



# Annual Report (Integrated Report)

Year Ended March 31, 2020

# 2020

## 1957

Nippon Fudosan Bank, Limited established under the Long-Term Credit Bank Law

## 1998

Special public management begins (temporary nationalization)

## 2001

Name changed to Aozora Bank, Ltd.

## 1977

Name changed to the Nippon Credit Bank, Ltd.

## 2000

Special public management ends (reprivatization)

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### Editorial Policy

The purpose of this document is to provide Aozora's investors and other stakeholders with both financial and non-financial information regarding the Bank's activities, including an overview of the Group, its business strategy, and management base. This document is edited to reflect Aozora's business model in consideration of the framework published by the International Integrated Reporting Council (IIRC).



**2012**

The Comprehensive  
Recapitalization Plan (plan to  
repay public funds) announced

**2017**

Relocation of head office

**2006**

The Bank transitions to a full-service  
commercial bank, Shares relisted on the  
First Section of the Tokyo Stock Exchange

**2015**

Full repayment of public funds

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#### Forward-Looking Statements

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

## Message from the CEO





Thank you for your interest in Aozora Bank. I assumed the post of Representative Director, President and Chief Executive Officer of Aozora Bank in June 2020.

To more effectively respond to the significant changes underway within the banking industry and broader operating environment, Aozora's leadership saw the need to reassess and refocus the Bank's vision and strategic direction. As a result of this reassessment, Aozora has updated its management philosophy, consisting of its mission, vision, and key priorities.

Our mission as finance professionals is to contribute to the development of society through the creation of new value-added financial services and, through the contribution to the well-being of all our stakeholders including customers, shareholders, society and our employees, seek to achieve sustainable growth and the creation of mid- to long-term corporate value.

In May 2020, Aozora Bank announced Aozora's new Mid-term Plan for 2020-22, entitled "AOZORA 2022." This plan will serve as a roadmap for management and our employees as we work to realize the vision of being a distinctive Partner Bank. Aozora will actively contribute to the sustainable development of Japanese society by supporting the development of emerging industries and new companies established in anticipation of the future information technology society, as well as regional revitalization/development, wealth building and smooth business succession for our customers. Aozora will also generate new ideas and innovation within each of its areas of business, leveraging its skill base and organizational flexibility to become a distinctive Partner Bank within Japan,

offering our retail, corporate and financial institution customers with value-added products and services based on ideas drawn from our experienced staff members.

As the world remains in the midst of the COVID-19 pandemic, many of our customers and communities are facing highly challenging and acutely severe conditions. Aozora is dedicated to responding to their needs while also serving as a valued partner by providing support for our customers' efforts to start up new business.

Aozora will strive to achieve sustainable growth through sound risktaking and proactive risk-controls. In light of the current economic environment, our intent is to deliver a cash dividend while providing returns to shareholders based on our earnings performance. We also aim to create a common sense of purpose among our employees and support a workplace conducive to their growth and productivity through the development of a new personnel system designed to facilitate teamwork and better encouragement of taking on new challenges, which will ultimately lead to sustainable growth for the entire Aozora organization.

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



**Kei Tanikawa**

Representative Director, President  
and Chief Executive Officer

## Message from the CFO



## Earnings Results and Dividend Payment

### Financial Results for FY2019

While Japan's economy began fiscal year 2019 with positive momentum, the COVID-19 pandemic that soon after spread across the world resulted in heightened levels of volatility across most financial markets as well as a sharp drop in global economic activity. These sudden events in turn created widespread concerns over further deterioration in economic and market conditions. In the face of these challenges, this past fiscal year, Aozora was able to report net

revenue of 95.7 billion yen, above our original forecast, mainly due to a strong level of customer-based transactions. However, net earnings for the year were only 28.1 billion yen, below our original forecast, principally the result of our decision to provide a conservative level of reserves against the potentially adverse impact of COVID-19 on our customers as well as broader economic conditions.

(Billions of Yen)

	FY2018 Results	FY2019 Forecast	FY2019 Results	FY2020 Forecast
Net revenue	83.8	88.0	95.7	90.0
Business profit	34.4	35.0	42.3	34.5
Ordinary profit	47.7	51.0	43.3	40.0
Profit attributable to owners of parent	36.1	36.5	28.1	28.5



Net interest income was 48.7 billion yen, a decrease of 1.4 billion yen, or 3.0% year on year. The decline was primarily due to lower interest and dividends on securities, which offset the higher level of interest on loans and discounts.

Non-interest income was 46.9 billion yen, an increase of 13.3 billion yen, or 39.8%, reflecting strong performance particularly from retail-related income and loan fees during the fourth quarter (January–March), and continued a trend of positive results generated from customer-based transactions during the first nine months.

General and administrative expenses were 53.3 billion yen, an increase of 3.9 billion yen, or 8.0%, mainly due to incremental expenses associated with our internet banking subsidiary and our new retail banking smartphone app, BANK™. Overall expenses for FY2019 were in line with the original full-year plan. The overhead ratio for the full year was 55.8%.

Credit-related expenses were a net expense of 11.7 billion yen, mainly due to loss reserves established during the fourth quarter (January–March) as a result of the potential impact of COVID-19 on customer credit quality and business conditions. Gains/losses on stock transactions were a gain of 11.6 billion yen.

Total loans were 2,954.1 billion yen, an increase of 174.2 billion yen, or 6.3%, compared to March 31,

2019. Domestic loans increased by 181.8 billion yen compared to March 31, 2019, while overseas loans decreased by 7.6 billion yen.

Total core funding (deposits, negotiable certificates of deposit, debentures and bonds) was 3,656.8 billion yen, an increase of 142.1 billion yen, or 4.0%, from March 31, 2019. The percentage of retail funding to total core funding was 57%.

Non-performing claims as defined by the Financial Reconstruction Law (FRL) were 28.3 billion yen, an increase of 12.7 billion yen from March 31, 2019. Of the increase in FRLs, 4.4 billion yen was from bankruptcy-related recovery finance investments, an important line of business at Aozora. The FRL ratio increased by 0.40 point to 0.95%. The ratio of loan loss reserves to total loans on a consolidated basis remained relatively high at 1.82%.

The Bank's consolidated capital adequacy ratio (domestic standard) as of March 31, 2020 remained at an adequate level at 10.29%.

In view of the relative business performance achieved this past year and our strong financial condition, we have elected to declare a full-year dividend of 156 yen per common share for fiscal year 2019, in line with our original forecast, despite our net earnings falling below the original forecast.

## FY2020 Earnings and Dividend Forecast

For the FY2020 earnings forecast, net revenue is projected to be 90.0 billion yen, business profit 34.5 billion yen and net earnings 28.5 billion yen. Net revenue is forecast to be somewhat lower than this past year due to the risks and uncertainties within our operating environment as well as an anticipated increase in expenses mainly from strategic investments within our specialized areas, growth at our internet subsidiary, as well as IT-related investments. Our management is targeting net earnings somewhat above FY2019's level.

The dividend forecast is based on the total dividend amount, which is 50% of the consolidated earnings

forecast for the full-year divided by the total number of common shares issued, excluding treasury stock, as of March 31, 2020.

Management's mid- to long-term intent is to deliver a cash dividend with a target dividend payout ratio of 50%. The dividend policy based on a dividend payout ratio of 50% will be flexibly managed, along with maintaining our full-year dividend forecast of 122 yen, in light of the uncertain economic environment. While the dividend forecast is only disclosed on a full-year basis, the Bank intends to continue paying dividends on a quarterly basis.

**Tomomi Akutagawa**

Director and Senior Managing Executive Officer  
Chief Financial Officer

# Mid-term Plan “AOZORA 2022”

## New Management Policy

### Aozora Mission

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

### Aozora Vision

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

### Aozora’s Key Priorities

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

Aozora’s core purpose is to contribute to the development of society through the creation of new value-added financial services in our role as a key financial service provider. Of critical importance to our management is maintaining the patience and focus necessary to gain a deeper appreciation of our customers’ needs as well as the research and development of new, differentiated products and services for the benefit of our customers.

Not a megabank or a regional bank, Aozora places a high priority on remaining flexible, highly professional in business as well as reliable and trustworthy for its customers. On behalf of our customers and shareholders, we intend to explore our full potential beyond the limitations of a traditional bank over the years ahead.

## Mid-term Plan “AOZORA 2022”

### Establishing AOZORA Partner Bank

Over the three years ending in fiscal year 2022, Aozora intends to generate new ideas and innovation within each of its business areas, leveraging its skill base and organizational flexibility to become a distinctive Partner Bank within Japan, offering our retail, corporate and financial institution customers value-added products and services based on ideas drawn from our experienced staff members.

### 1. General picture of “AOZORA 2022”

#### Outline





## Mid-term areas of focus (6 Areas of Focus)

<b>Retail Banking</b>  Specialized consulting and integrated financial services for retail customers	<b>Corporate Finance</b>  Established position as a key player in restructuring business such as M&A and buyout finance	<b>Financial Institutions</b>  Contribution to the revitalization of the local economy by solving the management issues of regional financial institutions
<b>Specialty Finance</b>  Expanded specialty finance by capitalizing on high-level expertise in real estate and business recovery finance	<b>International</b>  Enhanced capacity for flexibly controlling the portfolio by forming a seamless monitoring framework on a global scale	<b>Financial Markets</b>  Better capability for risk-hedging sales and product development, establishment of the portfolio resistant to market fluctuation

### Retail Banking

The Retail Banking Group (RBG) provides specialized consulting and comprehensive financial services both through the Bank's staffed branches as well as our new retail banking smartphone app, BANK™.

Our staffed branches employ tax consultants, financial planners, and M&A/corporate business specialists who work as a team to provide specialized consulting about property and business succession. Our BANK™ branch aims to continually improve its services which includes introducing unique BANK™ branch products, while making every effort to increase the level of business activity with our current customers. This represents Aozora's philosophy of "customer-first business management."

### Corporate Finance

The Investment Banking Group (IBG) aims to establish itself as a leading provider in the area of business restructurings, including M&A and buyout financing, while developing business initiatives to handle a broad range of risk hedging requirements. IBG also supports future business reorganization and corporate growth through the creation of private equity funds while responding to the needs of our transaction partners that have been impacted by the COVID-19 pandemic.

### Financial Institutions

The Allied Banking Group (ABG) provides a broad array of financial solutions and services that have been developed through the years in order to solve the business challenges faced by our regional financial institution customers while proactively contributing to regional economic revitalization by supporting regional financial institutions.

### Specialty Finance

The Specialty Finance Group (SPG) holds market leading skills in business areas such as commercial real estate and business recovery finance. The SPG also develops investment initiatives designed to respond to the impact of the COVID-19 pandemic on the economic environment.

### International

The International Finance Group (IFG) is preparing for the launch of Aozora North America, Inc., the Bank's overseas subsidiary based in New York City. This action will further strengthen Aozora's global monitoring system through a collaboration among our teams based in North America, Asia, Europe and headquarters in Tokyo. IFG strives to flexibly manage its globally diversified portfolio through real-time, localized information gathering in each region.

### Financial Markets

The Financial Markets Group (FMG) aims to improve its sales/product development capabilities that support the risk hedging-related business within each business group while also striving to ensure stable income through portfolio management and trading combined with ALM/credit investments.

## New growth initiatives: “Closer collaboration across divisions” and “digitalization”

### Active support for corporate customers

- Capitalize on Aozora’s features to support business improvement and restructuring
- Customized support in light of customer needs

### Enhanced consulting services for retail customers

- Establish the Financial Advisor Office
- Respond to business succession needs using the Aozora network

### Provision of solutions to financial institutions

- Establish the Financial Institutions Solutions Group
- Comprehensive consulting services focused on assets, liabilities, equity capital and customer initiated transactions

### Support for FinTech-related businesses in collaboration with GMO Aozora Net Bank (GANB)

- Establish the FinTech Sales Management Office
- Support FinTech-related new businesses of corporate customers and start-ups
- Utilize GANB’s IT solution capability as the “API No. 1 Bank”

### Active support for corporate customers

We now provide our corporate trading partners who have been adversely impacted by the current economic environment with customized support that fully responds to their specific needs. We intend to develop support initiatives for our customers’ business improvement and restructuring efforts by leveraging our core competencies through the use of our banking operations in addition to the operations of our Group companies.

### Enhanced consulting services for retail customers

Our newly established “Financial Advisor Office” aims to provide the Bank’s retail customers with specialized consulting services. We intend to reach outside our existing business groups and capitalize on the specialized expertise of tax accountants and financial planners in conjunction with our corporate customer business and M&A subsidiary networks to comprehensively meet the diverse needs of our customers.

### Providing comprehensive solutions for financial institution customers

Our newly established “Financial Institutions Solution Group” strives to provide comprehensive solutions to the management challenges faced by financial institutions. We continue to develop consulting services for regional financial institutions to address their asset, debt, capital, and customer service issues.

### Support for FinTech-related businesses in collaboration with GMO Aozora Net Bank

The goal of our newly established “FinTech Sales Management Office” is to work in close cooperation with GMO Aozora Net Bank to support our customers’ new FinTech-related businesses and related new ventures. We intend to leverage the Net Bank’s IT solutions capability as the “No. 1 API Bank” and both automate and improve the efficiency of our customers’ API-based workflows.

## Sound risk-taking and strong risk controls

Aozora continues to carefully manage risk through the refinement of its risk appetite as well as strengthened risk controls based on proactive monitoring.

In addition, we will continue to actively work on the further diversification of our funding sources, the ongoing strengthening of our compliance framework and our cyber-security controls.



## Introduction of a new human resources system

The introduction of a new human resources system will better enable Aozora to become an organization which continues to take on new challenges as one unified team, eliminate some of the limitations of career-oriented tracks as well as age-related constraints, so as to create a stronger sense of unity among our employees and encourage their growth

and active engagement. We will establish initiatives including the unification of career-oriented courses, improvement of challenge programs to increase growth opportunities for younger employees, leveraging of specialized personnel and greater utilization of our senior generation employees.

## Initiatives on SDGs/ESG

To realize our goal "Actively contribute to the sustainable growth of society" as described in Aozora's key priorities under our new management philosophy, our initiatives on SDGs/ESG in the new Mid-term Plan will focus on the following as key issues: environmental protection, promoting innovation and facilitating the life satisfaction of our employees.

We will continue our work on timely and relevant communications with our customers and investors regarding Aozora's initiatives on SDGs/ESG by disclosing information on the status of our progress on a timely basis (Refer to pages 13–17).

## 2. Mid-term Plan targets

### Earnings targets

Under the new Mid-term Plan, Aozora will focus on the further development of its core business model's "6 Areas of Focus" as well as selected new growth initiatives. For fiscal year 2022, the final year of the plan, Aozora will aim to exceed the level of fiscal year 2019's earnings. In light of uncertain conditions, annual earnings targets will be communicated at the beginning of each fiscal year.

### KPI targets

The table below shows our KPIs (Key Performance Indicator) targets over the new Mid-term Plan period. Aozora aims for stable and sustainable growth while maintaining efficiency as one of its key strengths.

Key Performance Indicators (KPI)	Mid-term Plan targets (FY2020–22)
Overhead ratio (OHR)	lower 50%
Business profit* ROA	1%
ROE	8% or higher

\*Including gains/losses on equity method investments

## 3. Capital and dividend policies

To enhance our sustainable corporate value, Aozora has created and adheres to a capital and dividend policy which aims to maintain a proper balance among "stable shareholder returns," "strategic investments" and "financial strength."

### Equity capital

Aozora's capital adequacy ratio (domestic standard) targets are 9% on a full implementation (of the Basel III) basis and 9.5% on an operational basis.

### Shareholders returns

Management's intent is to deliver a cash dividend with a target payout ratio of 50%. Dividend payments will continue to be made on a quarterly basis.

# Process of Value Creation

## Aozora Mission

Contribute to the development of society through

## Aozora Vision

Adapt to a rapidly changing world while remaining a

## Environmental changes

### Digitalization

- Review of the operational rules focusing on the increase of customer convenience
- Increased opportunities of entries by FinTech firms and non-financial companies using FinTech

### Global economy

- Necessity of risk management providing for credit cycle shift
- Need for diversified foreign currency finance methods to prepare for foreign currency liquidity risk

### Domestic financial environment

- Weak net interest income due to the prolonged negative interest rate
- Clarification of the management policy after the abolition of the Inspection Manual
- Strengthening of anti-money laundering regulations

### Realization of sustainable society

- Response to demands for asset building for generations and asset succession
- Measures for climate change mitigation and expected role for actualization of low carbon society

## Aozora

Aozora intends to generate new ideas and innovation and organizational flexibility to become a distinctive Partner institution customers value-added products and services

## Aozora's Key Priorities

> Provide specialized and value-added financial services

> Move quickly, while responding patiently and politely

> Prioritize teamwork and provide a more comfortable working environment

> Respect one's colleagues and support professional growth of all team members

> Learn from the past while adapting to and focusing on the future

> Take smart risks in new areas based upon our skills and experience

> Actively contribute to the sustainable growth of society

## Risk Appetite Framework

Sound risk-taking underpinned by risk control

## Capital characterizing the Aozora Group

### Human/Intellectual capital

- Proximity between officers and employees and quick decision-making ability
- Mobility and carefully customized responses
- Highly professional personnel
- Diverse personnel composition



the creation of new value-added financial services

trusted, valued and specialized financial service provider

## Business Model

within each of its business areas, leveraging its skill base Bank within Japan, offering our retail, corporate and financial based on ideas drawn from our experienced staff members.

### Innovation of 6 Areas of Focus

- Specialized consulting and integrated financial services for retail customers
- Established position as a key player in restructuring business such as M&A and buyout finance
- Contribution to the revitalization of the local economy by solving the management issues of regional financial institutions
- Expanded specialty finance by capitalizing on high-level expertise in real estate and business recovery finance
- Enhanced capacity for flexibly controlling the portfolio by forming a seamless monitoring framework on a global scale
- Better capability for risk-hedging sales and product development, establishment of the portfolio resistant to market fluctuation

### New growth initiatives:

#### “Closer collaboration across divisions” and “digitalization”

- Active support for corporate customers
- Enhanced consulting services for retail customers
- Provision of solutions to financial institutions
- Support for FinTech-related businesses in collaboration with GMO Aozora Net Bank

- Risk control by flexible monitoring
- Diversification of funding methods
- Improvement of compliance system, and response to cyber security

### Social capital

- Mass affluent customer base
- Regional financial institutions' network
- Compact scale and global operations
- Unique market position relative to megabanks and regional financial institutions

### Financial capital

- Self-reliant management without cross-holding
- Well-diversified asset mix
- Diversified profit structure
- Low OHR/High ROA/High ROE

## Contribution to stakeholders

### For society

- Contribute to environmental/energy issues through global financial services
- Development of new industries or start-up companies and contribution to regional activation/regional revitalization
- Actualize asset building and smooth asset succession for customers by careful consulting
- Further strengthening/improvement of corporate governance

### For customers

- Build long-term sustainable relationships by always respecting customer evaluation
- Provide financial services that fully support reform/re-challenge of customers
- Create new services and added values regardless of the financial framework

### For shareholders

- Secure solid financial base and stable shareholders' returns
- Present/implement promising visions
- Maintain highly transparent governance and shareholder-friendly communication/IR activities

### For employees

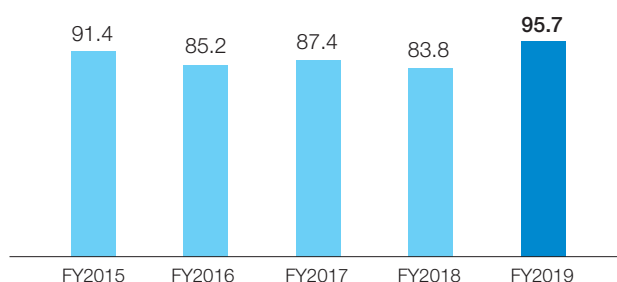
- Pursuant to HR measures, exercise teamwork through diversified work styles, active communication and cross-sectoral cooperation to create new products/services
- Establish a corporate culture/system that positively values employees, who are trying to work on new products/services, and new business areas that other banks have not entered

# Financial Highlights

\* Yen amounts stated in millions of yen have been truncated.  
Amounts expressed in 100 million yen have been rounded off to one decimal place.

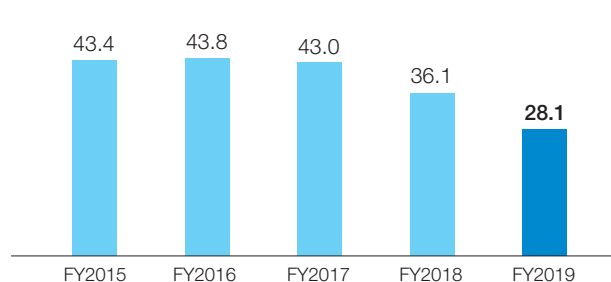
## Consolidated net revenue

(Billions of Yen)



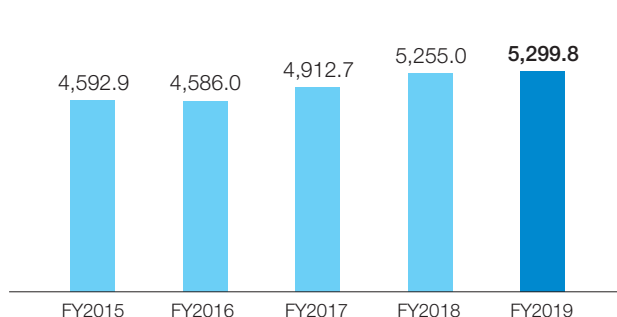
## Profit attributable to owners of parent

(Billions of Yen)



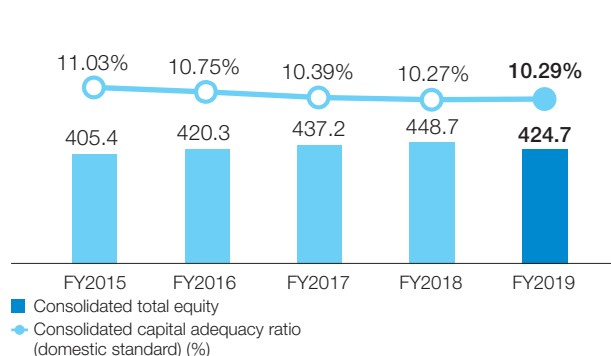
## Consolidated total assets

(Billions of Yen)



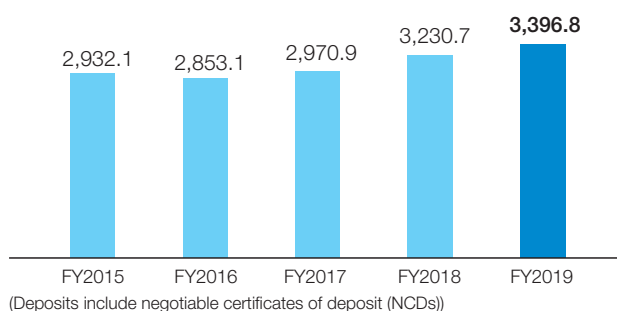
## Consolidated total equity and Consolidated capital adequacy ratio (domestic standard)

(Billions of Yen)



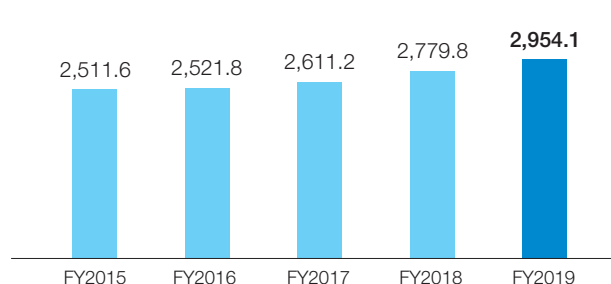
## Consolidated deposits

(Billions of Yen)



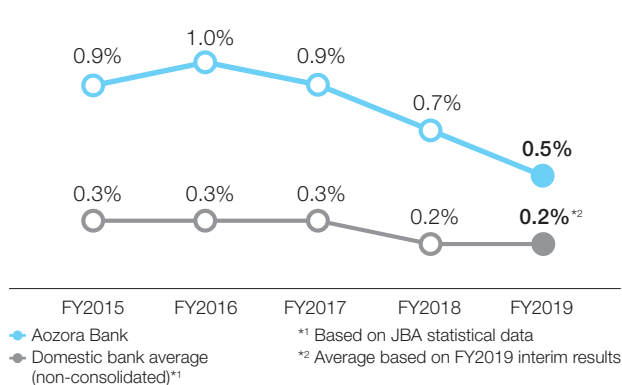
## Consolidated loans and bills discounted

(Billions of Yen)



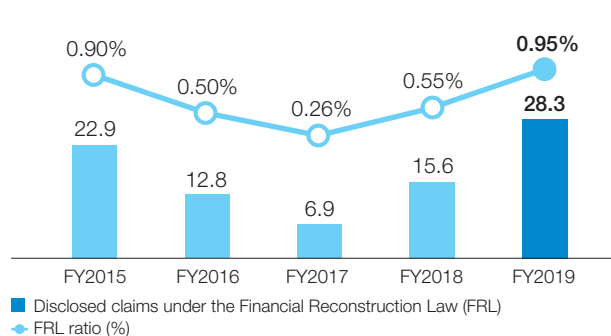
## ROA

(%)



## Non-consolidated disclosed claims under the Financial Reconstruction Law and FRL ratio

(Billions of Yen)



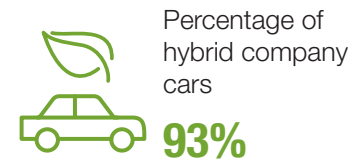
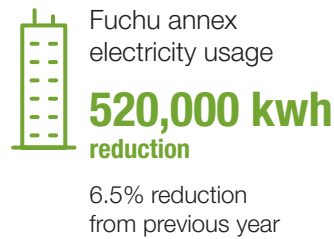
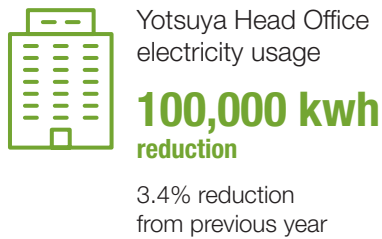
# ESG Highlights

(FY2019 Results)

## E Environment



### CO<sub>2</sub> reduction/electricity usage



## S Social














## G Governance



# Basic Policy for SDGs/ESG initiatives

The Aozora Group focuses on creating social values in its banking business through SDGs/ESG initiatives as a way to actively contribute to the sustainable development of Japanese society. At the same time, the Aozora Group, as an economic entity, proactively resolves environmental and social issues to realize a sustainable society by promoting CSR activities that meet regional and social needs.

The Aozora Group has put in place three focuses represented by “Environmental protection,” “Promoting innovation” and “Fullness of life” as major business issues in its Mid-term Plan, incorporates actions for each issue in initiatives of business groups and makes efforts through its businesses.

Major issues	Prioritized items	Target SDGs	Key initiatives
<b>E Environmental protection</b>	<ul style="list-style-type: none"> <li>Contribution to environment/energy issues in terms of business</li> <li>Response to environmental risk</li> <li>Reduction of environmental impacts as a business operator</li> </ul>	 	<ul style="list-style-type: none"> <li>Promotion of investments/loans in renewable energy projects</li> <li>Examination of incorporating the ESG element in the securities portfolio</li> <li>Consideration of green bond issuance</li> <li>Creation/disclosure of a basic policy for environmental investments and loans (environmental policy)</li> <li>Response to climate change risk through support of TCFD</li> <li>Efforts for reduction/recycling of waste generated within the Bank's facilities</li> </ul>
<b>S Promoting innovation (industry)</b>	<ul style="list-style-type: none"> <li>Fostering of new industry and start-ups</li> <li>Promotion/creation of business by utilizing digital innovation</li> <li>Regional revitalization</li> </ul>	  	<ul style="list-style-type: none"> <li>Enhancement/expansion of buyout finance and hedge transactions to respond to the needs of corporate customers in business restructuring and risk hedging transactions</li> <li>Fostering of venture companies by utilizing debt funds for venture companies</li> <li>Open API strategy by GMO Aozora Net Bank</li> <li>Improvement of services at the Internet exclusive channel/BANK Branch</li> <li>Development of functions to support regional trading companies led by regional banks</li> </ul>
<b>S Fullness of life (individual)</b>	<ul style="list-style-type: none"> <li>Promotion of personal asset formation and smooth succession</li> <li>Elimination of anxieties about healthcare</li> <li>Improvement of financial education</li> </ul>	  	<ul style="list-style-type: none"> <li>Realignment/strengthening of functions supporting business succession and business restructuring</li> <li>Expansion of the lineup of investment trust for long-term asset formation and yen-denominated insurance for inheritance measures</li> <li>Healthcare finance by a dedicated team with expertise in the healthcare sector</li> <li>Enhancement of asset succession consulting such as testamentary trust, liquidation of inheritance property service, etc.</li> <li>Joint research project in field of financial gerontology with Sophia University</li> </ul>
<b>G Governance enhancement</b>	<ul style="list-style-type: none"> <li>Reinforcement of compliance</li> <li>Improvement of “job satisfaction” and “working environment” of officers/employees</li> </ul>	  	<ul style="list-style-type: none"> <li>Establishment of SDGs Promotion Office</li> <li>Formulation/disclosure of a basic policy pertaining to human rights</li> <li>HR system reform to appoint motivated employees and promote active performance of senior employees</li> <li>Creation of secondment/trainee opportunities to increase job experience</li> <li>Promotion of diversity and recruitment of disabled persons</li> </ul>

## Agreement to initiatives in and out of Japan



Task Force on Climate-Related Financial Disclosures



## Evaluation by third parties



MSCI Japan Empowering Women Index



Certification based on the Act on the Promotion of Female Participation and Career Advancement in the Workplace

The inclusion of Aozora Bank, Ltd. in any MSCI index, and the use of MSCI logos, trademarks, service marks or index names herein, do not constitute a sponsorship, endorsement or promotion of Aozora Bank, Ltd. by MSCI or any of its affiliates. The MSCI index are the exclusive property of MSCI. MSCI and the MSCI index names and logos are trademarks or service marks of MSCI or its affiliates.



# ESG Information Index

The Bank has implemented various ESG-related initiatives.

Below is a list of the Bank's ESG initiatives and the corresponding pages.

Environment			
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# Response to Climate Change

Aozora affirms its support for the recommendations of the Task Force on Climate-related Financial Disclosures ('TCFD'), and is developing initiatives based on the recommendations while taking steps to further enhance the quality of its climate change-related communications.

Governance	<ul style="list-style-type: none"> <li>• Approved the "Aozora Bank Group's Mid to Long-term Action Plan for CSR" and "Priority Issues and Focus SDGs", which includes a response to climate change, at the Management Committee.</li> <li>• Identified and approved focus issues for ESG/SDGs during the three years covered by our Mid-term Plan at the Board of Directors' Meeting.</li> <li>• Approved an Action Plan in line with the TCFD recommendations at the SDG Council Meeting attended by the CEO and all executive officers.</li> </ul>
Strategies	<ul style="list-style-type: none"> <li>• Identified focus SDGs initiatives in each business group and recognized ESG/SDGs issues including climate-related risks and opportunities during the development of the Mid-term Plan in order to gain an environmental perspective on economic and social issues</li> <li>• Recognized the following climate-related business opportunities:               <ul style="list-style-type: none"> <li>• Increase opportunities to provide solutions for strengthening alliances with regional financial institutions while supporting customers' shift to a decarbonized society by providing finance for renewable energy projects and sustainability-linked loans, etc. which have consistently been in focus</li> <li>• Improve capital markets and social valuation by issuing green bonds to comply with the Ministry of the Environment and International Capital Market Association (ICMA) guidelines</li> <li>• Increase sales opportunities for socially important and environmentally friendly financial products</li> </ul> </li> <li>• Carbon-related assets* as a percentage of loans: 3.3%</li> </ul> <p><small>*Assets tied to the energy and utilities sectors based on the definition of carbon-related assets provided in the TCFD recommendations, excluding water utilities and renewable energy producers</small></p>
	<ul style="list-style-type: none"> <li>• Recognized long-term risks and opportunities based on the following hypothetical scenarios: a rise in global temperature of either 4°C or 2°C by 2050</li> </ul> <p><b>Risks</b> Recognize the following physical risks:</p> <ul style="list-style-type: none"> <li>• Risks arising from a credit portfolio impacted by the physical damage caused by natural disasters and/or abnormal weather associated with climate change, such as a greater frequency/scale of storm and flood damage.</li> <li>• Risks posed to business continuity caused by damage or injury to the social infrastructure, Aozora's business facilities, or employees</li> <li>• Risks posed to business continuity caused by a greater frequency of cases of heatstroke or viral pandemics arising as a result of progressive global warming</li> </ul> <p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>• Increased financing opportunities arising from increased demand for corporate equipment funds and public works designed to reduce the physical damage caused by abnormal weather, as well as shifting business structures associated with damage to existing infrastructure/facilities.</li> <li>• Lowered operating costs associated with reduced business activities caused by resource and energy saving</li> </ul>

Strategies	Scenario	<b>Risks</b> Recognize the following migration risks. <ul style="list-style-type: none"><li>• Risks arising from a credit portfolio impacted by the effects on borrower's credit portfolio and financial conditions associated with the shift to a decarbonized society</li><li>• Risk from the negative effects posed to borrowers and investment targets arising from an ongoing replacement of existing products and services in order to keep up with new low-carbon technologies and customers' changing preferences</li><li>• Risk of adverse effects on the Bank's corporate value from being seen as slow to invest in companies aiming to develop new technologies</li></ul>																														
		<b>Opportunities</b> <ul style="list-style-type: none"><li>• Increased opportunity to finance the development of new technologies that reduce, remove, and utilize carbon emissions as well as social infrastructure initiatives achieved through digital innovation, both of which enhance our ability to adapt to climate change</li><li>• Increased opportunities to initiate transactions with a diverse base of new retail customers that value "contributions to the realization of a low-carbon society"</li></ul> <ul style="list-style-type: none"><li>• Ongoing review of quantitative climate change scenario analysis techniques that target physical and migration risks.</li></ul>																														
Risk management		<ul style="list-style-type: none"><li>• Announced in June 2019 that the Bank would, in principle, avoid financing new projects which involve coal-fired thermal power stations.</li><li>• Recognized the Bank's environmental initiatives, including those regarding climate change, as a priority issue for management and are currently considering the development of a "Basic Policy for Environmental Investment and Loans", which includes a policy for responding to climate change.</li><li>• Maintain awareness of the aforementioned physical and migration risks caused by climate change and review risk control frameworks based on quantitative analysis of climate change scenarios.</li></ul>																														
Benchmarks and goal		<ul style="list-style-type: none"><li>• Established environmental load reduction goals and conduct benchmark management as follows:</li></ul>																														
	Goal	<ul style="list-style-type: none"><li>• Reduce carbon dioxide emission intensity (carbon dioxide emissions/total floor area) derived from power usage in domestic offices by 19% as of FY 2030 compared to FY 2009*1 → 39.5% reduction achieved in 2019</li></ul>																														
	Benchmarks	<ul style="list-style-type: none"><li>• Carbon dioxide emissions: Change over time of Scope 1 (direct) and Scope 2 (indirect) emissions are as follows.</li><li>• Will begin promoting the ongoing review of Scope 3 (another form of indirect emissions) benchmarks</li></ul>																														
	<b>Change in Greenhouse Gas Emissions</b>																															
		<table><tr><th colspan="3">Measured item</th><th>FY2015</th><th>FY2016</th><th>FY2017</th><th>FY2018</th><th>FY2019 (preliminary)</th></tr><tr><td rowspan="3">Carbon dioxide emission (in t-CO<sub>2</sub>)</td><td>Scope1</td><td>Direct emission</td><td>352</td><td>368</td><td>80</td><td>51</td><td>59*2</td></tr><tr><td>Scope2</td><td>Indirect emission</td><td>9,706</td><td>9,088</td><td>7,508</td><td>7,028</td><td>6,560</td></tr><tr><td colspan="2">Total</td><td>10,058</td><td>9,456</td><td>7,588</td><td>7,079</td><td>6,618</td></tr></table>	Measured item			FY2015	FY2016	FY2017	FY2018	FY2019 (preliminary)	Carbon dioxide emission (in t-CO <sub>2</sub> )	Scope1	Direct emission	352	368	80	51	59*2	Scope2	Indirect emission	9,706	9,088	7,508	7,028	6,560	Total		10,058	9,456	7,588	7,079	6,618
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	Total		10,058	9,456	7,588	7,079	6,618																									

\*1 Japanese Bankers Association industry target based on the "Commitment to a Low Carbon Society" promoted by the Japan Business Federation (Keidanren)

\*2 Increased in FY2019 due to the operation of emergency backup generators

# Our Approach to Digitalization

The Aozora Group is strengthening its approach to digitalization in order to promote new growth initiatives and further improve business processes.

## Fundamental revision of existing business processes by leveraging digital technology

Aozora will thoroughly review and enhance existing business processes through greater utilization of digital technology. Aozora will continue to improve its operational efficiency by streamlined and more productive processes that can more quickly adapt to changes in environmental conditions.

### • Paperless processing via tablets

Aozora offers asset management and financial products to its senior generation mass-affluent retail customers. In the past, investing in these products required a significant amount of time completing the required forms and related paperwork. The Bank recently began offering a new service that enables paperless processing of asset management products through the use of tablets. The use of tablets lessens the administrative burden of filling out paper forms while also speeding up the overall process.

### • “ICT Revolution” for more efficient operations

As a part of the Aozora Work Style Reform initiative, approximately 70% of employees have utilized our Work from Home program through the use of various IT tools including VPNs (virtual private networks) and our telephone conference system. This program better prepared us for the continuation of business operations during the state of emergency and quarantine order issued in Japan as a result of the COVID-19 pandemic. Also contributing to our results in this area was our business continuity plans as well as infrastructure maintenance driven by advances made possible by the Information and Communication Technology (ICT) revolution.

To remain prepared for future societal changes, the Bank will strive to further streamline processes in order to reduce the burden on customers while also promoting efficient and flexible working styles. The Bank continues to develop

initiatives to improve its business processes and working styles by further reducing paper-based operations and improving the teleworking environment.

## Expanding our customer base with the new retail banking smartphone app, BANK™

In order to increase our level of business activity with the next generation of senior customers beyond our current specialized asset management services, Aozora released BANK™, a smartphone app intended to provide a “Money Service for Your Wonderful Life.” The design and creative development of the app was done in partnership with our strategic vendor, UNIT\_ONE.inc, who created an excellent UI/UX<sup>※1</sup> based on our “Simple, Speedy, Smart” design concept. Aozora will leverage the BANK™ app to facilitate collaboration with a wide array of industries and provide new services to our retail customers.

※1 User Interface / User Experience





## GMO Aozora Net Bank, Ltd. Initiatives

Since its formation as an Aozora Group company in July 2018, GMO Aozora Net Bank has combined technology, technical knowledge, an independent perspective, a broad range of tools, and its specialized network to establish itself as a progressive, “No. 1 Technology Bank” that defies easy categorization. The Net Bank strives to offer services that respond to its customers’ needs by quickly adapting to changes in consumer trends and utilizing innovative technologies.

- **GMO Aozora Net Bank’s API Laboratory, “sunabar”**

“sunabar” is a bank API<sup>※2</sup> laboratory that operates as a free-of-charge API testing environment and community for IT engineers. “sunabar” is the first of its kind to be developed by a Japanese bank. The new lab facilitates internal review and project proposals by allowing users to create working prototypes when planning and proposing new services connected to the Bank’s API. The lab also shortens development time by allowing users to begin develop-

ment before signing an API connection contract. The “Developers’ Portal for Bank API” that is used in conjunction with GMO Aozora Net Bank’s “sunabar” won an Award for Innovation Excellence in the financial institution category of the “Japan Financial Innovation Award 2020”, which is sponsored by FINOLAB Inc. and FINOVATORS (a non-profit Financial Innovators’ Association).

※2 Application Programming Interface

- **API Collaboration with CAREER CO., LTD.**

Aozora customer CAREER CO., LTD. is a temporary staffing agency that pays its workers’ salaries on a daily or weekly basis. After a top-to-bottom internal review of its attendance management and salary calculation systems, CAREER CO. was able to fully automate their salary payment system to account for actual hours worked through a bank API collaboration with GMO Aozora Net Bank. We will continue to actively develop proposals to enhance our customers’ operational efficiency by engaging in bank API collaborations.



# Response to the COVID-19 Outbreak

As the world remains in the midst of the COVID-19 pandemic, many of our customers are facing highly challenging and acutely severe economic conditions. Aozora is dedicated to responding to their needs while also serving as a valued partner by providing support for our customers' efforts to start up new business.

## Response to corporate customers

On April 6, 2020, the Bank began offering special-purpose loans to small and mid-sized companies adversely affected by the COVID-19 pandemic. This program allowed the Bank to rely on the most recently available credit information of its existing corporate customers in order to process each loan application in an expedited fashion. In addition, the Bank is flexibly responding to customers' requests to modify the terms of existing debt repayment. For new customers, we offer consultations regarding management, funding and other issues stemming from the COVID-19 pandemic.

In accordance with its further cooperation with government-affiliated financial institutions, Aozora has established consultation desks which provide information on the utilization of credit guarantee corporations while handling the various types of institutional finance they offer. In addition, the Bank is cooperating with the Japan Finance Corporation, providing an overview of their special loan program and directions to nearby branches.

## Initiatives at branch locations

Aozora has taken precautions against the spread of COVID-19 at each branch, such as placing alcohol disinfectant bottles at the entrance and installing acrylic panels at customer service desks as well as disinfecting tables, chairs, writing materials and other items with sanitizing wipes. In addition, we are keeping our branch locations well ventilated and have asked our visiting customers to maintain sufficient space between one another in accordance with social distancing practices. The Bank requires its employees to wear masks and keep their hands sanitized while requesting that its customers do the same when visiting a branch.

## Establishment of Command Center

On April 7, 2020, the Japanese government declared a state of emergency in response to the COVID-19 pandemic while prefectural governments released a series of emergency precautions which included requests to avoid non-essential outings and refrain from holding large gatherings. In light of these events, that very same day, Aozora established a Command Center led by its President, which is responsible for making important decisions and the centralized management of information.

Banks must continue to provide essential services via their branches and ATMs as part of the financial infrastructure that is indispensable to maintaining a functioning society while prioritizing the lives and well-being of their customers and employees in full consideration of the background and intent of the Japanese government's declaration of a state of emergency and local governments' requests and instructions.

Banks should establish a framework that allows them to continue essential business operations that are indispensable to maintaining a functioning society and make every effort to serve their customers.

Following the above agreement between the Financial Services Agency (FSA) and the Japanese Bankers Association (JBA), Aozora continues to perform the six essential operations specified in JBA's BCP (Business Continuity Plan) Guidelines: (1) Execution of obligations related to customer deposit and payment; (2) Execution of settlement of payment and receipts; (3) Receipt of tax payments; (4) Execution of lending; (5) Securities clearing; and (6) Trading with financial institutions.

Aozora handles domestic customer-initiated transactions on a case-by-case basis while taking all relevant factors into account, such as the location of the customer's office, whether an office visit is required as well as the nature of the business. In addition, the Bank has taken every precaution in order to protect customers from the spread of COVID-19 and adapted to the ever-changing conditions while meeting our customers' needs.

## New working styles

Aozora has continued to promote working style reforms, including its Work from Home/ Mobile Work Program and Flextime Program, while improving its operating processes and IT environment. These initiatives have progressed even further, driven by the Bank's recent steps to prevent the spread of COVID-19. At present, employees are still encouraged to work from home as long as it poses no issues to business operations. In addition, the Bank continues to use online meetings and videoconferences as the main ways to hold discussions.



# Aozora Bank Website

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

## About Aozora



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

## Investor Relations



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

## Corporate and Institutional



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

# Business Groups

## 6 Areas of Focus

### Retail Banking

#### Specialized consulting and integrated financial services for retail customers

- Expand assets under custody by selling investment products based on customer-oriented sales attitude
- Enhance sales base through strengthening consulting-type branches, sales staff training, branding, etc.
- Provide a new simple and smart money service, "BANK," at the BANK branches

### Corporate Finance

#### Established position as the key player in restructuring business such as M&A and buyout finance

- Develop the solution-based sales to resolve customers' business challenges such as the business reconstruction or risk hedging needs by bringing together Aozora's financial expertise
- Support the business reconstruction/corporate growth by forming private equity funds
- Conduct disciplined lending operation, avoiding excessive price competition
- Provide asset securitization-based financing methods by effectively using trust functions

### Financial Institutions

#### Contribution to the revitalization of local economy by solving the management issues of regional financial institutions

- Provide solutions for challenges in balance sheet of regional financial institutions
- Provide regional financial institutions' clients with joint proposals by effectively using the Aozora Group's service functions for customers

### Specialty Finance

#### Expanded specialty finance by capitalizing on high-level expertise in real estate and business recovery finance

- Perform flexible operations according to different stages of credit cycle by effectively using a wealth of knowledge and experiences regarding real estate finance and business recovery finance
- Provide new financial services/products by effectively using non-asset business growth and FinTech in connection with real estate finance

### International

#### Enhanced capacity for flexibly controlling the portfolio by forming a seamless monitoring framework on a global scale

- Work on structured finance and others including corporate finance and project finance in North America, Europe and Asia-Pacific region, etc.
- Diversify portfolio by approaches toward new areas/products
- Sophisticate monitoring system and flexibly control portfolio on a global basis

### Financial Markets

#### Better capability for risk-hedging sales and product development, establishment of the portfolio resistant to market fluctuation

- Provide solutions based on risk consulting for customers by using several types of derivatives
- Pursue global and diversified investments for well-balanced portfolios with efficient asset allocation, including entry into new asset classes in financial markets



## Business Groups



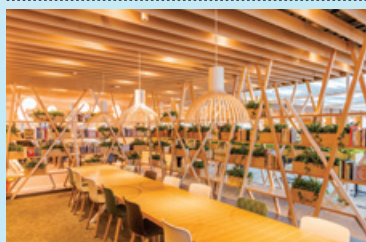
### Retail Banking Group

The Retail Banking Group responds to the diverse needs of individual customers by providing personalized face-to-face asset management consulting services, a wide range of financial products, and a new smart and simple money service, "BANK."



