization.</li> <li>Provide transition finance to customers in industries with high CO<sub>2</sub> emissions.</li> </ul>
<b>Deterioration in unrealized gains/losses on securities portfolio</b> <ul style="list-style-type: none"> <li>Financial market volatility caused by financial institutions or other factors</li> <li>Deteriorated economic environment due to market fluctuations</li> <li>Changed market environment due to heightened geopolitical risk</li> </ul>	<ul style="list-style-type: none"> <li>Build an efficient and highly liquid portfolio diversified by interest rate, equity, and credit risk, and implement flexible risk control by taking into consideration market trends and the broader financial environment.</li> <li>Develop a framework that allows for an early and appropriate response by establishing various points to check regarding risk levels and losses.</li> <li>Strengthen management of periodic earnings, including hedging positions when developing plans.</li> </ul>
<b>Instability of funding</b> <ul style="list-style-type: none"> <li>Changes in market environment due to heightened geopolitical risk</li> <li>Deterioration of funding environment due to market fluctuations</li> <li>Risk of worsened cash flow caused by financial market volatility due to financial institutions or other factors</li> <li>Risk of cash flow deterioration caused by deterioration of Aozora's reputation and spread through social media</li> </ul>	<ul style="list-style-type: none"> <li>Set target amounts and limit amounts for liquidity buffers based on estimated survival periods and current funding conditions, confirm credit lines regularly, monitor and verify through stress tests, and check daily on the market environment and other matters related to funding. Through these measures, we will build a framework that can read the signs of instability in foreign currency funding and respond to them.</li> <li>Diversify countermeasures such as setting up foreign currency funding facilities that can be used in emergencies.</li> </ul>
<b>Outbreak of crises such as cyberattacks and system failures</b> <ul style="list-style-type: none"> <li>Adverse impact on Aozora's operations due to cyberattacks, etc.</li> <li>Deterioration in the Aozora Group's corporate value due to suspension of operations or malicious use of information, etc.</li> </ul>	<ul style="list-style-type: none"> <li>Enhance knowledge related to cyberattacks among all officers and employees, evolve technological countermeasures, strengthen detection capabilities, and implement recovery drills, including for business groups.</li> <li>Share information about system changes with business groups, and conduct response training in the event of system failure, including business groups.</li> <li>Enhance the framework to ensure operational resilience.</li> </ul>
<b>Outbreak of large-scale disasters and other crises</b> <ul style="list-style-type: none"> <li>Adverse impact on operations due to disasters, terrorism, etc.</li> <li>Impact on the maintenance of social functions due to the suspension of operations and a decline in the Aozora Group's corporate value</li> </ul>	<ul style="list-style-type: none"> <li>Develop a crisis management structure and business continuity plans (BCP) in preparation for potential disasters.</li> <li>Strengthen crisis response and ensure effectiveness by conducting regular drills and education for officers and employees.</li> <li>Enhance the framework to ensure operational resilience.</li> </ul>
<b>Reduced competitiveness due to changes in the social structure or industrial structure</b> <ul style="list-style-type: none"> <li>Lost growth opportunities or appearance of new risks due to delayed response to irreversible climate changes</li> <li>Advances in digital technologies and intensified competition from other industries</li> <li>Damage to corporate value due to lower ESG evaluation</li> <li>Damage to corporate value due to multiple factors</li> </ul>	<ul style="list-style-type: none"> <li>Develop human resources (DX human resources) capable of utilizing data and information in business workplaces to promote DX within Aozora and for customers.</li> <li>Support customers' DX acceleration through initiatives such as GMO Aozora Net Bank's Bank APIs and BaaS byGMO Aozora.</li> <li>Promote sustainability-related initiatives in business and as a business entity throughout the entire Aozora Group.</li> <li>Promote measures to become carbon neutral as a business entity by 2030.</li> <li>Consider expanding the scope of measurement and disclosure of GHG emissions and setting interim targets based on the PCAF Standard toward carbon neutrality of the investment and loan portfolio in 2050.</li> <li>Build a framework for a human rights due diligence structure based on international norms.</li> </ul>
<b>Inadequate response to financial crimes, occurrence of internal fraud and information leaks</b> <ul style="list-style-type: none"> <li>Inadequate framework to prevent and take measures against financial crimes</li> <li>Damage to corporate value due to factors such as criminal punishments or administrative penalties</li> </ul>	<ul style="list-style-type: none"> <li>As part of the annual compliance program, disseminate laws, regulations, and internal rules, and set plans and check on progress of monitoring, training programs, and other activities.</li> <li>Work to further instill and entrench the Code of Ethics and Conduct by obtaining written pledges from all employees, conducting training and continued delivery of top management messages and other matters.</li> <li>Develop a customer management system to prevent money laundering, etc., and ensure the ongoing effectiveness of our response to the targets of economic sanctions as well as promote the further enhancement of the system based on anti-money laundering guidelines, foreign exchange guidelines, etc.</li> <li>Continue to promote awareness of insider trading prevention and information management among officers and employees through training and other methods.</li> </ul>
<b>Sustainability of human resources</b> <ul style="list-style-type: none"> <li>Securing human resources necessary for the Bank's business growth and continued operations</li> </ul>	<ul style="list-style-type: none"> <li>Conduct ongoing investment in human capital for the redeployment of human resources to focus areas such as strategically transferring personnel and reviewing compensation packages, continuing to appoint human resources by strengthening external recruitment activities and diversity, and encouraging employees' to take greater ownership of their career development.</li> <li>Identify the extent of satisfaction through the Employee Satisfaction Survey and Employee Engagement Survey to improve employee job satisfaction, and review the HR system and plan, propose, and implement new measures based on the survey results.</li> </ul>

# Compliance

## Basic Policy

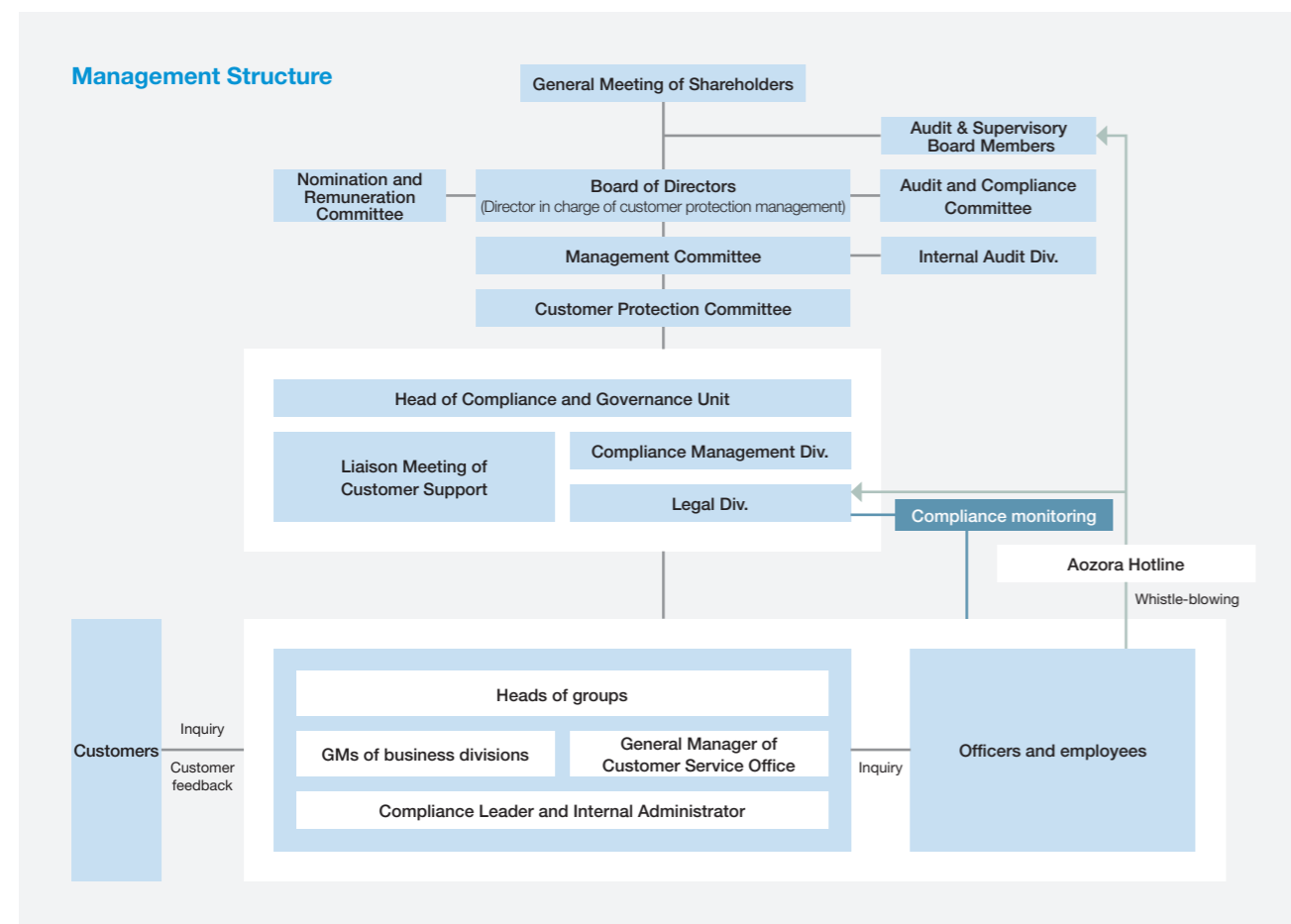
Social norms, common sense, and public expectations for financial institutions are constantly changing due to the transformation of our industrial structure resulting from technological advancement and the emergence of new values. Furthermore, in addition to adapting to changes in the external environment, Aozora continues working to develop new products and services in order to achieve

sustainable growth in its business. To avoid any damage to our corporate value, we will continue to comply with all laws and regulations applicable to our business operations, conduct sensible corporate activities based on social norms and common sense, and strive to further improve our management framework for compliance and legal risk to better respond to a wide range of changes in the environment.

## Management Structure

Aozora has a Compliance Management Division and a Legal Division in place as the supervising divisions for compliance and legal risks, and these divisions develop internal rules regarding compliance. The two divisions also conduct seminars and e-learning periodically to maintain and improve compliance awareness. As a specific action plan to realize our compliance framework, the Compliance Management Division develops annual compliance programs that are disseminated to and implemented by all of Aozora's officers and employees, including those at Group companies.

The progress and achievement status of these programs are reported to the Audit and Compliance Committee and the Board of Directors on a semi-annual basis. Aozora has also established a Code of Ethics and Conduct (refer to the Financial and Corporate Data Section) as a standard of conduct that every officer and employee must remain in compliance with. All officers and employees of Aozora, including Group companies, pledge on an annual basis that they understand and comply with the Code of Ethics and Conduct.



## Customer-oriented Business Management

Aozora has formulated and announced its Basic Policy on Customer-Oriented Business Management (refer to the Financial and Corporate Data Section) based on the Principles for Customer-Oriented Business Conduct publicized by the Financial Services Agency. This basic policy is reviewed on a regular basis for better business management. Additionally, under this policy, we disclose the status of specific initiatives and related matters in our retail division every six months.

We have also established a product governance framework with the involvement of senior management in order to deliver products and other services that contribute

to the pursuit of customers' best interests. Specifically, with the involvement of the Customer Protection Committee, we make decisions about whether to introduce products and related services only after validating whether they are suitable for the target potential customers and investigating relevant issues before we begin to handle the products and related services. After we begin handling the products and related services, we undertake post-sale monitoring based on sales performance, and we review and discontinue the sales solicitation policy for the products and other items as necessary. Through these processes, we implement customer-oriented business management.

## Elimination of Anti-social Elements

Aozora clearly states in the Basic Policy on the Elimination of Anti-Social Elements (refer to the Financial and Corporate Data Section) that it steadfastly confronts any anti-social elements that pose a threat to public order and safety while ensuring that it categorically blocks any relationship with such elements. Aozora has established and routinely maintains close cooperative relationships with outside

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

## Anti-money Laundering Initiatives

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

conducting a review as needed to ensure their effectiveness. We also systematically provide training for officers and employees regarding the prevention of financial crimes and the response to economic sanctions under the Foreign Exchange and Foreign Trade Act. In addition, we ensure that we verify the identity of customers and the purpose of their transaction at the time of account opening, which is followed by the ongoing monitoring of our customer transactions.

Additionally, we have developed an internal structure that allows for immediate reporting to the relevant authorities regarding any suspicious transactions detected by our daily monitoring process.

## Anti-bribery Initiatives

Aozora has established the Basic Policy on Anti-bribery (refer to the Financial and Corporate Data Section), which prohibits all Aozora's officers and employees from giving, offering, or promising improper corporate hospitality, gifts, and other benefits to public officials in any country as well