### Institutional Banking Group

The Institutional Banking Group provides SME customers with loans, deposits and derivative products as well as a diverse range of financial services and solutions to meet their business reconstruction and risk hedging needs, contributing to the development of customers and regional economy revitalization.



### Allied Banking Group

The Allied Banking Group provides solutions and services to resolve business challenges faced by regional financial institution customers and contributes to the regional economy revitalization by providing regional financial institution customers.



### Specialty Finance Group

The Specialty Finance Group provides real estate finance and business recovery finance-related high-quality financial services by leveraging Aozora's experience, expertise and industry network gained from Aozora's inception.



### International Finance Group

The International Finance Group provides mainly corporate finance in North America, Europe and Asia-Pacific region. Also, we intend to contribute to development of the economy through providing project finance in the areas of infrastructure worldwide as well as structured finance in the shipping areas.



### Financial Markets Group

The Financial Markets Group develops and provides financial products including derivative products to meet customers' needs in risk hedging and asset management. In addition, by controlling interest-rate-related risk and liquidity risk, we aim to generate stable revenue and maintain well-balanced portfolios with efficient asset allocation through globalized and diversified investments.



### Trust Business Group

The Trust Business Group provides a wide range of trust services in order to meet a variety of customer needs, particularly securitization services for its customers' real estate, asset, and monetary claims.

# Retail Banking Group

The Retail Banking Group responds to the diverse needs of individual customers by providing personalized face-to-face asset management consulting services, a wide range of financial products, and a new smart and simple money service, “BANK.”

**Takayoshi Nomura**  
Managing Executive Officer  
Head of Retail Banking Group



## Major Businesses

✓ Provision of Financial Products    ✓ Asset Management Consulting

## Areas of Focus

### Provide specialized personal consulting businesses and comprehensive financial services

- Provide courteous and specialized consulting, placing priority on customer-oriented business management
- Provide product line-up and services that contribute to customers' mid- to long-term asset management
- Provide new services utilizing smartphones, the Internet, etc.

## Summary of Major Businesses

### Personalized and Specialized Consulting

Aozora Bank aims to contribute to developing customers' mid- to long-term assets and to be the customers' choice among the many financial institutions. The Bank's sales personnel and financial planners with their high level of expertise offer consultation services on asset management, inheritance and business succession. The Bank aims to develop an atmosphere where customers can consult in a relaxed environment.

The Bank makes use of its “Aozora Academy at Aoyama,” a training facility dedicated to retail sales personnel to enhance their consulting skills, in order to continue efforts to lay a firm foundation for customer-oriented business management as part of its corporate culture.

### Financial Products Useful in Developing Assets for Customers

The Bank offers a wide range of deposit products as well as investment trusts and insurance products to meet customers' diverse asset management needs. In addition to conducting regular surveys that reflect customer opinion in enhancing our product line-up, we disclose the reason for selection when new products are released. The Aozora Group works together in product development as investment trusts are provided by Aozora Investment Management Co., Ltd., and financial instruments intermediary services of structured bonds and investment trust bonds are provided by Aozora Securities Co., Ltd. When selecting products, we aim to offer customers products that will contribute to their asset development, by coordinating with a wide range of domestic and international asset management companies and insurance companies without preference toward Aozora brand products.

### Efforts to Enhance Financial Literacy

The Bank holds seminars by financial planners and certified tax accountants at its branches to strengthen customers' financial literacy through the provision of various information.

### Enhance Service Channels

Aozora's service channels include 20 branches, telephone banking and Internet banking, offering the means to use Aozora's financial services, without visiting the Bank. This provides convenience to customers without access to branches or who prefer to use services on holidays or at night. Changes have been made in ATM services, the Bank began the replacement of all of its ATMs with Japan Post Bank's ATMs. In addition to forming an alliance with Seven Bank Ltd., Aozora has enabled the use of ATMs of Lawson Bank, Inc. through affiliated financial institutions, achieving service expansion through an increase in ATM machines and longer service hours.

Moreover, we offer cash cards with Visa debit features (“Aozora Cash Card Plus”) for shopping by debit from deposits with the Bank.

### Efforts on New Services

At the BANK branches, the new service “BANK” was launched, and in addition to offering products such as “BANK™ The Savings (BANK app limited savings deposits)” that allows customers to save a certain percentage of the spending “automatically” while shopping with a cash card with Visa debit features, and “BANK Branch Limited Savings Deposits” with good interest rates, BANK™ The Story provides a story of “awareness” that will enrich customers' life for future.

## Efforts to Enhance Customer Trust

### Engaging in “Customer-Oriented Business Management”

Aozora Bank offers sophisticated financial products and services that truly benefit their customers and is engaged in activities to realize “Customer-Oriented Business Management.” The Bank’s “Management Committee” monitors “Customer-Oriented Business Management” activities and discloses progress on a regular basis.

### Engaging in Improving Customer Satisfaction

The Bank’s Voice-of-the-Customer program includes regular “customer satisfaction surveys” as well as being in direct contact with customers at branch counters and the call center. Customer needs and wants recognized through such activities are used to improve products and services.

The changes made based on customer opinion are posted on the Bank’s website. Aozora Bank is committed to taking customer opinion seriously and making efforts to reflect these opinions in its products and services.

## Our Business Activities in FY2019

The Bank introduced a service at all branches that guides customers about investment trusts and life insurances on the tablet device and allows them to proceed smoothly with paperless transactions. This service helps customers understand products information more easily by replacing the application to a tablet device from the traditional paper-based form in terms of “Application for purchase/cancellation of investment trusts” and “Application for new life insurance contract.” In addition, it is not necessary to fill out or seal various application forms by confirming on the screen of the tablet device, signing (electronic signature) and presenting identity verification documents, which reduces the burden on the customers and shorten the time for procedure.

Moreover, the Bank focused on sales of a wide range of financial products in response to diverse customer needs such as asset formation and preparation for the future. Regarding the financial instruments intermediary services with “Aozora Securities Co., Ltd.” as the consignment securities firm, we started the Internet account opening service to realize speedy account opening as well as to complete an Internet trade contract without family seal registration or document procedures. The Aozora Group works together to meet our customer needs continually.

Furthermore, in order to prevent the spread of COVID-19, we are working on various initiatives designed to avoid the “Three C’s” at our branch locations, including placing transparent acrylic sheets at customer service desks to protect against droplet transmission.

## Policy and Areas of Focus in Future Operations

By providing highly specialized and courteous consulting services based on customer-oriented business management, we will meet the various customer needs through responding to customers’ asset management and also business succession business, as well as promoting financial succession consulting centering on will-trust/heritage arrangement services. For SME owners’ business

succession/M&A needs, Aozora newly placed “Financial Advisor Office” for the purpose of providing professional consulting services.

Moreover, at the BANK branches, we will strengthen non-face-to-face banking services by enhancing our products and services.

## SDGs Initiatives

### Introduced Sign Language Interpretation Services for customers who have hearing and speaking disabilities

In this service, the customers’ requests such as loss of our cash cards, passbooks, certificates and seals by using a smartphone and tablet device are accepted by an outsourced interpreter through videophone in sign language or writing, and the contents are interpreted in real time by voice call to the operator of our call center.

Until now, the customers who have hearing and speaking disabilities had to use a communication board, writing machine, etc. at the Bank to perform procedures related to the loss of cash cards and so on, but the introduction of service makes it possible to carry out the procedures at home, which will improve convenience.

#### Scope of service

- Transaction suspension due to loss of cash cards/passbooks/certificates/seals
- Transaction suspension due to loss of notification of temporary login password for Internet banking
- Transaction suspension due to unauthorized use of account/cash cards





# Institutional Banking Group

The Institutional Banking Group provides SME customers with loans, deposits and derivative products as well as a diverse range of financial services and solutions to meet their business reconstruction and risk hedging needs, contributing to the development of customers and regional economy revitalization.



**Akemi Hashimoto**  
Executive Officer  
Head of Business  
Banking Group

**Koji Yamakoshi**  
Director  
Senior Managing  
Executive Officer  
Head of Corporate  
Banking Group

**Takeshi Ito**  
Managing Executive  
Officer  
Head of Advisory &  
Investment Group

## Major Businesses

### <Finance>

- ✓ Corporate Finance
- ✓ LBO/MBO Finance
- ✓ Asset Finance
- ✓ Asset Liquidation
- ✓ Project Finance
- ✓ Solutions for Public Institutions
- ✓ Risk-Hedging Products

### <Advisory and Investment>

- ✓ M&A/Business Succession
- ✓ Private Equity Business

## Areas of Focus

### Customers' Business Reconstruction, Management Support for Risk-Hedging Needs

#### M&A, business succession

- Provision of advisory services regarding domestic M&A deals and cross-border M&A deals in cooperation with banking partners in Asia and LBO/MBO finance
- Support for business reconstruction by forming private equity funds

#### Response to risk-hedging needs

- Provision of custom risk-hedging products

#### Asset liquidation

- Securitization and liquidation by effectively using various assets held by customers such as lease and medical receivables

## Summary of Major Businesses

Aozora fulfills a financial intermediary function and provide high-value-added solutions leveraged by "Aozora's strength" to the various management issues faced by our customers toward their sustainable growth and development.

### <Finance>

#### Corporate Finance

In corporate finance, we provide corporate finance by adequately evaluating our customers' business, not excessively relying on collaterals and guarantees and fully understanding purpose of the Guidelines for Personal Guarantee Provided by Business Owners. Aozora attempts to demonstrate its financial intermediary function by making proposals of various funding schemes to serve customers' every need including syndicated loan origination, private placement bond issuance and finance recognizable as capital in addition to regular loans as well as providing information useful for its customers.

In addition, Aozora provides loans for its customers' overseas local companies in cooperation with local and government affiliated financial institutions, supporting their overseas business expansion. Further, Aozora also supports the business management of medical institutions

absolutely necessary for each area through undertaking M&A and recovery finance-based deals.

#### LBO/MBO Finance

We have engaged in various deals and gained abundant experience and expertise as one of the key players in the field of MBO (Management Buyout) and LBO (Leveraged Buyout) used in financing M&A. We intend to continuously provide our expertise to customers restructuring their businesses and establish a key player's position.

#### Asset Finance

We effectively use various assets held by customers and support smooth funding. More specifically, we meet our customers' needs for acquiring real properties with objective of diversifying their businesses in addition to provision of finance secured by accounts receivable or movables through providing real estate information and finance.

#### Asset Liquidation

We meet needs for diversifying funding tools or removing assets from a balance sheet through securitizing and liquidating various assets of our customers such as lease and medical receivables using a trust.



## Project Finance

We actively work on project finance by providing funding schemes appropriate for each project with a focus on renewable energy projects. For instance, we contribute to development of the domestic renewable energy business by arranging project finance for solar and wind power generation.

## Solutions for Public Institutions

For public institution customers, we contribute to various infrastructure developments as well as regional revitalization and invigoration by providing financial solutions including funding tools by means of syndicated loan, which is one of Aozora's advantages.

## Risk-Hedging Products

We provide custom risk-hedging products through providing our customers with consulting services in order to meet risk-hedging needs for various market risks directly linked to our customers' core business.

## <Advisory and Investment> M&A/Business Succession

We are also engaged not only in domestic but also cross-border M&A deals by leveraging business alliances

with leading banks in Asia, supporting our customers' overseas business expansion.

For SME owners' business succession/M&A needs, Aozora newly placed "Financial Advisor Office" for the purpose of providing professional consulting services.

In addition, "ABN Advisors Co., Ltd.," provides M&A advisory services and an investment company, "AJ Capital Co., Ltd." runs a business succession fund "Succession Investment Limited Partnership, I."

We provide our customers with a broad range of solutions including meeting their funding needs along with the business succession and address business succession issues faced by SMEs across the country.

## Private Equity Business

Aozora Bank responds to its customers' equity funding and capital policy needs through its Group companies.

Aozora Bank supports further growth or business succession/reorganization of companies through "AZ-Star Co., Ltd." running a buyout fund, "AJ Capital Co., Ltd." running a business succession fund and "Aozora Corporate Investment Co., Ltd." running a debt investment fund for venture companies and a target fund jointly managed with an operating company and others.

## Our Business Activities in FY2019

During the year, we responded to customers' various funding needs and made transactions with many customers. In addition, we adequately evaluate businesses of customers who just started their business having active funding needs,

do not excessively rely on collaterals and guarantees and proactively respond to our customers' financing needs, reinforcing our solution proposal function.

## Policy and Areas for Focus in Future Operations

As the "Primary Secondary Bank: the partner of choice," Aozora Bank fully exercises the financial intermediary function and provides high-value-added financial solutions to the various management issues faced by our customers toward their sustainable growth and development as well as invigoration of regional economies.

We newly placed Fintech Sales Management Office in Institutional Banking Management Division in April 2020 and support our customers' Fintech-related business in cooperation with GMO Aozora Net Bank, Ltd., and Fintech companies that just started their business, increasingly providing also finance.

## SDGs Initiatives



### Establishment of New Debt Fund for Venture Capital Firms "AOZORA HYBRID Investment Limited Partnership, I"

Aozora Bank established "AOZORA HYBRID Investment Limited Partnership, I" ("the Fund") for the purpose of making an investment in venture firms with growth potential in Japan.

This unique fund intends to address the market gap that exists between equity providers, such as venture capital firms or operating companies, and debt providers such as banks, by making investments with a focus on debt featuring an "equity kicker\*." The new fund assists venture capital firms in avoiding the dilution of management's ownership stake by providing financing at a firm's critical growth phase and before any potential cash-out event.

\*Equity kicker refers to a feature of hybrid securities which have both equity and debt characteristics, e.g. convertible bonds and bonds with stock acquisition rights.

# Allied Banking Group

The Allied Banking Group provides solutions and services to resolve business challenges faced by regional financial institution customers and contributes to the regional economy revitalization by providing regional financial institution customers.

**Masato Mano**  
Managing Executive Officer  
Head of Allied Banking Group



## Major Businesses

- ✓ Provision of Financial Products
- ✓ Provision of Solutions to Business Challenges
- ✓ Business Assessment, Business Recovery Support, Business Succession for Clients
- ✓ Collaborative Proposals to Clients

## Areas of Focus

### More Strengthened Provision of Solutions to Regional Financial Institutions, Contribution to Regional Revitalization

- Provision of solutions to challenges in balance sheet of regional financial institutions
- Joint proposals to regional financial institutions' clients by effectively using the Aozora Group's services for customers

## Summary of Major Businesses

### Provision of Fund Management Products Appropriate for Regional Financial Institution Customers' Needs

For over 60 years, the Aozora Group has promoted a broad range of transactions with its regional financial institution customers across the country.

We not only provide bank bonds, time deposits, various derivative-embedded deposits/loans as well as trust function-based management products but also advise customers to participate in syndicated loans, LBO finance, project finance, structured finance, etc.

"Aozora Securities Co., Ltd." provides private placement investment trusts incorporating global bonds as well as Japanese and U.S. equities. "Aozora Real Estate Investment Advisors Co., Ltd." provides financial products making investments in beneficiary interests in real estate trusts. Further, "AZ-Star Co., Ltd.," "AJ Capital Co., Ltd." and "Aozora Corporate Investment Co., Ltd." design and organize corporate investment funds to be managed by each of the said affiliates. Accordingly, the Aozora Group provides a broad range of products adequately meeting its customers' needs.

"Aozora Investment Management Co., Ltd." provides publicly offered investment trusts contributing to individual customers' asset building through regional financial institution customers across Japan in addition to the management of private placement investment trusts.

### Solutions to Regional Financial Institutions' Business Challenges

While the profitability is continuously declining due to loan margins reduced by implementation of the negative interest policy, securities investments are becoming more and more significant in regional financial institution customers. Our "Portfolio Management Innovation Office (PMIO)" staffed with professionals experienced in fund and risk management assists in building or improving a system in the case of examining a use of risk appetite framework (RAF) or portfolio-wide analysis in order to secure the soundness for the future while taking risks in the securities investments.

### Clients' Business Assessment, Business Recovery Support, Business Succession

"Aozora Loan Services Co., Ltd." jointly established corporate rehabilitation funds with regional financial institution customers and is strongly supporting business recovery of their clients.

Under the theme of creation of regional innovation, "Aozora Regional Consulting Co., Ltd.," contributes to invigoration of regional economies by engaging in business for regional revitalization, business assessment and training for personnel for that purpose and by providing information on regional recovery and revitalization.

"ABN Advisors Co., Ltd.," an M&A advisory company addressing business succession issues of regional SMEs, staffs experienced professionals and works on business succession issues faced by SMEs all over the country in cooperation with regional financial institutions and by effectively using business succession funds.

## Collaborative Proposals to Clients

We provide Aozora's services for its customers to clients of regional financial institutions working hard to increase the regional companies' productivity and to develop the regional economy. More specifically, we provide clients presented by regional financial institutions with optimal solutions for reducing foreign exchange risks arising from foreign currency loans/debts as well as preventing business risks caused by market conditions when price fluctuation

risks in law materials/fuels are factors of such clients' business instability.

In addition, we cooperate with regional financial institution customers in various areas, for example, joint arrangement of syndicated loans, finance in areas of real estate, healthcare, business recovery and buyouts as well as financing for renewable energy projects in addition to the provision of trust functions.

## Our Business Activities in FY2019

In response to growing expectations for monetary easing in Europe and the United States in the context of concerns over a world economic slowdown, a long-term interest rate in each country significantly dropped. As a result, the movement to diversify and promote the fund management by regional financial institution customers was observed. We increased opportunities to provide our products such as derivative-embedded deposits/loans to address these needs. Besides, "Aozora Securities Co., Ltd." has been improving its product line with a focus on private placement investment trusts making investments in global bonds. Meanwhile, our "Portfolio Management Innovation Office" has been accepting consultations regarding the construction of risk appetite framework and the sophistication of portfolio management to support the risk management by regional financial institution customers.

"Aozora Investment Management Co., Ltd." has been providing regional financial institution customers with public placement investment trusts appropriate for mid-and-long term asset building in order to contribute to the strengthening of regional financial institutions' abilities to provide financial services.

"Aozora Loan Services Co., Ltd." newly agreed with three regional financial institutions regarding an effective use of business recovery funds that support the business recovery and the business succession and contributes to resolving business challenges of SMEs, regional financial institutions' clients, and the regional economy/industry vitalization.

"ABN Advisors Co., Ltd." has formed business alliances with approximately 80 regional financial institutions (as of March 2020) and works on the business succession issues of SMEs across the country.

## Policy and Areas of Focus in Future Operations

The Aozora Group cooperates with regional financial institution customers to contribute to the regional economy revitalization through providing the services for customers to their clients.

"Aozora Regional Consulting Co., Ltd." intends to train personnel in charge of business assessment and consulting in regional financial institutions and to present example cases of realizing the regional revitalization through business assessment.

"Aozora Loan Services Co., Ltd." marking its 20th anniversary since inception in September 2019 intends to provide platforms for the business recovery, business

succession and re-challenges for SMEs as a servicer of regional financial institution customers across the country.

"ABN Advisors Co., Ltd." intends to support the business succession by SMEs taking a role in the regional revitalization by conducting business activities in the regions in cooperation with regional financial institutions.

In addition, Aozora intends to provide fund management products satisfying its customers' needs and assists in strengthening their risk management system by fully using functions of each Group company including "Aozora Securities Co., Ltd." and "Aozora Investment Management Co., Ltd."

## SDGs Initiatives

### Provision of Advisory Services to Regional Financial Institution Customers

"Aozora Regional Consulting Co., Ltd." provides regional financial institution customers including regional banks, Shinkin Banks and Shinkumi Banks with the business assessment and advisory services for management consulting to their clients. These services intend to help officers and employees in regional financial institutions more carefully find out their clients' funding needs, quickly understand their business challenges and strengthen their abilities to deeply resolve business challenges. Our objective is to contribute to promotion/expansion of their clients' access to the financial services by strengthening the regional financial institutions' abilities and a significant increase in personnel having technical/professional skills in regional financial institutions.



# Specialty Finance Group

The Specialty Finance Group provides real estate finance and business recovery finance-related high-quality financial services by leveraging Aozora's experience, expertise and industry network gained from Aozora's inception.

**Fumihiko Hirose**  
Senior Managing Executive Officer  
Head of Specialty Finance Group



## Major Businesses

- ✓ Real Estate Finance
- ✓ Business Recovery Business

## Areas of Focus

### Evolution of Specialty Finance

- Non-recourse loans backed by real estate in Japan, North America and Europe as well as equity investments
- Business recovery finance in cooperation with a servicer designed to promote corporate rehabilitation

## Summary of Major Businesses

The Specialty Finance Business provides finance backed by or collateralized with various assets in addition to real properties. In particular, Aozora's strengths lie in real estate and business recovery finance, which are based on Aozora's experience gained through forward-thinking activities for many years. Aozora widely and flexibly provides from finance backed by assets generating stable cash flow to investment and loans for companies in the process of business recovery in order to meet customers' needs and to provide all sorts of financial services. Aozora has experiences and track records in these businesses, the ability to evaluate assets, the capability to structure transactions to meet customers' needs and networking with reliable professionals.

While focusing our attention on the ever-changing market environment, with our contribution to the public nature and national economic development in mind, we are carrying out sound investment and loan activities that generate stable revenues through undertaking deals offering a suitable return on risk.

### Real Estate Finance

As well as making equity investments, we provide non-recourse loans secured by real properties in Japan, North America and Europe. Further, we also design and arrange financial products secured by real properties in regional areas in addition to those in metropolitan areas through our subsidiary "Aozora Real Estate Investment Advisors Co., Ltd." to meet investors' fund management needs including regional financial institutions.

The Aozora Group provides unique and highly specialized real estate-related financial services to customers in terms of both management and financing.

### Business Recovery Finance

The Specialty Finance Group focuses on investments in loans for corporates facing challenges to address a rapidly changing operating environment and distressed companies as well as financing secured by assets such as disposable real estate related to recovering companies.

In addition, "Aozora Loan Services Co., Ltd." marking its 20th anniversary since inception, which is our loan servicer subsidiary designed to promote corporate rehabilitation, proposes to purchase finance receivables which domestic financial institution customers intend to dispose of. It also establishes and operates business recovery funds by region, by business of regional financial institutions and by individual regional financial institutions as a platform for business recovery by clients of regional financial institutions, contributing to the business recovery of SME customers as well as the invigoration of regional economies.

The Aozora Group's business recovery finance and business recovery business as "a bank" have three strengths that differ from other recovery funds:

- (1) collaborations with regional financial institutions,
  - (2) long-term engagement in recovery and
  - (3) one-stop business recovery service.
- Approximately 80% of the clients that have recovered by using business recovery funds are able to remain in business.

### Real Estate Finance

We attempted to build a sound portfolio and to record steady revenue through monitoring risks and returns of each deal and selling part of the existing investment and loans while providing non-recourse loans and making equity investments secured by real properties mainly consisting of office buildings, residences, logistics facilities, hotels and commercial buildings in Japan, North America and Europe under our disciplined risk management structure based on the real estate market conditions in each area.

“Aozora Real Estate Investment Advisors Co., Ltd.” supports the management by a number of institutional investors including regional financial institutions through providing investment advisory services to a number of private placement real estate funds including four private placement real estate funds making investments in beneficial interest in real estate trusts having office buildings and condominiums for rent as trust assets, which were built by the said company up to the present. In addition, “Aozora

Real Estate Investment Advisors Co., Ltd.” responds to consultation from regional financial institution customers about securitization of real estate held by their clients and proposes revitalization or value improvement of real estate by using a scheme of real estate securitization.

### Business Recovery Finance

We engage in business recovery finance through investment and loans for recovering companies. Additionally, our subsidiary “Aozora Loan Services Co., Ltd.” jointly established a number of business recovery funds with regional financial institution customers. While bearing in mind our contribution to society through supporting the business recovery or revitalization of their clients intended by regional financial institution customers, we assist their clients in seeking to restart businesses by proactively using the Aozora Group's know-how and network. We also make efforts to expand our area coverage of business recovery finance to overseas by making use of our knowledge gained in Japan.

## Policy and Areas of Focus in Future Operations

### Real Estate Finance

The Aozora Group does not provide mortgage loans for individuals who plan to buy condominiums or apartments for investment purposes. While closely observing changes in the economic environment by effectively using our knowledge about finance, real estate and securitization, we provide financial services in and out of Japan with a focus on real estate non-recourse loans and meet all sorts of our customers' needs. Under our disciplined risk management structure, we intend to selectively undertake domestic and overseas real estate-related equity investments and continue the stable and steady business operation. Meanwhile, we intend to improve continuously expanding non-face-to-face services through providing financial services and products relating to Fintech-based real estate finance.

In addition, we also intend to meet regional financial institution customers' fund management needs as the entire Aozora Group and to contribute to invigoration of

regional economies by strengthening our efforts to design and arrange financial products targeting the real estate through our subsidiary “Aozora Real Estate Investment Advisors Co., Ltd.”

### Business Recovery Finance

The Aozora Group has gained broad experiences in the business recovery finance and business recovery business. The Group intends to offer solutions for the management challenges of SMEs, the clients of regional financial institutions, and to contribute to regional revitalization and invigoration of regional economies and industries through strengthening collaborations with regional financial institution customers and establishing/operating business recovery funds. We also intend to provide business recovery finance on a global basis by effectively using our knowledge gained up to the present and a network of domestic and overseas leading players.

## SDGs Initiatives

### Efforts for Business Recovery through Servicer Business of “Aozora Loan Services Co., Ltd.”

“Aozora Loan Services Co., Ltd.” has been supporting various customers in resolving their issues through the following key services.

- (1) Loan purchase: Provide consulting for disposal of non-performing loans in general, make various proposals and carry out loan securitization activities (loan purchase).
- (2) Loan valuation: Understand the status of loans to be purchased and make an objective and accurate pricing decision.
- (3) Loan collection: Manage and collect assigned normal loans (or those under outsourced servicing), delinquent loans and loans for recovering companies.
- (4) Business recovery: Assist companies with business profitability/success potential among deficit-ridden and troubled companies.

The Company published “Servicer and Business Recovery” (by Kinzai) in December 2019 to simply explain these services by a servicer.





# International Finance Group

The International Finance Group provides mainly corporate finance in North America, Europe and Asia-Pacific region. Also, we intend to contribute to development of the economy through providing project finance in the areas of infrastructure worldwide as well as structured finance in the shipping areas.

**Masaki Onuma**  
Managing Executive Officer  
Head of International Finance Group



## Major Businesses

✓ Corporate Finance   ✓ Project Finance   ✓ Other Structured Finance

## Areas of Focus

### Sustained Growth of International Business

- Corporate finance in North America, Europe and Asia-Pacific region
- Project finance in the areas of resources, power, infrastructure and environment around the world
- Other structured finance

## Summary of Major Businesses

We work on corporate finance, project finance and other structured finance for customers and projects mainly in North America, Europe and Asia-Pacific region while improving the risk management and monitoring structures.

### North America

We provide finance to assist business activities mainly in the United States in which corporate information is increasingly disclosed. In the market where mergers and acquisitions are active among companies aimed at scale expansion and growth, we respond to high capital needs through finance backed by assets held by companies and by cash flows generated from such assets while ensuring the monitoring of market environment and each company's business conditions. Our target businesses are wide-ranging including manufacturing, service, medical care, media and IT and we focus on North America as our main market.

### Europe

Our U.K. subsidiary, "Aozora Europe Limited (AEL)," takes the initiative in undertaking deals in major highly rated countries in Europe, where financial rules and legal systems vary across countries. As with the United States, we provide corporate finance to companies pursuing growth through cross-industry mergers and acquisitions under the complete risk management.

### Asia-Pacific

In the Asia-Pacific region, political and economic conditions vary across countries and systems are highly diversified.

Therefore, based on our close analysis of their country risks, we provide finance for government-controlled firms and large private companies in countries with relatively higher credit ratings including India, Indonesia and Australia, led by our Hong Kong subsidiary, "Aozora Asia Pacific Finance Limited (AAPF)."

### Project Finance/Structured Finance

We provide financial support for projects sponsored by Japanese/non-Japanese major companies in broad-ranging sectors including resources, power, infrastructure and the environment. Further, we respond to diverse funding needs of customers by providing finance based on cash flows generated by aircrafts and other assets in addition to traditional project finance.

Strengths of Aozora's International Business include years of experiences and track records in the above-mentioned areas and products, the ability to appropriately evaluate and monitor projects/assets, the capability to structure transactions to meet various customers' needs, and strong and broad networking with market/industry players in each country.

Additionally, we aim at securing the stable revenue and building a quality portfolio with well-diversified risks through steadily accumulating loan assets offering an attractive return on risk while focusing our attention on the ever-changing global situation and market environment.

## Our Business Activities in FY2019

We focused on building a quality portfolio by paying attention to various risk events amid the chaotic global economy affected by COVID-19 in addition to the uncertain political/economic conditions or financial market trends in each area. In addition, we are continuously making efforts to establish our operating base contributing to the smooth

operation of International Business through increasing staffs and introducing a flexible working system including overseas offices as well as improving infrastructure such as IT, etc. also intending to strengthen communication between offices.

## North America

Regarding the United States as the most important area occupying the core of foreign currency-denominated loan assets, we focused on building a quality portfolio with well-balanced risk/return while ensuring the monitoring of political/economic conditions and financial market trends around that area. In addition, we established a structure toward a smooth business operation of our North American subsidiary, "Aozora North America Inc. (ANA)," planning to start business in FY2020.

## Europe

We focused on building a portfolio for blue-chip companies while expanding target areas by monitoring geopolitical risks surrounding Europe and changes in political/economic conditions regarding Brexit. Further, we expanded our operating base in Europe through further improving the structure of our U.K. subsidiary, "Aozora Europe Limited (AEL)."

## Asia-Pacific

We ensured disciplined management, avoiding excessive competition with attention to economic trends in Asia including China while increasingly diversifying our portfolio in this growing market and decentralizing areas. In order to better source loan transactions and to gather information about the market environment, we effectively use the networks of our Hong Kong subsidiary, "Aozora Asia Pacific Finance Limited (AAPF)," and our representative offices (Shanghai/Singapore).

## Project Finance/Structured Finance

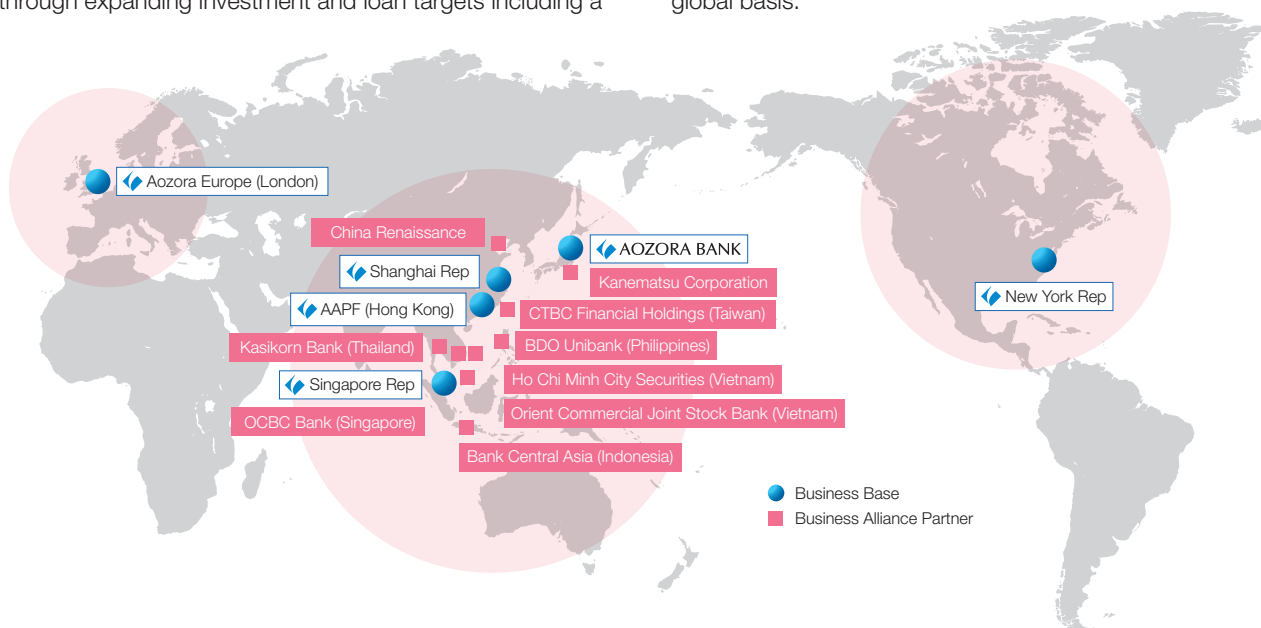
We undertook new loan transactions mainly in the power sector by considering the profitability and security against country/business risks. In addition, we also examine an increase in loans provided to renewable energy projects in consideration of SDGs. Further, we provide all sorts of structured finance based on the cash flow generated from aircrafts and other assets.

## Policy and Areas of Focus in Future Operations

Amid a widespread sense of uncertainty in political/economic conditions and financial market trends across the globe, we intend to focus on selectively undertaking well-rated loan transactions such as corporate finance and project finance also in Europe and the Asia-Pacific region in addition to our core North American market while continuously ensuring the monitoring of risks. Additionally, we will progressively diversify sources of income and build a portfolio less affected by changes in the market environment through expanding investment and loan targets including a

market research in areas with future growth potential or new structured finance.

At the same time, by strengthening our operating base/improving our information network through an increase in personnel and improvement in infrastructure in our overseas offices including our North American subsidiary, "Aozora North America Inc. (ANA)," planning to start business in FY2020 as well as further localizing the sourcing and monitoring, we will improve our risk control ability on a global basis.



## SDGs Initiatives

### Efforts for Achieving SDGs in International Finance Group

The International Finance Group provides finance in consideration of SDGs by effectively using also our overseas offices and their local networks. We seek to increase loans for renewable energy projects in the overseas project finance and carry out research and study activities about advanced ESG Investment observed in the European region, which will be also used for developing the Aozora Group's action agenda.

Further, in the overseas offices making these efforts, a number of employees of different nationalities other than the respective countries are working. The employees of different native languages, genders and family structures get together and work, speaking English as their common language by using IT-based multipoint videoconferencing, working at home and a flexible working system under labor regulations or practices in each country. We intend to provide a friendly working environment appropriate for each person's job satisfaction.



# Financial Markets Group

The Financial Markets Group develops and provides financial products including derivative products to meet customers' needs in risk hedging and asset management. In addition, by controlling interest-rate-related risk and liquidity risk, we aim to generate stable revenue and maintain well balanced portfolios with efficient asset allocation through globalized and diversified investments.

**Takashi Kato**  
Managing Executive Officer  
Head of Financial Markets Group



## Major Businesses

✓ Sales & Trading Business    ✓ ALM/Securities Investment Business

## Areas of Focus

### Securing Stable Revenue by Promotion of Market Risk Consulting Sales and Diversified Global Investments

- Provide several types of financial products to meet the needs of customers from corporate customers and financial institutions to retail customers
- Generate stable revenue through well-balanced portfolios based on securities with high liquidity by way of global and diversified investments

## Summary of Major Businesses

### Sales & Trading Business

In the sales section, through our consulting approach such as diverse simulations, we take into consideration various market risks directly inherent in our customers' business, and offer suitable risk-hedge methods and financial products that conform to customers' risk-hedge policy, in order to support customers in maintaining stable business activity.

In product development, we are enhancing our product line-up in response to the needs of all customers, from corporate customers and financial institutions to retail customers, with a custom-made approach that makes use of various kinds of financial technologies.

In the trading section, to provide financial products with competitive pricing that meet customers' needs, we have improved the sophistication of risk-hedging operations and risk management. We also aim to acquire excess earnings by controlling market risk flexibly, adapting to financial market conditions.

### ALM/Securities Investment Business

In ALM (Asset Liability Management), we manage interest-rate-related risk and liquidity risk inherent in the Bank's balance sheet (deposits and loans). From this perspective, we have expanded our funding approach and built a customer base through the issuance of straight bonds and by providing derivative-embedded term deposits and borrowings to meet the long-term asset management needs of financial institutions. In addition, we are striving to ensure stable liquidity by making maturity more distributed and more regularized while considering the existing funding approach as well. Regarding foreign currency funding, we are also making efforts to diversify the means of funding such as the issuance of foreign bonds and to focus on improving its stability.

In the securities investment of asset management, based on ongoing analysis/projections of financial market conditions such as credit cycles, etc., we pursue stable revenue through globalized and well-balanced portfolios based on securities with high liquidity regarding a variety of risk assets such as bonds, equities, credit, real estate and FX.

## Our Business Activities in FY2019

### Sales & Trading Business

Uncertain market conditions continue due mainly to loosened monetary policies centered on major countries, the U.S.-China trade friction, and the rapid slowdown of the global economy with the spread of the new coronavirus disease, COVID-19. Under such conditions, the sales section offered our corporate customers hands-on consultation in developing custom-made financial products to support customers' needs for hedging risk that may impact their main business such as FX and fuel. For financial institution customers, in response to their needs under the prolonged low interest rate environment, we offer a diverse range of products including various long-term derivative-embedded products and have expanded business relationships nationwide.

In the trading business, it significantly contributed to securing the revenue by properly managing risks even during fluctuations in the bond market and stock market.

### ALM/Securities Investment Business

In Japan, the Bank of Japan continued negative interest rate policy, and the interest rates remained at low levels. In addition, as concerns over recession in the global economy increased due to the spread of COVID-19, in March 2020,

easy monetary policies were strengthened, such as doubling the purchase quota for ETFs/J-REITs. Overseas, the U.S. Federal Reserve Board, which continued gradual interest rate hikes until December 2018, switched to easy monetary policy after July with the reasons of the global economic slowdown and uncertain trade policy, and in March 2020, following the spread of COVID-19, it urgently cut interest rate twice, unveiling the revival of real zero interest rate and the resumption of expansion of the balance sheet. In the European Central Bank, the policy interest rate also remained unchanged, but in order to avoid the financial market turmoil and recession caused by the spread of COVID-19, it provided more favorable condition changes of the targeted longer-term refinancing operations (TLTRO III) and implemented easy monetary policies for additional asset purchases, etc. Under such conditions, we are committed to generating stable revenue through well-balanced portfolios that invest in several types of risk assets in addition to interest-rate-related risk by managing and analyzing interest-rate-related risk inherent in deposits, bonds and loans. By way of asset balance control and risk volume control from early warning and efficient hedge operations, we have provided support to stabilize the Bank's earnings.

## Policy and Areas of Focus in Future Operations

### Sales and Trading Business

Our sales section analyzes several risks that our customers face and provides suitable solutions with our product development and trading sections. To meet customers' sophisticated and diversified needs, we will proactively improve our product line-up and continue to develop new financial products and services with high quality for customer satisfaction.

### ALM/Securities Investment Business

In the ALM/Securities Investment Business, we will continue to enhance our diversified and efficient portfolios based on securities with high liquidity, and make efforts to secure stable revenue by way of flexible asset allocation, adapting to financial market conditions. We will engage in ALM operations and securities investment by monitoring asset classes closely and researching investment strategy and methods, and by capturing new investment opportunities, including new asset classes.

## SDGs Initiatives

### Incorporating ESG/SDGs into investment action

ESG/SDGs are gaining public interest, and long-term and stable efforts are expected for sustainable growth. As a financial institution responsible for the function of social infrastructure, we will continue to consider ways to contribute to our stakeholders, including shareholders and business partners, and society through our financial activities. In securities investment as well, we would like to improve our skills to confirm the management company's approach toward ESG/SDGs and to analyze the viewpoint of ESG/SDGs in individual bond investment.



# Trust Business Group

The Trust Business Group provides a wide range of trust services in order to meet a variety of customer needs, particularly securitization services for its customers' real estate, asset, and monetary claims.

**Hideto Oomi**  
Managing Executive Officer  
Head of Trust Business Group



## Major Businesses

- ✓ Monetary claim trusts
- ✓ Real estate management trusts
- ✓ Securities trusts
- ✓ Corporate investment trusts
- ✓ Cash trusts segregated as deposit for customers
- ✓ Escrow trusts

## Areas of Focus

### Corporate Customers

- Provide securitization services for our customers' real estate, asset, and monetary claims
- Provide escrow trust services offering payment security

### Financial Institution Customers

- Provide a broad range of investment alternatives including asset-backed loans through securities and corporate investment trusts
- Work closely with our financial institution customers to provide trust services for their clients

## Summary of Major Businesses

### Monetary Claim Trusts

Monetary claims held by customers are entrusted to the Bank, which provides its customers with financing methods by transferring the various trust beneficiary rights to investors while improving the customer's financial standing by reducing their held assets.

The Bank handles various types of monetary claims including client payments, medical insurance claims, dispensing fee claims, lease claims, auto loan claims, installment claims, bank loan claims, mortgage loan claims, and consumer loan claims. The Bank provides assistance for establishing securitization structures using financial techniques such as waterfall payment and priority and subordinate structuring in order to respond to the broad range of customer needs. The Bank provides investment opportunities including asset-backed loans for trust accounts as well as renewable loan claim trusts to address the nonperforming loan (NPL) restructuring needs of its financial institution customers.

In addition, the Bank works closely with its financial institution customers to assist in the securitization of client monetary claims.

### Real Estate Management Trusts

Real estate held by the customer, such as land or buildings, is entrusted to the Bank for the purpose of real estate management. Similar to its monetary claim trust services, the Bank provides its customers with financing methods by transferring the real estate trust beneficiary rights to investors while improving the customer's financial standing by reducing their held assets.

The Bank handles various types of real estate assets including office buildings, cargo facilities, commercial buildings, and apartment complexes.

The Bank also provides assistance for developing real estate securitization structures using real estate management trusts leveraged by anonymous associations and special-purpose companies in order to respond to the broad range of customer needs.



### Corporate Investment Trusts

This is a trust wherein equity held by a customer is entrusted to the Bank, which invests the funds in investment products, such as securities, while carefully managing the trust's funds to ensure the safety and profitability of these investment products based on the investment methods and criteria specified by the customer.

The Bank will either directly manage the funds as a trustee or provide assistance in establishing an investment scheme combining asset-backed loans and collateral trust bonds in order to respond to the broad range of customer needs.

### Securities Trusts

The Bank will manage and insure securities entrusted to the Bank by its customers in order to reduce the customer's operational burden and increase efficiency.

### Cash Trusts Segregated as Deposit for Customers

A cash trust segregated as deposit for customers is an account in which the Bank is entrusted with deposits from customers of financial instruments business operators that are obligated to manage funds separately from their own accounts as determined by the Financial Instruments and Exchange Act.

### Escrow Trusts

An escrow trust is an account managed by the Bank in which it accepts funds intended for pending transactions, such as real estate or M&A, and holds them until the specified closing conditions stipulated between the buyer and seller are met in order to ensure payment security.

## Our Business Activities in FY2019

The Bank has been proactive in providing monetary claim trust services in order to securitize client payments, medical insurance claims, and sales tax refund claims as well as specified equity and real estate trusts for non-recourse real

estate loans for its corporate customers. In addition, the Bank provides trust services for securities repackaged loans in order to respond to the capital management needs of its regional financial institution customers.

## Policy and Areas of Focus in Future Operations

The Trust Business Group actively collaborates with the other business groups in order to provide unique and differentiated trust products and services to our corporate

and financial institution customers. We also plan to leverage our trust operations to develop new services suitable for retail customers at various life stages.

### SDGs Initiatives



#### Sustainable Business Growth by Providing Trust Products and Services

The Bank is working to create new value-added financial services that contribute to sustainable economic growth, which is one of the 17 goals of the SDGs. In order to meet the strong operating capital needs of our growing corporate customers, we are actively supporting their funding requirements by providing trust services which include the securitization of accounts receivable.

The Bank strives to serve our customer's early funding needs by setting tailor-made requirements for liquidation arrangements based on our customers' financial standing.

Aozora will continue to provide unique and differentiated trust products and services by leveraging the Bank's core competencies.

# Management Support and Reinvigoration of Regional Economies

## Initiatives to Support Leading SME Management and Invigoration of Regional Economies

The Bank offers differentiated and high-quality financial services to respond to broad-ranging business challenges faced by customers including their funding needs.

We intend to contribute to our customers' sustainable growth and development as well as regional construction by providing M&A solutions responding to corporate owners' business succession needs, support for business

recovery by effectively using a high professional level and abundant know-how, support for improving financial conditions by focusing on assets held by customers and financial solutions by effectively using our domestic and Asian financial institution networks.



## Support for Business Succession Issues

The Bank recently established its new "Financial Advisor Office," which provides specialized consulting services to respond to SME owners' business succession and M&A needs.

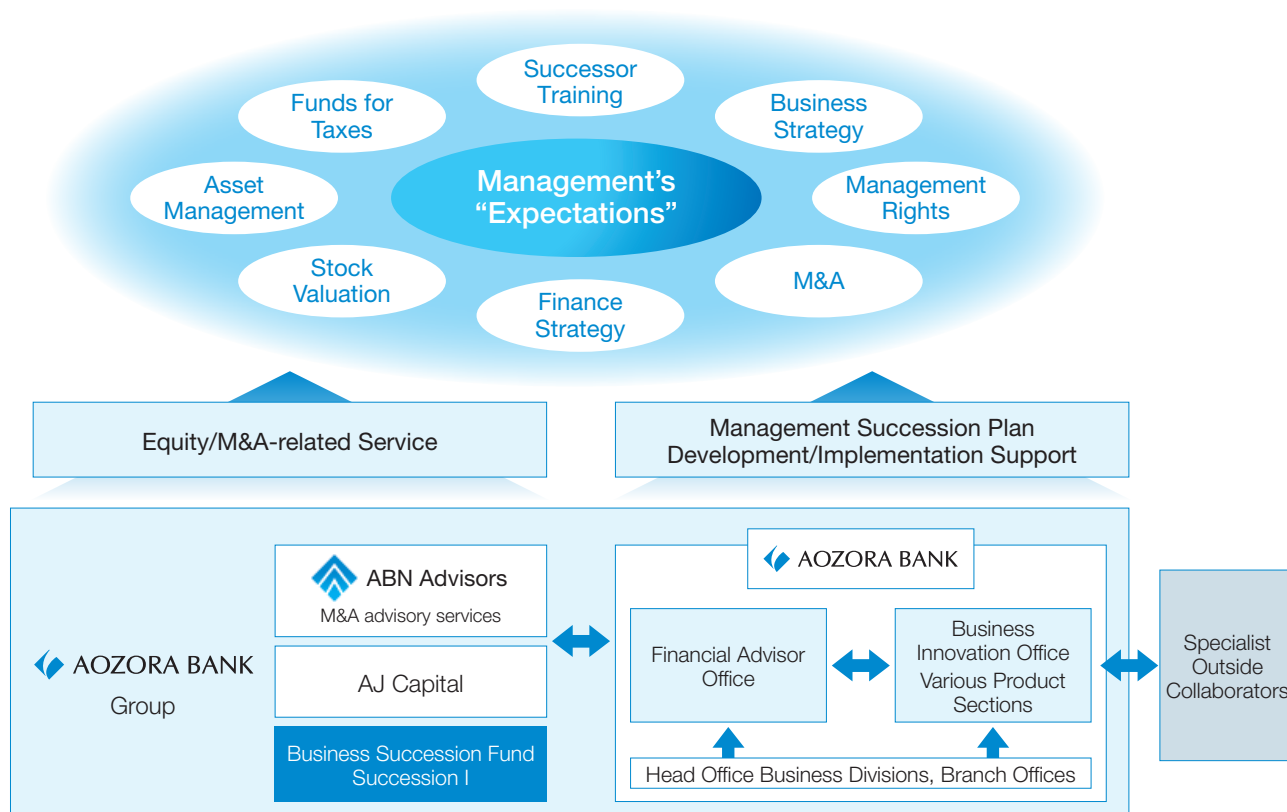
In addition, the Bank continues to fully leverage the competencies of the Aozora Group in order to provide a one-stop service tailored to the customers' business succession needs with the Management Succession Support Program, "Tasuki," where it collaborates with external specialists in fields including tax and accounting.

"ABN Advisors Ltd." provides M&A advisory services, and "AJ Capital Co., Ltd." operates the business succession fund "Succession Investment Limited Partnership, I."

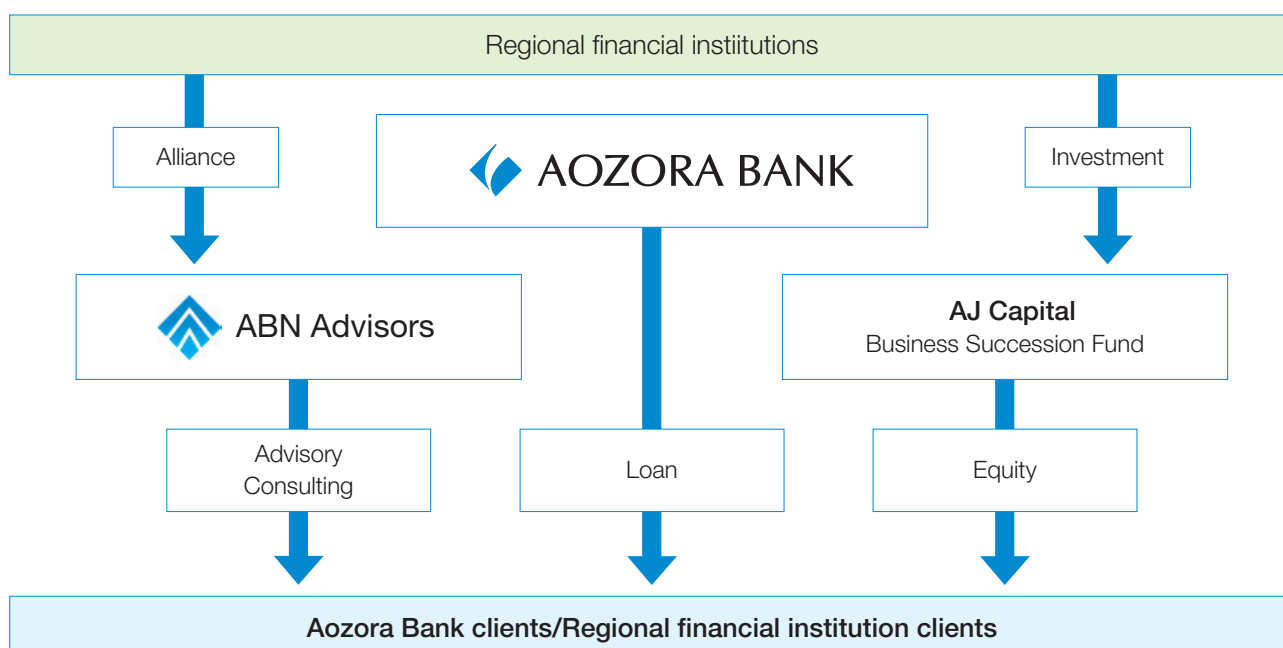
We provide various solutions to customers and support business succession issues throughout Japan in cooperation with regional financial institutions.



## Overview of Management Succession Support Program, "Tasuki"



## Support Business Succession Issues



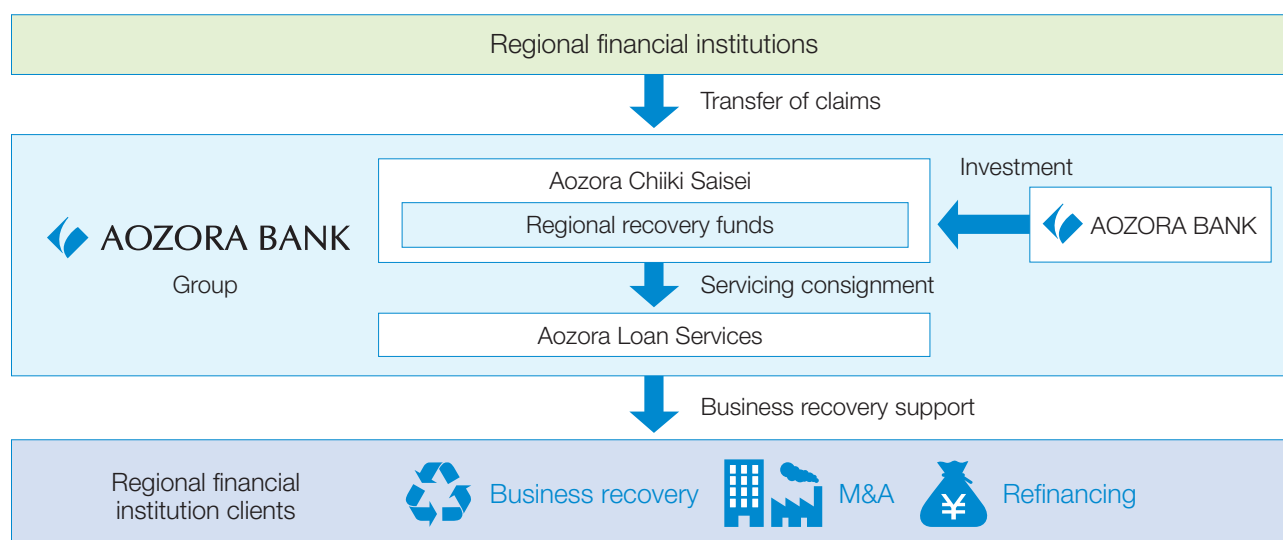
## Promotion of Business Recovery Support

We promote support for management improvement and business recovery based on customers' reality by providing the consulting function through utilizing our specialty in tailor-made sales activities. In particular, the Bank supports business recovery of customers including SMEs by providing a loan, DIP finance or debt for equity swaps to a customer having fled for civil rehabilitation proceedings in the past to repay the rehabilitation loan in lump sum.

Aozora intends to continuously contribute to the business recovery of SME customers and invigoration of regional economies through establishing and operating business recovery funds in collaboration with regional financial institutions also in the future.



## Overview of Business Recovery Scheme



# Corporate Governance Structure

## Basic Policy

Aozora has updated its management philosophy consisting of its mission, values, and key priorities that form the basis of its business activities.

### Aozora Mission

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

### Aozora Vision

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

### Aozora's Key Priorities

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

Aozora has established a basic management policy, as well as an overall Group strategy rooted in that basic policy, according to its management philosophy. By working together with all of our Group companies to promote that strategy, Aozora's aim is to respond to the mandate of our various stakeholders and increase the Aozora Group's corporate value.

The objective of the Bank's corporate governance policy is to ensure management discipline and create a framework for enhanced oversight, in order to conduct daily business operations based on the above management philosophy.

For this purpose, the Bank continues to work toward a more transparent corporate governance structure by focusing on the proper establishment and operation of its governance framework as the primary management initiative.

Aozora has submitted a "Corporate Governance Report," which describes the Bank's corporate governance structure, to the Tokyo Stock Exchange. The report is available via both the Aozora and Tokyo Stock Exchange websites. <https://www.aozorabank.co.jp/english/about/corporate/philosophy/governance>

## Organization and Structure

### (1) Separation of Management Oversight and Business Execution

Management adheres to the highest standards of compliance in all areas of business execution. Management identifies risks and assesses their potential impact on the Bank's business, maintaining a strong internal control system that ensures optimal transparency and a framework for effective balancing of risk-return.

In order to improve efficiency through the separation of management oversight and business execution and transparency by establishing an appropriate corporate governance system, the Board of Directors, including multiple outside directors, determines basic management policy and management strategies, and supervises the execution of business operations. Executive officers, including the Representative Directors, conduct daily operations, with authority delegated by the Board of Directors.

The Management Committee is the highest decision-making body for the execution of daily business, and comprises 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, comprising all the Executive Officers, is held in

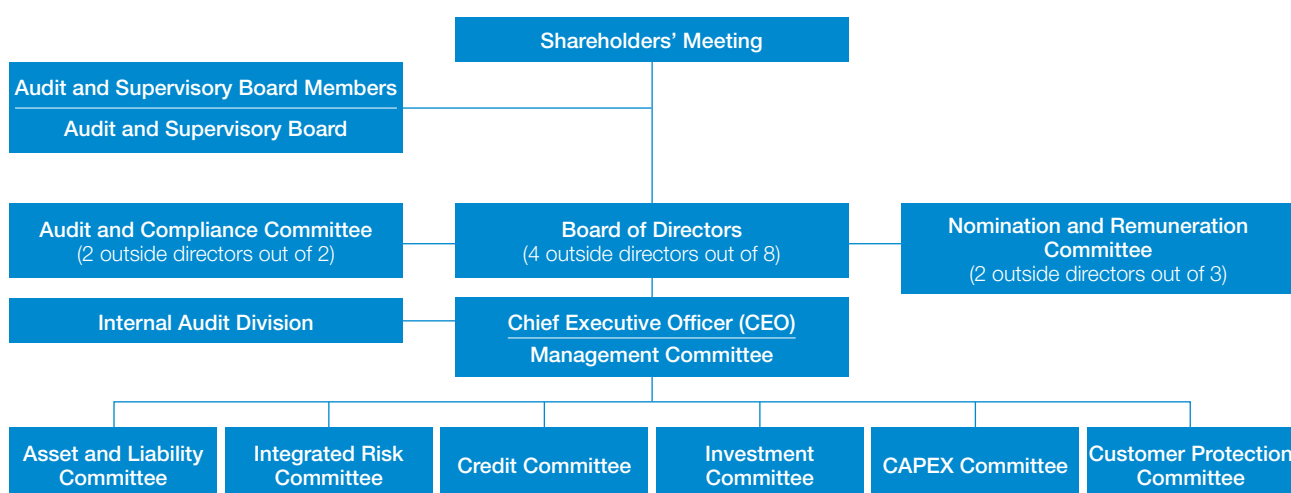
order to share information. Various sub-committees are also established to improve efficiency in the execution of daily business.

### (2) Supervision and Management Oversight

The Audit and Supervisory Board (ASB) and its members monitor and verify the execution of director duties, mainly from a legal perspective. Board-level committees, such as the Nomination and Remuneration Committee and the Audit and Compliance Committee, mainly comprise outside directors, and are entrusted by the Board of Directors to perform supplementary supervision and oversight with respect to representative directors and executive officers.

### (3) Internal Control Systems

The Aozora Group is committed to developing transparent corporate governance and implementing appropriate and efficient business operations, in accordance with "Internal Control Programs" resolved by the Board of Directors. In addition, the Internal Audit Division, which is independent of all business groups, conducts internal audits, reporting its findings directly to the Chief Executive Officer (CEO) and the Board of Directors.



(As of July 1, 2020)

## Audit and Management Oversight

### Board of Directors

The Board of Directors establishes important business policy and oversees the execution of duties by executive officers entrusted with daily business operations.

### Audit and Supervisory Board

The Audit and Supervisory Board formulates the Bank's audit policy and plan regarding the execution of duties by directors and executive officers, receives reports on important audit matters and discusses or resolves them as needed.

### Nomination and Remuneration Committee

The Nomination and Remuneration Committee, which is comprised of the majority members as outside directors, recommends 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 the ASB members on their remuneration.

### Audit and Compliance Committee

The Audit and Compliance Committee, that comprises 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.

Name of Committee	Chaired by	Members	Meetings Held in FY2019	Purpose
Board of Directors	Chairman or President	Directors, Audit and Supervisory Board Members	14 meetings	Determine management policy, oversee duties of Directors and Executive Officers
Audit and Supervisory Board (ASB)	Standing ASB Member	ASB Members	13 meetings	Report, discuss and approve important audit-related matters
Nomination and Remuneration Committee	Outside Director	Directors (Outside Directors comprise majority)	7 meetings	Recommend candidates for Director, Audit and Supervisory Board Member and other important employees to the Board of Directors Determine remuneration for Directors and important employees, and make recommendations regarding remuneration for Audit and Supervisory Board Members
Audit and Compliance Committee	Outside Director	Outside Directors	7 meetings	Supervise and review the effectiveness and suitability of internal control system construction including internal and external audits, risk management, compliance and credit audits



## Execution of Duties

### Management Committee

The Management Committee comprises executive officers (including representative directors) specially appointed by the Board of Directors. The Management Committee convenes weekly and determines important matters related to the Bank's daily operations, 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 and Customer Protection Committee. Sub-committees have substantive knowledge and experience in various aspects of the Bank's business operations, as well as sound decision-making capabilities.

Name of Committee	Chaired by	Members	Meetings Held in FY2019	Purpose
Management Committee	CEO	Executive Officers appointed by the Board of Directors	52 meetings	Determine important matters related to daily business operations
Asset and Liability Committee	CFO	Chairman, President, Executive Officers in charge	15 meetings	Determine important matters regarding asset and liability management
Integrated Risk Committee	CRO	President, Executive Officers in charge	11 meetings	Establish risk management policies, monitor risk management framework, maintain proper internal governance, launch new businesses/products
Credit Committee (Institutional Credit Committee)	CCRO	President, Executive Officers in charge	78 meetings	Approve credit transactions and related business policies
Credit Committee (Allied and Business Banking Credit Committee)	CCRO	President, Executive Officers in charge	46 meetings	Approve credit transactions and related business policies
Investment Committee	CRO	President, Executive Officers in charge	30 meetings	Approve individual investment transactions, establish appropriate investment policies, ensure accurate understanding of the Bank's overall investment portfolio, build and maintain a secure and profitable portfolio
CAPEX Committee (approval and management of IT-related proposals)	CTO	President, Executive Officers in charge	13 meetings	Approve and monitor IT projects required to realize Management Committee-approved business plans and strategies
CAPEX Committee (approval and management of facilities-related proposals)	Head of Corporate Strategy Unit	President, Executive Officers in charge	9 meetings	Approve and monitor facilities-related proposals required to realize Management Committee-approved business plans and strategies
Customer Protection Committee	Head of Compliance and Governance Unit	Executive Officers	19 meetings	Review customer protection framework in five areas: customer explanation management, customer support management, customer information management, out-sourcing management and conflict of interest management

## Board Effectiveness

### Standard for Determining Independence of Outside Directors and Outside Audit and Supervisory Board Members

The Bank determines the independence of outside directors and outside Audit and Supervisory Board members in

accordance with the standards set forth by the Tokyo Stock Exchange. All qualified outside directors and outside Audit and Supervisory Board members are designated independent.

## » Directors' Main Concurrent Posts and Reasons for Appointment

Position	Name	Inside/ Outside	Independent Director	Main Concurrent Post	Board Meeting Attendance	Reasons for Appointment	Nomination and Remuneration Committee	Audit and Compliance Committee
Director and Chairman	Shinsuke Baba	Inside	—	—	Attended all 14 Board meetings during the relevant fiscal year	Shinsuke Baba was engaged in a variety of banking businesses such as corporate banking business and investment banking business, and he has made a significant contribution to the Bank's management as Executive Officer (since September 2005) and President and Representative Director, Chief Executive Officer (CEO) (since September 2012). He is an adequate candidate because of his extensive experience in corporate management for a long time as well as deep insight in financial businesses and prudent judgment.		
Representative Director and President	Kei Tanikawa	Inside	—	—	Attended all 14 Board meetings during the relevant fiscal year	Kei Tanikawa was engaged in a variety of banking businesses such as corporate banking business and financial institutions business and he has made a considerable contribution to the corporate management as Executive Officer (since July 2012), supervising various groups/divisions. He is an adequate candidate because of his deep insight in financial businesses as well as his extensive experience and prudent judgment.	Committee member	
Director and Senior Managing Executive Officer	Tomomi Akutagawa	Inside	—	—	Attended all 14 Board meetings during the relevant fiscal year	Tomomi Akutagawa was engaged in a variety of banking businesses such as financial management and she has made a considerable contribution to the corporate management as Executive Officer and Deputy CFO (since July 2014) and subsequently Head of the Corporate Strategy Unit and CFO. She is an adequate candidate because of a deep insight in financial businesses as well as extensive experience and prudent judgment.		
Director and Senior Managing Executive Officer	Koji Yamakoshi	Inside	—	—	—	Koji Yamakoshi was engaged in a variety of banking businesses such as specialty finance business and he has made a considerable contribution to the corporate management as Executive Officer (since July 2012) and subsequently Head of Specialty Finance Group and Head of Corporate Banking Group. He is an adequate candidate because of his deep insight in financial businesses as well as extensive experience and prudent judgment.		
Director	Shunsuke Takeda	Outside	○	Advisor, ORIX Corporation	Attended all 14 Board meetings during the relevant fiscal year	Shunsuke Takeda is an adequate candidate because of a wealth of experience, credentials and deep insight as a top management of a corporation and also because he is positioned to be independent from the Bank's business operations and he is expected to contribute to the Bank's management.	Chairman	
Director	Hiroyuki Mizuta	Outside	○	Representative Director and Chairman, TOKYO TOWER Co., Ltd.	Attended all 14 Board meetings during the relevant fiscal year	Hiroyuki Mizuta is an adequate candidate because of a wealth of experience, credentials and deep insight as a top management of a corporation as well as financial institutions and also because he is positioned to be independent from the Bank's business executions and he is expected to contribute to the Bank's management.		Chairman
Director	Ippei Murakami	Outside	○	Special Advisor, Nisshin Seifun Group Inc.	Attended all 14 Board meetings during the relevant fiscal year	Ippei Murakami is an adequate candidate because of a wealth of experience, credentials and deep insight as a top management of a corporation and also because he is positioned to be independent from the Bank's business executions and he is expected to contribute to the Bank's management.		Committee member
Director	Tomonori Ito	Outside	○	Adjunct Professor, Department of International Corporate Strategy, Hitotsubashi University Business School Outside Director, Electric Power Development Co., Ltd.	Attended all 14 Board meetings during the relevant fiscal year	Tomonori Ito is an adequate candidate because of a wealth of experience and credentials in the domestic/global financial institutions and deep insight as Professor of a business school and also because he is positioned to be independent from the Bank's business executions and he is expected to contribute to the Bank's management.	Committee member	

(As of July 1, 2020)

» ASB Members' Main Concurrent Posts and Reasons for Appointment

Position	Name	Inside/ Outside	Independent Director	Main Concurrent Post	Board Meeting Attendance	ASB Meeting Attendance	Reasons for Appointment
Standing Audit and Supervisory Board Member	Satoshi Hashiguchi	Inside		—	Attended all 14 Board meetings during the relevant fiscal year	Attended all 13 ASB meetings during the relevant fiscal year	Satoshi Hashiguchi was engaged in a variety of banking businesses such as corporate banking business and financial management and he has made a considerable contribution to the corporate management as General Manager of the Internal Audit Division (since October 2013) and has a broad knowledge base and experience with various groups and divisions. He is an adequate candidate because of his experience as General Manager of the Internal Audit Division validating internal control procedures from a position independent from the day-to-day management responsibilities of the operations and activities of the Bank.
Audit and Supervisory Board Member	Kiyoto Hagiwara	Outside	○	Senior Advisor, The Securities Analysts Association of Japan (SAAJ)	Attended all 14 Board meetings during the relevant fiscal year	Attended 12 out of 13 ASB meetings during the relevant fiscal year	Kiyoto Hagiwara is qualified for the responsibilities as an outside Audit and Supervisory Board Member because he has substantial experience and expertise in the finance and banking business, and his position is independent from the day-to-day management responsibilities of the operations and activities of the Bank.
Audit and Supervisory Board Member	Toraki Inoue	Outside	○	General Manager, Toraki Inoue Certified Public Accountant Office Representative Director and President, Accounting Advisory Co., Ltd Supervisory Director, GLP J-REIT Standing Corporate Auditor, Kyulux, Inc.	Attended all 14 Board meetings during the relevant fiscal year	Attended all 13 ASB meetings during the relevant fiscal year	Toraki Inoue is qualified for the responsibilities as an outside Audit and Supervisory Board Member because he has substantial experience and expertise as a public accountant and accounting expert, and his position is independent from the day-to-day management responsibilities of the operations and activities of the Bank.

(As of July 1, 2020)

Analysis and Evaluation of Board Effectiveness

The Bank works to further enhance the effectiveness of its Board of Directors through a continuous process (PDCA cycle) of analyzing and evaluating Board effectiveness each fiscal year as well as considering and providing solutions to new and existing issues. The Board of Directors strives to fulfill its fiduciary duties and accountability to the Bank's shareholders and performs self-evaluations of Board effectiveness aimed at promoting sustainable growth and enhancing the Bank's corporate value over the mid to long term. The Board continues to assess its management and oversight functions on the basis of the full utilization of directors' and Audit and Supervisory Board members' knowledge, expertise and experience, and takes into consideration the views of each Board member. The results of these self-evaluations are shared in thorough Board discussions.

The Board of Directors aims to ensure objectivity and transparency through the Board, which comprises 50% of outside members.

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

Moreover, the Bank convened five "outside directors' meetings" throughout FY2019 to allow for the discussion and exchange of views on key business issues including selection of candidate for the next President and management of the Board from an independent outside director's perspective. The President and CEO selection process was based on discussions at "outside directors' meetings," deliberated at the Nomination and Remuneration Committee and subsequently recommended to and approved by the full Board.

In FY2019, the Board assessed that its roles and responsibilities were properly fulfilled under the aforementioned

framework through constructive discussions and exchange of ideas on important issues including business strategy as well as the proper oversight and monitoring of management executives. The Board also assessed that overall Board management was proper and effective.

Going forward, the Bank will strive to make the Board's roles and responsibilities further effective and proper by utilizing committees under the Board as well as the "outside directors' meeting."

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

In order to pursue our mission to "contribute to the development of society through the creation of new value-added financial services," the Bank believes it is necessary to provide a setting that encourages high-potential employees to work consistently with high morale, motivation and pride to make sound business decisions.

To this end, the Bank has designed a remuneration system based on the following basic policy.

1. Remuneration framework in line with the Bank's vision  
The Bank aims to build a compensation framework which reflects business performance in line with its objectives and values.
2. Remuneration framework appropriately reflecting the Bank's performance  
The Bank's remuneration framework is based on "Pay for performance" and reflects the Bank's commitment to sustainable growth, sound risk-taking through appropriate risk management, compliance and customer protection.
3. Remuneration framework serving the interests of stakeholders including shareholders  
The Bank will adopt a remuneration framework that is consistent with the values of stakeholders, including shareholders.
4. Remuneration methodology guaranteeing effective governance  
In determining remuneration, the Bank will ensure transparency and independence from any specific influences.

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

The Nomination and Remuneration Committee, which mainly consists of outside directors who are authorized by the Board of Directors, decides on both the directors' remuneration policy and amounts payable to each director.

The Bank pays, in principle, fixed base remuneration, performance-based bonus and equity compensation type stock options to directors (other than outside directors), and only fixed base remuneration to outside directors.

### Base Remuneration

Base remuneration comprises fixed amount which is fixed, varies with the type of position (full-time or part-time), job title and responsibility. We use data of an outside specialized agency to check and benchmark whether the level of base remuneration amounts is appropriate before determining it.

### Bonus (Performance-Based Remuneration)

The bonus amount is initially set at equivalence of 40% of individual basic remuneration amount (the "Base Bonus Amount"). The Nomination and Remuneration Committee then decides individual amount of bonus (performance-based remuneration) by applying a rate within the pre-determined scope ranging from 0% to 250% of the Base Bonus Amount for every full-time director while considering key indicators of a fiscal year as shown below. Specifically, the Nomination and Remuneration Committee decides a rate and bonus amount by considering the following indicators and the Bank's performance of a fiscal year.

- Achievement rates of Business Profit and Net Earnings
- Achievement rates of KPI (Key Performance Indicators) such as OHR (Over-head Ratios), ROE (Return on Equity) and ROA (Return on Assets)
- Achievement and maintenance of Capital Adequacy Ratio
- Assessment of undue risk and occurrence of serious compliance incidents
- Implementation/introduction of measures and strategies, including launch of new businesses, from a mid-/long-term viewpoints

Among the above key indicators, achievement rates of Business Profit and Net Earnings are basic indicators on business results. Achievement rates of OHR, ROE and ROA as KPI and Capital Adequacy Ratio are key indicators for the Bank's Mid-term Business Plan. These achievement rates, therefore, are taken into account as quantitative evaluation indicators to determine bonus amounts. In order to encourage not only enhancement of short-term business performances but also business implementation from mid-/long-term perspectives, factors such as undue risk-taking, making serious compliance violations and implementation/introduction of measures and strategies, including launch of new businesses, from a mid-/long-term viewpoint, are also fully considered as qualitative evaluation indicators.



Targets and results of the indicators related to performance-based remuneration paid in FY2019 are stated below.

	Targets (consolidated)	Results (consolidated)
Business profit	40 billion yen	34.4 billion yen
Net earnings	43 billion yen	36.1 billion yen
OHR	About 50%	59%
ROE	About 9%	8.2%
ROA	About 0.8%	0.7%
Capital adequacy ratio	About 10%	10.27%

### Equity Compensation Type Stock Options

The Nomination and Remuneration Committee discussed ratios of cash remuneration and equity compensation type stock options so that the stock options can be one of the proper incentives for sustainable growth, and set the ratio at 25% of the base remuneration amount. The number of options to be granted is determined based on a resolution of the Board of Directors in accordance with the “Equity Compensation Type Stock Options Manual.”

### Base Remuneration

Base remuneration amount is fixed, varying with work status (full-time or part-time), assigned audit duties, remuneration for directors, etc. We use data of an outside specialized agency to check whether the level of base remuneration amounts is appropriate before determining it.

### Policy on Determination of ASB Member Remuneration and Calculation

ASB members discuss and determine individual remuneration amounts by considering discussions and proposals made at the Nomination and Remuneration Committee. The Bank pays only fixed base remuneration in accordance with the policy below.

### » Remuneration of Directors and ASB Members (April 1, 2019–March 31, 2020)

Category	#	Remuneration in total	Base	Bonus	Stock options
Directors (excl. outside directors)	5	256	175	37	44
Full-time ASB member (excl. outside ASB members)	1	29	29	—	—
Outside directors and ASB members	6	80	80	—	—

Notes: 1. The above includes one director who retired at the close of the 86th annual general meeting of shareholders on June 25, 2019.  
2. There is no Director whose remuneration was 100 million yen or over.

## Risk Appetite Framework

### — Framework for Sustainable Enhancement of Corporate Value over Medium to Long Term —

The Aozora Group is working to promote and strengthen its “6 Areas of Focus” business model. The Bank has developed a diversified portfolio leveraging these six focus business areas, and strives to respond to changes in the business environment including economic, financial and regulatory conditions.

While the banking sector continues to experience significant changes in the operating environment, the Bank remains committed to the sustainable enhancement of its corporate value. In keeping with this commitment, the Bank continues to promote sound risk-taking through proper awareness of the business environment, including potential risks and the implementation of effective risk controls.

The Aozora Group has established a risk appetite framework for business management that clearly identifies the type and level of risks (risk appetite) the Bank takes to achieve its business strategies and financial plan. Going forward, the Bank will make ongoing efforts to further develop its risk appetite framework.

#### (1) Management Plan

In addition to establishing a mid-term plan that is consistent with the Bank’s risk appetite, the Bank formulates a

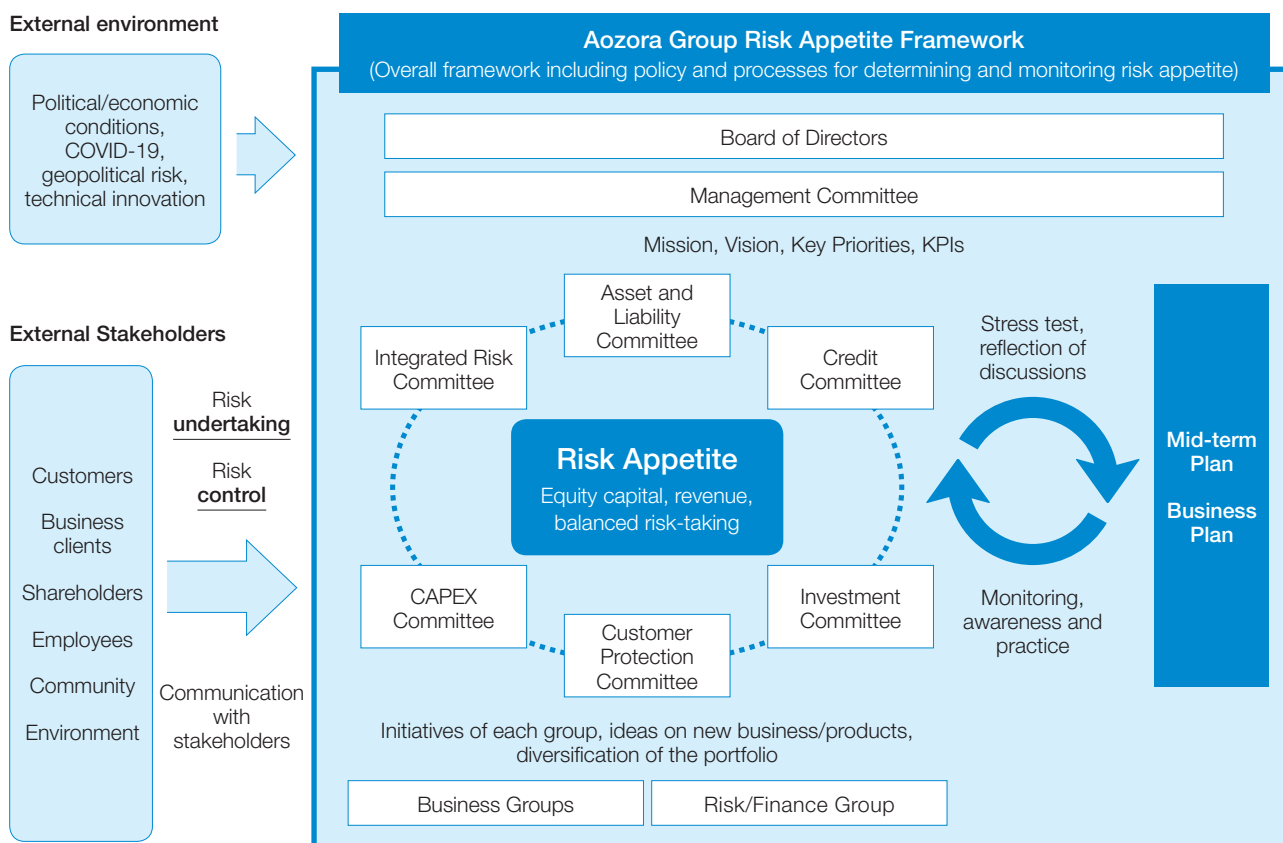
business plan each fiscal year. These plans underscore the Aozora Group’s appropriate and sound risk-taking activities as well as its proper allocation of management resources.

The management plan is formulated after extensive discussions that take into consideration the expectations of various stakeholders, including customers and shareholders, as well as the operating environment and new business and product ideas. The management plan also reflects the suggestions and advice of outside directors.

#### (2) Monitoring of Plan Execution

The management plan is executed and monitored under the Bank’s highly transparent and effective corporate governance structure. Information regarding the progress of each plan and the operating environment is shared at each committee meeting, promoting greater collaboration between the Bank’s management and business groups.

In addition, the Risk Appetite Conference convenes once every four interim periods to analyze profitability, level of risk and allocation of management resources. By sharing information on the business environment, the conference supports the formulation and execution of the plan.



# Legal and Compliance Management System

## Master Policy on Legal Compliance

The Bank is committed to establishing a corporate culture that places priority on strictly complying with laws and regulations and realizing compliance to satisfy society's expectations for financial institutions to maintain the confidence of customers and society and legally and appropriately implement businesses.

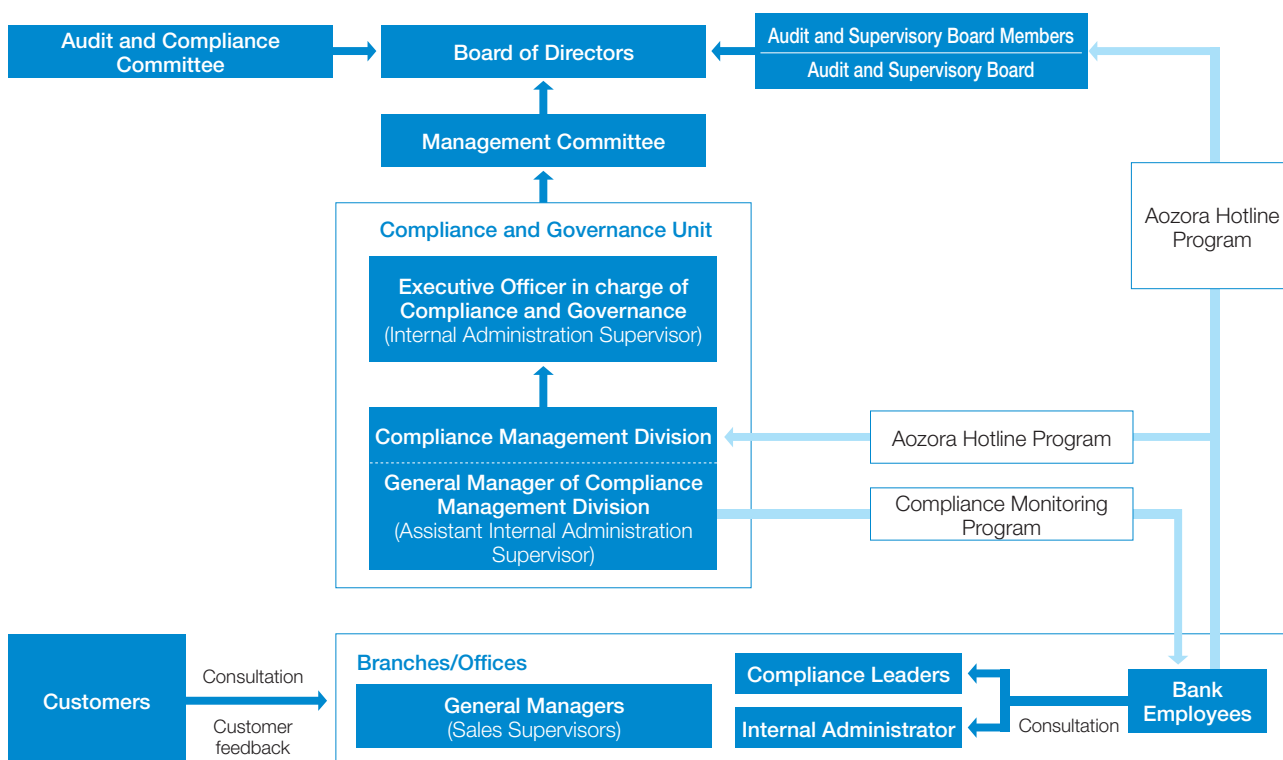
The Bank has established its master policy "Internal Control Programs," based on the Companies Act and the Order for Enforcement of the Companies Act resolved at the Board of Directors' Meeting to strengthen the framework to secure proper implementation of businesses by the Bank and its subsidiaries. In addition, it has formulated the "Code of Conduct & Ethics," based on which officers and employees comply with laws and regulations when performing tasks. The "Code of Conduct & Ethics" is the core principle in training of newcomers to our Bank. We request

them to submit the "Acknowledgment of Code of Conduct and Ethics" where they pledge that they understand and comply with the "Code of Conduct & Ethics," and all officers and employees are also required to submit the "Annual Acknowledgment of Code of Conduct and Ethics."

Furthermore, the Bank has developed its master policy "Legal and Compliance" on legal and compliance to improve and firmly establish the compliance framework, and created detailed internal rules on the laws and regulations to be complied with and the actions to be taken based on this master policy.

The Bank develops the "Annual Compliance Program" as a specific action plan to realize the compliance framework. The progress and achievement status is reported to the Audit and Compliance Committee and the Board of Directors semiannually.

## » Compliance Framework



## Legal and Compliance Framework

The Board of Directors has established the Audit and Compliance Committee, which consists of outside directors, to review key issues on internal control. This committee confirms or verifies appropriateness and effectiveness of internal control including the compliance framework and reports the results to the Board of Directors. The Audit and Supervisory Board has made validation independently and

conducted efficient and effective audits such as cooperating with the committee by having all auditors participating as observers.

The Compliance Management Division, led by the Head of Compliance and Governance as the Supervising Division, has developed internal rules on compliance and maintained and improved compliance awareness of officers

and employees by conducting training and awareness enhancement activities. To be specific, the Bank periodically conducts Compliance Leader Training, Internal Administrator Training and e-learning for all officers and employees, and the person in charge in the Compliance Management Division visits business divisions and holds

workshops to clear questions on compliance that arise in the course of daily business.

The Bank has appointed a “Compliance Leader” for each division and branch to respond to reports and inquiries on compliance from employees, conduct training and awareness enhancement activities at each division and branch, and handle and check compliance matters.

## Aozora Hotline Program, Compliance Monitoring Program

The Aozora Group has the Aozora Hotline Program, in-house and outside (a law firm) channels for whistle-blowers to directly report conduct that violates or may violate laws and internal rules, to prevent violation of laws and misconduct, find them early and take corrective actions. When using the program, the employees are not subject to any disadvantages including disciplinary actions

because of making a report to the Hotline, and the identity of a whistle-blower is kept strictly confidential.

It also has the Compliance Monitoring Program, which enables the General Manager of the Compliance Management Division to directly send e-mails to ask employees about events that can be subject to reporting via the Hotline.

## Prevention of Transactions with Anti-Social Elements

The anti-social elements are not only organized crime groups and their members, but also the persons and groups that threaten peace and safety of civil life such as individuals and entities that have relations with organized crime groups and their members. The Bank has determined to keep a firm position toward anti-social elements in its “Procedure for Elimination of Anti-Social Elements,” and established a system for research and system check of various transactions to prevent any transactions with anti-social elements. The Bank checks existing customers at least once a year even when there was no such data on them at the initial checking. In addition, the Bank introduces a clause to exclude anti-social elements from transactions such as loans and deposits. The clause makes anti-social elements hesitate to make a transaction and becomes a contractual basis to cancel a transaction when

it is found that the counterparty is an anti-social element after a transaction starts. As for the case where the counterparty is found to be an anti-social element after a transaction starts, the Bank has a system to closely work with external expert organizations such as police and take actions to cancel the transaction.

The Bank monitors and reports to the Management Committee, the Audit and Compliance Committee and the Board of Directors about the status of eliminating transactions with anti-social forces in the Aozora Group including Aozora subsidiaries.

As the Supervising Division for measures for anti-social elements, the Compliance Management Division has established the Financial Crime Management Office for central management of all relevant information, and shared its database with Aozora Group companies.

## Anti-Money Laundering and Anti-Terrorism Financing Policy

Money laundering means to conceal the origin of illegal profits from crimes such as illicit drug sales by transferring the funds among the accounts of financial institutions and/or financial products. Meanwhile, terrorists and/or criminals of billing fraud also misuse accounts of financial institutions, and financial institutions need to prevent that.

The Bank positioned measures to prevent money laundering and financing for terrorism as a critical business challenge, developed internal rules including “KYC Procedure” to prevent them and put in place an anti-money laundering and anti-terrorism financing system. To be specific, the Bank confirms a customer’s identifying matters including name and address and customer management matters

such as purposes of a transaction and occupation when starting repeated transactions or large cash transactions, or when trading with a person who resides or stays in a specific country.

The Head of Compliance and Governance, as Head of KYC Supervisors, appoints the KYC Supervisor for each branch and division, and issues instructions on verification of suspicious transactions, determination of whether to conduct transactions and approval on executing transactions. When use of an account for the purpose of billing fraud, etc., is found, the account shall be frozen immediately to prevent expansion of damages.

## Legal and Compliance Management System

The Compliance Management Division supervises the anti-money laundering and anti-terrorism financing program of the entire Bank and Group through its Financial Crime

Management Office and conducts internal training for anti-money laundering periodically.

### Legal Check

When introducing new products, services or business processes, the Bank carefully checks whether they comply with laws and internal rules based on risk-based approaches. For example, it is necessary to make pre-consultation with the Compliance Management Division and ask for confirmation or verification of legitimacy. The

Bank also strictly reviews loan contracts that are not based on the Bank's format and outsourcing contracts on business processes that handle customer information. In addition, the Bank uses external lawyers for verification regarding cross-border deals or those using a complex system.

### Insider Trading Prevention

To prevent insider trading by officers and employees, the Bank has established the central management system on material information, where General Managers are responsible for managing material information held by divisions or branches as Material Information Manager, and the Compliance Management Division supervises the management status of material information at branches and divisions as the Central Management Division. This system strictly manages insider information obtained by officers and employees performing their duties.

To be specific, when officers and employees obtain information that may be classified as material information, it is necessary to conduct strict information management in the division after prompt reporting to the General Manager who is Material Information Manager, and report to the Central Management Division immediately. In addition, it is prohibited to share the material information with a third party unless it is necessary for business.

When officers and employees trade specified securities issued by listed companies including Aozora to perform their tasks or for themselves, they should check with the Central Management Division on whether the Bank has material information on the said issuer. When the Central Management Division concludes that the Bank holds such material information, it is required to cancel the said transaction.

For thorough understanding by officers and employees, we conduct training on insider trading prevention in our annual Compliance Leader Training as well as e-learning for all officers and employees on annual basis. In addition, we ask all officers and employees to submit the "Written Oath on Personal Investment" every year where they pledge that they comply with the internal rules on insider trading prevention and respective regulations and not to violate these rules at any time.

### Efforts to Prevent Bribery

The Bank has developed internal rules on payment procedure for business expenses, to process business expenses such as business traveling expenses to the proper extent and efficiently maintain appropriate trading relationships with

customers and normal relationships with public officials, and avoid a risk that officers and employees breach the National Public Service Ethics Act, etc., and then are accused of a crime of bribery, criminal breach of trust, etc.

### Trust Business Management

The Bank established "Basic Policy for Trust Business" to protect trustors and beneficiaries, and to run sound and adequate operations as a trust corporation and financial institution. Further, while the Bank complies with the Trust Act, the Trust Business Act, the Act on Engagement in Trust Business Activities by Financial Institutions, and other related laws and regulations, the Compliance Management Division under the responsibility of the Executive Officer in

charge of matters concerning trust business management supervising "Management of trust underwriting," "Analysis of trust underwriting," "Management of trust property investment management" and "Overall management of trust property management" seeks to secure the appropriate trust business management. In addition, the division regularly reports the validation results to the Management Committee.



# Customer Protection Management

## Basic Policy

The Bank has taken actions for customer protection, improved customer-friendliness and developed and

established a proper customer protection management so that customers can feel secure when transacting with us.