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

# Compliance

## Whistle-blower Program

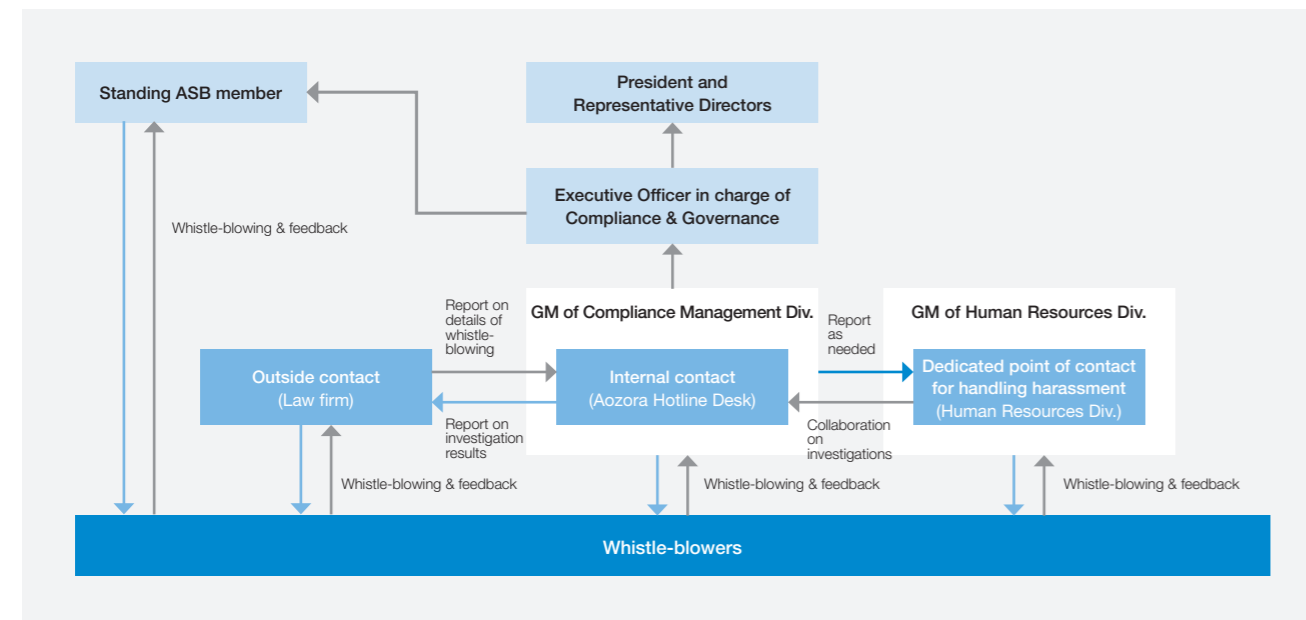
Aozora has established a whistle-blower program called the Aozora Hotline Program in order to detect and correct at an early stage any conduct that breaches laws, regulations, and other rules, and to foster a clean, open, and fair corporate culture. As whistle-blowing contacts for officers, employees, and other personnel of Group companies, we have set up an internal contact, and have also arranged for an outside law firm to act as an outside point of contact.

The program allows for anonymous reporting. In addition, all officers and employees are provided with a special postal envelope addressed to the contact point outside

Aozora in an effort to create an environment that facilitates access to the internal reporting system.

In order to protect whistle-blowers, the program tightly controls information and protects privacy, and strictly prohibits any unfavorable treatment of whistle-blowers. If any violation of the law, misconduct, or other such activity is confirmed as a result of whistle-blower investigations, Aozora will promptly take corrective and preventive measures.

In FY2023, there were no whistle-blower cases that had a significant impact on the management of Aozora.



For information on insider trading prevention, customer protection management, and tax compliance, please refer to Compliance in the Financial and Corporate Data Section.

# Internal Audit

## Role and Function

The Internal Audit Division (IAD) operates independently from all business groups and supporting units. To “contribute to the development of society through the creation of new value-added financial services,” which is Aozora’s Mission, IAD independently examines and evaluates whether the Group’s internal controls are functioning properly and effectively, and offers constructive and practical recommendations for business improvement. As of March 31, 2024, 28 employees were directly engaged in internal audits.

Internal audits are conducted in line with audit plans, which are developed according to the Annual Internal Audit Plan approved by the Management Committee and the Board of Directors each fiscal year. When developing the

audit plan, IAD carries out risk assessments based on the type and degree of inherent risk within each business group, supporting unit, and Group company, as well as the status of internal controls, and determines factors such as the frequency, complexity, and deployable resources of audits.

### Audits Conducted in FY2023

Type of audit	Number of audits
Audits for business groups and supporting units	10
Cross-sectional target audits	20
System audits	2
J-SOX audits	37
<b>Total</b>	<b>69</b>

## Positioning of IAD within the Organization

IAD reports directly to the Chief Executive Officer (CEO) and shares the status of the Group’s internal controls with the CEO mainly through periodic reporting. IAD also provides an independent evaluation of internal controls by presenting individual audit results to the Management Committee monthly and a summary of the audits directly to the Audit and Compliance

Committee and the Board of Directors semiannually.

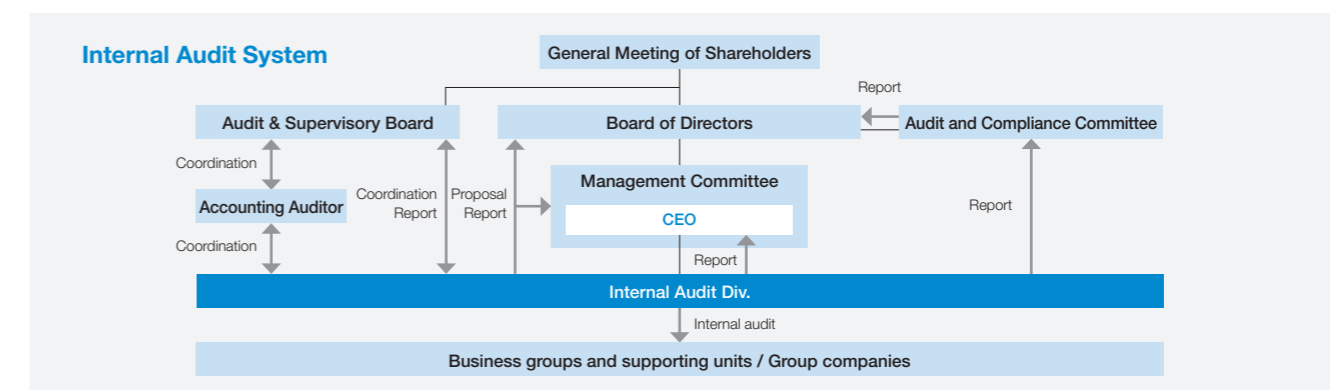
In order to better fulfill its audit mission, IAD exchanges information and opinions as necessary with the Audit & Supervisory Board and its members, and also works closely with them and the Accounting Auditor through periodic three-way audit meetings.

## Efforts to Improve Audit Quality and Effectiveness

The Bank’s internal audits are conducted on a risk basis in accordance with the international standards of the Institute of Internal Auditors (IIA). In addition to an internal quality assessment conducted annually, IAD periodically undergoes an external quality assessment by a third-party organization in order to further improve the Bank’s internal audits. IAD has worked to enhance the dual role assignment system between Aozora Bank and the audit divisions of Group

companies in order to strengthen Group governance.

To improve the effectiveness of its internal audits, IAD conducts ongoing internal development and external recruitment of audit team members with a high level of expertise. In addition, IAD supports its audit team members to obtain professional certifications, such as Certified Internal Auditor (CIA) and Certified Information System Auditor (CISA).