## Customer Protection Management

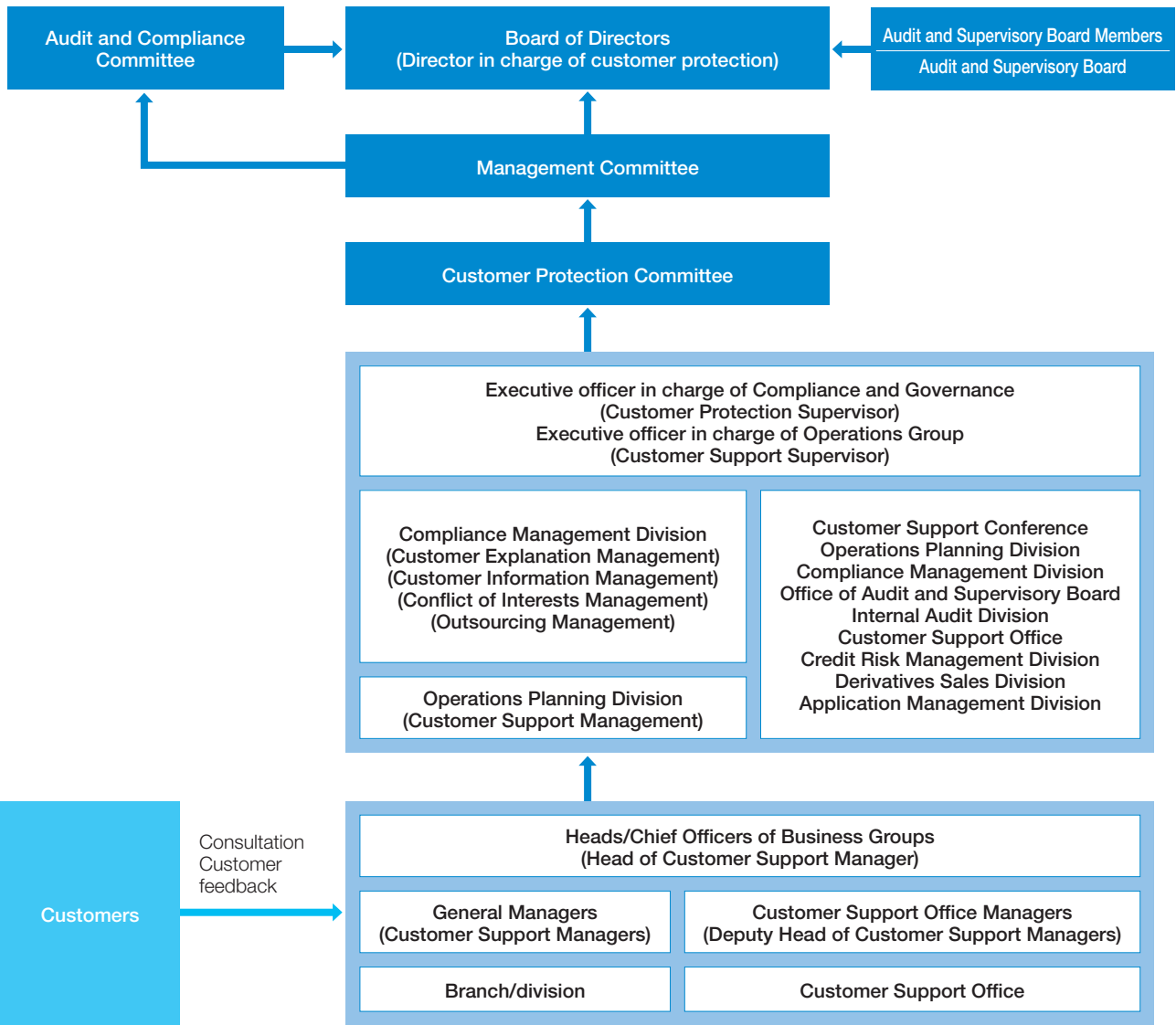
The Bank has developed its master policy “Customer Protection” on customer explanation management, customer support management, customer information management, outsourcing management and conflict of interest management, as well as the internal rules determining specific countermeasures, etc.

The Director responsible for customer protection management, who is appointed by the Board of Directors, supervises customer protection management generally. The Head of Compliance and Governance supervises customer explanation management, customer information

management, outsourcing management and conflict of interest management, and the Head of the Operations Group supervises customer support management as the supervisor.

The Customer Protection Committee discusses issues on customer explanation management, customer support management, customer information management, outsourcing management and conflict of interest management, and semiannually reports the results to the Management Committee, the Audit and Compliance Committee and the Board of Directors.

### Customer Protection Management Framework



### Validation of New Products and Services at Introduction and Customer Explanation Management

When introducing new financial products and services, the Bank validates whether they are suitable for our customers (validation of suitability of rational basis) so that we can provide appropriate products. In addition, to appropriately and sufficiently explain the structures and risks of the products for the understanding of customers, the Bank fully complies with the customer suitability principle and fulfills accountability by developing sales standards and guidelines and internal rules concerning customer explanation and enhancing of training. The Bank has developed its Solicitation Policy for Financial Products on matters

employees should comply with during solicitation and disclosed it at its sales branches and on its website.

As to sale of investment trusts, the products managed under the Financial Instruments Intermediary Service, insurance products and over-the-counter derivatives in particular, the business division and the Compliance Management Division monitor investment solicitation records, etc. to ensure that explanation to customers is appropriate, and provide instructions and training to sales representatives and revise solicitation rules in order to improve and enhance the explanation to customers.

### Customer Support Management

The Bank has determined the procedure for taking complaints from customers, preparing records and managing the report and response status in the internal rule for customer support management, and it responds to such complaints promptly and properly and reports to management surely.

As to the inquiries, contacts for advice, requests and complaints from customers that officers and employees or the Customer Service Office receive from all sales branches in the country, the call center, etc., the Bank makes efforts to find a solution that gains the understanding and satisfaction of customers, and the Operations Planning Division as the Supervising Division fully recognizes the reasons of occurrence and analyzes the contents, and reports the results to the Customer Protection Committee monthly, the Management Committee quarterly, and the Audit and Compliance Committee and the Board of Directors semiannually.

The Bank conducts "Research on Customer Satisfaction" every year for better customer satisfaction (CS) and uses the results to improve products and services and to enhance customer protection.

To swiftly respond to customers' complaints and solve disputes with customers, the Bank offers information on ADR institutions, such as the Japanese Bankers Association (JBA), Trust Companies Association of Japan and the Financial Instruments Mediation Assistance Center (FINMAC), to customers.

The Bank has concluded a contract with the following ADR institutions:

Institution: Japanese Bankers Association

Address: Otemachi 2-6-1, Chiyoda-ku, Tokyo

Contact: JBA Consultation Desk

(Tel: 0570-017109 or 03-5252-3772)

Institution: Trust Companies Association of Japan

Address: Marunouchi 2-2-1, Chiyoda-ku, Tokyo

Contact: Trust Counseling Center

(Tel: 0120-817-335 or 03-6206-3988)

### Protection of Customer Accounts and Compensation for Damages

The Bank conducts strict confirmation before a transaction on applicants for account opening to prevent illegal use of bank accounts and to protect transactions with customers and their accounts. When a customer suffers a loss due to fraud, the Bank asks the victim for details of the incident

and compensates the victim in accordance with the Depositor Protection Act, and internal rules such as the Rule of Aozora Cash Card Plus and the Rule of Aozora Internet Banking.

### Outsourcing Management

To outsource a task to a third party that has the ability to perform it appropriately, fairly and efficiently, the Bank carefully selects a vendor by fully validating whether (1) the vendor can provide adequate service, (2) it has financial

and management strength to provide the service and bear any damage in accordance with an outsourcing agreement and (3) it is not related to anti-social elements, in terms of operational risk management.

In addition, the division responsible for the outsourced task (the outsourcing division) appropriately supervises the vender, by monitoring the progress status of the vender as needed and, in case the task is outsourced to the same vender repeatedly, by checking the operation system of the vender more than once a year. The Compliance

Management Division, as the Supervising Division, reports the outsourcing management status to the Customer Protection Committee, the Management Committee, the Audit and Compliance Committee and Board of Directors semiannually.

## Conflict of Interest Management

The Bank properly manages conflict of interest not to unreasonably damage customers' interest for the interests of the Bank and third parties. To be specific, the Customer Protection Committee, which is delegated by the Board of Directors and the Management Committee, checks and approves the rules concerning conflict of interest management and material transactions. The Board of Directors appoints the Head of Compliance and Governance, which is independent of business divisions, as the supervisor for conflict of interest management, and makes the Compliance Management Division, which is independent of business divisions, the Supervising Division for Conflict of Interest Management. Under the direction and supervision

of the supervisor for conflict of interest management, the system for conflict of interest management including development of internal rules and training shall be established and operated. The Supervising Division for Conflict of Interest Management validates the possibility of conflict of interest for inquiries and/or consultation by business divisions on a transaction that may contain conflict of interest, and provides instructions and advice on management measures. It also reports the status of conflict of interest management to the Customer Protection Committee, the Management Committee, the Audit and Compliance Committee and the Board of Directors semiannually.

## Customer Information Management

The Bank believes it is an important business task to appropriately manage customer information and to stably operate the information system to provide reliable financial services to customers, and has developed "Protection of Information Assets (Security Policy)," which determines the basic policy for protection of all information assets held by the Bank, the organizational structure to properly manage the customer information, etc. To be specific, the Head of Compliance and Governance supervises information asset management in the Bank as the supervisor for information asset management, and the duty, responsibility and authority for the information systems out of the information assets are delegated to the Chief Technology Officer.

To prevent unauthorized access, misuse, leakage, falsification and so on of customer information, the Bank has developed a rule restricting access to customer information to the necessary extent, implemented security management measures such as system adjustment and monitored their proper implementation.

The Compliance Management Division, as the division supervising customer information, reports the status of customer information management to the Customer Protection Committee, the Management Committee, the Audit and Compliance Committee and the Board of Directors semiannually.

For thorough understanding of the importance of customer information management, we conduct training on customer information management at our annual training for Compliance Leaders and e-learning for all officers and employees on annual basis. Further, we ask all officers and employees to pledge that they properly manage and protect customer information with confidentiality obligations by submitting us the written oath, and the "Annual Acknowledgment of Code of Conduct and Ethics."

As an entity handling personal information, the Bank has developed "Aozora Bank's Policy on Personal Information Protection (Privacy Policy)" and "Basic Policy on Proper Handling of Specific Personal Information," which determine the basic concept and policy to safely manage personal information and data of the Bank and prevent unauthorized access to, damage, falsification and leakage of customer information, and has disclosed them at sales branches and on the website. In addition, when jointly using the customer information in the Aozora Group, the Bank takes proper actions in line with laws concerning personal information protection, the guidelines for personal information protection in the financial industry and other related laws and regulations.

# Risk Management

## Comprehensive Risk Management

The Board of Directors approves the business operations plan proposed by the Management Committee and determines the risks acceptable to the Group in view of the Bank's capital and profit targets to be achieved. The Bank's risk management operations are conducted by the Management Committee, the Asset and Liability Committee, the Integrated Risk Committee, the Credit Committee and the Investment Committee. The Board of Directors is committed to maintaining appropriate corporate governance and business operations by approving material decisions of each committee and receiving regular reports on risk management.

### (1) Comprehensive Risk Management System

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

Acknowledging the importance of risk management activities, the Aozora Group has established a basic policy on comprehensive risk management designed to properly measure and control each risk separately and the overall risk in an integrated manner. As the core components of the Group's risk management structure, we have established a number of risk management committees that have been delegated authority by the Board of Directors to implement risk management activities, and any important matters concerning risk management are determined and responses implemented.

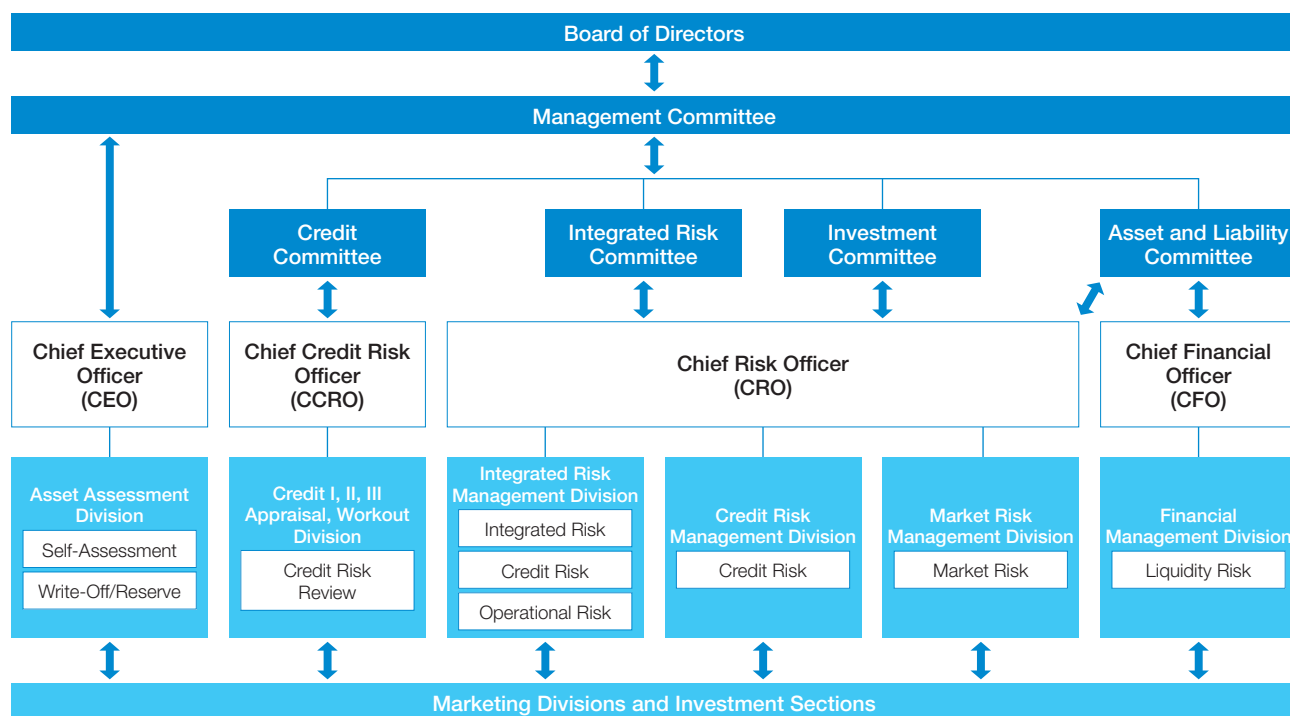
The basic policy on comprehensive risk management sets out the scope of target risk categories such as credit risk, market risk and operational risk, and their definitions. The policy also defines the risk management procedures, which consist of the identification, assessment, monitoring and control of the target risks.

### » Risk Definition

The Group defines "risks" as factors that could cause it to suffer unexpected losses in the course of its operations and impair its capital position, and classifies and defines those "risks" according to their different risk attributes as follows:

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

## » Risk Management System



## (2) Capital Management System

One of the most important challenges for the Aozora Group is increasing capital efficiency while securing financial soundness. Therefore, the establishment of an appropriate capital management system is one of the top priorities.

Capital management comprises risk capital management, namely economic capital management and regulatory capital management. The objective of risk capital management is to control the Bank's business size by allocating economic capital to individual business lines according to their characteristics and risk categories after setting certain limits on the total amount of capital from the perspective of maintaining the financial soundness of the Bank. This allocation is also carried out to continuously secure adequate capital commensurate with the risk involved. Regulatory capital management is intended to ensure the minimum required capital for regulatory capital purposes and to conduct comparative verifications against the target capital ratios.

### <Internal Capital Adequacy and Assessment Process>

An internal capital adequacy and assessment process is in place to ensure the adequacy of capital reserves against risk by monitoring the total capital amount for the fiscal year and the actual risk profile.

The Group assesses its internal capital adequacy by periodically monitoring the risk capital and the risk capital usage through a comparison with capital for the year and

also by conducting stress tests to estimate the Bank's potential losses, risk and possible capital requirements in the event that economic and market environments, the conditions for assessments of credit risk, market risk, operational risk, etc., undergo stressed conditions. Aozora Bank estimates risk capital for major risks, i.e., credit, market and operational risks, using the following methodologies.

Our approach for measuring the risk capital of credit risk is based on the concept of unexpected loss (credit value at risk). First, we estimate probability of default (PD) rates based on our internal ratings transition analyses, non-recovery rates of loss given default (LGD) by collateral type and default correlations, and then calculate credit value at risk with a confidence interval of 99.9%, and a one-year holding period. The calculated credit value at risk corresponds to risk capital.

We employ the VaR approach for the measurement of risk capital for market risk. The risk capital is estimated with a confidence interval of 99.9% and the holding period depends on the business characteristics and liquidity of the asset.

Our approach to estimating the risk capital for operational risk is based on both an operational risk measurement approach and a loss distribution approach. Among the operational risk measurement approaches, we adopt the Standardized Approach (TSA). Under the loss distribution approach, we estimate the risk capital for operational risk by inferring the frequency and severity of



loss events based on actual loss data and scenarios assuming potential risk events. In this approach, we estimate the risk capital with a confidence interval of 99.9% and a one-year holding period.

### <Risk Capital Allocation>

Risk capital is allocated to business groups according to their risk tolerance and expected income with the goal of improving the profitability and efficiency of the Bank as a whole. The Board of Directors initially determines unallocated capital, i.e., the amount of capital required for continued business growth and future capital policies that will not be allocated, and subsequently allocates credit risk capital, market risk capital and operational risk capital (limited to the amount of capital remaining after subtraction of unallocated capital) to business groups in line with management and business strategies. Business groups are responsible for conducting operations within their risk capital allocation, and capital usage is reported approximately monthly to senior management.

### (3) New Business and New Products

A new business/product is classified and managed according to the criteria for applicability of the new business/product category and for its importance. A business or product will be classified as new if certain criteria are met. A new business or product that applies will be classified into one of two categories by its level of importance: one is for submission to the Integrated Risk Committee for approval and the other is for reporting to the committee. The committee-led control and management system functions as a framework for the development of new business or products in an integrated manner. For the appropriate launch of a new business or product proposed by a business group, its supporting groups perform the necessary check function under the Bank's due diligence system.

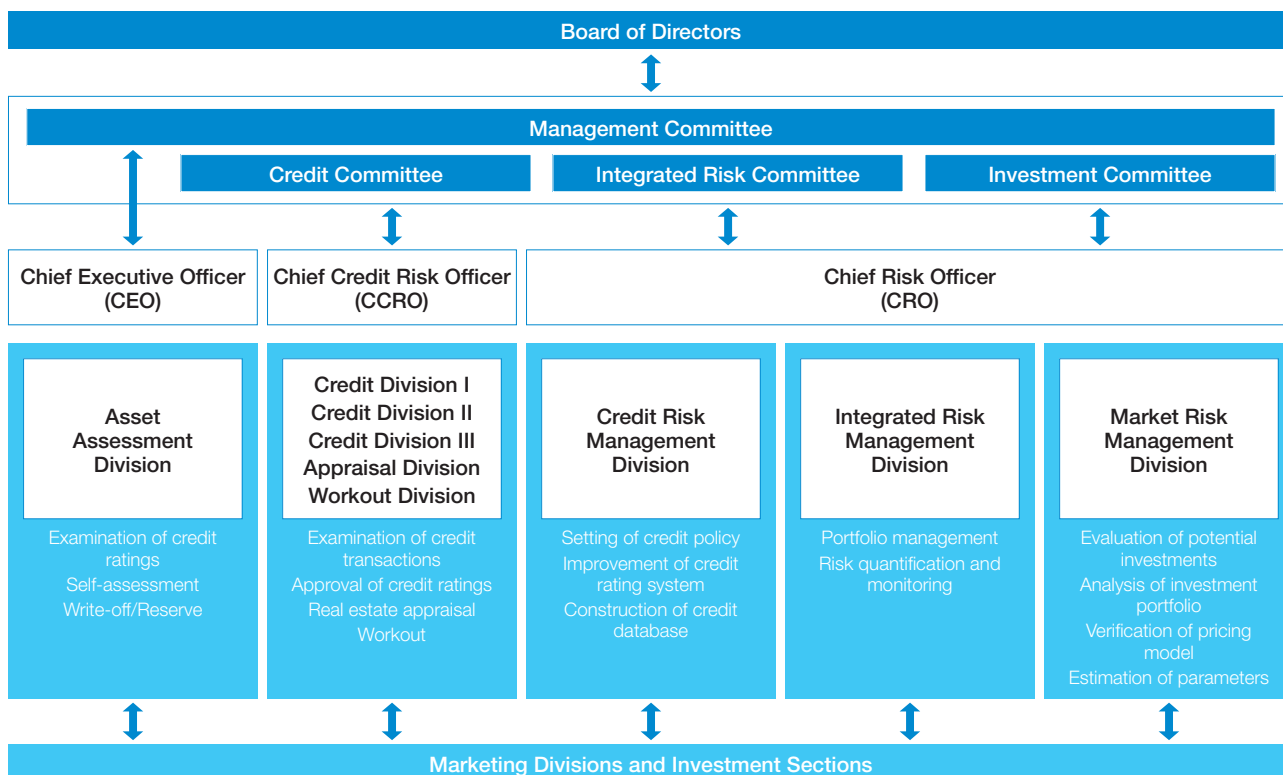
The Customer Protection Committee reviews the new business or product from the perspective of customer protection.

## Credit Risk Management

Credit risk is the risk of incurring losses due to the impairment or loss of asset value, including off-balance-sheet assets, as a result of deterioration in the credit standing of counterparties (including the government of a country or region).

Aozora is committed to safeguarding its own balance-sheet against potential problem loans through the accurate identification, measurement and pricing of credit risk as well as the provision of useful financial solutions to our clients.

### >> Credit Risk Management System



## (1) Credit Risk Management System

Our approach to managing credit risk is both at the transaction level and at the portfolio level. The Bank maintains a sound asset portfolio for the Aozora Group through strict credit screening and ex post facto management of transactions including “the predictive control of our clients,” as well as a focus on eliminating credit risk concentration at the portfolio level.

All credit transactions, comprising mainly loan transactions, are approved under the authority of the Credit Committee, whose members include the Executive Officers in charge. The Credit Committee grants authority partly to the Chief Credit Risk Officer, who, in turn, can delegate authority within a certain range to individuals in credit divisions or business divisions. Approval authority for investment transactions, comprising mainly equities and fund investments, resides with the Investment Committee, whose members include the Executive Officers in charge. The Investment Committee grants authority partly to the Chief Risk Officer, who, in turn, can delegate authority within a certain range to individuals in business divisions.

The Group’s credit portfolio is carefully monitored and reported to the Board of Directors and the Management Committee on a regular basis.

## (2) Credit Rating System

Credit ratings are subject to review on a regular basis based on the updated financial results of our clients and, where appropriate, when changes are identified in the quality of their credit.

Business unit analysts recommend a rating at the inception of a credit relationship, and these recommendations are approved by our credit divisions. The Asset Assessment Division has the authority to perform ratings examinations and to make necessary amendments.

The Bank examines its credit rating system through benchmarking (comparative verification of our ratings with those assigned by rating agencies or external models) and back testing (assessment of significance of the credit rating system based on past default).

### <Obligor Rating>

Ratings for each borrower are assigned based on the probability of default. The rating is determined after passing through the process of a quantitative and qualitative evaluation of each borrower.

### <Facility Rating>

Each credit transaction also receives facility ratings, which consider collectability with collateral and/or guarantee, and a tenor of credit facility, so that the Bank is able to assess their risk/return profile and quantify credit risks. We recognize the credit risk mitigation effect of collateral while taking

into consideration the level of correlation between deterioration of credit and collateral values. We assign credit ratings to guarantors to recognize the credit risk mitigation effect.

### <Expected Loss Grade>

An expected loss grade is assigned to transactions such as non-recourse real estate loans, securitization of monetary claims and structured bonds in senior/junior tranches, by ranking the occurrence of loss.

### <Utilization of Credit Ratings>

Credit ratings are an integral component of the approval system for credit assessment, interest rate spread, etc. They are also used to conduct self-assessment and are employed as benchmarks to quantify credit risks.

## (3) Quantification of Credit Risk

Our understanding of the credit risk exposure of our clients and their groups is the starting point for credit risk management. We centrally manage all assets with credit risk such as loans, securities, equities, funds, securitized transactions and off-balance-sheet transactions (including commitment lines, derivative transactions, etc.). With regard to counterparty risk for derivative transactions, we take the market value at the time of measurement and market value fluctuation risk in the future as the exposure, and manage this by setting a credit line (credit limit) for the relevant counterparty.

In our portfolio management, unexpected loss is calculated and analyzed on a monthly basis, and the comparisons between the derived unexpected loss and allocated capital are regularly reported to the Board of Directors and Management Committee. The Bank’s internal model employs a holding period of one year and a confidence interval of 99.9%. Unexpected loss is measured using parameters such as PD, LGD, intra-sector correlation, inter-sector correlation and parent-subsidiary correlation of the borrower group.

## (4) Credit Portfolio Management

We seek management of our credit portfolio with emphasis on adequate risk/return, based on credit rating, etc.

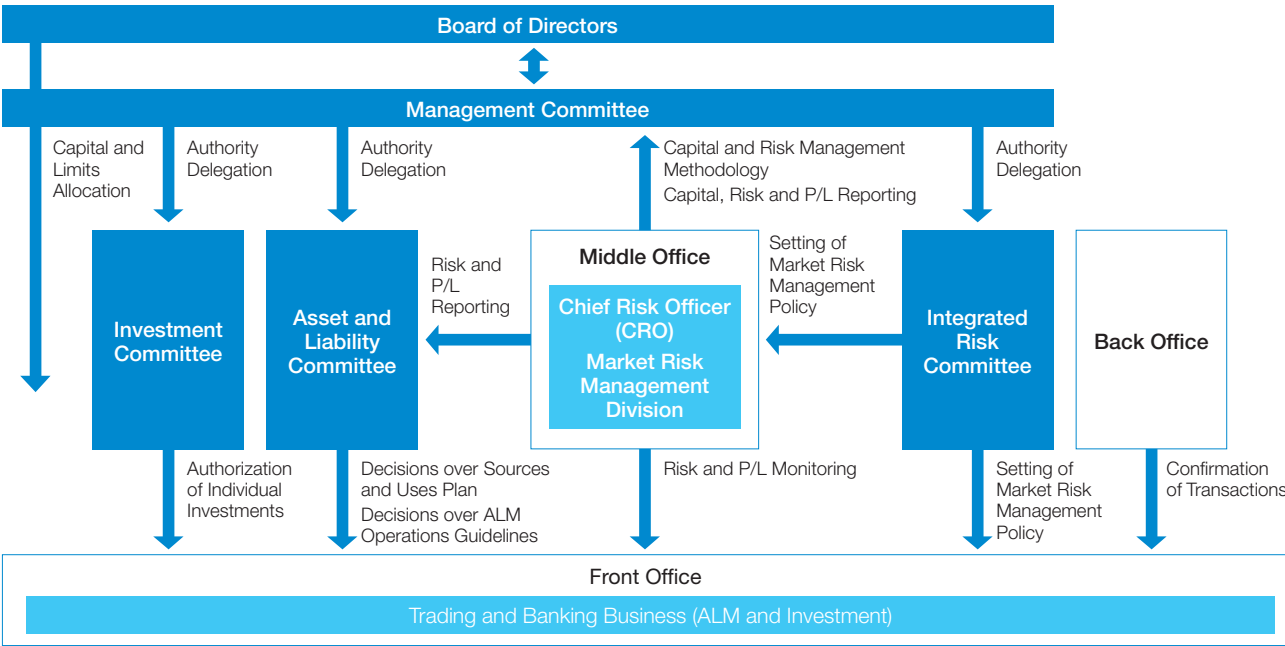
As for concentration risk, we manage this by setting guidelines on exposure by country/region or by the rating of borrowers. For example, concentration risk is managed by establishing the credit limit by credit ratings, and establishing additional concentration limits on the portfolio related to real estate risks. For status on the credit portfolio and those sectors to which we have a particularly large credit exposure, we provide the Bank’s senior management with reports on a regular basis.

Market Risk Management

Market risk is the risk of incurring losses due to fluctuations in the value of assets and liabilities caused by market movements. The Bank performs a comprehensive analysis of the market risk affecting all assets, liabilities and off-

balance-sheet transactions for its trading and banking businesses. We manage market risk appropriately through the documentation of our handling of products, risk management methods and market price valuation methods.

Market Risk Management System



(1) Procedures for Market Risk Management

The Board of Directors and the Management Committee determine the economic capital allocation for the entire Aozora Group including front-office business units and divisions, commensurate with market risk exposure. Market risk and loss limits are set in accordance with capital allocation.

The usage of and compliance with these limits are centrally monitored by the Market Risk Management Division, which is independent from the front offices in terms of organization and human resources. The Market Risk Management Division monitors the market risk and profit/loss (P/L) for the trading businesses daily and for the banking businesses on a daily or monthly basis. The division makes periodic reports to the Chief Risk Officer and the Executive Officers in charge of the front offices, as well as to the Board of Directors, the Management Committee, and the Asset and Liability Committee.

(2) Overview of Market Risk Measurement Methods

Aozora Bank uses VaR to quantify the market risk for the trading and banking businesses and as a basis for setting market risk limits and for monitoring risk. VaR is a statistical measure of estimated maximum losses that could arise for a defined period at a given confidence interval, and serves as a common standard of measurement for estimating maximum losses that could arise as a result of fluctuations in risk factors such as interest rates of various countries, stock prices and exchange rates. The Bank's VaR is calculated using an internal model utilizing historical simulation.

## » Market Risk for the Entire Bank

### 1. The Value at Risk (VaR) Number at Term-End

(100 Millions of Yen)

	March 2019				
	Interest rate	Equity	Forex	Others	Total
Trading	1	2	0	0	5
Banking	28	29	0	23	44
Total	30	31	0	23	49

(100 Millions of Yen)

	March 2020				
	Interest rate	Equity	Forex	Others	Total
Trading	4	4	0	0	9
Banking	36	36	0	38	65
Total	40	41	1	39	74

- Notes: 1. "Others" includes funds and credit derivatives, etc.  
 2. The above figures are based on a 1-day holding period and a 99% confidence interval.  
 3. The figures for total VaR do not represent the sum of individual components, due to correlations.

### 2. The Highest, Lowest and Average VaR Number During the Disclosure Period

(100 Millions of Yen)

	March 2019			
	Average	Maximum	Minimum	As of March 2019
Trading	6	10	4	5
Banking	48	61	39	44

(100 Millions of Yen)

	March 2020			
	Average	Maximum	Minimum	As of March 2020
Trading	5	16	4	9
Banking	51	121	44	65

### 3. The Stressed Value at Risk (Stressed VaR) Number at Term-End and the Highest, Lowest and Average Stressed VaR Number During the Disclosure Period

(100 Millions of Yen)

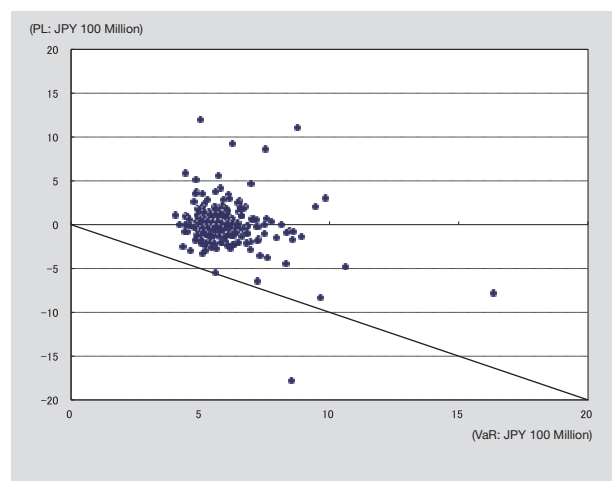
March 2019			
Average	Maximum	Minimum	As of March 2019
23	40	14	19

(100 Millions of Yen)

March 2020			
Average	Maximum	Minimum	As of March 2020
22	39	14	17

### (3) Back Testing

Back-testing results and explanations in the event actual losses strayed significantly downward from VaR numbers are as follows. The graph represents the results of back testing for trading businesses with internal models over the 241 business days from April 1, 2019 through March 31, 2020. As a result of the back testing, the daily losses exceeded daily VaR on one business day. This result supports the reliability of the Bank's VaR.



### (4) Stress Testing

To complement VaR, Aozora Bank regularly conducts stress tests to assess the potential impact of volatile market movements that could exceed statistical estimates. The Bank sets stress scenarios that simulate the impact of the largest fluctuations in market risk factors equivalent to past market turbulence, including those in interest rates, stock prices and foreign exchange rates, on the Bank's current positions, and market situations that influence the slope of the yield curves. The anticipated amount of loss in such hypothetical circumstances is reported to the Asset and Liability Committee.

### (5) Amount of Regulatory Capital for Market Risk

In the calculation of the capital adequacy ratio as of March 31, 2019 and March 31, 2020, the regulatory capital for market risk and its breakdown are as follows:

	March 2019		March 2020	
	Consolidated	Non-Consolidated	Consolidated	Non-Consolidated
Internal model approach	11,978	11,978	13,764	13,764
Standardized approach	1,424	1,407	1,442	1,423
Interest rate risk	305	304	450	450
Equity risk	62	60	58	57
Foreign exchange risk	14	0	17	0
Commodities risk	1,042	1,042	916	916
Options transactions	—	—	—	—
<b>Total</b>	<b>13,403</b>	<b>13,386</b>	<b>15,206</b>	<b>15,188</b>

Note: The calculation methods are as follows:

1. Internal model approach  
General market risk for interest rates, foreign exchange (major currencies), equity and CDS trading
2. Standardized approach  
General market risk not applicable to internal model and specific risk for CDS trading, etc.

### (6) Market Risk Management of Investments

The Bank sets VaR and loss limits on the market risk associated with our investments in J-REIT, etc., and the associated risk is managed using the same method as trading and banking positions. The risk and P/L associated with these investments are reported to management periodically.

## Operational Risk Management

Operational risk is the risk of loss resulting from inadequate or failed internal procedures, officers and employees or systems, or from external events. The Bank recognizes the importance of appropriate operational risk management and conducts management operations in compliance with risk management policies approved by the Board of Directors.

Risk management policies include comprehensive management policies for operational risk as well as

### (7) Market Liquidity Risk Management

Market liquidity risk is the potential for losses caused by the inability to execute market transactions as a result of market turbulence and thin trading, or by the necessity to carry out transactions at extremely unfavorable prices. The Market Risk Management Division monitors the Bank's position relative to market size to ensure that the position does not become excessive.

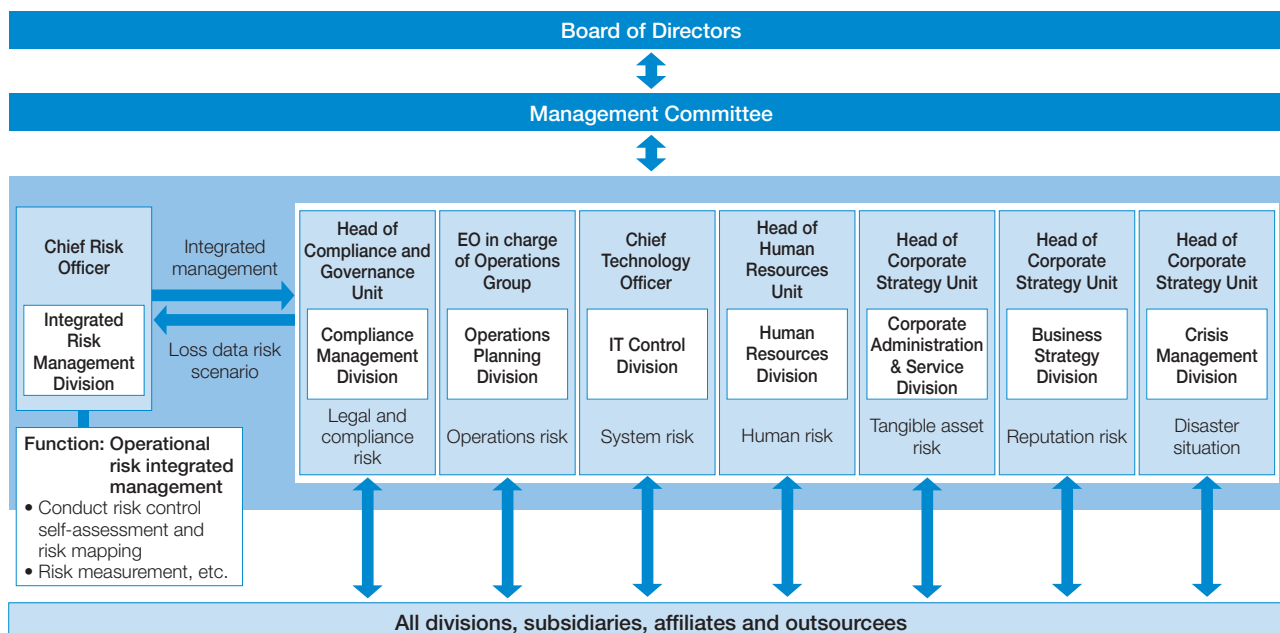
### (8) Funding Liquidity Risk Management

The Financial Management Division centrally monitors the funding liquidity risk of yen- and foreign currency-denominated funds and ensures that the Bank's funding capabilities are sufficient to meet its contractual obligations by holding a sufficient level of securities with high liquidity. The Board of Directors and other management bodies approve the Sources and Uses Plan on a monthly and annual basis. The Financial Management Division reports the liquidity status directly to the Bank's senior management on a daily basis.

individual policies for operations risk, system risk, legal and compliance risk, human risk, tangible asset risk, reputation risk and disaster situations. As described in the following chart, the Bank has established organizational units in relevant divisions responsible for each type of operational risk as well as the Integrated Risk Management Division, which is responsible for the comprehensive control of operational risk such as understanding materialized risk, risk assessment and risk measurement.



## » Operational Risk Management System



### (1) Comprehensive Management of Operational Risk

The Bank manages operations risk, system risk and other operational risks comprehensively through integrated methods. In addition to the occurrence of realized loss, potential risks are also addressed. The Bank manages operational risks primarily through monitoring of materialized loss incidents and assessment of risks.

Actual loss events arising from operation errors, compliance incidents, system trouble, disasters/accidents, damage to tangible assets, external fraudulent acts, etc., are monitored by each risk management division. Occurrences of loss events are reported and managed within the system in an integrated fashion, and appropriate analyses/measures are done. Any significant loss events must be individually reported to management according to risk management policies. Potential risks are identified and assessed through risk mapping and risk control self-assessment (RCSA). Risk mapping is a top-down approach in which risk management divisions assess material risks borne by the Group, as well as its strength in managing such risks, based on survey results from business divisions.

RCSA is a bottom-up approach for risk assessment conducted in all operational units individually to identify/assess the material risks they face and the system to manage such risks. Through these assessments, the Bank's

business operation system is checked and reviewed on an ongoing basis.

The Group's operational risk amount is estimated using internal model simulations, based on loss events and scenarios devised based on assessments, and capital is allocated in consideration of this operational risk amount and regulatory capital.

Operational risks will change in accordance with factors such as the Aozora Group's commitment to new business and changes in the external environment. The Bank strives to maintain an appropriate management system so it is able to handle such changes while making efforts such as utilizing information on external loss incidents.

### (2) Operations Risk Management

Aozora Bank has documented operations risk management policy and rules. The Operations Planning Division, which is independent of business divisions, handles operations risks. It strives to enhance routine procedures by documenting all administrative procedures in the form of manuals for each business operation, providing guidance and training on specific processes. It is also responsible for building an effective administrative system by monitoring organizational structure. Further methods to more efficiently perform routine procedures are being discussed and implemented to mitigate human error arising from administrative processes.

### (3) System Risk Management

Information systems are increasingly applied in various areas as IT technology develops. They become strategically more important while new threats such as cyberattacks, which are becoming more sophisticated year by year, are increasing. The Chief Technology Officer is responsible for managing system risk, and the IT Control Division is responsible for administration. The Bank strives for stable system operation by preventing system incidents and responding appropriately when they occur.

In accordance with the system risk management policy and security policy, the Bank strives to strengthen information management capability such as encryption of important internal information and e-learning for all employees. The Bank also strives to strengthen operational capability such as duplexing of information systems and infrastructure, reinforcing backup systems, and training in case of failure as well as to strengthen development capability such as improving the quality of information systems and utilizing new technologies.

As for internal audits on information systems, in addition to audits on general IT controls, the Bank conducts target audits covering important themes several times a year. With regard to cyber security, the Bank has established Computer Security Incident Response Team (AOZORA CSIRT) and the Cyber Security Office. The Bank continuously implements multi-layered technical measures such as entrance measures for intrusion prevention, internal measures for detecting and exit measures against information leaking. In addition, the Bank utilizes third-party objective evaluation of the response capability. To prepare for a variety of cyber-attacks, the Bank conducts scenario-based exercises and cyber-attack drills for all employees.

### (4) Other Operational Risk Management

To manage operational risk comprehensively, the Bank also defines legal and compliance risk, human resource risk, tangible asset risk and reputation risk as operational risks.

As for the legal and compliance risk that may result in damages arising from illegal activities, the violation of internal rules, and issues such as lawsuits, the Compliance Management Division monitors the risk in an integrated manner, conducts investigation and analysis, and implements measures to mitigate the occurrence or recurrence of incidents.

Human risk may result in losses caused by labor disputes, etc. To mitigate such risk, the Human Resources Division appropriately operates the HR framework and takes actions based on monitoring results of human risk at each branch/division.

The tangible asset risk, which describes loss resulting from damage to fixed assets caused by external factors such as natural disasters or accidents, is mitigated by the Corporate Administration & Service Division through monitoring of the inventories and losses of tangible assets and implementing of disaster and crime-prevention measures.

The Bank analyzes potential reputation risk when planning new business and/or products, and makes efforts to identify and prevent the spread of adverse rumors that may occur through the daily monitoring of information sources such as the media. Officers and employees are obliged to report any reputational risk they detect to the Business Strategy Division, which then reports to management as necessary.

### (5) Response to the Permanent Discontinuation of Benchmark Interest Rates such as LIBOR

Many of our products and services refer to benchmark interest rates such as the London Interbank Offered Rate (LIBOR) in multiple currencies including the US dollar. We also utilize such benchmark interest rates for our own evaluation of financial instruments.

In light of the LIBOR manipulation scandal that surfaced in 2012, the Financial Stability Board (FSB) recommended a transition to the risk-free rate as the benchmark interest rate to improve reliability and transparency in a report published in July 2014. In addition, in July 2017, the Chief Executive of the Financial Conduct Authority of the United Kingdom (FCA), which regulates LIBOR, announced that the FCA will no longer compel banks to present rates for the calculation of the LIBOR benchmark after the end of 2021. From that point on, LIBOR faces an increasing likelihood of being permanently discontinued.

Aozora has established a cross-company project team in order to respond to the discontinuation of LIBOR and the transition to an alternative interest rate benchmark. Aozora has steadily begun providing detailed explanations to customers, strengthening its internal control, updating its systems, reviewing operational procedures, etc., all while working to prevent any confusion arising from the discontinuation of LIBOR.

## (6) Crisis Management

The Aozora Group is dedicated to the continued development and improvement of its crisis management system in order to properly minimize the impact of crises on financial systems, etc., by responding promptly systematically and effectively to avert any damage to officers and employees as well as business operations in the event that an emergency, such as a natural disaster, major system failure, spread of viruses, cyber attack, terrorism, and armed attack that has serious impact on facilities, systems, infrastructure and human resources of the Group, requiring cross-organizational correspondence.

With this purpose, the Aozora Bank's divisions/offices/branches and Group companies have compiled business continuity plans (BCP), which define measures including procedures for business continuity when a crisis occurs, based on recognition of the impact when specific infrastructure, systems and personnel related to main business operations are inaccessible.

In normal times, the Crisis Management Division defines potential impact and assumptions, provides all Aozora Bank divisions/offices/branches and Group companies with the BCP template and monitors the adequacy of the BCP compiled by each division/office/branch and Group company. Moreover, it strives to enhance the effectiveness of responses to crises through various drills and training sessions.

At times of crisis, the Command Center is established to centralize management of the situation by taking command in activating the BCP, gathering information and implementing activities for recovery. The Command Center consists of Executive Officers, the General Manager of the Crisis Management Division and the General Managers of other related divisions and branches. The President of the Bank takes responsibility in decision-making as the Head of the Command Center.

After the crisis, the Crisis Management Division reports loss of assets to the Management Committee and the Board of Directors and lessons learned and knowhow obtained from the experience when responding to the crisis and the process, and instructs each division/office/branch to make necessary revisions to their BCP.

# Internal Audit Policy

The Bank's Internal Audit Division, independently of all the business units, examines and evaluates objectively whether internal control systems of the Group function properly and effectively, and offers recommendations for improvement.

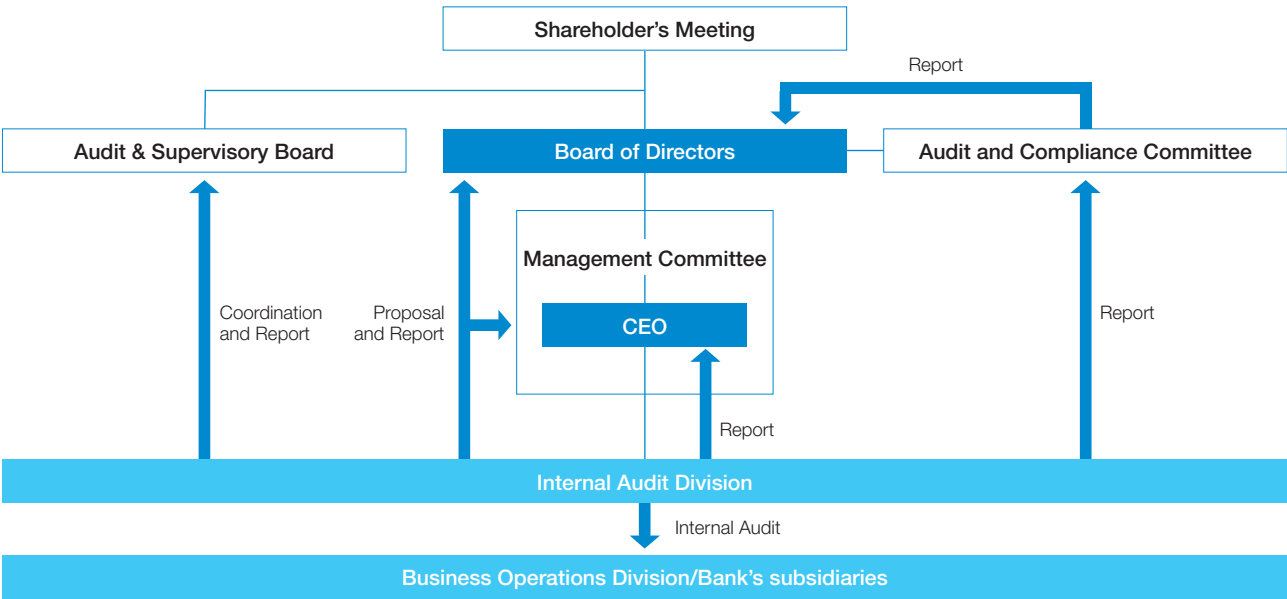
The Internal audit is conducted in line with the audit plan, which is formulated according to the Annual Internal Audit Plan approved by the Management Committee and the Board of Directors each fiscal year. In formulating the audit plan, we consider the frequency and intensity of an audit depending on the type and degree of inherent risk within each business unit and the status of internal controls. The Bank also conducts system audits and cross-sectional target audits considering the importance of risk management.

The Internal Audit Division reports directly to the Chief Executive Officer. It presents audit results to the Management Committee monthly, as well as summary of audits directly to the Audit & Compliance Committee

and the Board of Directors semi-annually, providing an independent assessment of the internal control. Furthermore, the Internal Audit Division cooperates with Audit & Supervisory Board Members, ASB and financial Auditor, by directly exchanging information and opinions, including audit report, for achievement of audit purposes.

As an initiative to raise the expertise of auditors, the Internal Audit Division sends its staff members to external seminars and encourages them to obtain professional certifications such as Certified Internal Auditor (CIA) and Certified Information System Auditor (CISA). The Bank's internal audit is conducted on the risk basis in conformity with IIA's (Institute of Internal Auditors) international standards. In addition to the continuous internal quality assessment, Internal Audit Division periodically receives an external quality assessment by a third-party institution to further enhance our audit standards and capabilities.

## Internal Audit System



# HR Strategy

## HR Policies for HR Strategy

The Bank has set the following HR policies within its HR strategy to create an environment where employees can work with high motivation and pride:

1. Establish a consistent HR system based not on seniority but on capabilities and job responsibilities
2. Offer opportunities for employees to develop their skills and to establish a career path
3. Establish a more dynamic organization where diversity is respected

## HR Measures

### (1) HR System and Career Development

The Bank has introduced an HR system that promotes “Pay for Performance,” a departure from the more traditional seniority-based culture.

Under the previous HR system, there were several career courses according to the career tracks of Sogo-shoku and Ippan-shoku. In July 2020, the career courses were unified into two, Global Sogo-shoku and Regional Sogo-shoku. The Bank will further improve the HR system so that employees can take up challenges toward the same goal regardless of career courses, play active roles and grow with a sense of unity.

The Bank promotes employee-driven career development and optimum allocation of human resources through the Career Plan Program, under which employees can submit requests on business units or jobs, the Job-Posting Program and the Career Challenge Program for senior employees.

The Bank also take various career development actions to make it easier for employees to experience a wide range of businesses in and out of the Bank to strengthen their skills and experiences. For example, the Job Support Program enables employees to do other divisions’ jobs while working at their divisions, and a trainee program sends young or mid-level employees to our clients as seconded staff or trainees. Since April 2020, employees have been allowed to have second jobs by obtaining the Bank’s approval in advance.

Under the HR system, the Bank ensures Pay for Performance more than ever while motivating employees to focus on their career development.

Under the Bank’s performance evaluation program, supervisors and subordinates have an objective-setting session at the beginning of a fiscal year. They consider individual career courses, job grades, years of business experience, etc., and set concrete objectives based on expected roles. The objectives are set in areas such as ethics, compliance with regulations, talent development and self-development. During the fiscal year, they hold

review meetings to discuss subordinates’ progress and identify issues to achieve the objectives.

At the end of the fiscal year, supervisors hold sessions with each subordinate. The meetings offer a good opportunity to help subordinates identify items they failed to achieve in the fiscal year and how they should achieve higher levels of objectives in the future. Supervisors are required to have feedback sessions at least twice a year to give convincing and satisfactory explanations to subordinates on evaluation results. During the sessions, supervisors and subordinates discuss items such as achievement levels of the objectives and competencies, issues to solve and expectations for the next fiscal year, and strengths and weaknesses, for talent development.

### (2) Talent development

Under the two pillars of mind/skills training and practical training, the Bank offers various programs such as programs exclusively for new hires and employees in specific business groups and Aozora University, open to all employees, while implementing the Self-Development Support Program.

At Aozora University, the courses are sponsored by business groups, and the lecturers are mainly employees. The subjects include financial knowledge, communication skills and personal enrichment. In some courses, participants can directly discuss business management with officers.

The Self-Development Support Program encourages employees to acquire skills and expertise for banking operations based on individual needs.

The Bank has also introduced an e-learning program on business skills, specialized skills and expertise to support employees’ effective use of time saved in the process of Aozora Work Style Reform.

The Bank also conducts human rights training for all officers and employees to learn more about people with disabilities, LGBT issues, harassment, etc.



### (3) Recruitment

The Bank recruits professionals and new graduates to meet the needs of each business group. Professionals are recruited mainly for positions requiring high-level skills and expertise. The Bank gives opportunities to temporary staff to become permanent employees. Multiple career paths are available for new graduates based on their career design.

### (4) Diversity Initiatives

To improve its performance, the Bank actively promotes diversity and inclusion so that employees from varied backgrounds can play active roles regardless of race, religion, gender, age, nationality, sexual orientation or disabilities. The HR Division includes the Diversity Promotion Team, led by the Head of the HR Unit, which offers information and conducts training programs on diversified work styles.

We have enhanced our paid leave framework and the Short Time Work Program for better work-life balance, held seminars on diversity, provided support to help mid-career employees smoothly start work in their new environment and introduced initiatives to strengthen communication among employees regardless of business group, career course, role, age or gender.

In FY2020, the Bank introduced the Aozora Career Support Leave Program, which enables employees who cannot continue to work for us when they have to relocate because of a spouse's job transfer/studying abroad or when they themselves study abroad at graduate school or to try to acquire qualification, to take leave for up to three years.

### (5) Creating Opportunities for Women

At Aozora, the average length of service of female employees (14.78 years) is almost the same as that of male employees (14.51 years), as of the end of March 2020. Generally, this is not very common in Japan. It could be that our working environment supports employees in pursuing a long career regardless of gender. We will further improve the working environment with the objective of keeping the difference between these figures within one year or less.

The Bank promotes talented employees into managerial positions irrespective of gender. The percentage of female managers has steadily increased and was over 11.9% as of April 2020. Regarding female officers, the Bank has a female director and executive officers.

Aozora conducts the "Shinayaka" seminar for female employees each year to ensure that women can enjoy a long career at the Bank. The participants have discussions with colleagues from various divisions and time for self-reflection.

#### Aozora newly selected for "MSCI Japan Empowering Women Index (WIN)"

In June 2018, Aozora was selected for the "MSCI Japan Empowering Women Index (WIN)." This index is designed to recognize the performance of Japanese companies that exhibit a commitment toward promoting and maintaining gender diversity and is employed as an index in the passive management of ESG investments by Japan's Government Pension Investment Fund.

#### Aozora certified as an "Eruboshi" company

In March 2019, Aozora was certified as an "Eruboshi" company. In this system, the Minister of Health, Labour and Welfare offers certification to excellent business operators that encourage female employees to play active roles in the workplace in accordance with the Act of Promotion of Women's Participation and Advancement in the Workplace.

### (6) Aozora Work Style Reform

With commitment from the management, the Bank has promoted Aozora Work Style Reform. The Aozora Labor Union and the Bank are leading the reform together. The Bank and the union conduct an employee survey every year, and the results are disclosed Bank-wide. The divisions and the union develop measures and monitor the improvement status of issues identified from the results.

The Bank offers various options for programs and working patterns so that employees can flexibly respond to personal life events. Aozora also recognizes diversity as a way to improve business processes and the workplace environment to encourage employees to pursue long careers at the Bank. We hope this will result in a positive cycle of employees' job satisfaction, demonstration of their abilities/creativity and creation of high-value-added businesses to benefit Aozora's customers and promote sustainable growth.

### New Work Style: Work Wherever, Whenever

#### • Work from Home and Mobile Work Program

We introduced the "Work from Home and Mobile Work" program in April 2017 to retain more employees who are busy taking care of small children or caring for sick or elderly family members and to help sales personnel efficiently use time when they are out of the office or on a business trip. We expect participants in this program to think in a more creative manner than they could do in the office. The Bank has fully facilitated telework. For example, we conducted Aozora Telework Days 2019 during the Telework Days Campaign, led by the Ministry of Internal Affairs and Communications in July and August 2019.

To aid working from home, mobile PCs and smartphones for internal and external calls are distributed. The digital document management system is used to ensure a smooth approval process even during remote work.

#### • Flextime Program

We encourage employees to use the Flextime Program. About 70% of non-managers use the program (as of March 2020) to adjust their work schedule based on changes in the monthly workload and life events. The Bank advises employees who are busy raising children or taking care of family members to effectively use the Flextime Program together with the Work-from-Home program.

#### • Free-Address

When the Bank's head office was relocated to Yotsuya in May 2017, a free-address office design was introduced for the sales and business planning units. Thanks to changes in seating arrangements, employees have more opportunities to be inspired by and obtain knowledge from peers, allowing for more freedom and creativity in coming up with ideas. In free-address offices, there are booths, sofas near the windows and tables and chairs for impromptu meetings. Employees can decide where to sit based on their thoughts and tasks for the day. Indispensable tools such as mobile PCs and smartphones for internal and external calls are offered to free-address users.

#### • Efficient Work Style by Focusing on Priorities

Since January 2017, the Bank has promoted the principle of no overtime after 19:00 and a more efficient work style by prioritizing tasks for better work-life balance.

#### • Initiatives for Higher Productivity

The Bank launched its Business Process Innovation in July 2016 to shorten working hours and maintain/improve work-life balance by enhancing productivity. We promote paperless operations by using the Digital Documents Approval System, actively use Robotic Process Automation and share findings and suggestions with field offices via Communication Square, a two-way communication platform, to realize more streamlined and efficient operations Bank-wide.

#### • Attendance Management

In line with the "Guidelines Concerning Measures to Be Taken by Employers for Properly Monitoring Working Hours" released by the Ministry of Health, Labour and Welfare, the Bank manages attendance based on objective data such as entry and exit logs and PC logs.

#### • Responses to New Lifestyle and Work Style

Now, we have to prepare for a new lifestyle while continuing to contain the virus in society. It, however, could take time before our approaches such as "telework and work in shifts," "off-peak commuting," "less crowded offices," "web meetings," "online exchanging of business cards," "good ventilation and mask-wearing for face-to-face meetings," are well established in the Aozora Group.

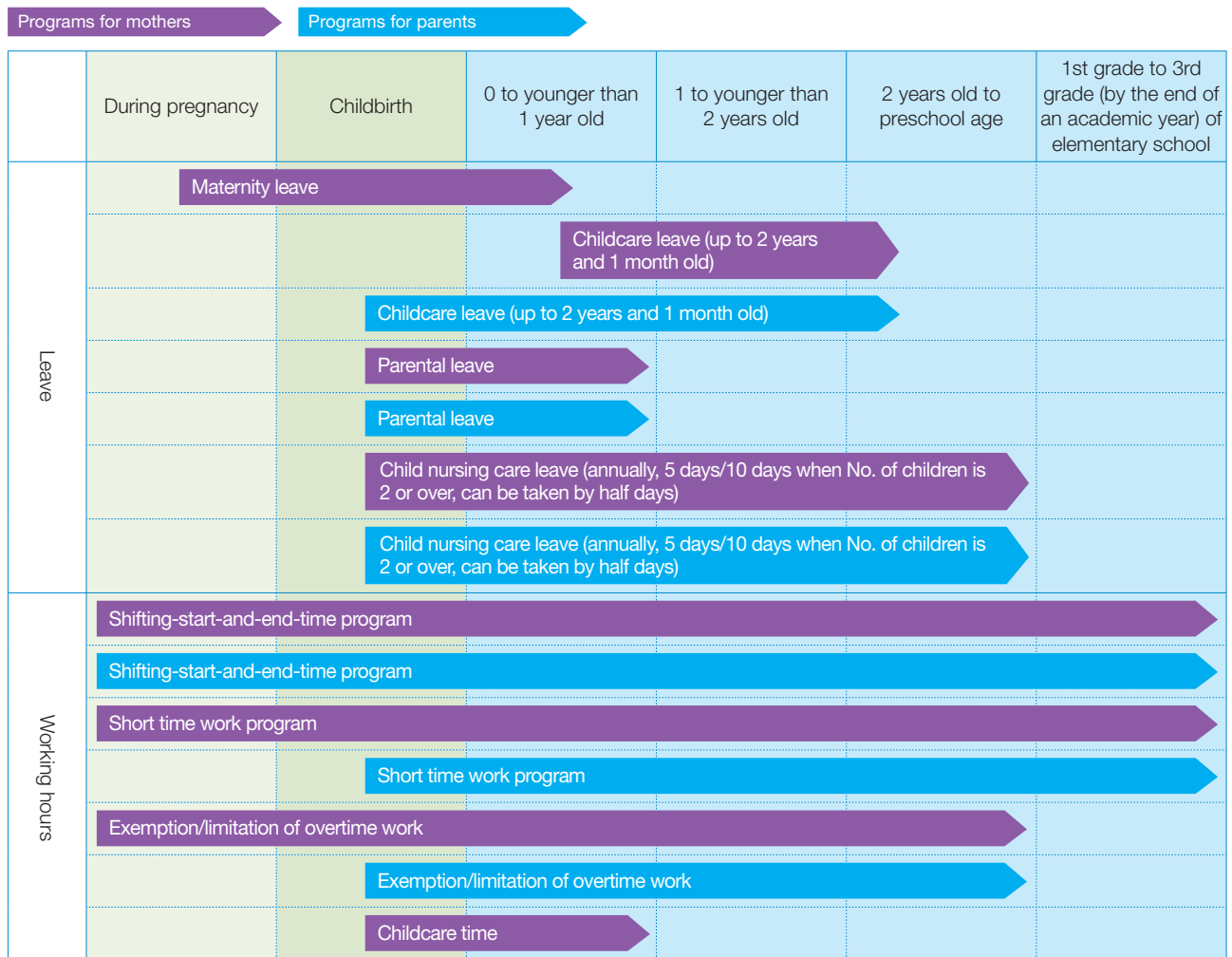
We will strengthen the existing actions to minimize infection risk and effectively use IT infrastructure for our business continuity.

### (7) Initiatives for Diversified Work Styles (Better Work-Life Balance)

The Bank offers the following programs and welfare system to foster a working environment where employees can pursue long careers.

#### Support for Balancing Work and Parenting

The Bank offers several programs to support employees in balancing work and parenting. Eligible employees can use the following paid leave; childcare leave up until their child turns two years and one month old, child nursing care leave for five days (when they have one child) or 10 days (when they have two or more children), a shorter working hours program from their pregnancy until the end of their child's third grade of elementary school and a shifting-start-and-end-time program. The Bank also offers a system of exemption from/limitation on overtime work. The Bank also supports male employees by offering paid leave for



Program and leave	Outline
Nursing care Kyugyo leave	365 days in total. Possible to divide this leave into up to 12 parts if necessary.
Nursing care Kyuka leave	10 days a year. It is possible to take a half-day leave.
Short time work program	Possible to use this program when eligible family members need nursing care
Shifting-start-and-end-time program	Possible to use this program when eligible family members need nursing care
Exemption of overtime work	Possible to use this program when eligible family members need nursing care
Medical leave (for nursing care)	Possible to use up to 50 days (of unused paid leave that had become invalid)

the initial five business days when they take childcare leave within eight weeks after childbirth. In FY2019, 46.7% of male employees took childcare leave. The Bank has established “Aozora Childcare Square” for employees on childcare leave or during pregnancy. The square facilitates

networking among them and those with child-rearing experience by holding gatherings and sessions. The HR Division also provides strong support for employees after using childcare leave.

### Support for Balancing Work and Nursing Care

The Bank offers several programs to support employees in balancing work and nursing care. Eligible employees can use up to 365 calendar days of nursing care leave (that can be separated into up to 12 segments), 10 days of paid nursing care leave, a shorter working hours program, a shifting start-and-end-time program and may be exempted from overtime work.

### Aozora Job Return Program

The Bank has introduced the Aozora Job Return Program for employees who leave Aozora for personal reasons such as childbirth, raising children, providing nursing care or a spouse's job transfer. This program provides women with an opportunity to play an active role at Aozora once again.

### Aozora Career Support Leave Program

The Bank's Career Support Leave Program enables employees who cannot continue to work for us when they have to relocate because of a spouse's job transfer/ studying abroad or when they themselves study abroad at graduate school or try to acquire qualification to take leave for up to three years.

### (8) Talent Development for Global Business

To acquire talent for our diversified and global banking business and strengthen our human capital in growth areas, the Bank consistently tries to improve employees' language skills by requesting them to take TOEIC. The Bank also endeavors to develop the talents of capable employees with the desire and potential for international business by offering opportunities to participate in language study programs and on-the-job training, to work overseas at branch offices as trainees and to join the "Challenge Program for International Business."

### (9) Healthcare Management

The Bank has a Health Management Office in the Yotsuya Head Office where doctors, dentists and other medical staff work to manage employees' healthcare, implement measures to keep employees fit and offer other medical services. The Health Management Office conducts annual regular health checkups Bank-wide, and almost 100% of eligible employees have their checkup every year. The office offers follow-up care and specific health guidance based on results of these checkups.

In cooperation with the Aozora Bank Health Insurance Society, the Bank provides financial support for employees to have complete medical checkups as well as an allowance for medical checkups for employees' spouses, regular health checkups for employees' family members, and gynecological checkups.

The Health Management Office conducts the Stress Check Program for employees every year. It offers mental health counseling at the office and introduces employees to outside mental health professionals when necessary.

The Health Management Office strives to create a healthier and better workplace environment by sharing information about seasonal diseases, offering a flu vaccination program at the office and designated medical institutions, and providing an allowance for medical smoking cessation services to successful former smokers.

### (10) Initiatives for Employees with Disabilities

Aozora Bank has improved its working environment for employees with disabilities. We have introduced "LiveTalk" software, which translates speech into text, and "COMUOON®," a hearing assistance tool for hearing-impaired employees.

# Stakeholder Communication

## » Our stakeholders



## Communication with Shareholders

### Shareholder and Investor Relations

Aozora engages in investor relations activities in order to ensure clear and regular communications with its shareholders and investors. In addition to holding meetings with institutional and foreign investors, analyst meetings and teleconferences, in FY2019 the Bank hosted 17 presentations in major cities across Japan to help retail investors and shareholders better understand Aozora Bank. These meetings include Q&A sessions for those in attendance.



Informational presentation meeting for retail investors

### Shareholders' Meeting

On June 24, 2020, the 87th General Meeting of Shareholders was held in the Diamond Room of the Hotel Grand Palace located in Chiyoda-ku, Tokyo. This year we were required to have sufficient space between chairs to allow for social distancing in order to prevent the spread of COVID-19. As a result, this constraint significantly reduced the seating capacity compared to previous years, limiting the number of attendees allowed inside the venue to 34. In addition, shareholders were asked to preregister their attendance. During the Q&A session, in addition to the pre-planned questions and comments received from non-attendees, we also received questions and comments regarding GMO Aozora Net Bank's products and services. A video of this year's General Meeting has been uploaded to the Aozora website.

### Aozora Dispatch

The Bank publishes a twice-yearly newsletter for shareholders entitled "Aozora Dispatch." Aozora Dispatch is an excellent vehicle for communicating with shareholders and includes a management message together with



an overview of the most recent earnings results. Also included are articles on relevant topics and highlights of the Bank's branch offices. Starting with the 2020 summer issue released this June, Aozora Dispatch is available via the Aozora website as we have ended publishing of the print edition in order to be more environmentally conscious.

## Communication with Employees

### Town Hall Meeting

The Town Hall meeting was held on December 20, 2019 at Lecture Hall 101 of the Sophia Tower Yotsuya headquarters. The meeting was attended by approximately 700 officers and employees of the Aozora Group as well as approximately 800 officers and employees from each of the branch offices across Japan and overseas via a video meeting system. The meeting agenda included rebuilding our corporate culture, redefining Aozora's management philosophy, facilitating communication, and the outline of "Aozora Structural Reform", our new human resources reform program.

### Small Meetings

Beginning in January, 2020, we held 33 small meetings as a way to facilitate communication between employees and officers of the Bank. The meetings were held at the head office, branch locations, and Aozora Group companies, with each meeting facilitated by one executive officer and approximately 20-30 officers and employees. In addition to discussions about Aozora's management philosophy, attendees asked questions and offered opinions on a range of topics which led to quality discussions.

### Weekly Message from EOs

Starting in January, 2020, every week one of our executive officers is given the opportunity to address all of Aozora's employees regarding their personal thoughts and expectations. These messages supplement communications with the officers leading their individual divisions and further facilitate communication by helping employees get to know other divisions better by hearing from company leaders with whom they may have limited regular contact.



# Social Welfare and Environmental Initiatives

## (1) Response to Environmental and Energy Issues

### Reduction of CO<sub>2</sub> Emissions and Power Consumption

The Bank's head office in Yotsuya is placed in an environmentally friendly building equipped with highly insulated glass, a natural ventilation system and rooftop greenery. With offices employing LED lighting with automatic dimming controls, we are also working to minimize power consumption. (We reduced the power usage by 100,000 kwh, or 3.4% year on year.)

For our Fuchu annex, we remain focused on reducing greenhouse gas emissions after it was designated an "Office Taking Excellent Specific Global Warming Countermeasures" in January 2010 under the revised Environment Preservation Ordinance of the Tokyo metropolitan government. Power usage, a major factor of greenhouse gas emissions, has seen a continued decline, this year a reduction of 520,000 kwh, or 6.5% year on year.

In our other offices and branches, we also strive to reduce power consumption through the adjustment of air-conditioning settings and other such measures.

For our company cars (leased), we promote the use of hybrid and other eco-friendly vehicles (which now account for 93% of vehicles).

### Recycling of Waste Material

The Bank recycles documents that have reached the end of their storage period (approximately 80 tons annually) and converts data storage media that are no longer required into solid fuel (approximately 100 kg annually), rather than disposing of them by incineration. Through these and other measures, such as the 100% recycling of non-burnable head office waste (approximately 60 tons annually), the Bank continues to be proactive in the recycling of waste materials.

### Business Casual Dress Code

As part of our efforts to reduce the amount of power consumed by air-conditioning and heating, as well as create a more comfortable working environment, employees dress business casual throughout the year, in line with the Ministry of the Environment's "Cool Biz" and "Warm Biz" initiatives.

### Participation in the Ecocap Movement

The Bank has participated in the Ecocap Movement since December 2010. We separate and recycle caps from plastic bottles as part of an initiative to provide vaccines for children around the world, in addition to contributing to the reduction of CO<sub>2</sub> released through bottle incineration. In November, in solidarity with the aims of the "Ecocap Week 2019" campaign led by a volunteer group from Meiji University called Tree, we donated prizes to their lottery event wherein participants received raffle tickets in return for bringing in plastic bottle caps.

### Active Participation in Renewable Energy-Related Deals

Together with our regional financial institution partners, we share an understanding of the importance of environmental issues and actively support deals, mainly in regional areas, which encourage the adoption and use of renewable energy.

### Coal-fired Power Plant Project Finance Policy

As a means of demonstrating its social responsibility as a financial institution, and in concert with initiatives underway in many developed countries aimed at achieving a low or carbon neutral society, Aozora has decided, in principle, to avoid financing projects that involve coal-fired thermal power stations.

In limited situations, the Bank may elect to make an exception for projects that involve facilities with ultra-supercritical efficiency or better, after evaluating the project's background and other factors. In these limited cases, the Bank will carefully determine whether to pursue financing based on the respective countries' energy policies and climate change initiatives, as well as international guidelines such as the OECD Arrangement on Officially Supported Export Credits.

### Support for Task Force on Climate-related Financial Disclosures Recommendations

Aozora formally announced its support for the recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD") in March 2020. In light of the TCFD's recommendations, Aozora will take steps to further enhance the quality of its communications with trading partners and investors by disclosing additional climate change-related information in the areas of "Governance," "Strategy," "Risk Management," and "Metrics and Targets."

## (2) Partnerships with Various Stakeholders

### Support for Countermeasures Against the Spread of COVID-19

In April 2020, to support medical professionals in their efforts to combat the COVID-19 global pandemic, Aozora donated 30 million yen and surgical masks to the All Japan Hospital Association (AJHA).



### Support for Areas Affected by Earthquakes, Storms and Floods

#### 1. Financial Donations

We make financial donations to assist with the relief and recovery efforts of people and areas affected by natural disasters when they occur.

#### 2. Volunteer Activities of Officers and Employees

We support the volunteer activities of our Group's officers and employees.

#### 3. Holiday Entitlement for Volunteer Activities

The Bank grants volunteer leave to officers and employees who wish to participate in volunteer activities in areas affected by disaster. We are making ongoing efforts to enhance this system.

### TABLE FOR TWO Initiative

Since March 2011, we have participated in the TABLE FOR TWO (TFT) program, providing employees the opportunity to donate ¥20 with the purchase of a meal at our head office cafeteria (approximately the price of one school meal in some developing countries). TFT is based on the concept of "table for two," whereby people from developed countries share a meal with children from developing nations. For the fiscal year ended March 2020, we donated the equivalent of 11,197 meals.

### Use of Domestic Furniture in Head Office

In our head office, we use drawing room tables, etc., made of various domestic timbers in collaboration with local furniture manufacturers. This approach aims to support Japan's forest industry and furniture manufacturers. The head office received a prize in the Social Design category in the "Japan Wood Design Award 2017," a project subsidized by the Forestry Agency.

### Donation of Used Stamps to Volunteer Organizations

Aozora collects and donates used stamps to volunteer organizations to assist people providing care overseas in obtaining funds, medical supplies and other necessities.

### Installation of Automated External Defibrillators (AEDs)

We have installed AEDs at our head office and computer center in Fuchu.

### Support for Special Olympics Nippon

Special Olympics Nippon (SON) is the Japanese branch of the Special Olympics, an international organization that supports the social participation of people with intellectual disabilities by providing regular sports training and competitions for them to showcase their skills throughout the year. The Bank has helped with the PR activities for SON since May 2010, placing the organization's "Yell" fund-raising pamphlets for individual donations at our branches.

### Sign Language Interpretation Relay Service

We have launched a Sign Language Interpretation Service that will enable our customers with hearing impairment to make full use of Aozora's customer support services, for such things as reporting a lost ATM card.

The new service is provided by PLUSVoice, a company that specializes in the management of call centers with sign language interpretation capabilities. If a customer calls to report a lost ATM card, passbook, certificate or seal with a smartphone or tablet, an interpreter at PLUSVoice communicates in sign language and writing with the customer via video call, while simultaneously relaying the information to an Aozora call center operator.



### Installation of Assistive Devices and Wheelchairs in All Sales Branches

We have placed writing and communication boards to enable customers with hearing difficulties to easily convey their requests, as well as COMUOON® tabletop conversation support devices, which improve the hearing of the listener and increase the clarity of the speaker's voice, in all our sales branches. Furthermore, wheelchairs are available for physically disabled or aged people in all our branches.



### Initiatives for the Recruitment of Persons with Disabilities

As part of our employment initiatives to support all members of society, we offer job assistance programs for those with disabilities seeking stable employment, including a career transition support office.

We gave a presentation about our initiatives at the 27th Research and Practice Workshop on Vocational Rehabilitation, hosted by the Japan Organization for Employment of the Elderly, Persons with Disabilities and Job Seekers, an independent administrative institution in Japan.



### Promoting Human Rights Awareness

We established Aozora's Human Rights Enlightenment Committee and provide training programs on human rights issues annually to all our employees to create a corporate culture in which human rights are respected.

We also actively participate in the human rights training and awareness activities through the Industrial Federation for Human Rights in Tokyo, Osaka and other cities as well as slogan activities held by the Japanese Bankers Association and Industrial Federation for Human Rights, Tokyo.

### (3) Development of a Healthy Economy and Society (Developing Closer Regional Relationships)

#### Specialized Financing Support Program for Corporate Customers Impacted by COVID-19

Aozora has begun offering specialized consulting to companies adversely affected by the COVID-19 pandemic.

In addition, Aozora began offering up to 30 million yen in special purpose loans to its trading partners in April 2020.

#### Support for Finance Operations of Regional Medical Institutions

We support medical institutions' finance operations, which are crucial to regional healthcare. We arrange funding and conduct situational analyses for medical institutions.

### Cleanup Efforts in Chiyoda Ward

In addition to cleaning the area around our head office, we also take part in the Chiyoda Ward cleanup days held annually in June and November to increase people's awareness about keeping the ward clean, as well as to promote beautification.



### Sprinkling Water to Mitigate the Urban "Heat Island" Effect

In August, when power conservation is a particular concern, we occasionally participate in an annual water-sprinkling event held by Chiyoda Ward.



### Sapporo Branch: Taking Part in Local Cleanup Efforts

Our Sapporo Branch takes part in the "Tsukiichi" cleanup initiative, run by the Sapporo Ekimae-dori Association since 2015, and branch employees use their lunch breaks to help clean the area around Ekimae-dori Street, popular with tourists from both within Japan and abroad.



### Kyoto Branch: Participating in the "Gion Matsuri" Festival

Our Kyoto Branch participates in the "yamahoko" float parade and the selling of "chimaki" good luck charms during the Gion Matsuri festival, contributing to the preservation of regional culture.



## Social Welfare and Environmental Initiatives

### Kanazawa Branch: Participating in Local Flower Planting Project

The Bank's Kanazawa Branch participates in the City of Kanazawa's "Hana Ippai" project, helping to plant flowers along Hyakumangoku Street.



### Sendai Branch: Participating in Volunteer Activities

The Sendai Branch occasionally joins volunteer activities including the "Coastal Forest Recovery Project Relating to the Great East Japan Earthquake," run by the public-interest incorporated foundation OISCA. For the fiscal year ended March 2020, we participated in digging irrigation trenches in July.



### Participation in Local Events around Jiyugaoka

The Financial Oasis Jiyugaoka (sub-office of the Shibuya Branch) participates in seasonal events organized by the Jiyugaoka Association of Business Commerce.

In addition to the Jiyugaoka Association of Business Commerce, a local university also participates in running events as part of its seminar group activities. The seminar group contributes ideas such as member restaurants of the Jiyugaoka Restaurant Association creating special dishes to help promote local specialty goods of our regional financial institution partners, in addition to various other PR activities. The Bank has provided the use of its Oasis Room (a multipurpose space), located on the ground floor, for these seminars.

While the Oasis Room has not been available to the public since March 2020, we are currently developing new initiatives to continue supporting local events.

### (4) Response to Changing Age Demographics Dementia Supporter Training for Sales Staff

To offer support to people with dementia and their family members, all our retail sales staff are certified as dementia supporters under an initiative promoted by the Ministry of Health, Labour and Welfare.

Our sales staff are trained to properly understand dementia, as well as the behavior and language used by people with dementia. This training enables our sales staff to respond appropriately to customers with dementia and contributes to our staff's overall understanding of the Bank's senior-generation customers.

### Joint Research with Sophia University

Since September 2017, we have released the "Aozora-Sophia Senior Consumption Trend Index" every month as a product of our joint research on senior consumer trends and seniors' willingness to purchase goods. We also announced the launch of a joint research project with a focus on financial gerontology in July 2019.

### Learning and Research Opportunities for Students and Researchers from Sophia University

In May 2017, we relocated our head office to the Sophia Tower on the Sophia University campus. We take this opportunity to provide university students and researchers with finance-themed learning, research and work experience opportunities. We also aim to support the enhancement of financial literacy among the next generation through internships aimed at Sophia University students and lectures at the Faculty of Economics on the basics of banking, taught by the Bank's officers and employees.

### Participation in Internship Programs Offered by Meiji University, Sophia University and Nagoya University

In solidarity with the aims of Meiji University, Sophia University and Nagoya University's School of Law internship programs, the Bank regularly accepts students for work experience. The program supports the career development of many students and provides them with university credits for their degrees.

### Student Loan Repayment Assistance Program for New Employees

Aozora will provide a new student loan repayment assistance benefit program for young employees who obtained student loans to finance college and graduate school studies. The goal of this program is to create a comfortable, fulfilling workplace environment and promote the hiring of talented staff. Eligible employees will receive assistance benefits every year for three years after they join the company.



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# Corporate Data

## Corporate History

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

## Business Activities (As of July 1, 2020)

### • Deposits

#### *Deposits*

Checking accounts, savings accounts, time deposits, deposits-at-notice, non-residents' deposits in yen and deposits in foreign currencies

#### *Negotiable certificates of deposit*

### • Lending

#### *Loans*

Loans on deeds, loans on notes and overdraft

#### *Discount on promissory notes*

Bankers' acceptances and discounts on commercial bills

### • Securities investment business

Public bonds, local bonds, corporate bonds, equity and other securities for cash reserves for payment of the deposit and fund management

### • Domestic exchange

Such services as money orders between branches of the Bank and those of other banks, collection of payments, etc.

### • Foreign exchange

Remittance to foreign countries and other foreign currency-related businesses

### • Consignment of bonds

Consignment business for soliciting or managing public bonds and issue agent or payment agent

### • Trust operations

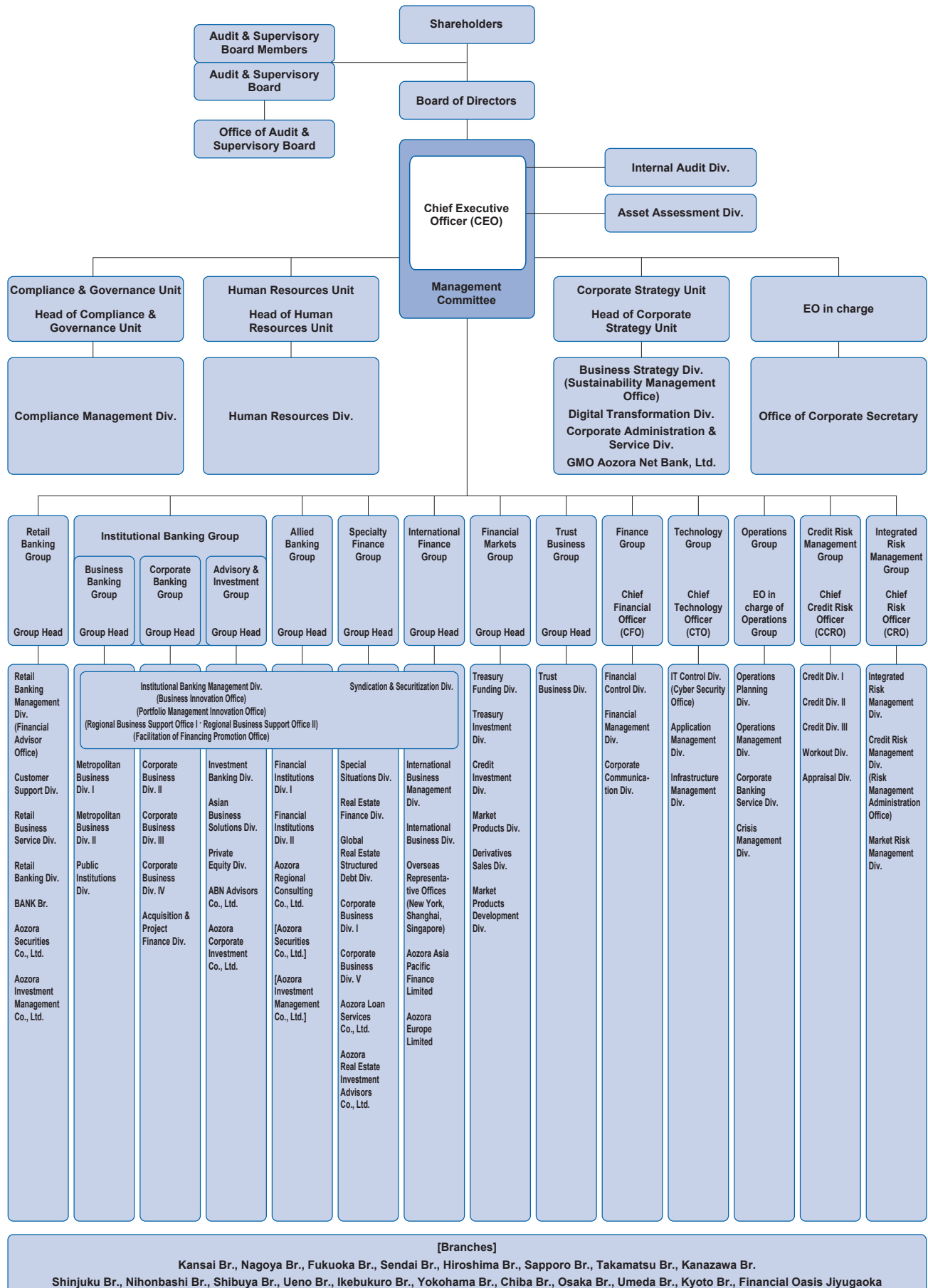
Management of various trust assets including cash, securities, monetary claims and real estate

### • Other services

1. Guarantee of liabilities (acceptances and guarantees)
2. Lending of securities
3. Underwriting of public bonds
4. Over-the-counter sales of securities investment trusts
5. Trust business for secured corporate bonds
6. Agency business
  - ① Revenue agency for Bank of Japan
  - ② Handling of funds for regional public entities, including those in Tokyo
7. Custody services
8. Interest rate, currency and other derivative transactions
9. Over-the-counter sales of insurance products
10. Financial instruments intermediary business

# Corporate Data

## Organization Chart (As of July 1, 2020)



## Directors, Audit & Supervisory Board Members and Executive Officers (As of July 1, 2020)

### Directors and Audit & Supervisory Board Members

<b>Director and Chairman</b>	Shinsuke Baba*
<b>Representative Director and President</b>	Kei Tanikawa*
<b>Director and Senior Managing Executive Officer</b>	Tomomi Akutagawa*
	Koji Yamakoshi*
<b>Directors</b>	Shunsuke Takeda Hiroyuki Mizuta Ippei Murakami Tomonori Ito
<b>Standing Audit &amp; Supervisory Board Member</b>	Satoshi Hashiguchi
<b>Audit &amp; Supervisory Board Members</b>	Kiyoto Hagiwara Toraki Inoue

\*Serving as Executive Officer concurrently

### Executive Officers

<b>Senior Managing Executive Officers</b>	Yukio Sekizawa Masayoshi Ohara Fumihiko Hirose
<b>Managing Executive Officers</b>	Masato Mano Takayoshi Nomura Takeshi Ito Yutaka Aoyama Takashi Kato Hideto Oomi Masaki Onuma
<b>Executive Officers</b>	Tomoyuki Yamada Akira Sakai Jun Shinozaki Kazuhiro Yasuda Akemi Hashimoto Tetsuji Okuda Toru Takahashi Hiroki Nakazato

## Staff Profile (As of March 31, 2020)

Number of Employees	Average Age	Average Years of Service	Average Yearly Salary
1,928(142)	43.0	14.6	7,930 thousand yen

Notes: 1. The number of employees includes executive officers and locally hired staff overseas, but excludes temporary employees.

2. The figure in parentheses is the average number of temporary employees for the year.

3. The average yearly salary includes bonuses and pay other than fixed wages.

## Office Directory (As of July 1, 2020)

### Overseas Network

#### • Representative Offices

##### New York Representative Office

*Chief Representative*  
Hideo Tahara

##### Address

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

##### Shanghai Representative Office

*Chief Representative*  
Shigeru Tanaka

##### Address

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

##### Representative Office Registered in Singapore

*Chief Representative*  
Masashi Okuoka

##### Address

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

### Domestic Network

#### • Head Office

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

#### • Branch Offices

##### Sapporo

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

##### Sendai

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

##### Shinjuku

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

##### Nihonbashi

3-3-11, Nihonbashi,  
Chuo-ku, Tokyo 103-0027  
Tel: 03-3517-7888

##### Shibuya

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

##### Ueno

2-2-20, Ueno, Taito-ku,  
Tokyo 110-0005  
Tel: 03-3835-7511

##### Ikebukuro

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

##### Chiba

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

##### Yokohama

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

##### Kanazawa

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

##### Nagoya

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

##### Kyoto

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

##### Kansai

1-12-12, Umeda, Kita-ku,  
Osaka 530-0001  
Tel: 06-4799-3541  
(Kansai Branch deals solely with corporate clients.)

##### Osaka

2-2-3, Namba, Chuo-ku,  
Osaka 542-0076  
Tel: 06-4708-2051

##### Umeda

1-2-12, Umeda, Kita-ku,  
Osaka 530-0001  
Tel: 06-4799-3533

##### Hiroshima

13-13, Motomachi, Naka-ku,  
Hiroshima 730-0011  
Tel: 082-211-0125

##### Takamatsu

9-6, Konyamachi,  
Takamatsu 760-0027  
Tel: 087-821-5521

##### Fukuoka

2-8-36, Tenjin, Chuo-ku,  
Fukuoka 810-0001  
Tel: 092-751-4261

##### Bank Branch

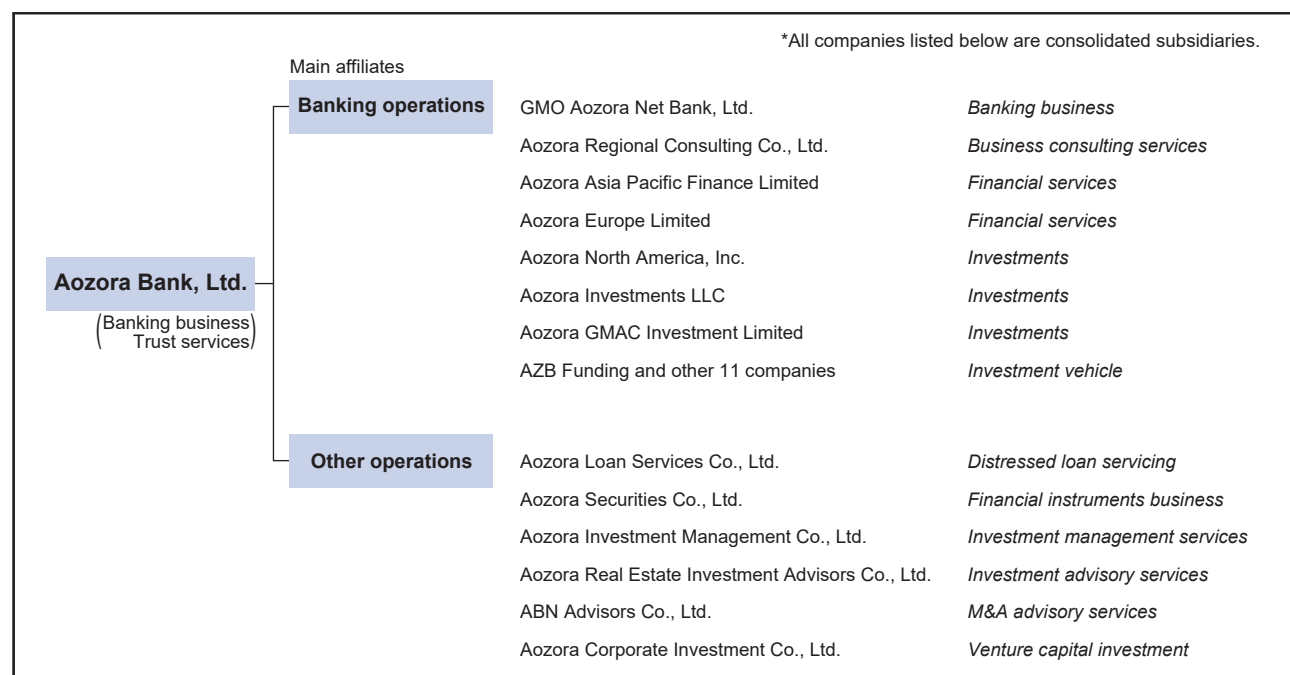
6-1-1, Kojimachi,  
Chiyoda-ku, Tokyo 102-8660  
<https://www.aozorabank.co.jp/bank/>

##### Financial Oasis Jiyugaoka (Shibuya Branch Jiyugaoka Office)

5-28-1, Okusawa, Setagaya-ku,  
Tokyo 158-0083  
Tel: 03-5483-3223



## Business Network (As of March 31, 2020)



(Note) Aozora Bank acquired 15% of common stocks of Orient Commercial Joint Stock Bank, Ltd., a mid-sized commercial bank based in Vietnam ('OCB Bank'), effective June 30, 2020. OCB Bank became an affiliated company of Aozora Bank, accounted for by the equity method, on the same day.