# Cybersecurity

## Basic Policy

Cybersecurity is one of Aozora's main focuses as a bank that has a responsibility for its customers' important assets and information. Incidents such as information leaks and service outages caused by cyberattacks may have a material impact not only on Aozora's management, including damages to our customers and affecting business

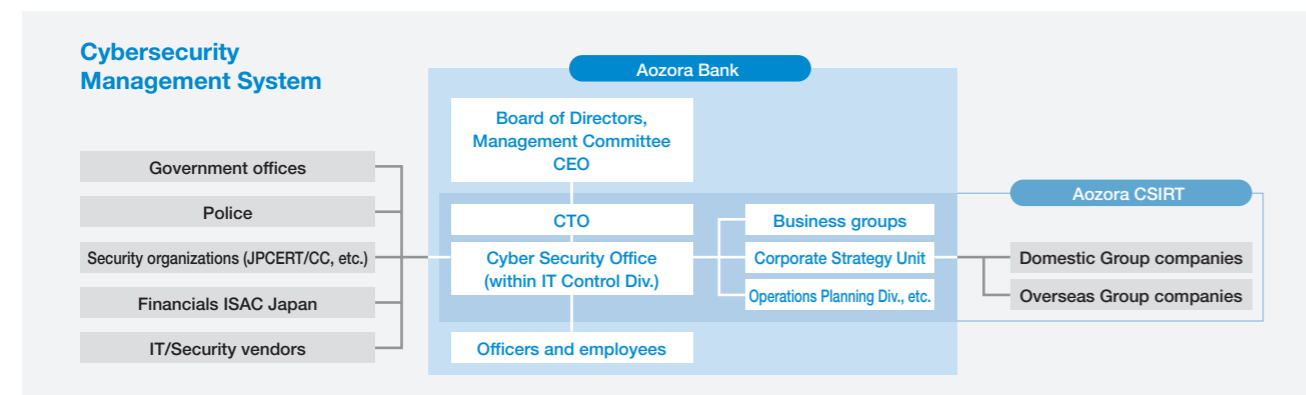
continuity, but also on society as a whole. In order to provide reliable financial services, Aozora considers the stable operation of information systems to be one of its most important management responsibilities. We work to maintain the cybersecurity system and reduce risks across the Aozora Group.

## Management System

Aozora has established a security policy and a systems risk management policy, and conducts cybersecurity management with the active engagement of senior management based on a risk appetite framework approved by the Board of Directors.

Aozora has established a framework in which the IT Control Division headed by the Chief Technology Officer (CTO), who is responsible for cybersecurity, is designated as the control division for overall system risks. The Cyber Security Office, a dedicated cybersecurity department

formed within the IT Control Division and staffed with specially trained personnel, manages systems development, monitoring, and emergency responses. In addition, we have established a Cyber Security Incident Response Team (Aozora CSIRT), which spans across Aozora's related groups/divisions and Group companies. By sharing cybersecurity trends and risks inherent in the Bank as well as conducting ongoing cybersecurity training, the entire Group remains prepared for emergency situations.



## Initiatives to Enhance Security

### Multi-layered technical countermeasures and verification of effectiveness

- Entrance measures to prevent unauthorized network intrusion
- Exit measures to prevent the leakage of information
- Internal measures that presume attacks on the internal network
- Verification of effectiveness of technical countermeasures through penetration testing by external experts

### Strengthening of cyber-resilience

- Regular cybersecurity exercises involving members of the management team
- Recovery tests using actual systems and equipment on the assumption that an incident has occurred

### Analysis of threat trends

- Gathering information on key issues including vulnerabilities, attack strategies, and instances of damage suffered by other companies
- Systematic responses based on a study of potential impacts affecting Aozora and related risks

### Security training for officers and employees

- Improve ability to identify suspicious emails and ability to respond when opening them through targeted email training
- Training through e-learning, videos, and online seminars based on the results of targeted email training and threat trends

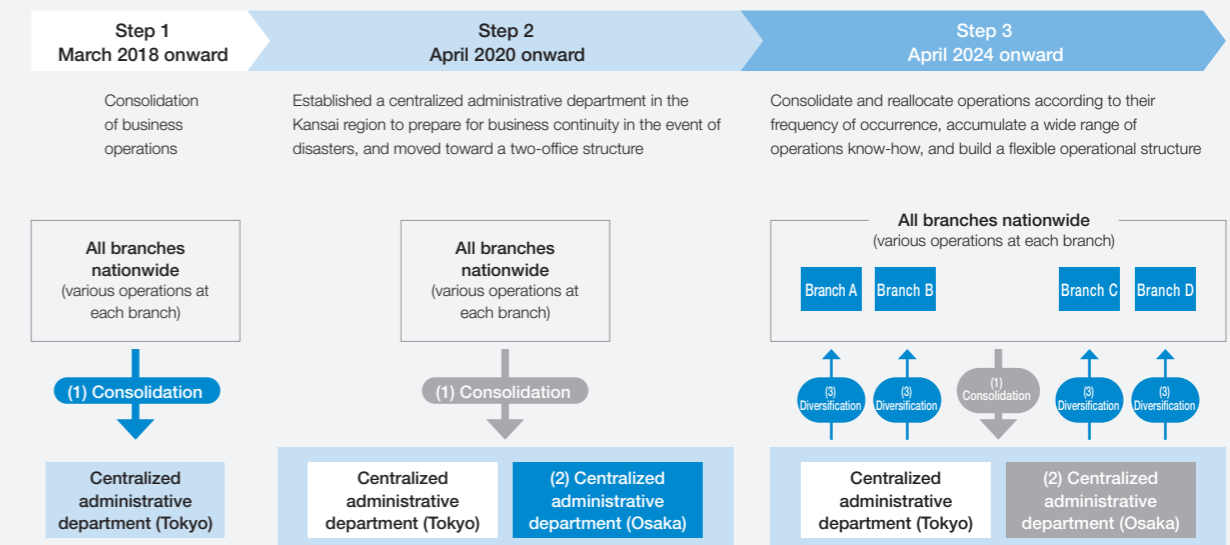
# Toward Building Operational Processes Transcending Branches

In 2018, Aozora started business consolidation, where a centralized administrative department processes transactions accepted at branches nationwide to promote efficient business operations. Later, in response to the rapid increase in deposit accounts due to the launch of BANK™ services and other factors, operations streamlining has progressed even further and Aozora is reallocating operations rather

than personnel (consolidating and diversifying operations).

Branch employees are working to build a sustainable operational structure that transcends geographical constraints, aiming for overall optimization and moving ahead on establishing a business continuity structure in the event of a disaster.

## History of Operational Process Reform



## Utilizing IT in Operational Process Reform



## Sapporo Branch Initiative

We aim to create an organization where employees can leverage their experience and abilities to work with enthusiasm and thrive.

Since FY2024, Aozora has employed a system where administrative employees from branches throughout the nation are able to carry out administrative procedures efficiently and flexibly throughout the entire Bank without changing workplace locations. One example is our Sapporo Branch, which is responsible for the centralized processing of some accounts requested by mail from customers throughout Japan. Selected staff members at the Sapporo Branch actively participated in the formulation of administrative processes, achieving an efficient administrative processing system.