## Subsidiaries (As of March 31, 2020)

Company Name	Location	Business Activities	Established	Capital	Aozora Bank Shareholding	Group Shareholding
GMO Aozora Net Bank, Ltd.	Shibuya-ku, Tokyo	Banking business	February 28, 1994	13,101 millions of JPY	85.1	—
Aozora Loan Services Co., Ltd.	Chiyoda-ku, Tokyo	Distressed loan servicing	June 18, 1996	500 millions of JPY	67.6	—
Aozora Securities Co., Ltd.	Chiyoda-ku, Tokyo	Financial instruments business	January 23, 2006	3,000 millions of JPY	100.0	—
Aozora Regional Consulting Co., Ltd.	Chiyoda-ku, Tokyo	Business consulting services	March 21, 2013	10 millions of JPY	100.0	—
Aozora Investment Management Co., Ltd.	Chiyoda-ku, Tokyo	Investment management services	February 4, 2014	450 millions of JPY	100.0	—
Aozora Real Estate Investment Advisors Co., Ltd.	Chiyoda-ku, Tokyo	Investment advisory services	January 6, 2015	150 millions of JPY	100.0	—
ABN Advisors Co., Ltd.	Chiyoda-ku, Tokyo	M&A advisory services	May 24, 2017	200 millions of JPY	100.0	—
Aozora Corporate Investment Co., Ltd.	Chiyoda-ku, Tokyo	Venture capital investment	April 24, 2018	15 millions of JPY	100.0	—
Aozora Asia Pacific Finance Limited	Hong Kong, Republic of China	Financial services	June 29, 2005	100,000 thousands of USD	100.0	—
Aozora Europe Limited	London, United Kingdom	Financial services	December 15, 2015	1,000 thousands of GBP	100.0	—
Aozora North America, Inc.	Delaware, USA	Investments	November 21, 2006	411 thousands of USD	100.0	—
Aozora Investments LLC	Delaware, USA	Investments	November 22, 2006	500,282 thousands of USD	—	100.0
Aozora GMAC Investment Limited	London, United Kingdom	Investments	November 6, 2006	30,070 thousands of USD	100.0	—
AZB Funding	Cayman Islands, British West Indies	Investment vehicle	June 1, 2012	0 thousands of USD	—	—
Other 11 companies						

# Consolidated Business Results

## Consolidated Financial Highlights [Five-Year Summary]

Years Ended March 31

(Millions of Yen)

	2020	2019	2018	2017	2016
Ordinary income	184,406	160,136	148,819	134,704	124,054
Trust fees	462	372	426	411	410
Ordinary profit	43,330	47,796	57,984	51,764	55,721
Net income attributable to owners of the parent	28,142	36,130	43,064	43,849	43,499
Comprehensive income	(6,437)	30,923	38,609	35,270	23,158
Share capital	100,000	100,000	100,000	100,000	100,000
Total equity	424,758	448,710	437,234	420,345	405,498
Total assets	5,299,815	5,255,048	4,912,792	4,586,007	4,592,921
Debentures and bonds payable	259,935	283,946	257,563	246,269	259,465
Deposits (Note 1)	3,396,899	3,230,731	2,970,938	2,853,102	2,932,131
Loans and bills discounted	2,954,122	2,779,894	2,611,278	2,521,874	2,511,622
Securities	1,073,670	1,240,838	1,139,803	937,949	923,526
Total equity per share (yen) (Note 2)	3,659.84	3,844.08	3,735.00	3,586.16	346.83
Basic net income per share (yen) (Note 2)	241.18	309.67	369.16	375.93	37.29
Diluted net income per share (yen) (Note 2)	240.92	309.42	368.89	375.70	34.36
Consolidated capital adequacy ratio (domestic standard) (%)	10.29	10.27	10.39	10.75	11.03
Net cash provided by (used in) operating activities	(286,284)	147,285	227,599	33,243	180,160
Net cash provided by (used in) investing activities	121,823	(55,862)	(211,578)	(28,244)	(6,014)
Net cash provided by (used in) financing activities	(17,871)	(19,710)	(21,990)	(20,705)	(185,339)
Cash and cash equivalents, end of year	357,411	539,743	468,031	474,001	489,707
Trust assets (Note 3)	835,481	797,320	760,074	672,076	604,888

Notes: 1. Deposits include negotiable certificates of deposit (NCDs).

2. The bank consolidated every ten common shares into one common share on October 1, 2017. "Total equity per share", "Basic net income per share" and "Diluted net income per share" are presented as if the share consolidation was effective at the beginning of the year ended March 31, 2017.

3. "Trust assets" is assets in trust pertaining to trust business under the Act on Engagement in Trust Business by a Financial Institution (the Concurrent Business Act). The company operating the trust business among the Bank and its subsidiaries is GMO Aozora Net Bank, Ltd. until September 30, 2018, and the Bank since October 1, 2018.

# Consolidated Financial Review

## 1. Consolidated and Equity-Method Companies

The consolidated financial statements include the accounts of the Bank and its significant subsidiaries. The number of consolidated subsidiaries was 25 and 23 as of March 31, 2020 and 2019, respectively.

AZB Funding 11 Limited and AZB Funding 12 Limited were established and are now included in the scope of consolidation as subsidiaries.

No subsidiaries and affiliated companies were accounted for using the equity method.

## Consolidated and Equity-Method Companies

(Number of Companies)

Years Ended March 31	2020	2019	Change
Consolidated subsidiaries	25	23	2
Subsidiaries and affiliated companies accounted for using the equity method	0	0	0

## 2. Analysis of Business Results

Aozora reported consolidated net income attributable to owners of the parent of ¥28.1 billion, a decrease of 22.1% year on year.

### (1) Income

Total income was ¥184.4 billion, an increase of ¥24.2 billion year on year.

Interest income was ¥95.4 billion, a decrease of ¥2.0 billion year on year. The decline was primarily due to lower interest and dividends on securities, which offset the higher level of interest on loans and discounts.

Income from fees and commissions was ¥14.6 billion, while loan related fees remained strong.

Trading income was ¥26.5 billion, an increase of ¥18.1 billion year on year. This result was mainly due to increased earnings from the sale of derivative-related products to our financial institution and corporate customers and the sale of structured bonds to our retail customers. The Bank's trading business also remained strong due to further growth in customer-based transactions.

Other ordinary income was ¥31.1 billion, an increase of ¥8.1 billion year on year, mainly due to gains on the sale of U.S. government bonds and REITs in response to changes in market conditions.

Other income was ¥16.6 billion, a slight decrease of less than ¥0.1 billion.

(Millions of Yen)

Years Ended March 31	2020	2019	Change
<b>Total income</b>	<b>¥184,406</b>	<b>¥160,136</b>	<b>¥24,270</b>
Interest income	95,409	97,426	(2,016)
Interest on loans and discounts	61,435	59,188	2,246
Interest and dividends on securities	31,409	36,152	(4,742)
Interest on due from banks	839	926	(86)
Other interest income	1,724	1,158	566
Fees and commissions (including trust fees)	14,631	14,603	27
Trading income	26,505	8,340	18,165
Other ordinary income	31,175	22,995	8,179
Gains on sales of bonds and other securities	19,677	7,661	12,016
Other	11,498	15,334	(3,836)
Other income	16,685	16,770	(85)
Gains on sales of stocks and other securities	13,408	13,294	113
Gains on investments in money held in trust	644	473	170
Recoveries of written-off receivables	501	1,070	(569)
Reversal of provision for credit losses on off-balance-sheet instruments	296	134	161
Gains on disposal of fixed assets	0	0	0
Other	1,834	1,797	36

# Consolidated Financial Review

## (2) Expenses

Total expenses increased ¥28.7 billion year on year to ¥141.0 billion.

Interest expenses decreased ¥0.5 billion to ¥46.6 billion year on year, largely the result of a decline in U.S. dollar interest rates.

Other ordinary expenses increased ¥4.2 billion to ¥14.9 billion, mainly due to increased losses on derivatives.

General and administrative expenses increased ¥4.3 billion to ¥53.6 billion. The increase was mainly due to incremental expenses associated with the Bank's internet banking subsidiary and our new retail banking smartphone app, BANK<sup>TM</sup>.

Other expenses were ¥15.3 billion, an increase of ¥11.9 billion, mainly due to loss reserves established during the fourth quarter (Jan.-Mar.) as a result of the potential impact of COVID-19 on customer credit quality and business conditions.

(Millions of Yen)

Years Ended March 31	2020	2019	Change
<b>Total expenses</b>	<b>¥141,081</b>	<b>¥112,341</b>	<b>¥28,739</b>
Interest expenses	46,619	47,141	(521)
Interest on deposits	7,285	7,399	(113)
Interest on debentures and bonds payable	2,804	1,992	811
Interest on borrowings and rediscounts	1,711	2,125	(413)
Other interest expenses	34,817	35,624	(806)
Fees and commissions expenses	1,975	1,653	321
Trading Expenses	8,431	—	8,431
Other ordinary expenses	14,983	10,729	4,253
Amortization of debenture and bond issuance costs	244	245	(0)
Losses on foreign exchange transactions	3,263	5,651	(2,388)
Losses on sales of bonds and other securities	4,586	2,174	2,411
Losses on redemption of bonds and other securities	292	579	(286)
Losses on devaluation of bonds and other securities	209	0	209
Losses on derivatives	3,158	322	2,835
Other	3,229	1,755	1,473
General and administrative expenses	53,681	49,332	4,349
Other expenses	15,389	3,484	11,904
Losses on sales of stocks and other securities	0	—	0
Losses on devaluation of stocks and other securities	1,744	—	1,744
Write-off of loans	1,089	260	829
Provision of allowance for loan losses	10,729	1,637	9,092
Losses on disposal of fixed assets	4	1	2
Other	1,820	1,585	235

## (3) Net Income

Income before income taxes decreased ¥4.4 billion to ¥43.3 billion year on year. Income taxes were ¥17.7 billion. As a result of the above factors, consolidated net income attributable to owners of the parent was ¥28.1 billion, a decrease of ¥7.9 billion. Net income per share was ¥241.18.

(Millions of Yen)

Years Ended March 31	2020	2019	Change
<b>Income before income taxes</b>	<b>¥43,325</b>	<b>¥47,794</b>	<b>¥(4,469)</b>
<b>Income taxes</b>	<b>17,743</b>	<b>13,767</b>	<b>3,976</b>
Current	19,843	13,478	6,364
Deferred	(2,099)	288	(2,388)
<b>Net income</b>	<b>25,582</b>	<b>34,027</b>	<b>(8,445)</b>
<b>Net loss attributable to non-controlling interests</b>	<b>(2,560)</b>	<b>(2,103)</b>	<b>(456)</b>
<b>Net income attributable to owners of the parent</b>	<b>¥28,142</b>	<b>¥36,130</b>	<b>¥(7,988)</b>

### 3. Analysis of Financial Condition

#### (1) Loans and Bills Discounted

Loans were ¥2,954.1 billion, an increase of ¥174.2 billion, or 6.3%, from March 31, 2019.

Domestic loans increased by ¥181.8 billion from March 31, 2019 as the Bank maintained its focus on proper risk-return while responding to its customers' funding needs.

Overseas loans decreased by ¥7.6 billion from March 31,

2019. Aozora remains committed to disciplined risk management and a continued selective approach to new originations and, as a result, has rebalanced a portion of its North American corporate loan exposure in order to improve overall asset quality and reduce downside risk exposure. Risk-monitored loans on a consolidated basis increased ¥12.7 billion, to ¥28.3 billion from March 31, 2019 and the ratio to loan balance increased 0.4% to 1.0%.

#### Risk-Monitored Loans (Consolidated)

(Millions of Yen)

Years Ended March 31	2020	2019	Change
<b>Loan balance (end of period)</b>	<b>¥2,954,122</b>	<b>¥2,779,894</b>	<b>¥174,228</b>
<b>Risk-monitored loans</b>	<b>28,359</b>	<b>15,610</b>	<b>12,748</b>
Loans to bankrupt borrowers	4,460	—	4,460
Past due loans	21,614	14,201	7,413
Loans overdue for three months or more	—	—	—
Restructured loans	2,284	1,409	875
<b>Ratio to loan balance</b>	<b>1.0%</b>	<b>0.6%</b>	<b>0.4%</b>

#### Breakdown of Loans and Bills Discounted by Industry (Consolidated)

(Millions of Yen)

Years Ended March 31	2020	2019
<b>Domestic offices (excluding Japan offshore market accounts)</b>	<b>¥2,272,039</b>	<b>¥2,086,325</b>
Manufacturing	240,906	226,863
Agriculture, forestry and fisheries	4,628	3,677
Mining, quarry, gravel extraction	—	—
Construction	10,212	10,762
Electricity, gas, heat supply and water	47,275	32,130
Information and communications	77,707	47,853
Transport, postal service	35,565	42,483
Wholesale and retail trade	68,384	72,158
Finance and insurance	412,053	389,965
Real estate	625,814	567,699
Leasing	32,652	43,292
Various services	213,015	185,454
Local government	7,146	4,417
Others	496,675	459,566
<b>Overseas offices (including Japan offshore market accounts)</b>	<b>682,082</b>	<b>693,568</b>
Government	—	—
Financial institutions	—	—
Others	682,082	693,568
<b>Total</b>	<b>¥2,954,122</b>	<b>¥2,779,894</b>

Notes: 1. 'Domestic offices' includes the Bank (except foreign branches) and consolidated subsidiaries in Japan.

2. 'Overseas offices' includes foreign branches of the Bank and consolidated subsidiaries based overseas.



# Consolidated Financial Review

## (2) Securities

Securities were ¥1,073.6 billion as of March 31, 2020, a decrease of ¥167.1 billion, or 13.5%, compared to March 31, 2019 mainly due to a decrease in foreign bonds and ETFs.

Total unrealized gains were a net loss of ¥18.6 billion as of March 31, 2020, mainly due to the sharp decline of the financial markets towards the end of the fiscal period. Aozora remains committed to maintaining its focus on disciplined risk management while carefully monitoring market trends.

## Outstanding Balance of Securities Held (Consolidated)

(Millions of Yen)

Years Ended March 31	2020	2019	Change
<b>Japanese debt securities</b>	<b>¥98,154</b>	<b>¥87,273</b>	<b>¥10,880</b>
Japanese national government bonds	—	5,003	(5,003)
Japanese local government bonds	37,859	31,811	6,047
Japanese corporate bonds	60,294	50,459	9,835
<b>Japanese stocks</b>	<b>16,755</b>	<b>66,528</b>	<b>(49,772)</b>
<b>Other securities</b>	<b>958,760</b>	<b>1,087,036</b>	<b>(128,275)</b>
Foreign securities	820,172	951,830	(131,658)
Others	138,588	135,205	3,382
<b>Total</b>	<b>¥1,073,670</b>	<b>¥1,240,838</b>	<b>¥(167,167)</b>

## (3) Deposits, debentures and bonds payable

Total core funding (deposits, negotiable certificates of deposit, debentures and bonds) was ¥3,656.8 billion, an increase of ¥142.1 billion, or 4.0%, from March 31, 2019.

The percentage of retail funding to total core funding was 57%.

## Deposits, Debentures and Bonds Payable (Consolidated)

(Millions of Yen)

Years Ended March 31	2020	2019	Change
<b>Deposits</b>	<b>¥3,396,899</b>	<b>¥3,230,731</b>	<b>¥166,168</b>
Time deposits	2,464,899	2,614,567	(149,667)
Liquid deposits	828,836	520,358	308,477
Other	103,164	95,804	7,359
<b>Debentures</b>	<b>¥44,660</b>	<b>¥51,360</b>	<b>¥(6,700)</b>
<b>Bonds payable</b>	<b>¥215,275</b>	<b>¥232,586</b>	<b>¥(17,310)</b>

Note: Total of deposits and time deposits include negotiable certificates of deposit (NCDs).

## (4) Equity

Equity was ¥424.7 billion, representing a decrease of ¥23.9 billion, or 5.3%, from March 31, 2019, reflecting a decreased valuation difference on available-for-sale securities. Net assets per common share were ¥3,659.84.

# Consolidated Financial Statements

## Consolidated Balance Sheet

Aozora Bank, Ltd. and Consolidated Subsidiaries  
March 31, 2020

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
<b>Assets</b>			
Cash and cash equivalents (Notes 3 and 27)	¥ 357,411	¥ 539,743	\$ 3,284,130
Due from banks (Note 27)	106,863	78,972	981,930
Receivables under resale agreements (Note 27)	71,011	—	652,495
Monetary claims bought (Note 27)	66,778	51,121	613,604
Trading assets (Notes 4, 12, 27 and 28)	259,378	199,928	2,383,334
Money held in trust (Notes 6 and 27)	27,213	35,098	250,058
Securities (Notes 5, 12 and 27)	1,073,670	1,240,838	9,865,579
Loans and bills discounted (Notes 7, 12 and 27)	2,954,122	2,779,894	27,144,374
Foreign exchange (Notes 8 and 12)	67,168	49,480	617,187
Other assets (Notes 12, 16 and 27)	276,592	232,697	2,541,507
Tangible fixed assets (Note 9)	23,698	23,641	217,756
Intangible fixed assets (Note 9)	19,210	18,572	176,523
Retirement benefit asset (Note 17)	2,507	3,671	23,040
Deferred tax assets (Note 25)	26,960	23,368	247,727
Customers' liabilities for acceptances and guarantees (Note 10)	21,426	23,825	196,884
Allowance for loan losses (Note 11)	(53,799)	(45,004)	(494,348)
Allowance for investment losses	(399)	(800)	(3,671)
<b>Total</b>	<b>¥ 5,299,815</b>	<b>¥ 5,255,048</b>	<b>\$ 48,698,109</b>

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
<b>Liabilities and Equity</b>			
<b>Liabilities:</b>			
Deposits (Notes 13 and 27)	¥ 3,396,899	¥ 3,230,731	\$ 31,212,897
Debentures (Notes 14 and 27)	44,660	51,360	410,365
Call money and bills sold (Notes 12 and 27)	38,728	51,723	355,859
Payables under repurchase agreements (Notes 12 and 27)	27,758	49,658	255,062
Payables under securities lending transactions (Notes 12 and 27)	281,325	450,860	2,585,004
Trading liabilities (Notes 4, 27 and 28)	211,223	177,764	1,940,862
Borrowed money (Notes 12, 15 and 27)	427,610	320,559	3,929,164
Bonds payable (Notes 14 and 27)	215,275	232,586	1,978,089
Other liabilities (Notes 16 and 27)	198,834	206,223	1,827,023
Retirement benefit liability (Note 17)	10,348	9,784	95,088
Provision for retirement benefits for directors (and other officers)	3	2	31
Provision for credit losses on off-balance-sheet instruments	562	860	5,168
Provision for contingent loss	364	387	3,349
Reserves under special laws	8	8	76
Deferred tax liabilities (Note 25)	25	1	231
Acceptances and guarantees (Note 10)	21,426	23,825	196,884
<b>Total liabilities</b>	<b>4,875,056</b>	<b>4,806,337</b>	<b>44,795,152</b>
<b>Equity:</b>			
Shareholders' equity:			
Share capital (Note 18)	100,000	100,000	918,864
Capital surplus (Note 18)	87,388	87,377	802,980
Retained earnings (Notes 18 and 33)	269,545	259,021	2,476,754
Treasury stock—at cost (Note 18)	(3,297)	(3,312)	(30,301)
<b>Total</b>	<b>453,635</b>	<b>443,087</b>	<b>4,168,297</b>
Accumulated other comprehensive income (loss):			
Valuation difference on available-for-sale securities	(24,340)	23,501	(223,659)
Deferred gains or losses on hedges	229	(17,111)	2,112
Foreign currency translation adjustment	(806)	(291)	(7,410)
Remeasurements of defined benefit plans (Note 17)	(1,669)	(667)	(15,344)
<b>Total</b>	<b>(26,587)</b>	<b>5,431</b>	<b>(244,301)</b>
Share acquisition rights (Notes 18 and 19)	444	357	4,083
Non-controlling interests	(2,734)	(166)	(25,122)
<b>Total equity</b>	<b>424,758</b>	<b>448,710</b>	<b>3,902,957</b>
<b>Total</b>	<b>¥ 5,299,815</b>	<b>¥ 5,255,048</b>	<b>\$ 48,698,109</b>

See the accompanying notes to consolidated financial statements.

# Consolidated Financial Statements

## Consolidated Statement of Income

Aozora Bank, Ltd. and Consolidated Subsidiaries  
Year Ended March 31, 2020

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
<b>Income:</b>			
Interest income:			
Interest on loans and discounts	¥ 61,435	¥ 59,188	\$ 564,507
Interest and dividends on securities	31,409	36,152	288,612
Interest on due from banks	839	926	7,716
Other interest income	1,724	1,158	15,848
Trust fees	462	372	4,251
Fees and commissions income	14,168	14,230	130,189
Trading income	26,505	8,340	243,554
Other ordinary income (Note 20)	31,175	22,995	286,459
Other income (Note 21)	16,685	16,770	153,313
<b>Total income</b>	<b>184,406</b>	<b>160,136</b>	<b>1,694,449</b>
<b>Expenses:</b>			
Interest expenses:			
Interest on deposits	7,285	7,399	66,942
Interest on debentures and bonds payable	2,804	1,992	25,773
Interest on borrowings and rediscounts	1,711	2,125	15,729
Other interest expenses	34,817	35,624	319,928
Fees and commissions expenses	1,975	1,653	18,151
Trading expenses	8,431	—	77,479
Other ordinary expenses (Note 22)	14,983	10,729	137,679
General and administrative expenses (Note 23)	53,681	49,332	493,257
Other expenses (Note 24)	15,389	3,484	141,406
<b>Total expenses</b>	<b>141,081</b>	<b>112,341</b>	<b>1,296,344</b>
<b>Income before income taxes</b>	<b>43,325</b>	<b>47,794</b>	<b>398,105</b>
<b>Income taxes (Note 25):</b>			
Current	19,843	13,478	182,335
Deferred	(2,099)	288	(19,295)
<b>Total income taxes</b>	<b>17,743</b>	<b>13,767</b>	<b>163,040</b>
<b>Net income</b>	<b>25,582</b>	<b>34,027</b>	<b>235,065</b>
<b>Net loss attributable to non-controlling interests</b>	<b>(2,560)</b>	<b>(2,103)</b>	<b>(23,523)</b>
<b>Net income attributable to owners of the parent</b>	<b>¥ 28,142</b>	<b>¥ 36,130</b>	<b>\$ 258,588</b>

	Yen		U.S. Dollars (Note 1)
	2020	2019	2020
<b>Per share information:</b>			
Basic net income per share of common stock (Note 30)	¥ 241.18	¥ 309.67	\$ 2.22
Diluted net income per share of common stock (Note 30)	240.92	309.42	2.21
Cash dividends applicable to the year:			
Common stock	156.00	154.00	1.43

See the accompanying notes to consolidated financial statements.

## Consolidated Statement of Comprehensive Income

Aozora Bank, Ltd. and Consolidated Subsidiaries  
Year Ended March 31, 2020

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
<b>Net income</b>	<b>¥ 25,582</b>	<b>¥ 34,027</b>	<b>\$ 235,065</b>
<b>Other comprehensive income (loss) (Note 29):</b>			
Valuation difference on available-for-sale securities	(47,842)	(11,843)	(439,608)
Deferred gains or losses on hedges	17,341	8,469	159,341
Foreign currency translation adjustment	(515)	779	(4,732)
Remeasurements of defined benefit plans	(1,002)	(510)	(9,214)
<b>Total other comprehensive loss</b>	<b>(32,019)</b>	<b>(3,104)</b>	<b>(294,213)</b>
<b>Comprehensive income (loss) (Note 29)</b>	<b>¥ (6,437)</b>	<b>¥ 30,923</b>	<b>\$ (59,148)</b>
<b>Comprehensive income (loss) attributable to:</b>			
Owners of the parent	¥ (3,876)	¥ 33,027	\$ (35,621)
Non-controlling interests	(2,560)	(2,104)	(23,527)

See the accompanying notes to consolidated financial statements.

## Consolidated Statement of Changes in Equity

Aozora Bank, Ltd. and Consolidated Subsidiaries  
Year Ended March 31, 2020

	Millions of Yen												
	Shareholders' equity					Accumulated other comprehensive income (loss)					Share acquisition rights	Non-controlling interests	Total equity
	Share capital	Capital surplus	Retained earnings	Treasury stock—at cost	Total	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total			
Balance, April 1, 2018	¥ 100,000	¥ 87,345	¥ 243,190	¥ (3,351)	¥ 427,184	¥ 35,343	¥ (25,581)	¥ (1,070)	¥ (156)	¥ 8,535	¥ 331	¥ 1,183	¥ 437,234
Net income attributable to owners of the parent			36,130		36,130								36,130
Cash dividends paid			(20,300)		(20,300)								(20,300)
Disposal of treasury stock (Note 18)		32		39	71								71
Net changes in items during the year						(11,842)	8,469	779	(510)	(3,103)	25	(1,349)	(4,426)
Balance, March 31, 2019	¥ 100,000	¥ 87,377	¥ 259,021	¥ (3,312)	¥ 443,087	¥ 23,501	¥ (17,111)	¥ (291)	¥ (667)	¥ 5,431	¥ 357	¥ (166)	¥ 448,710
Net income attributable to owners of the parent			28,142		28,142								28,142
Cash dividends paid			(17,618)		(17,618)								(17,618)
Purchase of treasury stock (Note 18)				(0)	(0)								(0)
Disposal of treasury stock (Note 18)		10		14	24								24
Net changes in items during the year						(47,842)	17,341	(515)	(1,002)	(32,018)	86	(2,567)	(34,499)
Balance, March 31, 2020	¥ 100,000	¥ 87,388	¥ 269,545	¥ (3,297)	¥ 453,635	¥ (24,340)	¥ 229	¥ (806)	¥ (1,669)	¥ (26,587)	¥ 444	¥ (2,734)	¥ 424,758

	Thousands of U.S. Dollars (Note 1)												
	Shareholders' equity					Accumulated other comprehensive income (loss)					Share acquisition rights	Non-controlling interests	Total equity
	Share capital	Capital surplus	Retained earnings	Treasury stock—at cost	Total	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total			
Balance, March 31, 2019	\$ 918,864	\$ 802,884	\$ 2,380,059	\$ (30,434)	\$ 4,071,373	\$ 215,945	\$ (157,229)	\$ (2,677)	\$ (6,131)	\$ 49,908	\$ 3,287	\$ (1,527)	\$ 4,123,041
Net income attributable to owners of the parent			258,588		258,588								258,588
Cash dividends paid			(161,893)		(161,893)								(161,893)
Purchase of treasury stock (Note 18)				(0)	(0)								(0)
Disposal of treasury stock (Note 18)		96		133	229								229
Net changes in items during the year						(439,604)	159,341	(4,733)	(9,213)	(294,209)	796	(23,595)	(317,008)
Balance, March 31, 2020	\$ 918,864	\$ 802,980	\$ 2,476,754	\$ (30,301)	\$ 4,168,297	\$ (223,659)	\$ 2,112	\$ (7,410)	\$ (15,344)	\$ (244,301)	\$ 4,083	\$ (25,122)	\$ 3,902,957

See the accompanying notes to consolidated financial statements.

# Consolidated Financial Statements

## Consolidated Statement of Cash Flows

Aozora Bank, Ltd. and Consolidated Subsidiaries  
Year Ended March 31, 2020

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
<b>Cash flows from operating activities:</b>			
Income before income taxes	¥ 43,325	¥ 47,794	\$ 398,105
Adjustments for:			
Depreciation and amortization	5,407	4,784	49,687
Increase (decrease) in allowance for loan losses	8,809	1,496	80,952
Increase (decrease) in allowance for investment losses	(401)	498	(3,688)
Increase (decrease) in retirement benefit asset	(396)	(1,701)	(3,646)
Increase (decrease) in retirement benefit liability	678	266	6,239
Increase (decrease) in provision for retirement benefits for directors (and other officers)	0	0	6
Increase (decrease) in provision for credit losses on off-balance-sheet instruments	(297)	(135)	(2,731)
Interest income (accrual basis)	(95,409)	(97,426)	(876,683)
Interest expenses (accrual basis)	46,619	47,141	428,373
Loss (gain) on securities	(26,252)	(18,201)	(241,229)
Loss (gain) on money held in trust	(644)	(473)	(5,919)
Foreign exchange losses (gains)	35,036	(45,100)	321,936
Loss (gain) on disposal of fixed assets	4	1	39
Net decrease (increase) in trading assets	(59,449)	(20,256)	(546,264)
Net increase (decrease) in trading liabilities	33,459	47,562	307,450
Net decrease (increase) in loans and bills discounted	(189,434)	(148,610)	(1,740,648)
Net increase (decrease) in deposits	166,168	259,792	1,526,863
Net increase (decrease) in debentures	(6,700)	(13,350)	(61,564)
Net increase (decrease) in borrowed money (excluding subordinated borrowings)	107,051	5,309	983,658
Net decrease (increase) in due from banks (excluding due from the Bank of Japan)	(28,290)	(3,326)	(259,947)
Net decrease (increase) in call loans and bills bought and others	(86,668)	21,180	(796,366)
Net increase (decrease) in call money and bills sold and others	(34,895)	560	(320,645)
Net increase (decrease) in payables under securities lending transactions	(169,534)	19,550	(1,557,791)
Net decrease (increase) in foreign exchange—assets	(17,909)	(6,903)	(164,563)
Increase (decrease) in straight bonds—issuance and redemption	(17,310)	39,732	(159,062)
Interest and dividends received (cash basis)	97,822	92,768	898,858
Interest paid (cash basis)	(48,632)	(47,935)	(446,865)
Other, net	(36,989)	(20,792)	(339,884)
Subtotal	(274,831)	164,226	(2,525,329)
Income taxes paid	(11,453)	(16,940)	(105,240)
Net cash provided by (used in) operating activities	(286,284)	147,285	(2,630,569)
<b>Cash flows from investing activities:</b>			
Purchase of securities	(791,665)	(609,935)	(7,274,334)
Proceeds from sales of securities	807,033	486,042	7,415,539
Proceeds from redemption of securities	102,804	77,637	944,632
Increase in money held in trust	(180,284)	(96,600)	(1,656,571)
Decrease in money held in trust	188,896	92,787	1,735,699
Purchase of tangible fixed assets	(667)	(933)	(6,137)
Purchase of intangible fixed assets	(4,291)	(4,860)	(39,437)
Proceeds from sales of tangible fixed assets	0	0	6
Net cash provided by (used in) investing activities	121,823	(55,862)	1,119,397
<b>Cash flows from financing activities:</b>			
Repayments of lease obligations	(244)	(165)	(2,250)
Proceeds from stock issuance to non-controlling interests	—	761	—
Cash dividends paid	(17,618)	(20,300)	(161,893)
Cash dividends paid to non-controlling interests	(7)	(7)	(68)
Purchase of treasury stock	(0)	—	(0)
Proceeds from sales of treasury stock	0	0	0
Net cash used in financing activities	(17,871)	(19,710)	(164,211)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(182,331)</b>	<b>71,712</b>	<b>(1,675,383)</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>539,743</b>	<b>468,031</b>	<b>4,959,513</b>
<b>Cash and cash equivalents, end of year (Note 3)</b>	<b>¥ 357,411</b>	<b>¥ 539,743</b>	<b>\$ 3,284,130</b>

See the accompanying notes to consolidated financial statements.



# Notes to Consolidated Financial Statements

Aozora Bank, Ltd. and Consolidated Subsidiaries  
Year Ended March 31, 2020

## 1. Basis of Presentation of Consolidated Financial Statements

The accompanying consolidated financial statements of Aozora Bank, Ltd. (the 'Bank') and consolidated subsidiaries (together, the 'Group') have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act, the Banking Act of Japan and other related accounting regulations, and in accordance with accounting principles generally accepted in Japan ('Japanese GAAP'), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Bank is incorporated and operates. Japanese yen figures of less than one million yen are truncated, except for per share data. As a result, the totals do not necessarily equal the sum of the individual amounts. The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at the rate of ¥108.83 to \$1.00, the rate of exchange at March 31, 2020. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

## 2. Summary of Significant Accounting Policies

### (1) Use of Estimates

The preparation of consolidated financial statements in accordance with Japanese GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change in the near term include, but are not limited to, those that are related to the determination of the allowance for loan losses, deferred tax assets, and the valuation of financial instruments.

### (2) Consolidation

The consolidated financial statements include the accounts of the Bank and its significant subsidiaries. The number of consolidated subsidiaries was 25 as of March 31, 2020 and 23 as of March 31, 2019.

AZB Funding 11 Limited and AZB Funding 12 Limited were established and consolidated in this fiscal year.

Under the control and influence concepts, those entities in which the Bank, directly or indirectly, is able to exercise control over finance and operations are fully consolidated, and those entities over which the Group has the ability to exercise significant influence should be accounted for by the equity method.

Practical Issues Task Force ('PITF') No. 20, 'Practical Solution on Application of Control Criteria and Influence Criteria to Investment Associations,' issued by the Accounting Standards Board of Japan ('ASBJ'), provides additional guidance on how the control and influence concepts should be practically applied to investment vehicles, such as limited partnerships, *Tokumei Kumiai*

arrangements (a silent partnership under the Commercial Code of Japan), and other entities with similar characteristics in order to prevent these investment vehicles from being inappropriately excluded from consolidation.

The consolidated financial statements do not include the accounts of certain subsidiaries such as Aozora Chiiki Saisei Co., Ltd., because the combined total assets, total income, net income (loss) and retained earnings, etc. of such subsidiaries would not have a material effect on the accompanying consolidated financial statements.

Investments in unconsolidated subsidiaries and affiliated companies, such as AJ Capital Co., Ltd. and AZ-Star Co., Ltd. are generally stated at cost. These companies are not accounted for using the equity method of accounting because the effect on the accompanying consolidated financial statements would not be material even if the equity method of accounting had been applied to the investments in these companies.

The difference between the cost of an acquisition and the fair value of the net assets of the acquired subsidiaries at the date of acquisition is charged to operations when incurred due to its immateriality. A bargain purchase gain is charged to operations on the acquisition date after reassessing the procedures to allocate the acquisition price and ensure that an acquirer has correctly identified all of the assets acquired and all of the liabilities assumed with a review of such procedures used.

All significant intercompany balances and transactions are eliminated in consolidation. All material unrealized profits resulting from transactions within the Group are also eliminated.

# Consolidated Financial Statements

The ASBJ issued ASBJ Implementation Guidance No. 22, 'Implementation Guidance on Determining a Subsidiary and an Affiliate for Consolidated Financial Statements,' on May 13, 2008, which clarifies the conditions where a company does not regard an entity as a subsidiary even if the controlling interest of the entity is held by the company. This accounting regulation was implemented from the fiscal year commencing on and after October 1, 2008, and was applied by the Group from the year ended March 31, 2010.

In accordance with PITF No. 18, 'Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements,' foreign subsidiaries' financial statements prepared in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States are used for the consolidation process with certain limitations.

## (3) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and due from the Bank of Japan.

## (4) Trading Assets/Liabilities

Transactions for trading purposes (for the purpose of seeking to capture gains arising from short-term changes in interest rates, currency exchange rates or market prices of securities and other market-related indices or arbitrage opportunities) are included in 'Trading assets' or 'Trading liabilities,' as appropriate, on a trade-date basis. Trading assets and liabilities are stated at fair value.

Profits and losses on transactions for trading purposes are shown as 'Trading income' and 'Trading expenses,' as appropriate, on a trade-date basis.

## (5) Securities

All securities are classified and accounted for, depending on management's intent, as follows:

- 1) Trading securities which are held for the purpose of earning capital gains in the near term (other than securities booked in trading accounts) are reported at fair value, and the related unrealized gains and losses are recognized in the consolidated statement of income.
- 2) Held-to-maturity debt securities which are expected to be held to maturity with the positive intent and ability to hold them to maturity are reported at amortized cost.
- 3) Available-for-sale securities are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported within accumulated other comprehensive income as a separate component of equity. The cost of sale of these securities is determined mainly by the moving-average method.

The measurement at cost or amortized cost of available-for-sale securities is prohibited, unless the fair value cannot be reliably determined under 'Accounting Standard for Financial Instruments' (ASBJ Statement No. 10).

Non-marketable equity securities are generally regarded as securities whose fair value cannot be reliably determined

and are measured at cost. However, certain non-marketable debt securities, such as privately placed corporate bonds and certain asset-backed securities, are measured at fair value. The cost of non-marketable available-for-sale securities stated at cost is determined by the moving average method.

For other-than-temporary declines in fair value, the cost of securities is reduced to fair value and the impairment losses are recognized by a charge to operations.

The Group records its interests in investment limited partnerships, associations under the Civil Code of Japan, and *Tokumei Kumiai* arrangements, based on its proportionate share of the net assets in such entities, and recognizes its share of profits or losses in a manner similar to the equity method of accounting. The Group records such interests in 'Securities.'

Securities included in money held in trust on behalf of the Group are accounted for in the same manner as the securities mentioned above.

## (6) Derivatives and Hedging Activities

Derivative financial instruments (other than derivatives booked in trading accounts) are classified and accounted for as follows:

- 1) All derivatives other than those used for hedging purposes are recognized as either assets or liabilities and measured at fair value, with gains or losses recognized currently in the consolidated statement of income.
- 2) Derivatives used for hedging purposes, if they meet certain hedging criteria, including high correlation of fair value movement and effectiveness between the hedging instruments and the hedged items and the assessment of its effectiveness, are recognized as either assets or liabilities and measured at fair value. Valuation gains or losses on derivatives used for hedging purposes are primarily deferred over the terms of the hedged items within accumulated other comprehensive income as a component of equity and are charged to operations when the gains and losses on the hedged items are recognized.

### (a) Hedges of Interest Rate Risk

The Bank applies deferral hedge accounting to hedges of interest rate risk associated with financial assets and liabilities, principally by portfolio hedging, in accordance with 'Accounting and Auditing Treatments on the Application of Accounting Standards for Financial Instruments in the Banking Industry' (the Japanese Institute of Certified Public Accountants ('JICPA') Industry Audit Committee Report No. 24, February 13, 2002), or partly by individual hedging.

Under the JICPA Industry Audit Committee Report No.24, portfolio hedges to offset changes in fair value of fixed-rate instruments (such as loans or deposits) ('fair value hedges') are applied by grouping hedging instruments and hedged items by their maturities. The assessment of hedge effectiveness is generally based on the consideration of interest rate indices affecting the respective fair values of the group of hedging instruments and hedged items.

With regard to an individual hedge to offset changes in fair value of fixed-rate instruments, since principal conditions underlying in bonds payable as hedged items and interest rate swaps as hedging instruments are substantially on the same terms, the hedge is deemed highly effective.

#### **(b) Hedges of Foreign Currency Risk**

The Bank applies deferral hedge accounting to hedges of foreign currency risk associated with foreign currency-denominated financial assets and liabilities in accordance with 'Accounting and Auditing Treatments for Foreign Currency Transactions in the Banking Industry' (the JICPA Industry Audit Committee Report No. 25, July 29, 2002).

In accordance with the JICPA Industry Audit Committee Report No. 25, the Bank designates certain currency swaps and foreign exchange swaps for the purpose of funding foreign currencies as hedges for the exposure to changes in foreign exchange rates associated with foreign currency-denominated assets or liabilities when the foreign currency positions on the hedged assets or liabilities are expected to exceed the corresponding foreign currency positions on the hedging instruments. Hedge effectiveness is reviewed by comparing the total currency position of the hedged items with that of the hedging instruments by currency.

For hedging the foreign currency exposure of foreign currency-denominated available-for-sale securities (other than debt securities), which were designated in advance, fair value hedge accounting is adopted on a portfolio basis when the cost of the hedged securities is covered with offsetting liabilities denominated in the same foreign currency as the hedged securities.

#### **(c) Hedges of Stock Price Risk**

The Bank designates available-for-sale securities (stock, etc.) as hedged items and total return swaps as hedging instruments and applies individual deferral hedge accounting.

The assessment of hedge effectiveness is generally based on the comparison of changes in value of the hedged item and hedging instruments.

#### **(d) Intercompany and Intracompany Derivative Transactions**

For intercompany and intracompany derivative transactions for hedging purposes ('Internal derivatives'), including currency and interest rate swaps, the Bank currently charges gains and losses on internal derivatives to operations or defers them within accumulated other comprehensive income as a component of equity without elimination in accordance with the JICPA Industry Audit Committee Reports No. 24 and No. 25. These reports permit a bank to retain the gains and losses on internal derivatives in its consolidated financial statements without elimination if the bank establishes and follows strict hedging criteria by entering into mirror-image offsetting transactions with external third parties within three business days after the designation of internal derivatives as hedging instruments.

#### **(7) Tangible Fixed Assets and Intangible Fixed Assets**

Tangible fixed assets and intangible fixed assets are stated at cost.

Depreciation of tangible fixed assets of the Group is computed primarily by the declining-balance method at rates based on the estimated useful lives of the assets, while the straight-line method is applied to buildings, including structures and equipment attached to buildings, of the Bank. The ranges of useful lives are principally from 15 years to 50 years for buildings and from 5 years to 15 years for other tangible fixed assets.

Amortization of intangible fixed assets of the Group is computed by the straight-line method over the estimated useful lives of the assets. Costs of software developed or obtained for internal use are amortized over the estimated useful lives of the software (principally from 5 years to 11 years).

Lease assets under finance lease transactions, in which substantial ownership is not deemed to be transferred, are depreciated by the straight-line method over the lease term. The salvage value is zero or the guaranteed amounts if specified in the lease contracts.

#### **(8) Long-Lived Assets**

The Group reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or asset group or the net selling price at disposition.

#### **(9) Deferred Charges**

Corporate bond issuance expenses are deferred and amortized by the straight-line method over the terms of the corporate bonds.

#### **(10) Write-Off of Loans and Allowance for Loan Losses**

Loans to borrowers who are assessed as 'Bankrupt' (in the process of legal proceedings for bankruptcy, special liquidation, etc.) or 'De facto bankrupt' (in serious financial difficulties and are not deemed to be capable of restructuring) under the Bank's self-assessment guidelines are written off to the amounts expected to be collected through the disposal of collateral or execution of guarantees, etc. The amounts deemed to be uncollectible and written off were ¥18,994 million (\$174,538 thousand) and ¥18,999 million at March 31, 2020 and 2019, respectively.

# Consolidated Financial Statements

For loans to borrowers who are assessed as 'In danger of bankruptcy' (not yet bankrupt but are in financial difficulty and are highly likely to go bankrupt in the foreseeable future), a specific allowance is provided for the loan losses at an amount considered to be necessary based on an overall solvency assessment of the borrowers and expected collectible amounts through the disposal of collateral or execution of guarantees, etc. For loans whose future cash flows of principal and interest are reasonably estimated, the difference between the discounted cash flows and the carrying amount is accounted for as an allowance for loan losses (the 'DCF method').

For other loans, the Bank provides the expected loan loss for the average remaining period of loans. The expected loan loss is determined based on the average rates derived from historical loan losses or bankruptcies over a certain period of time in the past, with certain adjustments, such as future prospects. However, for borrowers with a large credit exposure, categorized as 'Need attention', under the internal credit rating system, the loan loss amount estimated by the DCF method is reflected as an addition to the allowance for loan losses calculated based on the estimated loan loss ratio, if necessary.

An allowance for loans to restructuring countries is provided for the amount of expected losses based on an assessment of political and economic conditions in their respective countries.

All loans are monitored in line with an internal self-assessment standard, on an ongoing basis. Operating divisions or branches review internal credit ratings of borrowers ('Borrower Ratings') which are defined in line with borrower categories and those ratings are then approved by the divisions in charge of credit. The division in charge of asset assessment, which is independent of operating divisions or branches and the divisions in charge of credit, reviews the appropriateness of internal credit ratings on a sample basis.

Based upon the borrower categories determined by the aforementioned process as of the balance sheet date, operating divisions and branches initially compute the amounts of write-offs and allowance, and the division in charge of asset assessment verifies the amounts and determines the final amounts.

With regard to the allowance for loan losses of consolidated subsidiaries, a general allowance is calculated for the amount of estimated loan losses using historical loan loss data over a defined period in the past. For loans to 'In danger of bankruptcy' borrowers and 'De facto bankrupt' and 'Bankrupt' borrowers, a specific allowance is provided or the uncollectible amount is written off based on an assessment of collectability of individual loans.

The independent internal audit divisions periodically audit the appropriateness of the write-offs and allowances based on the self-assessment on a regular basis.

## Additional Information

The Bank believes that the COVID-19 outbreak will subside soon, but its adverse impact on the economy and corporate activities will continue for some time and cause

certain borrowers to be downgraded due to the deterioration of business performance in subsequent years. The Bank estimated allowance for loan losses of such borrowers based on the internal rating which reflects any downgrades.

## (11) Allowance for Investment Losses

Allowance for investment losses is provided for estimated losses on certain investments based on an assessment of the issuers' financial condition and uncertainty about future recoverability of the decline in realizable values of the investments.

## (12) Asset Retirement Obligations

Asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the normal operation of a tangible fixed asset and is associated with the retirement of such a tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

## (13) Provision for Retirement Benefits for Directors (and Other Officers)

Provision for retirement benefits for directors (and other officers) is provided at the amount that would be required if directors and Audit & Supervisory Board members of some consolidated subsidiaries retired at the balance sheet date.

## (14) Provision for Credit Losses on Off-Balance-Sheet Instruments

Provision for credit losses on off-balance-sheet instruments is provided for credit losses on commitments to extend loans and other off-balance-sheet financial instruments based on an estimated loss ratio or individually estimated loss amount determined by the same methodology used in determining the amount of allowance for loan losses.

## (15) Provision for Contingent Loss

Provision for contingent loss is maintained for possible losses from contingencies, which are not covered by other reserves.



**(16) Reserves under Special Laws**

Reserves under special laws are reserves for financial products' transaction liabilities which are provided for compensation for losses from securities brokering in consolidated domestic subsidiaries in accordance with the Financial Instruments and Exchange Act, Article 46-5 and the Cabinet Office Ordinance on Financial Instruments Business, Article 175.

**(17) Retirement and Pension Plans**

The Group accounts for retirement benefit liabilities (assets) based on the defined retirement benefit obligations and plan assets at the balance sheet date. The defined retirement benefit obligations are calculated based on the benefit formula attribution of the expected benefit over the service period of employees. Prior-service cost is amortized using the straight-line method over a period (nine years) within the employees' average remaining service period at incurrence. Net actuarial gain and loss are amortized using the straight-line method over a period (five years) within the employees' average remaining service period commencing from the next fiscal year after incurrence.

Some consolidated subsidiaries adopt a simplified method based on the defined retirement benefit obligations for each retirement plan that would be required if all employees retired voluntarily at the consolidated balance sheet date.

**(18) Lease Transactions**

All finance lease transactions are capitalized to recognize lease assets and lease obligations on the balance sheet.

All other leases are accounted for as operating leases.

**(19) Income Taxes**

Deferred income taxes are recorded to reflect expected future consequences of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. These deferred taxes are measured by applying currently enacted tax rates to the temporary differences. The Bank assesses the realizability of deferred tax assets based on consideration of the available evidence, including future taxable income, future reversals of existing temporary differences, and tax-planning strategies. The Bank reduces the carrying amount of a deferred tax asset to the extent that it is not probable that sufficient taxable income will be available to allow the benefit of part or all of that deferred tax asset to be realized. Such reduction may be reversed to the extent that it becomes probable that sufficient taxable income will be available and warrant the realization of tax benefits.

**(20) Foreign Currency Items**

Assets and liabilities denominated in foreign currencies held by the Bank are translated into Japanese yen at the exchange rates prevailing at the balance sheet date except for investments in equity securities of unconsolidated subsidiaries or affiliated companies, which are translated at

historical rates.

Assets and liabilities denominated in foreign currencies which are held by consolidated subsidiaries are translated into Japanese yen at the exchange rates as of the consolidated balance sheet date, while equity accounts are translated at historical rates. Differences arising from such translations are shown as 'Foreign currency translation adjustment' within accumulated other comprehensive income as a separate component of equity.

Revenue and expense accounts of consolidated foreign subsidiaries are translated into Japanese yen at the average exchange rate. Differences arising from such translation are included in 'Non-controlling interests' or 'Foreign currency translation adjustment' as a separate component of equity in the balance sheets.

**(21) Per Share Information**

Basic net income (loss) per share is computed by dividing net income (loss) attributable to common stockholders by the weighted-average number of shares of common stock outstanding for the period, retroactively adjusted for stock splits or reverse stock splits.

Diluted net income per share reflects the potential dilution that would occur if dilutive options and warrants were exercised or the securities were converted into common stock, also retroactively adjusted for stock splits or reverse stock splits. Diluted net income per share of common stock assumes full conversion of the preferred stock at the beginning of the year (or at the time of issuance) with an applicable adjustment for related dividends to preferred stock, unless the preferred stock has an antidilutive effect.

Net assets per share of common stock are computed by dividing net assets attributable to common stockholders by the number of shares of common stock outstanding at the end of the year.

Cash dividends per share presented in the accompanying consolidated statement of income are dividends applicable to the respective years including dividends to be paid after the end of the years.

**(22) Accounting Pronouncements**

1)'Accounting Standard for Disclosure of Accounting Estimates' (ASBJ Statement No.31, issued on March 31, 2020)

**(a) Summary**

This standard is intended for financial statement preparers to disclose the basis for accounting estimates which are likely to have a material impact on financial statements of the subsequent year, of the estimated amounts recorded in the current year.

**(b) Effective date**

This standard is required to be adopted for fiscal years ending on or after March 31, 2021.



# Consolidated Financial Statements

2)'Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections' (ASBJ Statement No.24, issued on March 31, 2020)

(a) Summary

This standard is revised to improve disclosures related to accounting principles and procedures if such relevant accounting standards are unclear.

(b) Effective date

This standard is required to be adopted for fiscal years ending on or after March 31, 2021.

3)'Accounting Standards for Fair Value Measurement' (ASBJ Statement No.30, issued on July 4, 2019), 'Accounting Standard for Financial Instruments' (ASBJ Statement No.10, issued July 4, 2019), 'Implementation Guidance on Accounting Standards for Fair Value Measurement' (ASBJ Guidance No.31, issued on July 4, 2019), 'Implementation Guidance on Disclosure about Fair Value of Financial Instruments' (ASBJ Guidance No.19, issued on March 31, 2020)

a) Summaries

This standard is provided as a comprehensive standard for fair value measurement and disclosure of financial instruments.

- Fair value is defined as "exit price."
- How to use inputs for measuring fair value is defined.
- Depending on inputs, fair value of Financial instruments is classified in Level 1, 2 and 3. The extent of disclosure varies according to the input level.

(b) Effective date

The Group plans to apply this standard and Implementation Guidance from the beginning of the fiscal year starting on April 1, 2021.

(c) Impact when applied

Its impact is being assessed.

4)'Accounting Standard for Revenue Recognition' (ASBJ Statement No.29, March 31, 2020), 'Implementation Guidance on Revenue Recognition' (ASBJ Guidance on Corporate Accounting Standard No.30, March 31, 2020)

(a) Summaries

This is a comprehensive standard for revenue recognition. Revenue is to be recognized on five steps.

Step1 : Identify the contract(s) with a customer

Step2 : Identify the performance obligations in the contract

Step3 : Determine the transaction price

Step4 : Allocate the transaction price to the performance obligations in the contract

Step5 : Recognize revenue when (or as) the entity satisfies a performance obligation

(b) Effective date

The Group plans to apply this standard and Implementation Guidance from the beginning of the fiscal year starting on April 1, 2021.

(c) Impact when applied

Its impact is being assessed

### 3. Cash and Cash Equivalents

Cash and cash equivalents as of March 31, 2020 and 2019, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Cash on hand	¥10,690	¥18,940	\$98,230
Due from the Bank of Japan	346,721	520,802	3,185,900
Total	¥357,411	¥539,743	\$3,284,130

### 4. Trading Assets and Liabilities

Trading assets and liabilities as of March 31, 2020 and 2019, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Trading assets:			
Trading account securities	¥8	¥30	\$77
Derivatives of trading account securities	22,263	6,641	204,575
Derivatives of securities related to trading transactions	14,350	5,036	131,862
Trading-related financial derivatives	222,755	188,220	2,046,820
Total	¥259,378	¥199,928	\$2,383,334
Trading liabilities:			
Derivatives of securities related to trading transactions	¥21,130	¥12,867	\$194,157
Trading-related financial derivatives	190,093	164,897	1,746,705
Total	¥211,223	¥177,764	\$1,940,862

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## 5. Securities

Certain amounts shown in the following tables include negotiable certificates of deposit in 'Due from banks', securities related to trading transactions classified as 'Trading assets' and certain beneficiary interests in trust classified as 'Monetary claims bought' in addition to 'Securities' stated in the consolidated balance sheet.

'Securities' stated in the consolidated balance sheets as of March 31, 2020 and 2019, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Japanese national government bonds	¥—	¥5,003	\$—
Japanese local government bonds	37,859	31,811	347,879
Japanese corporate bonds	60,294	50,459	554,029
Japanese stocks	16,755	66,528	153,960
Foreign bonds	486,594	568,418	4,471,146
Other	472,166	518,617	4,338,565
Total	¥1,073,670	¥1,240,838	\$9,865,579

As of March 31, 2020 and 2019, securities included equity investments in unconsolidated subsidiaries and affiliated companies that amounted to ¥21,138 million (\$194,236 thousand) and ¥21,750 million, respectively.

The unrealized gains and losses for trading securities as of March 31, 2020 and 2019, were charged to operations for the years then ended as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Unrealized gains (losses)	¥(4)	¥(2)	\$(39)

No held-to-maturity bonds were held as of March 31, 2020 and 2019.

The costs and carrying amounts of available-for-sale securities with fair value as of March 31, 2020 and 2019, were as follows:

	Millions of Yen			Thousands of U.S. Dollars		
	Carrying amount	Cost	Difference	Carrying amount	Cost	Difference
March 31, 2020						
Carrying amount exceeding cost:						
Japanese stocks	¥13,276	¥3,098	¥10,178	\$121,996	\$28,471	\$93,525
Japanese national government bonds	—	—	—	—	—	—
Japanese local government bonds	17,863	17,708	154	164,139	162,716	1,423
Japanese corporate bonds	49,153	48,558	594	451,653	446,187	5,466
Foreign bonds	398,939	381,942	16,996	3,665,711	3,509,537	156,174
Other	105,950	94,841	11,108	973,538	871,468	102,070
Subtotal	585,182	546,150	39,032	5,377,037	5,018,379	358,658
Carrying amount not exceeding cost:						
Japanese stocks	190	235	(45)	1,747	2,168	(421)
Japanese national government bonds	—	—	—	—	—	—
Japanese local government bonds	19,996	20,038	(41)	183,740	184,122	(382)
Japanese corporate bonds	11,141	11,254	(112)	102,375	103,413	(1,038)
Foreign bonds	87,655	90,312	(2,657)	805,435	829,853	(24,418)
Other	334,764	389,576	(54,812)	3,076,032	3,579,683	(503,651)
Subtotal	453,748	511,418	(57,670)	4,169,329	4,699,239	(529,910)
Total	¥1,038,931	¥1,057,568	¥(18,637)	\$9,546,366	\$9,717,618	\$(171,252)
March 31, 2019						
Carrying amount exceeding cost:						
Japanese stocks	¥61,368	¥12,822	¥48,545			
Japanese national government bonds	5,003	5,002	0			
Japanese local government bonds	23,529	23,300	229			
Japanese corporate bonds	47,394	46,998	396			
Foreign bonds	221,549	218,551	2,998			
Other	114,445	101,566	12,878			
Subtotal	473,291	408,242	65,049			
Carrying amount not exceeding cost:						
Japanese stocks	119	149	(30)			
Japanese national government bonds	—	—	—			
Japanese local government bonds	8,281	8,287	(5)			
Japanese corporate bonds	3,064	3,156	(91)			
Foreign bonds	346,868	358,427	(11,558)			
Other	346,465	361,850	(15,384)			
Subtotal	704,800	731,870	(27,069)			
Total	¥1,178,092	¥1,140,112	¥37,979			

# Consolidated Financial Statements

The Group has adopted its impairment criteria based on the severity of decline of securities by borrower category of the issuer of securities in the determination of significant declines. A significant decline is regarded as an other-than-temporary decline unless the significant decline is reasonably recoverable. Impairment losses are recognized for other-than-temporary declines.

For the years ended March 31, 2020 and 2019, the Group wrote off marketable available-for-sale securities in the amounts of ¥209 million (\$1,926 thousand) and none, respectively. The breakdown of write-offs for the year ended March 31, 2020, was less than ¥1 million for foreign bonds and ¥209 million for other.

If the fair value declines more than 50% from the acquisition cost or amortized cost, the Group generally deems the decline to be significant and other-than-temporary. However, based on the borrower category of the issuer of securities, the following impairment criteria determine whether or not the fair value decline is significant under the internal standards for write-offs and reserves.

'In danger of bankruptcy,' 'De facto bankrupt' and 'Bankrupt' ... if the fair value declines from cost.

'Need attention' ... if the fair value declines more than 30% from cost.

'Normal' ... if the fair value declines more than 50% from cost.

For debt securities categorized as 'Normal,' the fair value decline is deemed significant if the fair value declines more than 30% from cost.

For securities, other than debt securities, whose fair value remains below a certain level, the fair value decline is deemed significant even if it does not meet the above criteria.

'Bankrupt' borrower means an issuer of securities under legal proceedings, such as bankruptcy or liquidation. 'De facto bankrupt' borrower means an issuer of securities in a similar condition as 'Bankrupt' borrower. 'In danger of bankruptcy' borrower means an issuer of securities that is not currently bankrupt but is highly likely to become bankrupt. 'Need attention' borrower means an issuer of securities that needs to be monitored carefully. 'Normal' borrower means an issuer of securities categorized as other than 'Bankrupt,' 'De facto bankrupt,' 'In danger of bankruptcy' or 'Need attention.'

Of securities received under unsecured lending agreements, lending agreements with cash collateral or resale agreements, etc., and securities received as collateral for derivative transactions, which permit borrowers to sell or repledge such securities received, ¥71,268 million (\$654,859 thousand) and ¥664 million were repledged under such agreements, none were re-loaned under such agreements and none remained undisposed as of March 31, 2020 and 2019, respectively.

Proceeds from sales of available-for-sale securities and the gross realized gains and losses on these sales for the years ended March 31, 2020 and 2019, were as follows:

	Millions of Yen			Thousands of U.S. Dollars		
	Proceeds from sales	Gross realized gains	Gross realized losses	Proceeds from sales	Gross realized gains	Gross realized losses
March 31, 2020						
Japanese stocks	¥17,794	¥13,342	¥0	\$163,507	\$122,604	\$0
Japanese national government bonds	—	—	—	—	—	—
Japanese local government bonds	740	0	—	6,802	2	—
Japanese corporate bonds	2,320	20	—	21,324	191	—
Foreign bonds	526,377	10,523	663	4,836,697	96,694	6,099
Other	227,430	9,693	4,217	2,089,778	89,072	38,750
Total	¥774,663	¥33,580	¥4,880	\$7,118,108	\$308,563	\$44,849
March 31, 2019						
Japanese stocks	¥12,953	¥9,260	¥—			
Japanese national government bonds	1,000	—	0			
Japanese local government bonds	9,005	25	0			
Japanese corporate bonds	6,345	22	—			
Foreign bonds	187,571	1,974	698			
Other	265,414	13,791	2,055			
Total	¥482,289	¥25,073	¥2,753			



## 6. Money Held in Trust

The carrying amounts and related valuation gains recognized in earnings for money held in trust classified as for investment purposes as of March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Carrying amounts	¥27,213	¥35,098	\$250,058
Unrealized gains recognized in earnings	—	—	—

None of the money held in trust was categorized as held-to-maturity or available-for-sale as of March 31, 2020 and 2019.

## 7. Loans and Bills Discounted

Loans and bills discounted as of March 31, 2020 and 2019, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Loans on notes	¥11,356	¥13,846	\$104,352
Loans on deeds	2,771,252	2,619,421	25,464,050
Overdrafts	171,332	145,883	1,574,310
Other	180	742	1,662
Total	¥2,954,122	¥2,779,894	\$27,144,374

The following risk-monitored loans were included in loans and bills discounted as of March 31, 2020 and 2019:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Loans to bankrupt borrowers	¥4,460	¥—	\$40,988
Past due loans	21,614	14,201	198,608
Loans overdue for three months or more	—	—	—
Restructured loans	2,284	1,409	20,987
Total	¥28,359	¥15,610	\$260,583

The above amounts are stated after write-offs of uncollectible amounts but before deduction of the allowance for loan losses.

'Loans to bankrupt borrowers' are loans to borrowers who are legally bankrupt and are placed on nonaccrual status.

'Past due loans' are loans on which accrued interest income is not recognized, excluding loans to bankrupt borrowers and loans on which interest payments are deferred in order to support the borrowers' recovery from financial difficulties. 'Past due loans' include loans to borrowers who are assessed as 'In danger of bankruptcy' and 'De facto bankrupt' under the self-assessment guidelines.

'Loans overdue for three months or more' are accruing loans for which principal or interest remains unpaid for at least three months, excluding loans to bankrupt borrowers and past due loans.

'Restructured loans' are loans in which lending conditions have been relaxed, such as by reducing the interest rate or by forbearing interest payments or principal repayments to support the borrowers' recovery, excluding loans to bankrupt borrowers, past due loans and loans overdue for three months or more.

Overdraft contracts and contracts for loan commitments are those by which the Group is bound to extend loans up to a prearranged amount, upon the request of customers, unless the customer is in breach of contract conditions. The unutilized balance of these contracts amounted to ¥561,377 million (\$5,158,294 thousand) and ¥618,626 million as of March 31, 2020 and 2019, respectively. ¥443,887 million (\$4,078,722 thousand) and ¥427,567 million of these amounts relate to contracts with residual contractual terms of one year or less as of March 31, 2020 and 2019, respectively.

Bills discounted are accounted for as financing transactions in accordance with 'Accounting and Auditing Treatments on the Application of Accounting Standards for Financial Instruments in the Banking Industry' (the JICPA Industry Audit Committee Report No. 24, February 13, 2002), although the Bank has the right to sell or repledge them without restriction. The face values of such bills discounted held as of March 31, 2020 and 2019, were none.

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## 8. Foreign Exchange

Foreign exchange as of March 31, 2020 and 2019, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Assets:			
Due from foreign banks	¥67,168	¥49,480	\$617,187
Total	¥67,168	¥49,480	\$617,187

## 9. Tangible Fixed Assets and Intangible Fixed Assets

Tangible fixed assets as of March 31, 2020 and 2019, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Buildings	¥11,670	¥12,060	\$107,232
Land	9,235	9,235	84,862
Lease assets	942	58	8,658
Construction in progress	26	32	240
Other	1,824	2,254	16,764
Total	23,698	¥23,641	217,756
Accumulated depreciation	¥24,579	¥23,949	\$225,856

Intangible fixed assets as of March 31, 2020 and 2019, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Software	¥19,143	¥18,504	\$175,904
Other	67	67	619
Total	¥19,210	¥18,572	\$176,523

## 10. Customers' Liabilities for Acceptances and Guarantees

All contingent liabilities arising from acceptances and guarantees are included in acceptances and guarantees. As a contra account, customers' liabilities for acceptances and guarantees are shown as assets representing the Group's right of indemnity from customers.

## 11. Allowance for Loan Losses

Allowance for loan losses as of March 31, 2020 and 2019, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
General allowance	¥40,217	¥37,576	\$369,548
Specific allowance	13,581	7,428	124,800
Total	¥53,799	¥45,004	\$494,348

## 12. Pledged Assets and Collateralized Debts

The carrying amounts of assets pledged as collateral and collateralized debts as of March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Assets pledged as collateral:			
Securities	¥315,757	¥520,786	\$2,901,383
Loans and bills discounted	54,200	57,988	498,032
Total	¥369,958	¥578,775	\$3,399,415
Collateralized debts:			
Payables under repurchase agreements	¥27,758	¥49,658	\$255,063
Payables under securities lending transactions	281,325	450,860	2,585,004
Borrowed money	59,530	5,217	547,000
Total	¥368,614	¥505,736	\$3,387,067

In addition, the following assets were pledged or deposited as margin money for future trading and collateral for transactions, including exchange settlements and derivatives as of March 31, 2020 and 2019:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Securities	¥4,967	¥11,268	\$45,640
Foreign exchange	10,883	11,100	100,000
Other assets:			
Cash collateral paid for financial instruments	111,153	85,657	1,021,354
Guarantee deposits	19,397	15,784	178,239
Total	¥146,401	¥123,810	\$1,345,233

## 13. Deposits

Deposits as of March 31, 2020 and 2019, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Current deposits	¥28,434	¥22,758	\$261,278
Ordinary deposits	797,576	496,424	7,328,642
Saving deposits	1,729	—	15,893
Deposits at notice	1,095	1,175	10,066
Time deposits	2,417,659	2,486,640	22,215,008
Negotiable certificates of deposit	47,240	127,927	434,072
Other	103,164	95,804	947,938
Total	¥3,396,899	¥3,230,731	\$31,212,897

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## 14. Debentures and Bonds Payable

The Bank converted its long-term credit bank charter to an ordinary commercial bank charter on April 1, 2006. The Financial Services Agency of Japan, however, allows the Bank to retain the ability to issue debentures without registration, which was one of the benefits the Bank enjoyed as a long-term credit bank, for a period of 10 years following the conversion to an ordinary commercial bank.

Debentures as of March 31, 2020 and 2019, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars	Interest Rates
	2020	2019	2020	
Five-year coupon debentures	¥44,660	¥51,360	\$410,365	0.24% - 0.31%
Total	¥44,660	¥51,360	\$410,365	

Bonds payable as of March 31, 2020 and 2019, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars	Interest Rates
	2020	2019	2020	
Three-year unsecured straight bond issued by the Bank	¥125,000	¥141,000	\$1,148,581	0.05% - 0.12%
Five-year unsecured straight bond issued by the Bank	25,000	25,000	229,716	0.08% - 0.19%
Three-year unsecured straight bond issued by the Bank in U.S. dollars	65,275	66,586	599,792	2.55% - 3.81%
Total	¥215,275	¥232,586	\$1,978,089	

Annual maturities of debentures and bonds payable as of March 31, 2020, were as follows:

Years Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2021	¥97,660	\$897,363
2022	80,649	741,055
2023	78,626	722,469
2024	3,000	27,566
2025	—	—
Total	¥259,935	\$2,388,453

## 15. Borrowed Money

The weighted-average annual interest rates applicable to borrowed money were 0.63% and 0.64% as of March 31, 2020 and 2019, respectively.

Borrowed money does not include subordinated borrowings as of March 31, 2020 and 2019.

Annual maturities of borrowed money as of March 31, 2020, were as follows:

Years Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2021	¥64,710	\$594,605
2022	3,500	32,160
2023	25,000	229,716
2024	6,500	59,726
2025	5,500	50,538
2026 and thereafter	322,400	2,962,419
Total	¥427,610	\$3,929,164

Apart from borrowed money, lease obligations are included in 'Other liabilities.' Annual maturities of lease obligations as of March 31, 2020, were as follows:

Years Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2021	¥249	\$2,293
2022	249	2,292
2023	249	2,292
2024	240	2,210
2025	20	184
Total	¥1,009	\$9,271

Note: Lease obligations above include interest expense which is amortized over the lease term by the straight-line method. The weighted-average effective interest rates applicable to the lease obligations are not disclosed accordingly.

## 16. Other Assets and Liabilities

Other assets and liabilities as of March 31, 2020 and 2019, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Other assets:			
Accrued income	¥8,117	¥9,938	\$74,593
Accounts receivable	39,902	52,407	366,651
Derivatives other than for trading assets	74,982	62,715	688,990
Cash collateral paid for financial instruments	111,153	85,667	1,021,354
Guarantee deposits	19,397	15,784	178,239
Other	23,037	6,183	211,680
Total	¥276,592	¥232,697	\$2,541,507
Other liabilities:			
Income taxes payable	¥13,947	¥4,818	\$128,160
Accrued expenses	5,669	7,499	52,098
Accounts payable	8,628	38,596	79,283
Derivatives other than for trading liabilities	84,322	68,254	774,809
Cash collateral received for financial instruments	60,244	65,642	553,565
Asset retirement obligations	2,363	2,019	21,720
Other	23,658	19,392	217,388
Total	¥198,834	¥206,223	\$1,827,023



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## 17. Retirement and Pension Plans

The Bank and certain consolidated subsidiaries have defined retirement benefit plans for their employees. Such retirement benefits are made in the form of a lump-sum severance payment from the Group and annuity payments from trustees etc.

Changes in defined retirement benefit obligation for the years ended March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Defined retirement benefit obligation at the beginning of fiscal year	¥41,871	¥41,641	\$384,738
Service cost	1,691	1,623	15,538
Interest cost	165	163	1,517
Actuarial losses (gains)	(158)	461	(1,459)
Benefits paid	(1,743)	(2,019)	(16,021)
Defined retirement benefit obligation at the end of fiscal year	¥41,824	¥41,871	\$384,313

Changes in plan assets for the years ended March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Fair value of plan assets at the beginning of fiscal year	¥35,757	¥34,828	\$328,562
Expected return on plan assets	893	870	8,214
Actuarial gains (losses)	(1,841)	(131)	(16,919)
Contributions from employer	475	1,439	4,370
Benefits paid	(1,301)	(1,249)	(11,962)
Fair value of plan assets at the end of fiscal year	¥33,983	¥35,757	\$312,265

Reconciliation between the liability and asset recorded in the consolidated balance sheet and the balances of defined retirement benefit obligation and plan assets for the years ended March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Funded defined retirement benefit obligation	¥31,476	¥32,086	\$289,225
Plan assets	(33,983)	(35,757)	(312,265)
	(2,507)	(3,671)	(23,040)
Unfunded defined retirement benefit obligation	10,348	9,784	95,088
Net liability (asset) arising from defined retirement benefit obligation	¥7,841	¥6,113	\$72,048
Retirement benefit liability	¥10,348	¥9,784	\$95,088
Retirement benefit asset	(2,507)	(3,671)	(23,040)
Net liability (asset) arising from defined retirement benefit obligation	¥7,841	¥6,113	\$72,048

Components of net periodic retirement benefit costs for the years ended March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Service cost	¥1,691	¥1,623	\$15,538
Interest cost	165	163	1,517
Expected return on plan assets	(893)	(870)	(8,214)
Recognized actuarial losses	564	184	5,191
Amortization of prior-service cost	(327)	(327)	(3,011)
Other	3	—	28
Net periodic defined retirement benefit costs	¥1,202	¥773	\$11,049

Note: 'Other' stated above is the premium severance pay.

The breakdown of 'Remeasurements of defined benefit plans' in Other comprehensive income (loss), before adjusting for tax effects, for the years ended March 31, 2020 and 2019, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Amortization of prior-service cost	¥(327)	¥(327)	\$(3,011)
Recognized actuarial gains (losses)	(1,117)	(408)	(10,269)
Total	¥(1,445)	¥(735)	\$(13,280)

The breakdown of 'Remeasurements of defined benefit plans' in Accumulated other comprehensive income (loss), before adjusting for tax effects, as of March 31, 2020 and 2019, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Unrecognized prior-service cost	¥409	¥737	\$3,763
Unrecognized actuarial losses	(2,816)	(1,698)	(25,879)
Total	¥(2,406)	¥(961)	\$(22,116)

#### Plan assets

(1) Asset allocation of plan assets as of March 31, 2020 and 2019, was as follows:

	2020	2019
Bonds	53.8%	52.7%
Stocks	24.3	21.4
Cash and deposits	7.1	10.5
Other	14.8	15.4
Total	100.0%	100.0%

(2) Determination of expected long-term rate of return on plan assets

The Bank considers the asset allocation of plan assets and the expected long-term rate of return on diverse assets which plan assets comprise in the present and future, in order to determine the expected long-term rate of return on plan assets.

Principal actuarial assumptions used for the years ended March 31, 2020 and 2019, were as follows:

	2020	2019
Discount rate	0.4%	0.4%
Expected long-term rate of return on plan assets	2.5%	2.5%

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## 18. Equity

### (1) Capital Stock and Capital Surplus

Authorized number of common stock was 289,828 thousand as of March 31, 2020 and 2019, respectively.

Changes in the number of issued shares of common stock and treasury stock for the years ended March 31, 2020 and 2019, consisted of the following:

	Thousands			
	Number of shares			
	As of April 1, 2019	Increase	Decrease	As of March 31, 2020
Issued stock				
Common stock	118,289	—	—	118,289
Treasury stock				
Common stock (Note 1)	1,611	0	7	1,604

	Thousands			
	Number of shares			
	As of April 1, 2018	Increase	Decrease	As of March 31, 2019
Issued stock				
Common stock	118,289	—	—	118,289
Treasury stock				
Common stock (Note 2)	1,631	—	19	1,611

Notes: 1. The increase is due to buybacks of shares constituting less than one trade unit, and the decrease is due to a transfer of shares upon exercise of stock option rights.

2. The decrease is due to a transfer of shares upon exercise of stock option rights.

### Share acquisition rights

Share acquisition rights as of March 31, 2020 and 2019, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Share acquisition rights as stock options	¥444	¥357	\$4,083

## Cash dividends

Cash dividends paid during the years ended March 31, 2020 and 2019, were as follows:

	Millions of Yen	Yen	Thousands of U.S. Dollars	U.S. Dollars
	Total amounts	Per share	Total amounts	Per share
Year ended March 31, 2020				
(Record date: December 31, 2019) (Note 1) Common stock	¥4,550	¥39.00	\$41,814	\$0.36
(Record date: September 30, 2019) (Note 2) Common stock	¥4,550	¥39.00	\$41,814	\$0.36
(Record date: June 30, 2019) (Note 3) Common stock	¥4,550	¥39.00	\$41,812	\$0.36
(Record date: March 31, 2019) (Note 4) Common stock	¥3,967	¥34.00	\$36,452	\$0.31
Year ended March 31, 2019				
(Record date: December 31, 2018) (Note 5) Common stock	¥4,667	¥40.00		
(Record date: September 30, 2018) (Note 6) Common stock	¥4,667	¥40.00		
(Record date: June 30, 2018) (Note 7) Common stock	¥4,666	¥40.00		
(Record date: March 31, 2018) (Note 8) Common stock	¥6,299	¥54.00		

Notes: 1. Cash dividends applicable to the three-month period ended December 31, 2019, were approved at the Board of Directors' meeting held on January 30, 2020.  
2. Cash dividends applicable to the three-month period ended September 30, 2019, were approved at the Board of Directors' meeting held on November 14, 2019.  
3. Cash dividends applicable to the three-month period ended June 30, 2019, were approved at the Board of Directors' meeting held on August 1, 2019.  
4. Year-end cash dividends applicable to the fiscal year ended March 31, 2019, were approved at the Board of Directors' meeting held on May 16, 2019.  
5. Cash dividends applicable to the three-month period ended December 31, 2018, were approved at the Board of Directors' meeting held on January 31, 2019.  
6. Cash dividends applicable to the three-month period ended September 30, 2018, were approved at the Board of Directors' meeting held on November 14, 2018.  
7. Cash dividends applicable to the three-month period ended June 30, 2018, were approved at the Board of Directors' meeting held on July 30, 2018.  
8. Year-end cash dividends applicable to the fiscal year ended March 31, 2018, were approved at the Board of Directors' meeting held on May 14, 2018.

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## (2) Companies Act and Banking Act of Japan

The Bank is subject to the Companies Act and Banking Act of Japan.

### 1) Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the stockholders' meeting. For companies that meet certain criteria such as:

(1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors is prescribed as one year rather than two years of a normal term by the company's Articles of Incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has so prescribed in its Articles of Incorporation. The Bank meets all of the above criteria and its Articles of Incorporation prescribe the authority for dividend declaration by the Board of Directors.

The Companies Act permits companies to distribute dividends in kind (noncash assets) to stockholders subject to certain limitations and additional requirements.

Interim dividends may also be paid once a year upon resolution by the Board of Directors if the Articles of Incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the stockholders, however, the amount of equity after dividends must be maintained at no less than ¥3 million.

### 2) Increases/decreases and transfers of common stock, reserves and surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the

equity account charged upon the payment of such dividends until the aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that capital stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the stockholders.

Under the Banking Act of Japan, an amount equivalent to 20% of the aggregate amount of cash dividends and certain other appropriations of surplus associated with cash outlays applicable to each period shall be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the aggregate amount of legal reserve and additional paid-in capital equals 100% of stated capital. The amount of total additional paid-in capital and legal reserve that exceeds 100% of the stated capital may be available for dividends by resolution of the stockholders.

### 3) Treasury stock and treasury stock acquisition rights

The Companies Act also allows for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the stockholders which is determined by a specific formula.

Under the Companies Act, stock acquisition rights are presented as a separate component of equity.

The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

## 19. Stock Options

(1) Expenses for stock options as of March 31 2020, and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
General and administrative expenses	¥111	¥97	\$1,025

(2) Outline, volume and changes in stock options

The outline of stock options was as follows:

	Stock options for FY2019	Stock options for FY2018	Stock options for FY2017
Title and number of eligible persons	4 directors of the Bank 18 executive officers of the Bank	4 directors of the Bank 17 executive officers of the Bank	4 directors of the Bank 17 executive officers of the Bank
Number of stock options by share class <sup>(Note)</sup>	47,420 shares of common stock	25,540 shares of common stock	26,540 shares of common stock
Grant date	July 11, 2019	July 13, 2018	July 13, 2017
Condition for vesting	None	None	None
Requisite service period	None	None	None
Exercise period	From July 12, 2019 to July 11, 2049	From July 14, 2018 to July 13, 2048	From July 14, 2017 to July 13, 2047

	Stock options for FY2016	Stock options for FY2015	Stock options for FY2014
Title and number of eligible persons	4 directors of the Bank 18 executive officers of the Bank	4 directors of the Bank 16 executive officers of the Bank	4 directors of the Bank
Number of stock options by share class <sup>(Note)</sup>	34,330 shares of common stock	22,970 shares of common stock	25,350 shares of common stock
Grant date	July 15, 2016	July 14, 2015	August 1, 2014
Condition for vesting	None	None	None
Requisite service period	None	None	None
Exercise period	From July 16, 2016 to July 15, 2046	From July 15, 2015 to July 14, 2045	From August 2, 2014 to August 1, 2044

Note: Numbers of stock options are shown on the basis of the post share consolidation effective October 1, 2017.

### Volume and Changes in Stock Options

The number of stock options was as follows:

	Stock options for FY2019	Stock options for FY2018	Stock options for FY2017	Stock options for FY2016	Stock options for FY2015	Stock options for FY2014
Before vested						
At the beginning of fiscal year	—	—	—	—	—	—
Granted	47,420 shares	—	—	—	—	—
Forfeited	—	—	—	—	—	—
Vested	47,420 shares	—	—	—	—	—
Outstanding	—	—	—	—	—	—
After vested						
At the beginning of fiscal year	—	25,540 shares	21,530 shares	21,510 shares	13,000 shares	13,520 shares
Vested	47,420 shares	—	—	—	—	—
Exercised	1,540 shares	1,750 shares	1,770 shares	1,250 shares	740 shares	—
Forfeited	—	—	—	—	—	—
Exercisable	45,880 shares	23,790 shares	19,760 shares	20,260 shares	12,260 shares	13,520 shares

Note: Numbers of stock options are shown on the basis of the post share consolidation effective October 1, 2017.

Unit price information was as follows:

	Stock options for FY2019	Stock options for FY2018	Stock options for FY2017	Stock options for FY2016	Stock options for FY2015	Stock options for FY2014
Exercise price	¥1	¥1	¥1	¥1	¥1	¥1
Average stock price when exercised	2,726	2,623	2,623	2,612	2,612	—
Fair value on grant date	¥2,352	¥3,832	¥3,980	¥3,420	¥4,380	¥3,230

Note: Numbers are shown on the basis of the post share consolidation effective October 1, 2017.



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(3) Valuation technique used for valuing the fair value of stock options

Stock options for FY2019 granted in the fiscal year ended March 31, 2020 were valued using the Black-Scholes option pricing model.

The principal parameters and estimation methods were as follows:

	Stock options for FY2019
Expected volatility (Note 1)	20.2%
Average expected life (Note 2)	2 years
Expected dividends (Note 3)	¥154 (\$1.4) per share
Risk-free interest rate (Note 4)	0.19% negative

Notes: 1. Expected volatility is calculated based on the actual price of common stock of the Bank on each trading day from July 3, 2017 to July 1, 2019.

2. Average expected life could not be estimated rationally due to insufficient amount of data. It was estimated based on average tenures of the Bank's directors.

3. Expected dividends are estimated based on the actual dividends on common stock paid for the fiscal year ended March 31, 2019.

4. Japanese national government bond yield applicable to the average expected life.

(4) Method of estimating the number of stock options vested

Only the actual number of forfeited stock options is reflected because it is difficult to rationally estimate the actual number of stock options that will be forfeited in the future.

## 20. Other Ordinary Income

Other ordinary income for the years ended March 31, 2020 and 2019, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Gains on sales of bonds and other securities	¥19,677	¥7,661	\$180,806
Other	11,498	15,334	105,653
Total	¥31,175	¥22,995	\$286,459

Note: The 'Other' category primarily includes gains from investments in partnerships.

## 21. Other Income

Other income for the years ended March 31, 2020 and 2019, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Gains on sales of stocks and other securities	¥13,408	¥13,294	\$123,206
Gains on investments in money held in trust	644	473	5,919
Recoveries of written-off receivables	501	1,070	4,605
Reversal of provision for credit losses on off-balance-sheet instruments	296	134	2,728
Gains on disposal of fixed assets	0	0	0
Other	1,834	1,797	16,855
Total	¥16,685	¥16,770	\$153,313

## 22. Other Ordinary Expenses

Other ordinary expenses for the years ended March 31, 2020 and 2019, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Amortization of debenture and bond issuance costs	¥244	¥245	\$2,247
Losses on foreign exchange transactions	3,263	5,651	29,984
Losses on sales of bonds and other securities	4,586	2,174	42,139
Losses on redemption of bonds and other securities	292	579	2,688
Losses on devaluation of bonds and other securities	209	0	1,926
Losses on derivatives	3,158	322	29,024
Other	3,229	1,755	29,671
Total	¥14,983	¥10,729	\$137,679

Note: The 'Other' category primarily includes losses from investments in partnerships.

## 23. General and Administrative Expenses

General and administrative expenses for the years ended March 31, 2020 and 2019, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Salaries and related expenses	¥20,810	¥19,641	\$191,216
Other	32,871	29,690	302,041
Total	¥53,681	¥49,332	\$493,257

## 24. Other Expenses

Other expenses for the years ended March 31, 2020 and 2019, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Losses on sales of stocks and other securities	¥0	¥—	\$0
Losses on devaluation of stocks and other securities	1,744	—	16,031
Write-off of loans	1,089	260	10,012
Provision of allowance for loan losses	10,729	1,637	98,593
Losses on disposal of fixed assets	4	1	39
Other	1,820	1,585	16,731
Total	¥15,389	¥3,484	\$141,406

## 25. Income Taxes

The Bank and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rates of approximately 30.6% for the years ended March 31, 2020 and 2019.

The Bank files a tax return under the consolidated corporate tax system which allows the Bank to base tax payments on the combined profits or losses of the Bank and certain wholly owned domestic subsidiaries.

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The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities as of March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Deferred tax assets:			
Tax loss carryforwards <sup>(Note 2)</sup>	¥21,253	¥19,740	\$195,293
Allowance for loan losses	16,420	12,083	150,886
Devaluation of securities	1,121	629	10,308
Deferred gains or losses on hedges	—	7,551	—
Difference related to investment in consolidated subsidiaries	16,949	16,898	155,745
Write-off of loans	75	553	693
Other	12,951	11,819	119,010
Total of tax loss carryforwards and temporary differences	68,773	69,277	631,935
Less valuation allowance for tax loss carryforwards	(21,078)	(19,478)	(193,685)
Less valuation allowance for temporary differences	(14,538)	(11,676)	(133,591)
Total valuation allowance <sup>(Note 1)</sup>	(35,617)	(31,154)	(327,276)
Total deferred tax assets	33,156	38,122	304,659
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	(4,767)	(13,051)	(43,807)
Deferred gains or losses on hedges	(101)	—	(932)
Other	(1,352)	(1,703)	(12,423)
Total deferred tax liabilities	(6,220)	(14,755)	(57,162)
Net deferred tax assets	¥26,935	¥23,367	\$247,497

The expiration of tax loss carryforwards and its deferred tax assets are as follows:

Year ended March 31, 2020

	Millions of Yen						
	1 year or less	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 4 years	Over 4 years to 5 years	Over 5 years	Total
Deferred tax assets related to tax loss carryforwards <sup>(Note 2)</sup>	¥3	¥3	¥—	¥13	¥8	¥21,224	¥21,253
Less valuation allowance for tax loss carryforwards	(3)	(3)	—	(13)	(8)	(21,049)	(21,078)
Net deferred tax assets related to tax loss carryforwards	¥—	¥—	¥—	¥—	¥—	¥174	(Note 3) ¥174

	Thousands of U.S. Dollars						
	1 year or less	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 4 years	Over 4 years to 5 years	Over 5 years	Total
Deferred tax assets related to tax loss carryforwards <sup>(Note 2)</sup>	\$28	\$36	\$—	\$124	\$80	\$195,025	\$195,293
Less valuation allowance for tax loss carryforwards	(28)	(36)	—	(124)	(80)	(193,417)	(193,685)
Net deferred tax assets related to tax loss carryforwards	\$—	\$—	\$—	\$—	\$—	\$1,608	(Note 3) \$1,608

Year ended March 31, 2019

	Millions of Yen						
	1 year or less	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 4 years	Over 4 years to 5 years	Over 5 years	Total
Deferred tax assets related to tax loss carryforwards <sup>(Note 2)</sup>	¥—	¥3	¥3	¥0	¥13	¥19,720	¥19,740
Less valuation allowance for tax loss carryforwards	—	(3)	(3)	(0)	(13)	(19,457)	(19,478)
Net deferred tax assets related to tax loss carryforwards	¥—	¥—	¥—	¥—	¥—	¥262	(Note 4) ¥262

Notes: 1. Valuation allowance increased by ¥4,462 million from March 31, 2019, mainly due to the increase of temporary differences of allowance for loan losses.

2. The amount of tax loss carryforwards is multiplied by the normal effective statutory tax rate.

3. Of the tax loss carryforward of the ¥21,253 million (\$195,293 thousand) (multiplied by the effective statutory tax rate), the Group recorded deferred tax assets of ¥174 million (\$1,608 thousand) as of March 31, 2020. Valuation allowances are provided for the portion of tax loss carryforwards that are judged not to be recoverable.
4. Of the tax loss carryforward of the ¥19,740 million (multiplied by the effective statutory tax rate), the Group recorded deferred tax assets of ¥262 million as of March 31, 2019. Valuation allowances are provided for the portion of tax loss carryforwards that are judged not to be recoverable.

Reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2020 and 2019, were as follows:

	2020	2019
Normal effective statutory tax rate	30.6%	30.6%
Valuation allowance	8.9	11.0
Tax loss carryforwards of subsidiaries	—	(15.9)
Expenses not deductible for income tax purposes	0.2	0.2
Other—net	1.3	2.9
Actual effective tax rate	41.0%	28.8%

## 26. Lease Transactions

### (1) Finance lease transactions

The Group leases certain fixed assets, such as system-related equipment.

### (2) Operating lease transactions

The minimum rental commitments under non-cancelable operating leases as of March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Due within one year	¥2,004	¥1,974	\$18,415
Due after one year	2,119	2,518	19,475
Total	¥4,123	¥4,492	\$37,890

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## 27. Financial Instruments and Related Disclosures

### (1) Overview of financial instruments

#### 1) Basic policy for financial instruments

The main business of the Group is banking operations, which consist of deposit taking, lending, domestic exchange services, foreign exchange services, etc. Additionally, the Group pursues securities operations (trading of marketable securities, securities investments, etc.), and other financial services, such as trust banking operations and loan-servicing operations.

The asset side of the Group mainly consists of financial assets, such as loans and securities, and the liability side mainly consists of financial liabilities, such as deposits, debentures and bonds payable. Since the major operation of the Group is the handling of financial instruments involving market risk and/or credit risk, it is the basic business policy of the Group to avoid unexpected losses by properly managing various risks relating to financial instruments, and to achieve highly reliable and healthy management of the Group by adequately undertaking certain risks within the capacity of the Group and securing reasonable profit, well balanced with the undertaken risks.

Also, the Bank intends to stabilize and optimize profitability by maintaining an appropriate level of interest rate risk associated with assets and liabilities of the Bank, liquidity risk, and price fluctuation risk of securities, etc., based on the policy of asset liability management (ALM, comprehensive management of assets and liabilities). Derivative transactions are also used to maintain interest rate risk derived from on-balance-sheet assets and liabilities at an adequate level, and are intended to achieve stable profitability and efficient operations.

#### 2) Main items of financial instruments and related risks

Financial assets held by the Group mainly comprise loans to both domestic and foreign corporate entities and securities, etc.

Loans are subject to credit risk which includes the risk of default caused by deteriorated credit of the borrowers. Loans to the 10 largest borrowers of the Bank accounted for about 11% and 11% of the total outstanding balance of loans as of March 31, 2020 and 2019, respectively. A default by any of the borrowers with large credit exposures or a material change in our relationship with any of them could negatively affect the business results and financial condition of the Group. Also, the proportion of loans to real estate businesses and the coverage ratio of loans collateralized by real estate properties are material in the loan portfolio of the Group. Therefore, in the event that the real estate market or the real estate industry were to become stagnant, the quality of the loans protected by real estate collateral would deteriorate; the creditworthiness of the borrowers in the industry would be undermined; or the cash flows from the underlying properties of real estate nonrecourse loans would be negatively affected. In such cases, the Group might need to provide an additional allowance for loan losses or incur additional credit costs. Also, in addition to credit risk,

overseas loan exposures are subject to various risks, including those related to transactions arising from interest rate fluctuations and foreign exchange fluctuations, and risks involved with environmental changes, whether social, political and/or the economic environment.