## Key Financial Data

(million yen)

### Overview of Consolidated Financial Results

	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
Net revenue	92,834	91,403	85,273	87,479	83,840	95,711	96,546	103,011	59,573	50,924
Net interest income	49,981	49,804	45,646	49,054	50,284	48,789	50,089	51,612	51,080	42,074
Net fees and commissions	14,547	11,464	9,290	11,396	12,949	12,655	12,481	14,024	13,333	20,420
Net gains on trading account transactions	12,479	12,208	20,433	17,094	8,340	18,073	13,401	16,642	4,196	1,633
Net other ordinary income	15,826	17,926	9,902	9,933	12,265	16,191	20,574	20,731	(9,036)	(13,204)
Gains (losses) on bond transactions	2,857	8,128	2,388	654	4,907	14,589	8,153	4,500	(11,158)	(18,604)
G&A expenses	(40,155)	(42,806)	(45,001)	(46,848)	(49,433)	(53,398)	(54,988)	(57,792)	(59,362)	(61,860)
Gains/losses on equity method investments	—	—	—	—	—	—	1,111	2,620	2,380	2,342
Business profit	52,679	48,597	40,272	40,631	34,407	42,312	42,669	47,839	2,591	(8,594)
Credit-related expenses	4,690	4,745	11,079	8,748	(1,018)	(11,742)	(4,348)	(3,740)	(1,700)	(46,930)
Gains/losses on stock transactions	1,304	1,421	474	8,015	13,294	11,663	2,375	2,033	8,495	1,634
Ordinary profit	59,671	55,721	51,764	57,984	47,796	43,330	38,982	46,294	7,356	(54,816)
Extraordinary profit (loss)	(5,759)	(4)	(1)	(21)	(1)	(4)	(4)	(319)	(2)	1,642
Income taxes	(10,205)	(12,204)	(8,079)	(15,465)	(13,767)	(17,743)	(12,230)	(12,937)	698	(1,437)
Net earnings	43,707	43,512	43,683	42,496	34,027	25,582	26,746	33,038	6,655	(51,737)
Profit attributable to non-controlling interests	(17)	(13)	165	567	2,103	2,560	2,226	1,966	2,064	1,832
Profit attributable to owners of parent	43,689	43,499	43,849	43,064	36,130	28,142	28,972	35,004	8,719	(49,904)

### Overview of Consolidated Balance Sheet

	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
<b>Total assets</b>	4,924,472	4,592,921	4,586,007	4,912,792	5,255,048	5,299,815	5,916,866	6,728,653	7,184,070	7,603,002
Loans and bills discounted	2,775,817	2,511,622	2,521,874	2,611,278	2,779,894	2,954,122	2,948,808	3,317,125	3,881,373	4,071,295
Securities	984,060	923,526	937,949	1,139,803	1,240,838	1,073,670	1,393,357	1,478,178	1,278,749	1,186,561
<b>Total liabilities</b>	4,357,057	4,187,422	4,165,661	4,475,557	4,806,337	4,875,056	5,426,859	6,241,387	6,752,951	7,211,924
Deposits	2,698,094	2,710,531	2,718,589	2,846,878	3,102,804	3,349,659	3,978,506	4,838,056	5,463,352	5,634,992
Negotiable certificates of deposit	286,653	221,600	134,513	124,060	127,927	47,240	34,000	33,500	34,000	141,380
<b>Total net assets</b>	567,414	405,498	420,345	437,234	448,710	424,758	490,006	487,265	431,119	391,078
Shareholders' equity	525,377	383,710	405,867	427,184	443,087	453,635	467,615	486,060	476,280	412,928
Retained earnings	235,035	199,785	221,940	243,190	259,021	269,545	283,464	301,700	291,898	228,444
Accumulated other comprehensive income	41,187	20,833	12,421	8,535	5,431	(26,587)	26,449	7,045	(38,122)	(29,056)
Non-controlling interests	767	772	1,759	1,183	(166)	(2,734)	(4,541)	(6,229)	(7,541)	6,673

### Financial Indicators

Consolidated capital adequacy ratio (Domestic standard) (%)	14.45	11.03	10.75	10.39	10.27	10.29	11.03	10.37	9.43	9.23
Dividend per share (DPS) (yen)	14.9	18.6	18.7	184*	154	156	124	149	154	76
Dividend payout ratio (Consolidated) (%)	41	50	50	50	50	65	50	50	206	—
Book-value per share (BPS) (yen)	336.83	346.83	358.61	3,735.00	3,844.08	3,659.84	4,233.53	4,222.79	3,751.95	3,285.94
Earnings per share (EPS) (yen)	36.19	37.29	37.59	369.16	309.67	241.18	248.27	299.81	74.67	(427.22)
Consolidated return on equity (ROE) (%)	10.9	10.6	10.7	10.1	8.2	6.4	6.3	7.1	1.9	(12.1)

\* Aozora Bank implemented a one-for-ten reverse stock-split of its common stock effective October 1, 2017. We calculated an annual dividend per common share of 184 yen for the year ended March 31, 2018 based on the assumption that the reverse stock split would be implemented at the beginning of the year ended March 31, 2018.

# Non-financial Information Index

## Environmental Data

Category	FY2020	FY2021	FY2022	FY2023
<b>Greenhouse gas emissions (t-CO<sub>2</sub>)</b>				
Scope 1 *1	114	110	106	95*12
Scope 2 *2	6,243	4,884	4,267	3,701*12
Scope 3 (1. Purchased goods and services)*3	92	85	83	78
(2. Capital goods)*4	7,413	8,632	4,974	12,006*12
(3. Fuel- and energy-related activities)*5	1,121	1,122	1,084	1,109
(5. Waste generated in operations)*6	25	25	26	38
(6. Business travel)*7	64	64	135	201
(7. Employee commuting)*8		295	379	700
(15. Investment and loan portfolio)*9				
Please refer to page 87				
<b>Direct energy consumption*11</b>				
City gas (thousand m <sup>3</sup> )	20	19	13	10
Heavy oil / Kerosene (kl)	5	5	6	8
Gasoline / Light oil (kl)	24	23	26	23
<b>Indirect energy consumption*2</b>				
Electricity (thousand kWh)	13,052	12,794	12,160	12,602
Percentage of renewable energy-driven electricity	0%	21%	23%	26%
Vapor (GJ)	50	0	0	0
Hot water (GJ)	1,515	1,499	1,281	904
Cold water (GJ)	5,481	6,112	6,469	6,729
<b>Waste*10</b>				
Amount (t)	168	173	160	151
Recycled amount (t)	123	123	110	119
Recycling ratio (%)	73%	71%	68%	79%
<b>Amount of printing paper purchased (t)*11</b>	50	47	45	43

\*1 Scope 1 emissions and direct energy consumption cover Aozora's domestic bank offices (Head Office, Fuchu Annex, and all branches; the same applies below). In principle, Scope 1 covers the actual measured usage amounts calculated based on the Ministry of the Environment's List of Calculation Methods and Emission Factors in the Calculation, Reporting, and Publication System. For emissions associated with the use of company vehicles in Japan, data on annual fuel consumption for company vehicles was calculated based on the Ministry of the Environment's emissions unit database (the Ministry of the Environment and the Ministry of Economy, Trade and Industry's Emissions Unit Database for Calculating Greenhouse Gas Emissions, etc. through a Supply Chain (Ver. 3.4); the same applies below).

\*2 Scope 2 emissions and indirect energy consumption cover Aozora's consolidated operations (excluding consolidated subsidiaries with no offices; the same applies below). In principle, Scope 2 covers the actual measured usage amounts calculated based on the adjusted emission factor and other factors from the List of Emission Factors by Electric Power Company under Japan's Act on Promotion of Global Warming Countermeasures. Of the consolidated subsidiaries, the emissions of GMO Aozora Net Bank were calculated based on its equity ratio of 50% before FY2022 and 100% in FY2023.

\*3 Scope 3 Category 1 covers the amount of printing paper and other paper purchased by Aozora's domestic bank offices, calculated based on the Ministry of the Environment's emissions unit database.

\*4 Scope 3 Category 2 covers the amount of capital investment made by Aozora Bank on a non-consolidated basis (domestic bank offices and overseas representative offices; the same applies below), calculated based on the Ministry of the Environment's emissions unit database.

\*5 Scope 3 Category 3 covers the electricity, hot water, and cold water consumption for Aozora's consolidated operations, calculated based on the Ministry of the Environment's emissions unit database.

\*6 Scope 3 Category 5 covers wastes generated by Aozora's domestic bank offices, calculated based on the Ministry of the Environment's emissions unit database.

\*7 Scope 3 Category 6 covers the length of the business travel and public transportation costs of Aozora Bank on a non-consolidated basis, calculated based on the Ministry of the Environment's emissions unit database.

\*8 Scope 3 Category 7 covers the commuting expenses (train and bus) of Aozora Bank on a non-consolidated basis, calculated based on the Ministry of the Environment's emissions unit database.

\*9 Scope 3 Category 15 covers the FY2022 corporate loans and project finance of Aozora Bank on a non-consolidated basis and overseas subsidiaries, calculated based on the Partnership for Carbon Accounting Financials (PCAF) database.

\*10 Wastes cover Aozora's domestic bank offices, excluding general industrial wastes in branch offices.

\*11 The amount of printing paper purchased covers Aozora's domestic bank offices.

\*12 Third-party assurance will be obtained for Scope 1, Scope 2, and Scope 3 Category 2 greenhouse gas emissions in FY2023. The figures for FY2023 are the aggregate of the current figures, and the figures after obtaining third-party assurance will be disclosed on Aozora's website.

\*13 There are no activities applicable to Category 4 and 8 to 14 of Scope 3 due to the nature of the business.

## Social Data

### Employee data (non-consolidated)

Category	FY2019	FY2020	FY2021	FY2022	FY2023
<b>No. of employees</b>	1,928	1,933	1,966	1,980	1,964
Male	1,024	1,034	1,056	1,068	1,049
Female	904	899	910	912	915
	53%	53%	54%	54%	53%
	47%	47%	46%	46%	47%
Temporary employees	142	125	117	127	121
Locally hired overseas staff*1	31	39	43	38	41
<b>Employee composition</b>					
New grad hires	58%	58%	59%	60%	61%
Mid-career hires	42%	42%	41%	40%	39%

Category	FY2019	FY2020	FY2021	FY2022	FY2023
<b>Average age</b>	43.1	43.3	43.4	43.8	44.1
Male	44.1	44.0	43.9	44.3	44.5
Female	41.9	42.5	42.8	43.2	43.5
<b>Average length of tenure (years)</b>	14.6	14.9	15.1	15.7	16.1
Male	14.5	14.5	14.6	15.2	15.5
Female	14.8	15.4	15.8	16.4	16.8
<b>Average annual salary (1,000 yen)</b>	7,930	8,089	8,232	8,696	8,873
<b>Annual salary gap (male =100%)*2</b>				66.6%	65.0%
Regular employees				66.1%	65.3%
Non-regular employees				53.4%	55.8%
<b>No. of new grad hires</b>	61	64	70	51	53
Male	39	45	41	27	32
Female	22	19	29	24	21
	64%	70%	59%	53%	60%
	36%	30%	41%	47%	40%
<b>No. of mid-career hires</b>	63	46	37	33	30
Male	45	32	26	24	18
Female	18	14	11	9	12
	71%	70%	70%	73%	60%
	29%	30%	30%	27%	40%
<b>Male/female ratio (new grads and mid-career)</b>					
Male	68%	70%	63%	61%	60%
Female	32%	30%	37%	39%	40%
<b>New grad / mid-career ratio</b>					
New grad hires	49%	58%	65%	61%	64%
Mid-career hires	51%	42%	35%	39%	36%
<b>Retention of new grads 3 years after employment</b>	87%	87%	95%	97%	87%
<b>No. of retirees (non-mandatory retirement)</b>	53	47	47	49	57
	2.8%	2.4%	2.4%	2.5%	2.9%
<b>Female managers ratio*3</b>	12.0%	11.8%	12.5%	13.3%	14.2%
<b>Non-Japanese managers ratio*1</b>	2.4%	2.9%	2.9%	2.8%	1.3%
<b>Mid-career managers ratio</b>	39.9%	42.5%	43.7%	49.6%	53.9%
<b>Employees' monthly average overtime hours*4</b>	8.9	10.3	11.8	11.3	10.6
<b>Days of paid leave used (annual average)</b>	15.6	13.3	14.4	15.2	16.1
<b>Employees with disabilities (as of June when submitting a report to authorities)</b>					
No. of employees	25	29	33	35	36
Employment ratio	2.0%	2.2%	2.4%	2.5%	2.6%
<b>No. of child leave users*5</b>	41	61	55	60	77
Male	14	24	22	33	39
Female	27	37	33	27	38
	100%	100%	100%	108%	100%
<b>Female reinstatement ratio after child leave</b>	100%	100%	100%	100%	100%
<b>No. of unpaid nursing leave users</b>	0	1	1	1	0
<b>No. of paid nursing leave users</b>	15	19	19	23	29
<b>No. of employees suffering work-related accidents</b>	14	6	3	11	12
<b>No. of applicants for secondary employment*6</b>		16	31	37	42
<b>Training hours per employee*7</b>		30.8	32.5	33.4	28.2
<b>Total of training hours*7</b>		59,533	63,951	66,135	55,308
<b>Total of training participants*7</b>		5,184	11,393	19,201	24,075
<b>Training cost per employee (1,000 yen)*8</b>	35.9	26.3	27.3	80.4	51.8

\*1 Data of employees of domestic and overseas Group companies, excluding GMO Aozora Net Bank

\*2 Number of employees includes those seconded from other companies to the Bank, but does not include those seconded from the Bank to other companies. Calculated using the below method based on the stipulations of the Act on the Promotion of Women's Active Engagement in Professional Life  
Male and female wage differences = Female average annual wage ÷ male average annual wage, average annual wage = total wages ÷ number of employees  
Please refer to page 98 for the main factors behind the difference in male and female wages.

\*3 Managers refer to the total of general managers and group managers

\*4 Non-statutory overtime hours of employees except those in supervisory or managerial positions

\*5 Child leave ratio = number of employees who used child leave during the fiscal year under review (a) ÷ number of employees whose spouse has given birth during the fiscal year under review (b) rounded down to one decimal point  
Since (a) above includes employees whose children were born before the fiscal year in question but who took new child leave in the fiscal year in question, the take-up rate may exceed 100%.

\*6 Application for secondary employment registration started in FY2020

\*7 Data has been compiled since FY2020.

\*8 Includes cost for external instructors and usage costs for self-development support system

## Non-financial Information Index

### Status of female employees

Category	July 2020	July 2021	July 2022	July 2023	July 2024
1. Executive officers	2 9.1%	4 16.7%	5 18.5%	5 22.7%	4 21.1%
Category	March 2020	March 2021	March 2022	March 2023	March 2024
2. General managers	11 11.3%	11 11.5%	11 9.6%	10 9.4%	7 7.1%
3. Group managers	64 12.1%	64 11.8%	71 13.2%	71 14.1%	70 15.8%
4. Total of (2+3)	75 12.0%	75 11.8%	82 12.5%	81 13.3%	77 14.2%
5. Deputy managers	105 33.3%	107 33.5%	123 37.1%	115 37.3%	117 39.3%
6. Female managers	904 47.0%	899 46.5%	910 46.3%	912 46.1%	915 46.6%

### Social contribution

Category	FY2019	FY2020	FY2021	FY2022	FY2023
CSR expenses (million yen)*1	—	35	35	23	31
No. of participants in volunteer activities*2			248	175	203
No. of participants in Basic Banking Seminar (in Sophia University)*3	382	382	367	328	354

\*1 Includes monetary equivalent of donated stockpiles

\*2 Started to be calculated in FY2021

\*3 Aozora-sponsored seminars for Sophia University. The Bank's officers and employees offer seminars (14 sessions) every fiscal year.

## Governance

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

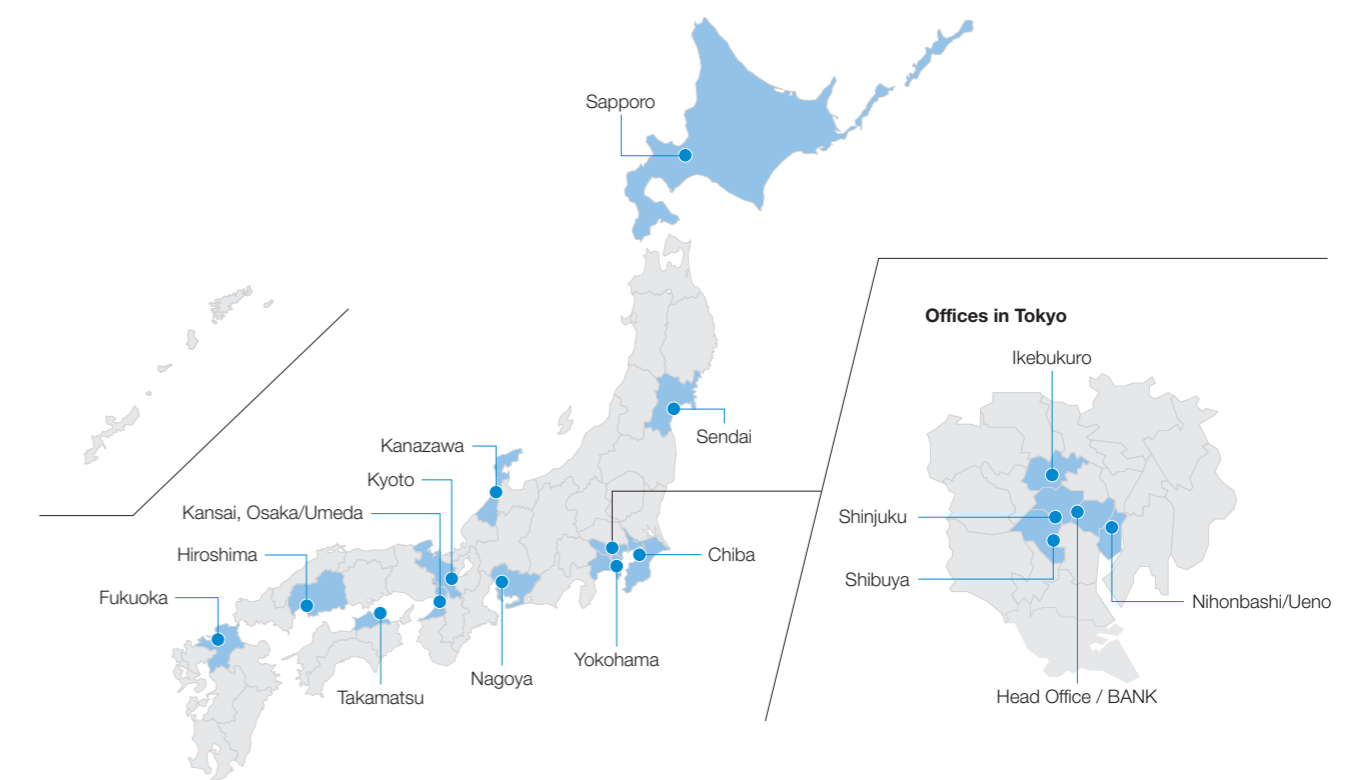
Category	FY2019	FY2020	FY2021	FY2022	FY2023
Composition of the directors and the Board of Directors meeting					
No. of persons	8	8	8	8	8
No. of outside directors	4	4	4	4	4
No. of female directors	1	1	1	2	1
No. of Board of Directors meetings held	14	15	15	15	13
Average attendance ratio of the Board of Directors meeting (%)	100%	100%	100%	100%	99%
Nomination and Remuneration Committee					
No. of Nomination and Remuneration Committee meetings held	7	7	6	7	6
Average attendance ratio of the Nomination and Remuneration Committee (%)	100%	100%	100%	100%	100%
Audit and Compliance Committee					
No. of Audit and Compliance Committee meetings held	7	6	6	6	6
Average attendance ratio of the Audit and Compliance Committee (%)	100%	100%	100%	100%	100%

### Compliance

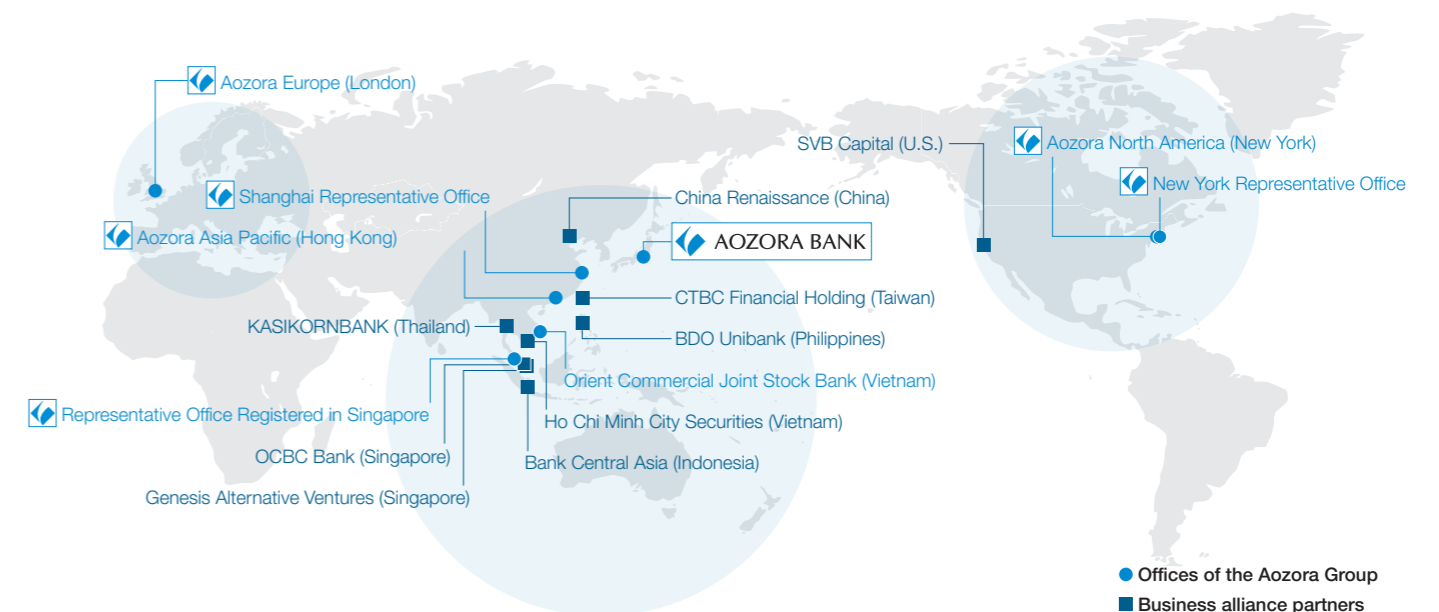
Category	FY2019	FY2020	FY2021	FY2022	FY2023
No. of cases opened by the Aozora Hotline (whistle-blower program)					
Total	13	7	10	13	16
Internal contact point	7	4	4	7	7
External contact point	6	3	6	6	9
No. of compliance incidents					
Cease and desist notice by relevant government ministries and agencies	0	0	0	0	0
Suspension of operation/business due to misconduct	0	0	0	0	0
Criminal accusation due to an incident or an accident violating a law	0	0	0	0	0

## Aozora Network

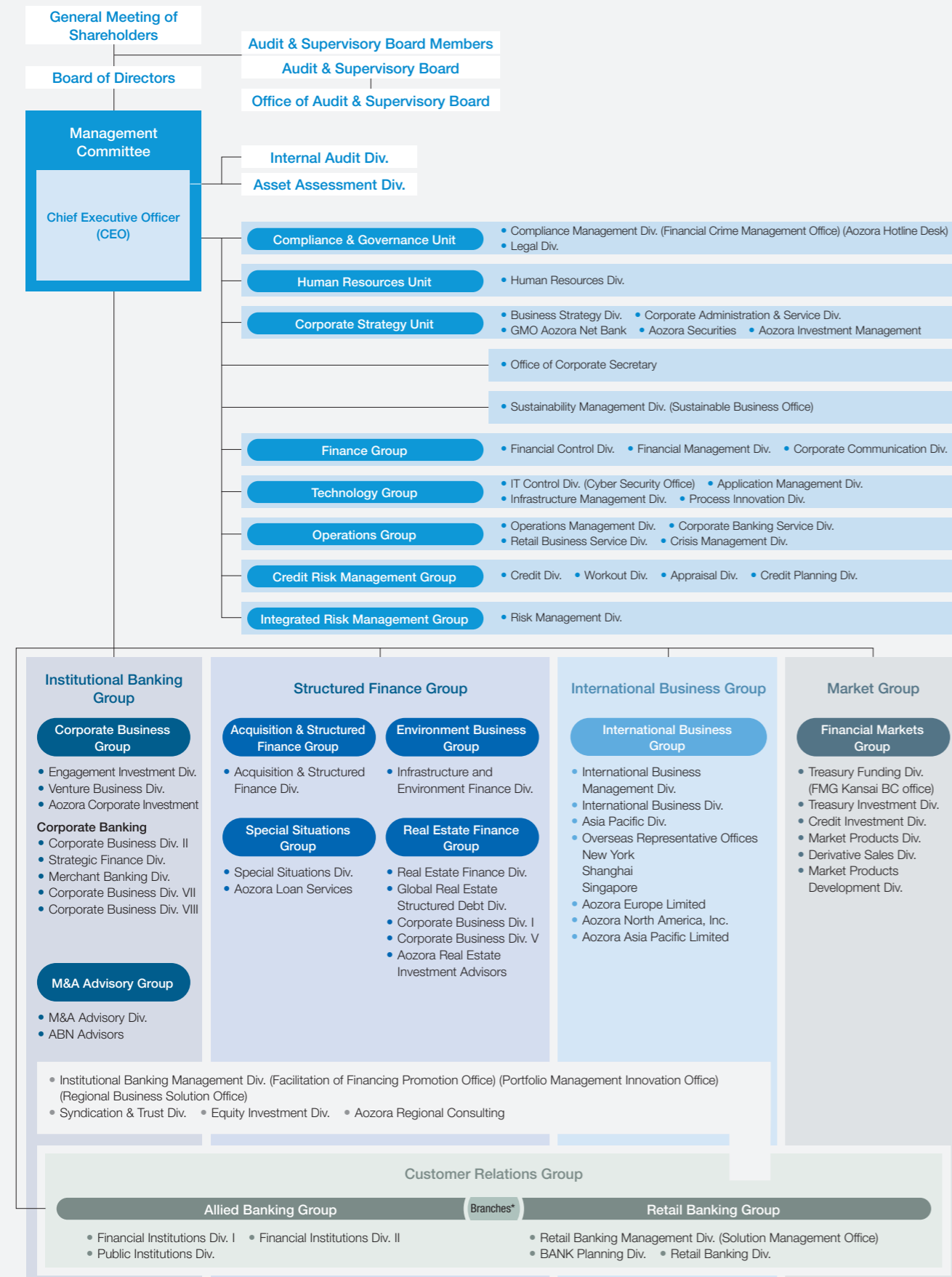
### Head Office and Domestic Branches (As of March 31, 2024)



### Overseas Offices and Business Alliance Partners (As of March 31, 2024)



# Organization Chart (As of July 1, 2024)



For material requests or inquiries, please contact the customer service at each branch or call the Aozora Home Call center at 0120-250-399. (Aozora Home Call is available Mon-Fri from 9:00AM to 7:00PM and weekends and holidays from 9:00AM to 5:00PM \*Not available from December 31 to January 3.)

Please also visit our website at <https://www.aozorabank.co.jp/english>

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**Corporate Communication Div. Aozora Bank, Ltd.**

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

\* Branches  
Kansai Br., Nagoya Br., Fukuoka Br., Sendai Br., Hiroshima Br., Sapporo Br., Takamatsu Br., Kanazawa Br., Shinjuku Br., Nihonbashi Br., Shibuya Br., Ueno Br., Ikebukuro Br., Yokohama Br., Chiba Br., Osaka Br., Umeda Br., Kyoto Br., BANK Br.



AOZORA