Securities held by the Group primarily consist of debt securities, stocks and fund investments, which are subject to various risks, such as the credit risk of the issuer, interest rate fluctuation risk, and market price fluctuation risk. Securities held by the Bank include those backed by assets such as real estate properties, housing loans, etc. These securities are exposed to the risks dependent on the economic environment or transaction trends in relation to the underlying assets, in addition to other general risks related to interest rate fluctuations in the market, foreign exchange fluctuations, bond price movements, movements of the stock market, etc. Also, securities face market liquidity risk. This risk materializes when market liquidity of financial assets becomes almost nonexistent because of an abrupt deterioration in the financial environment, tumultuous movements in the financial markets, etc., resulting in the drastic decline in price at the time of disposition beyond expectations.

Financial liabilities of the Group are mainly deposits, negotiable certificates of deposit, debentures and bonds payable. Since funds procured by the Bank through deposit taking, etc., will be due one after another, refinancing of the existing liabilities is always necessary through continued deposit taking or bond issuance, etc. However, in the event the market environment becomes unstable, sufficient funding would become difficult or more expensive. The Bank is exposed to such risk and the funding liquidity risk as well.

These financial assets and financial liabilities are also subject to interest rate fluctuation risk involved in the mismatch of intervals to repricing interest rates. From the viewpoint of ALM, the interest rate risk amount for the entire balance sheet is managed at an appropriate level, partly using derivative transactions (interest rate swaps, etc.).

Regarding assets denominated in foreign currencies, since funding of the Group is primarily conducted by taking deposits and issuing debentures and bonds payable in Japanese yen, the Group seeks to avoid foreign exchange fluctuation risk through currency matching between the funding side and the asset side, using currency swaps, etc.

Derivative transactions are one of the primary operations of the Group. The derivative instruments are provided to fulfill our customers' hedge requirements for market risk (interest rate, foreign exchange, etc.). Trading derivative instruments are booked in the trading accounts, which seek gains on short-term fluctuations and arbitrage opportunities in interest rates, currency prices, market prices of securities and related indices. Moreover, the Group implements derivative transactions for the purpose of optimizing ALM, in order to maintain the interest rate risk derived from on-balance-sheet assets and liabilities at an adequate level.

In terms of overall derivative operations, as interest rate derivatives, interest rate futures, interest rate options, and interest rate swaps are exercised; with respect to currency derivatives, currency swaps, foreign exchange forwards and currency options are exercised; and futures and options related to equities and bonds, commodity-related transactions and credit derivatives transactions are also exercised. These derivative transactions are exposed to market risk, which implies potential loss from market fluctuations in market prices, volatility of underlying interest rates, foreign exchange and so forth, and to credit risk, which implies potential loss from contractual default by counterparties.

Concerning derivative transactions for the purpose of optimizing ALM, such as interest rate swaps, etc., the Bank uses the deferral method of hedge accounting, specifying derivatives as hedging instruments and deposits or loans, etc., as hedged items, in accordance with 'Accounting and Auditing Treatments on the Application of Accounting Standards for Financial Instruments in the Banking Industry' (the JICPA Industry Audit Committee Report No. 24, February 13, 2002). The effectiveness of hedging for the purpose of offsetting market fluctuations is assessed as follows: the Bank specifies hedged items, such as deposits or loans, and hedging instruments such as interest rate swaps, and divides them into groups by remaining tenures to maturity and evaluates each of the groups.

The Bank applies deferral hedge accounting to hedges of foreign currency risk associated with foreign currency-denominated financial assets and liabilities in accordance with 'Accounting and Auditing Treatments for Foreign Currency Transactions in the Banking Industry' (the JICPA Industry Audit Committee Report No. 25, July 29, 2002). The Bank designates certain currency swaps and foreign exchange swaps for the purpose of funding foreign currencies as hedges for the exposure to changes in foreign exchange rates associated with foreign currency-denominated assets or liabilities.

Hedge effectiveness is reviewed by comparing the total currency position of the hedged items with that of the hedging instruments by currency.

For hedging the foreign currency exposure of foreign currency-denominated available-for-sale securities (other than debt securities), which were designated in advance, fair value hedge accounting is adopted on a portfolio basis when the cost of the hedged securities is covered with offsetting liabilities denominated in the same foreign currency as the hedged securities.

### 3) Risk management system concerning financial instruments

The Group, while pursuing various operations, is endeavoring to develop and maintain an adequate risk management system, to avoid the occurrence of unexpected losses and to realize highly reliable and sound management of the Group by adequately undertaking certain risks within the capacity of the Group and securing reasonable profit well-balanced with the undertaken risks.

Our basic thoughts regarding risk management are documented as internal Master Policies and Procedures in the risk management category. The basic framework of risk management, including capital allocation and risk limits, is determined by the BOD. Within this framework, the Market Risk Management Division is in charge of market risk, the Credit Risk Management Division and the Integrated Risk Management Division are in charge of credit risk, and the Integrated Risk Management Division is in charge of comprehensive risk and operational risk. Also, the Internal Audit Division is responsible for verifying the appropriateness and effectiveness of the risk management system. The BOD, the Management Committee ('MC'), and other concerned committees receive risk situation reports from each risk management function as well as audit reports from the Internal Audit Division, supervising the risk situation based on these reports or employing the information thereof for managerial decisions, and maintaining/improving the overall risk management system.

#### (a) Credit risk management

In order to maintain a sound asset portfolio of the entire Group including consolidated subsidiaries, the Group has implemented credit risk management, with the approach both at the transaction level, which entails strict credit screening and ex post facto management of individual transactions including predictive control of our clients, and at the portfolio level focusing on eliminating credit risk concentration. The Group has established a management system, including a credit rating system, quantification of credit risk, management of risk capital, management of concentration risk (large credit exposure, real estate risk, country risk, etc.), asset securitization transaction management of problem loans, and so forth. Also, concerning verification of credit ratings, self-assessments, and write-offs and reserves, the Asset Assessment Division is in charge of overall control and is responsible for adequately grasping the reality of the asset portfolio and properly implementing write-off/reserve appropriations, in cooperation with other concerned functions.



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## (i) Approval authority for individual credit undertaking

Credit transactions, which mainly comprise loan transactions, are approved under the authority of the Credit Committee, consisting of Representative Directors, the Chief Risk Officer ('CRO'), the Chief Credit Risk Officer ('CCRO'), etc., and credit proposals are discussed at and reported to the Credit Committee. Also, the approval authority for investment transactions, comprised mainly of equities and fund investments, resides with the Investment Committee, consisting of Representative Directors, the CRO, etc., and investment proposals are discussed at and reported to the Investment Committee. The approval authority of the Credit Committee is partly delegated to the CCRO (Note that the approval authority delegated to the CCRO is redelegated to the credit functions and to business front office functions to a certain extent.). Also, the approval authority of the Investment Committee is partly delegated to the CRO (Note that the approval authority delegated to the CRO is redelegated to business front office functions to a certain extent.).

## (ii) Credit rating system

Credit ratings are an integral component of the approval system for credit assessment and the decision for interest rate spread, etc. They are also used to conduct self-assessments and are employed as benchmarks for quantifying credit risks. The credit rating system of the Group is composed of 'Obligor Rating', 'Facility Rating' and 'Expected Loss Grade.' 'Obligor Rating' is given, in principle, to all customers for whom the Group is undertaking credit risk, and this rating represents the degree of creditworthiness of the borrower. 'Facility Rating' represents the degree of credit cost of a credit transaction in consideration of Obligor Rating and transaction conditions such as a tenor of credit facility, guarantee and collateral. Also, 'Expected Loss Grade' represents the degree of credit cost of a credit transaction which relies on cash flow arising from specified underlying assets such as real estate nonrecourse loans, securitization of monetary claims and structured bonds in senior/junior tranches. As for the credit rating processes, rating recommendations are given by the respective business divisions/branches at inception, and the recommendation is then approved by the Credit Divisions. Credit ratings are subject to review on a regular basis based on the updated financial results of each respective borrower, and on an as-needed basis whenever there is a symptom of a material change in the creditworthiness of any borrower. As for the credit rating given by business divisions/branches and the Credit Divisions, the Asset Assessment Division, which is an independent division for verification of ratings, reviews the appropriateness of credit ratings on a sample basis. Also, the Group examines its credit rating system itself through benchmarking (comparative verification of our ratings with those assigned by external agencies or external models) and back testing (assessment of the significance of credit rating based on past default).

## (iii) Quantification of credit risk

As for credit risk exposures, the Group centrally manages all assets with credit risks, irrespective of the type of transaction, including not only loans, securities, equities and fund investments, and securitized transaction facilities, but also off-balance-sheet transactions such as commitment lines, derivative transactions, and the like. The credit risk amount of our portfolio is measured by Value at Risk (VaR) according to our internal model, etc., and the measured result is regularly reported to the BOD, etc., together with the credit portfolio situation of the entire Group. The internal model of the Bank employs a holding period of 1 year and a confidence interval of 99.9%. Unexpected Loss (UL) is measured using parameters, such as Probability of Default (PD), Loss Given Default (LGD), intra-sector correlation, inter-sector correlation, and parent subsidiary correlation of the borrower group.

## (iv) Credit portfolio management

Concerning credit portfolio management, the Group examines the credit portfolio through the calculation and analysis of Expected Loss (EL) and UL assuming the occurrence of stress scenarios, such as the downgrading of credit ratings and declining real estate prices. Credit concentration risk is managed by establishing exposure guidelines by credit ratings of borrowers, countries or regions. For the real estate portfolio, the Group establishes additional concentration limits to control such risk.

## (b) Market risk management

The Group performs, from various viewpoints, comprehensive analysis and understanding of the market risk affecting all assets and liabilities and off-balance-sheet transactions for its trading and banking businesses, in order to manage market risk properly.

### (i) Measurement of market risk

The Group uses VaR to quantify the market risk for the trading and banking businesses and as a basis for setting market risk limits and for monitoring risk. The Bank has computed VaR with an internal model utilizing historical simulation.

The assumptions for computing VaR include a 1-day holding period, a 99% confidence interval, and a 2-year observation period in principle. The Group conducts back testing to verify the reliability of VaR by comparing daily computed VaR with daily gains or losses. To complement VaR, the Group regularly conducts stress testing to assess the potential impact of volatile market movements that could exceed statistical estimates. The results of the stress testing are reported to the ALM Committee, etc.

## (ii) Quantitative information of market risk

## i) Financial instruments held for trading purposes

The VaR of financial instruments (trading account securities, derivatives, etc.) held for trading purposes by the Bank was ¥966 million (\$8,878 thousand) and ¥506 million as of March 31, 2020 and 2019, respectively. Market risk in the financial instruments held for trading purposes by certain consolidated subsidiaries is immaterial.

The back testing of the VaR calculated with internal models over the 241 business days from April 1, 2019 to March 31, 2020, and the 244 business days from April 1, 2018 to March 31, 2019, resulted in 1 and no business days with actual daily losses beyond VaR. This result supports the reliability of the Bank's internal models which have captured market risks with sufficient accuracy. However, the VaR represents the market risks arising with a certain probability using a statistical methodology based on historical market movements. It may not be able to capture the risks arising under drastic market movements beyond normal estimates.

## ii) Financial instruments held for other than trading purposes

The main financial instruments in the Bank which are affected by interest rate risk, the typical risk parameter in the Bank, are 'Loans and bills discounted,' bonds/notes of 'Securities,' 'Deposits,' 'Debentures,' 'Bonds payable,' interest rate swaps and currency swaps of Derivatives, etc.

The VaR of financial instruments held for other than trading purposes by the Bank was ¥ 6,525million (\$59,963 thousand) and ¥4,484 million as of March 31, 2020 and 2019, respectively. Market risks in the financial instruments held for other than trading purposes by certain consolidated subsidiaries are immaterial. The VaR represents the market risks arising with a certain probability using a statistical methodology based on historical market movements. It may not be able to capture the risks arising under drastic market movements beyond normal estimates.

## (iii) Procedures for market risk management

The Group documents its handling of products, risk management methods and market price valuation methods under market risk management. The compliance with limits of risks and losses, etc., allocated to the front office, business units and divisions, is monitored by the Market Risk Management Division, which is independent from the front offices in terms of organization and human resources. The Market Risk Management Division monitors the market risk and profit/loss (P/L) on a daily basis for trading operations, and on a daily or monthly basis for banking operations, and they report on them directly to the CRO and Executive Officer(s) in charge of the front offices. The

Market Risk Management Division also makes periodic reports to the BOD, the MC and the ALM Committee. In the event a large loss is reported in excess of the maximum expected loss amount computed in advance, a cause analysis is conducted. Also, a discussion point, which is positioned as cross-section risk management between market risk and credit risk, is set up by asset class in order to strengthen the monitoring function for price fluctuation risks.

Market liquidity risk is the potential for losses caused by the inability to execute market transactions as a result of market turbulence and thin trading or by the necessity to execute transactions at extremely unfavorable prices. Regarding management of market liquidity risk, the Market Risk Management Division monitors the Group's position relative to market size in order to ensure that the position does not become excessive.

## (c) Funding liquidity risk management

The Financial Management Division centrally manages funding liquidity risk for both Japanese yen and foreign currencies. The Financial Management Division also plans for the sources and uses of funds both annually and monthly, and reports the liquidity status directly to senior management on a daily basis. The Group maintains a sufficient liquidity buffer in order to prepare for funding liquidity risk and to meet various contractual obligations, by holding an adequate level of marketable securities with high liquidity.

## (d) Operational risk management

The Group recognizes operations risk, legal and compliance risk and system risk in handling financial instruments as operational risk, and manages it in a comprehensive manner through uniform method and indicators. Actual loss events that have already occurred are gathered by the Integrated Risk Management Division. Potential risks that would lead to actual loss events are identified and assessed through risk control self-assessment, etc. Operational risk of the Group is estimated using internal model simulations, based on actual loss events and conceived risk scenarios, and capital is allocated to cover the estimated risk within the internal capital allocation system.

## (e) Comprehensive risk management

The Group establishes a basic policy on comprehensive risk management. The basic policy sets forth the scope of target risk categories, such as credit risk, market risk and operational risk, and their definitions. The policy also defines the risk management procedures which consist of the identification, assessment, monitoring and control of the target risks. The Group is committed to managing risks in compliance with this basic policy, and is always endeavoring to improve the risk management system. In the framework of comprehensive risk management, the Group measures credit risk, market risk and operational risk in a comprehensive manner, ensures that these risks are

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controlled within allowable limits with reference to the Group's capital through implementation of integrated stress testing, etc., and aims at securing an adequate level of profit well balanced with the corresponding risks.

## 4) Supplemental explanation for fair value of financial instruments

The fair value of financial instruments includes market prices as well as reasonably calculated prices in cases where there are no market prices available. Since the calculations of reasonably calculated prices are based on certain conditions and assumptions, the result of the calculations would differ if such calculations were made under different conditions and assumptions.

## (2) Fair value of financial instruments

Carrying amounts, fair values and their differences of financial instruments as of March 31, 2020 and 2019, are shown below. Immaterial accounts on the consolidated balance sheets are not included in the table below. Some instruments, such as unlisted stocks, whose fair value cannot be reliably determined, are not included in the table below (see 'Financial instruments whose fair value cannot be reliably determined').

	Millions of Yen			Thousands of U.S. Dollars		
	2020			2020		
	Carrying Amount	Fair Value	Difference	Carrying Amount	Fair Value	Difference
Cash and due from banks	¥464,275	¥464,275	¥—	\$4,266,060	\$4,266,060	\$—
Call loans and bills bought	—	—	—	—	—	—
Receivables under resale agreements	71,011	71,011	—	652,495	652,495	—
Receivables under securities borrowing transactions	—	—	—	—	—	—
Monetary claims bought (Note 1)	66,656	73,136	6,480	612,481	672,027	59,546
Trading assets						
Trading securities	8	8	—	77	77	—
Money held in trust	27,213	29,610	2,396	250,058	272,080	22,022
Securities						
Available-for-sale securities (Note 2)	990,218	990,218	—	9,098,764	9,098,764	—
Loans and bills discounted	2,954,122			27,144,374		
Less allowance for loan losses (Note 1)	(53,102)			(487,943)		
Net loans and bills discounted	2,901,019	2,941,364	40,345	26,656,431	27,027,151	370,720
Assets total	¥4,520,402	¥4,569,625	¥49,222	\$41,536,366	\$41,988,654	\$452,288
Deposits (excluding negotiable certificates of deposit)	¥3,349,659	¥3,357,553	¥7,894	\$30,778,825	\$30,851,363	\$72,538
Negotiable certificates of deposit	47,240	47,240	—	434,072	434,072	—
Debentures	44,660	44,687	27	410,365	410,620	255
Call money and bills sold	38,728	38,728	—	355,859	355,859	—
Payables under repurchase agreements	27,758	27,758	—	255,062	255,062	—
Payables under securities lending transactions	281,325	281,325	—	2,585,004	2,585,004	—
Borrowed money	427,610	430,928	3,317	3,929,164	3,959,651	30,487
Bonds payable	215,275	215,717	442	1,978,089	1,982,153	4,064
Liabilities total	¥4,432,258	¥4,443,940	¥11,682	\$40,726,440	\$40,833,784	\$107,344
Derivatives (Note 3)						
For which hedge accounting is not applied	¥40,266	¥40,266	¥—	\$369,998	\$369,998	\$—
For which hedge accounting is applied	(1,548)	(1,548)	—	(14,230)	(14,230)	—
Derivatives total	¥38,718	¥38,718	¥—	\$355,768	\$355,768	\$—

	Millions of Yen		
	2019		
	Carrying Amount	Fair Value	Difference
Cash and due from banks	¥618,716	¥618,716	¥—
Call loans and bills bought	—	—	—
Receivables under securities borrowing transactions	—	—	—
Monetary claims bought (Note 1)	50,950	57,833	6,882
Trading assets			
Trading securities	30	30	—
Money held in trust	35,098	37,685	2,586
Securities			
Available-for-sale securities (Note 2)	1,162,681	1,162,681	—
Loans and bills discounted	2,779,894		
Less allowance for loan losses (Note 1)	(44,321)		
Net loans and bills discounted	2,735,572	2,808,844	73,271
Assets total	¥4,603,050	¥4,685,790	¥82,740
Deposits (excluding negotiable certificates of deposit)	¥3,102,804	¥3,109,590	¥6,786
Negotiable certificates of deposit	127,927	127,927	—
Debentures	51,360	51,498	138
Call money and bills sold	51,723	51,723	—
Payables under repurchase agreements	49,658	49,658	—
Payables under securities lending transactions	450,860	450,860	—
Borrowed money	320,559	323,461	2,901
Bonds payable	232,586	232,989	403
Liabilities total	¥4,387,479	¥4,397,709	¥10,229
Derivatives (Note 3)			
For which hedge accounting is not applied	¥26,777	¥26,777	¥—
For which hedge accounting is applied	(10,184)	(10,184)	—
Derivatives total	¥16,592	¥16,592	¥—

Notes: 1. General allowance for loan losses and specific allowance for loan losses provided to 'Loans and bills discounted' are separately presented in the above table. Allowance for loan losses provided to 'Monetary claims bought' is directly deducted from the carrying amounts due to immateriality.

2. Carrying amounts, fair values and their differences of available-for-sale securities do not include those of certain investments in partnerships of which composing assets consist of monetary claims etc., whose fair value is determinable. As for such investments in partnerships, the carrying amounts were ¥11,730 million (\$107,788 thousand) and ¥11,001 million, and the fair value was ¥16,098 million (\$147,920 thousand) and ¥14,933 million, which was our share of the fair value of composing assets, such as monetary claims determined by the present value of estimated future cash flows or estimated collectable amount by collaterals or guarantees as of March 31, 2020 and 2019, respectively. The difference between the fair value and the carrying amounts was ¥4,367 million (\$40,132 thousand) and ¥3,932 million, as of March 31, 2020 and 2019, respectively.

3. Derivatives recorded in 'Trading assets,' 'Trading liabilities,' 'Other assets' and 'Other liabilities' are aggregated and shown herein in total. Assets and liabilities attributable to the derivative contracts are totally offset and the net liability position as a consequence of offsetting would be represented with brackets, if any.

## Valuation method of financial instruments

### Assets

#### (1) Cash and due from banks, call loans and bills bought, receivables under resale agreements, and receivables under securities borrowing transactions

Since these instruments are paid on demand, or cancellable by short notice, or with short maturities, the fair value of these instruments is approximately equal to the book value. Therefore, the book value of these instruments is deemed as the fair value.

#### (2) Monetary claims bought

Fair value of trust beneficiary rights, recorded as monetary claims bought, which meet the criteria of securities for the

purpose of accounting treatment, is measured using the same method as described in (5) Securities, below.

The fair value of monetary claims bought other than the above is calculated using the same method as described in (6) Loans and bills discounted, below.

#### (3) Trading assets

Fair value of trading securities, mainly bonds, is determined using the market price quoted at exchange or market price announced by certain industry associations or provided by information vendors.

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## (4) Money held in trust

Securities held in trust on behalf of the Group are valued using the same method as described in (5) Securities, below. Monetary claims held in trust on behalf of the Group are calculated using the same method as described in (6) Loans and bills discounted, below.

## (5) Securities

Stocks are valued at market prices quoted at exchanges. Bonds that have a market price announced by certain industry associations or provided by information vendors are valued at those prices, in principle. Bonds that do not have a market price announced by certain industry associations or provided by information vendors are calculated using the same method as described in (6) Loans and bills discounted, below, or valued at prices provided by brokers or dealers. Investment trust funds are valued at prices provided by the management company of each fund. Investment in partnerships are valued in accordance with the above method or using the same method as described in (6) Loans and bills discounted, below, depending on the type of assets which are held by a partnership.

## (6) Loans and bills discounted

Fair value of loans and bills discounted is determined as the present value of estimated future cash flows, discounted by the market interest rates, less accrued interest. The estimated future cash flows are calculated by adjusting contractual payment of principal and interest with credit and other considerable risks, which are reflected mainly through PD and LGD. PD is based on the internal credit ratings and LGD is based on the situations of underlying assets and collateral. Some loans and bills discounted are valued at prices provided by vendor financial institutions. Concerning compound financial instruments to which bifurcation accounting is applied, the contractual payments of principal and interest for the calculations are those of the host contracts where embedded derivatives are bifurcated under bifurcation accounting.

As for loans to 'Bankrupt' borrowers, 'De facto bankrupt' borrowers and 'In danger of bankruptcy' borrowers, the collectable amount through the disposal of collateral or the execution of guarantees, or the present value of estimated future cash flows, etc., is deemed as the fair value.

As for loans with no maturity due to a feature that the amount of loans are limited within the collateral amount, and immaterial loans without concerns about collectability, the book value is deemed as fair value.

## Liabilities

### (1) Deposits (excluding negotiable certificates of deposit)

Fair value of deposits on demand is deemed as the payment amount if demanded on the consolidated balance sheet date, i.e., 'book value.' Fair value of time deposits is principally determined as the present value of contractual payments of principal and interest less accrued interest. The discount rate is the market interest rate, adjusted with average

funding spreads of the Bank observed within a specified period preceding the consolidated balance sheet date. Concerning compound financial instruments to which bifurcation accounting is applied, contractual payments of principal and interest for the calculations are those of the host contracts where embedded derivatives are bifurcated under bifurcation accounting.

### (2) Negotiable certificates of deposit

Since the contract period is short, the fair value is approximately equal to the book value. Therefore, the book value is deemed as the fair value.

### (3) Debentures

Debentures that have a market price announced by certain industry associations or provided by information vendors are valued at those prices. As for debentures that do not have a market price announced by certain industry associations or published by information vendors, the fair value of those with short maturities is approximately equal to the book value. Therefore, the book value is deemed as the fair value. Other than that, the fair value of debentures other than the above is calculated using the same method as for time deposits described in (1) Deposits above.

### (4) Call money and bills sold, payables under repurchase agreements and payables under securities lending transactions

Since the contract period is short, the fair value is approximately equal to the book value. Therefore, the book value is deemed as the fair value.

### (5) Borrowed money

Since the fair value of borrowed money with short maturities is approximately equal to the book value, the book value is deemed as the fair value. Other than that, the fair value is calculated using the same method as for time deposits described in (1) Deposits above.

Concerning the compound financial instruments to which bifurcation accounting is applied, the contractual payments of principal and interest for the calculations are those of the host contracts where embedded derivatives are bifurcated under bifurcation accounting.

### (6) Bonds payable

Fair value is calculated using the market price announced by certain industry associations or provided by information vendors.

## Derivatives

The valuation method of derivatives is described in the footnotes to the respective tables in Note 28, 'Derivatives.'



### Financial instruments whose fair value cannot be reliably determined

The following instruments are not included in 'Securities' in Assets in the above table showing fair value of financial instruments.

	Carrying amount 2020	
	Millions of Yen	Thousands of U.S. Dollars
(1) Unlisted stocks, etc. (Notes 1 and 3)	¥6,898	\$63,387
(2) Investments in partnerships (Note 2)	64,823	595,640
Total	¥71,721	\$659,027

	Carrying amount 2019
	Millions of Yen
(1) Unlisted stocks, etc. (Notes 1 and 3)	¥9,234
(2) Investments in partnerships (Note 2)	57,920
Total	¥67,155

Notes: 1. Fair value of unlisted stocks, etc., is not disclosed because they do not have a market price and their fair value cannot be reliably determined.

2. Fair value of investments in partnerships, composed of assets whose fair value cannot be reliably determined, such as unlisted stocks, is not disclosed.

3. The Group wrote off unlisted stocks, etc., by ¥1,744 million (\$16,030 thousand) and less than ¥1 million for the year ended March 31, 2020 and 2019, respectively.

### Maturity analysis for claims and securities with contractual maturities as of March 31, 2020 and 2019

Year ended March 31, 2020

	Millions of Yen					
	1 year or less	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years to 7 years	Over 7 years to 10 years	Over 10 years
Due from banks	¥453,584	¥—	¥—	¥—	¥—	¥—
Call loans and bills bought	—	—	—	—	—	—
Receivables under resale agreements	71,011	—	—	—	—	—
Receivables under securities borrowing transactions	—	—	—	—	—	—
Monetary claims bought (Note 1)	12,468	13,787	7,620	3,270	—	7,561
Securities:						
Available-for-sale securities with fixed maturity	8,884	42,228	118,843	90,037	86,133	238,622
Loans and bills discounted (Note 2)	744,422	695,721	746,325	527,571	121,379	92,626
Total	¥1,290,371	¥751,737	¥872,788	¥620,879	¥207,512	¥338,810

	Thousands of U.S. Dollars					
	1 year or less	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years to 7 years	Over 7 years to 10 years	Over 10 years
Due from banks	\$4,167,830	\$—	\$—	\$—	\$—	\$—
Call loans and bills bought	—	—	—	—	—	—
Receivables under resale agreements	652,495	—	—	—	—	—
Receivables under securities borrowing transactions	—	—	—	—	—	—
Monetary claims bought (Note 1)	114,571	126,692	70,018	30,049	—	69,482
Securities:						
Available-for-sale securities with fixed maturity	81,634	388,018	1,092,009	827,327	791,452	2,192,614
Loans and bills discounted (Note 2)	6,840,232	6,392,737	6,857,717	4,847,665	1,115,309	851,116
Total	\$11,856,762	\$6,907,447	\$8,019,744	\$5,705,041	\$1,906,761	\$3,113,212

Notes: 1. Of monetary claims bought, the portion whose collection is unforeseeable, such as loans to 'Bankrupt' borrowers, loans to 'De facto bankrupt' borrowers and loans to 'In danger of bankruptcy' borrowers, amounting to ¥22,069 million (\$202,792 thousand) as of March 31, 2020, is not included in the table.

2. Of loans and bills discounted, the portion whose collection is unforeseeable, such as loans to 'Bankrupt' borrowers, loans to 'De facto bankrupt' borrowers and loans to 'In danger of bankruptcy' borrowers, amounting to ¥26,075 million (\$239,596 thousand) as of March 31, 2020, is not included in the table. There are no loans that do not have fixed maturity amounted.



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Year ended March 31, 2019

	Millions of Yen					
	1 year or less	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years to 7 years	Over 7 years to 10 years	Over 10 years
Due from banks	¥599,775	¥—	¥—	¥—	¥—	¥—
Call loans and bills bought	—	—	—	—	—	—
Receivables under securities borrowing transactions	—	—	—	—	—	—
Monetary claims bought (Note 1)	12,122	5,010	—	—	—	9,379
Securities:						
Available-for-sale securities with fixed maturity	19,120	59,966	107,384	131,871	82,351	254,997
Loans and bills discounted (Note 2)	619,883	726,835	693,886	555,872	105,205	64,009
Total	¥1,250,902	¥791,812	¥801,270	¥687,743	¥187,557	¥328,386

Notes: 1. Of monetary claims bought, the portion whose collection is unforeseeable, such as loans to 'Bankrupt' borrowers, loans to 'De facto bankrupt' borrowers and loans to 'In danger of bankruptcy' borrowers, amounting to ¥24,608 million as of March 31, 2019, is not included in the table.  
2. Of loans and bills discounted, the portion whose collection is unforeseeable, such as loans to 'Bankrupt' borrowers, loans to 'De facto bankrupt' borrowers and loans to 'In danger of bankruptcy' borrowers, amounting to ¥14,201 million as of March 31, 2019, is not included in the table.  
There are no loans that do not have fixed maturity amounted.

## Maturity analysis for interest-bearing liabilities as of March 31, 2020 and 2019

Year ended March 31, 2020

	Millions of Yen					
	1 year or less	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years to 7 years	Over 7 years to 10 years	Over 10 years
Deposits (excluding negotiable certificates of deposit)	¥2,335,118	¥266,757	¥196,680	¥43,895	¥179,215	¥327,992
Negotiable certificates of deposit	47,240	—	—	—	—	—
Debentures	44,660	—	—	—	—	—
Call money and bills sold	38,728	—	—	—	—	—
Payables under repurchase agreements	27,758	—	—	—	—	—
Payables under securities lending transactions	281,325	—	—	—	—	—
Borrowed money	64,710	28,500	12,000	40,300	61,500	220,600
Bonds payable	53,000	159,275	3,000	—	—	—
Total	¥2,892,542	¥454,532	¥211,680	¥84,195	¥240,715	¥548,592

	Thousands of U.S. Dollars					
	1 year or less	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years to 7 years	Over 7 years to 10 years	Over 10 years
Deposits (excluding negotiable certificates of deposit)	\$21,456,571	\$2,451,140	\$1,807,230	\$403,338	\$1,646,744	\$3,013,802
Negotiable certificates of deposit	434,072	—	—	—	—	—
Debentures	410,365	—	—	—	—	—
Call money and bills sold	355,859	—	—	—	—	—
Payables under repurchase agreements	255,062	—	—	—	—	—
Payables under securities lending transactions	2,585,004	—	—	—	—	—
Borrowed money	594,606	261,876	110,264	370,302	565,101	2,027,015
Bonds payable	486,998	1,463,525	27,566	—	—	—
Total	\$26,578,537	\$4,176,541	\$1,945,060	\$773,640	\$2,211,845	\$5,040,817

Note: Deposits on demand (current deposits, ordinary deposits and deposits at notice) are included in '1 year or less.'

Year ended March 31, 2019

	Millions of Yen					
	1 year or less	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years to 7 years	Over 7 years to 10 years	Over 10 years
Deposits (excluding negotiable certificates of deposit)	¥2,144,550	¥308,543	¥123,121	¥57,996	¥214,513	¥254,078
Negotiable certificates of deposit	127,927	—	—	—	—	—
Debentures	6,700	44,660	—	—	—	—
Call money and bills sold	51,723	—	—	—	—	—
Payables under repurchase agreements	49,658	—	—	—	—	—
Payables under securities lending transactions	450,860	—	—	—	—	—
Borrowed money	9,459	8,500	11,500	24,300	68,000	198,800
Bonds payable	79,286	134,300	19,000	—	—	—
Total	¥2,920,166	¥496,003	¥153,621	¥82,296	¥282,513	¥452,878

Note: Deposits on demand (current deposits, ordinary deposits and deposits at notice) are included in '1 year or less.'

## 28. Derivatives

The qualitative nature of derivative transactions, such as the type of derivatives, policy and purpose of using derivatives, risks and risk control systems for derivatives, are described in Note 27, 'Financial Instruments and Related Disclosures.'

### (1) Derivative transactions for which hedge accounting is not applied

The Group had the following derivative contracts, which were listed on exchanges, outstanding as of March 31, 2020 and 2019:

	Millions of Yen				Thousands of U.S. Dollars			
	Contract or Notional Amount	Due after 1 Year	Fair Value	Valuation Gain/(Loss)	Contract or Notional Amount	Due after 1 Year	Fair Value	Valuation Gain/(Loss)
<b>March 31, 2020</b>								
Interest rate contacts:								
Futures sold	¥—	¥—	¥—	¥—	\$—	\$—	\$—	\$—
Futures bought	—	—	—	—	—	—	—	—
Options written	380,905	—	(3)	28	3,500,000	—	(28)	265
Options purchased	108,830	—	2	(26)	1,000,000	—	19	(241)
Bond contracts:								
Futures sold	13,023	—	(27)	(27)	119,671	—	(254)	(254)
Futures bought	2,775	—	0	0	25,502	—	4	4
Futures options written	21,766	—	(110)	204	200,000	—	(1,016)	1,877
Futures options purchased	54,415	—	137	(41)	500,000	—	1,266	(383)
Equity contracts:								
Index futures sold	921	—	3	3	8,472	—	36	36
Index futures bought	32,172	—	3,392	3,392	295,618	—	31,173	31,173
Index options written	204,962	126,669	(21,263)	(5,219)	1,883,325	1,163,918	(195,381)	(47,959)
Index options purchased	166,646	74,417	11,212	463	1,531,258	683,794	103,025	4,256
<b>March 31, 2019</b>								
Interest rate contacts:								
Futures sold	¥21,646	¥10,871	¥(36)	¥(36)				
Futures bought	2,714	2,714	(1)	(1)				
Options written	111,000	—	(17)	2				
Options purchased	305,250	—	65	(4)				
Bond contracts:								
Futures sold	4,573	—	(67)	(67)				
Futures bought	10,951	—	140	140				
Futures options written	14,000	—	(54)	(21)				
Futures options purchased	57,720	—	35	(67)				
Equity contracts:								
Index futures sold	1,167	—	0	0				
Index futures bought	41,646	—	347	347				
Index options written	149,392	120,243	(12,702)	2,159				
Index options purchased	74,725	38,950	4,626	(1,055)				

Notes: 1. The contracts or notional amounts of derivatives which are shown in the above table do not necessarily represent the amounts exchanged by the parties and do not measure the exposure of the Group to credit or market risk.

2. Derivative transactions shown above are stated at fair value in the accompanying consolidated financial statements.

3. Fair values of the above derivatives are based on quoted market prices, such as those from the Tokyo Financial Exchange, Inc or the Osaka Exchange, Inc.

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The Group had the following derivative contracts, which were not listed on exchanges, outstanding as of March 31, 2020 and 2019:

	Millions of Yen				Thousands of U.S. Dollars			
	Contract or Notional Amount	Due after 1 Year	Fair Value	Valuation Gain/(Loss)	Contract or Notional Amount	Due after 1 Year	Fair Value	Valuation Gain/(Loss)
<b>March 31, 2020</b>								
Interest rate contracts:								
Interest rate swaps:								
Receive fixed and pay floating	¥7,322,776	¥6,452,065	¥169,910	¥169,910	\$67,286,374	\$59,285,724	\$1,561,245	\$1,561,245
Receive floating and pay fixed	7,285,700	6,348,444	(126,734)	(126,734)	66,945,704	58,333,585	(1,164,518)	(1,164,518)
Receive floating and pay floating	528,734	372,584	212	212	4,858,356	3,423,549	1,955	1,955
Other contracts sold	2,715,876	2,035,561	(11,623)	(11,623)	24,955,221	18,704,045	(106,801)	(106,801)
Other contracts bought	1,177,103	933,688	(2,893)	(2,893)	10,815,987	8,579,334	(26,588)	(26,588)
Foreign exchange contracts:								
Currency swaps	601,489	179,979	(601)	(601)	5,526,871	1,653,765	(5,526)	(5,526)
Forward exchange contracts sold	907,225	190,171	(25,228)	(25,228)	8,336,173	1,747,417	(231,812)	(231,812)
Forward exchange contracts bought	562,786	250,978	16,877	16,877	5,171,248	2,306,154	155,083	155,083
Options written	1,186,389	771,461	(44,380)	31,802	10,901,308	7,088,686	(407,793)	292,222
Options purchased	1,193,939	791,985	45,785	(21,711)	10,970,682	7,277,273	420,703	(199,496)
Commodity derivatives:								
Commodity swaps:								
Receive fixed and pay floating	25,509	15,833	8,430	8,430	234,394	145,492	77,465	77,465
Receive floating and pay fixed	25,235	15,625	(8,186)	(8,186)	231,881	143,581	(75,224)	(75,224)
Options written	8,963	4,087	(1,377)	(1,377)	82,362	37,559	(12,657)	(12,657)
Options purchased	8,963	4,087	1,377	1,377	82,362	37,559	12,657	12,657
Credit derivatives:								
CDS sold	156,750	123,500	1,114	1,114	1,440,320	1,134,797	10,245	10,245
CDS bought	140,225	107,050	700	700	1,288,477	983,644	6,436	6,436
Equity index swap:								
Receive equity index and pay interest rate	53,219	53,219	22,263	22,263	489,010	489,010	204,575	204,575
Internal transactions:								
Interest rate swaps:								
Receive floating and pay fixed	—	—	—	—	—	—	—	—
Currency swaps	560,543	142,191	1,271	1,271	5,150,634	1,306,542	11,680	11,680
Forward exchange contracts sold	8	—	(0)	(0)	82	—	(1)	(1)
Forward exchange contracts bought	8	—	0	0	82	—	1	1
<b>March 31, 2019</b>								
Interest rate contracts:								
Interest rate swaps:								
Receive fixed and pay floating	¥7,260,629	¥5,549,644	¥150,554	¥150,554				
Receive floating and pay fixed	6,949,393	5,340,677	(112,067)	(112,067)				
Receive floating and pay floating	608,629	471,590	112	112				
Other contracts sold	2,602,184	1,978,514	(8,919)	(8,919)				
Other contracts bought	1,272,789	870,766	(2,388)	(2,388)				
Foreign exchange contracts:								
Currency swaps	616,152	248,885	(2,493)	(2,493)				
Forward exchange contracts sold	796,560	188,759	(8,701)	(8,701)				
Forward exchange contracts bought	475,434	255,355	8,311	8,311				
Options written	1,132,718	759,094	(47,050)	28,464				
Options purchased	1,157,159	773,806	46,022	(18,978)				
Commodity derivatives:								
Commodity swaps:								
Receive fixed and pay floating	28,476	15,982	(1,611)	(1,611)				
Receive floating and pay fixed	28,255	15,835	1,830	1,830				
Options written	11,681	6,745	(786)	(786)				
Options purchased	11,681	6,745	786	786				
Credit derivatives:								
CDS sold	147,750	116,500	2,543	2,543				
CDS bought	142,225	110,975	(1,536)	(1,536)				
Equity index swap:								
Receive equity index and pay interest rate	50,479	50,479	6,641	6,641				
Internal transactions:								
Interest rate swaps:								
Receive floating and pay fixed	130,300	—	258	258				
Currency swaps	595,628	229,651	2,682	2,682				
Forward exchange contracts sold	9	—	(0)	(0)				
Forward exchange contracts bought	9	—	0	0				

- Notes: 1. The contracts or notional amounts of derivatives which are shown in the above table do not necessarily represent the amounts exchanged by the parties and do not measure the exposure of the Group to credit or market risk.
2. Derivative transactions shown above are stated at fair value in the accompanying consolidated financial statements.
3. The calculation or quotation of the fair value of the above derivatives are based on the discounted present value method or option pricing models, etc.
4. 'Sold' credit derivatives represent credit risk taking. 'Bought' credit derivatives represent credit risk transfer.
5. Foreign exchange profit/loss generated from currency exposure with the final principal settlement of currency swaps, amounting to a gain of ¥3 million (\$29 thousand) and a gain of ¥252 million as of March 31, 2020 and 2019, respectively, are excluded from 'Fair Value' and 'Valuation Gain/(Loss)' shown above.
6. Other contracts sold and bought of 'Interest rate contracts' were mainly swaptions.
7. CDS is the abbreviation for credit default swaps.
8. Commodity derivatives are mainly related to oil and non-ferrous metal.

## (2) Derivative transactions for which hedge accounting is applied

The Group had the following derivative contracts for which hedge accounting is applied as of March 31, 2020 and 2019:

	Millions of Yen			Thousands of U.S. Dollars		
	Contract or Notional Amount	Due after 1 Year	Fair Value	Contract or Notional Amount	Due after 1 Year	Fair Value
<b>March 31, 2020</b>						
Equity contracts:						
Total return swaps	¥—	¥—	¥—	\$—	\$—	\$—
Interest rate contracts:						
Interest rate swaps:						
Receive fixed and pay floating	—	—	—	—	—	—
Foreign exchange contracts:						
Currency swaps	558,213	141,488	(1,271)	5,129,228	1,300,091	(11,680)
Forward exchange contracts	406,899	—	(2,607)	3,738,850	—	(23,956)
<b>March 31, 2019</b>						
Equity contracts:						
Total return swaps	¥39,865	¥29,094	¥(1,756)			
Interest rate contracts:						
Interest rate swaps:						
Receive fixed and pay floating	130,300	—	(258)			
Foreign exchange contracts:						
Currency swaps	598,592	233,100	(2,682)			
Forward exchange contracts	355,200	—	(2,522)			

- Notes: 1. The contracts or notional amounts of derivatives which are shown in the above table do not necessarily represent the amounts exchanged by the parties and do not measure the exposure of the Group to credit or market risk.
2. The calculation or quotation of the fair value of the above derivatives are based on the discounted present value method, etc.
3. For the interest rate swaps shown above, deferred hedge accounting is applied in accordance with the JICPA Industry Audit Committee Report No. 24.
4. For the currency swaps and forward exchange contracts shown above, deferred hedge accounting is applied in accordance with the JICPA Industry Audit Committee Report No. 25.
5. The main hedged items for index futures and total return swaps are stock-price-bearing financial assets, such as available-for-sale securities.
6. The main hedged items for interest rate swaps are interest-bearing financial liabilities, such as deposits, debentures and bonds payable.
7. The main hedged items for currency swaps and forward exchange contracts are foreign-currency-denominated financial assets or liabilities, such as loans and securities.
8. Foreign exchange profit/loss generated from currency exposure with the final principal settlement of currency swaps, amounting to a gain of ¥2,329 million (\$21,406 thousand) and a loss of ¥2,964 million as of March 31, 2020 and 2019, respectively, are excluded from 'Fair Value' shown above.
9. The contracts shown above are mainly internal transactions.

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## 29. Other Comprehensive Income

The components of other comprehensive income for the years ended March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
<b>Reclassification and tax effect related to comprehensive income</b>			
Valuation difference on available-for-sale securities:			
Difference arising during the year	¥(2,764)	¥23,306	\$(25,405)
Reclassification adjustment to profit or loss	(53,852)	(43,816)	(494,828)
Amount before income tax effect	(56,616)	(20,510)	(520,233)
Income tax effect	8,774	8,666	80,625
Valuation difference on available-for-sale securities	(47,842)	(11,843)	(439,608)
Deferred gains or losses on hedges:			
Gains (losses) arising during the year	(24,131)	(35,041)	(221,736)
Reclassification adjustment to profit or loss	49,125	47,249	451,400
Amount before income tax effect	24,994	12,208	229,664
Income tax effect	(7,653)	(3,738)	(70,323)
Deferred gains or losses on hedges	17,341	8,469	159,341
Foreign currency translation adjustments:			
Adjustments arising during the year	(515)	779	(4,732)
Reclassification adjustment to profit or loss	—	—	—
Amount before income tax effect	(515)	779	(4,732)
Income tax effect	—	—	—
Foreign currency translation adjustments	(515)	779	(4,732)
Remeasurements of defined benefit plans:			
Adjustments arising during the year	(1,682)	(592)	(15,460)
Reclassification adjustment to profit or loss	237	(143)	2,180
Amount before income tax effect	(1,445)	(735)	(13,280)
Income tax effect	442	225	4,066
Remeasurements of defined benefit plans	(1,002)	(510)	(9,214)
Other comprehensive income total	¥(32,019)	¥(3,104)	\$(294,213)

### 30. Per Share Information

The reconciliation of differences between basic and diluted net income per share (EPS) for the years ended March 31, 2020 and 2019, was as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
	Net Income	Weighted-Average Number of Shares	EPS	
Year Ended March 31, 2020				
Basic EPS—Net income available to common stockholders (Net income attributable to owners of the parent)	¥28,142	116,681	¥241.18	\$2.22
Effect of dilutive securities— Share acquisition rights to shares	—	126		
Diluted EPS—Net income for computation	¥28,142	116,808	¥240.92	\$2.21
Year Ended March 31, 2019				
Basic EPS—Net income available to common stockholders (Net income attributable to owners of the parent)	¥36,130	116,672	¥309.67	
Effect of dilutive securities— Share acquisition rights to shares	—	93		
Diluted EPS—Net income for computation	¥36,130	116,766	¥309.42	

Net assets per share of common stock as of March 31, 2020 and 2019, were as follows:

	Yen		U.S. Dollars
	2020	2019	2020
Net assets per share of common stock	¥3,659.84	¥3,844.08	\$33.63

Net assets per share of common stock as of March 31, 2020 and 2019, were calculated based on the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Total equity	¥424,758	¥448,710	\$3,902,957
Deductions from total equity:			
Non-controlling interests	(2,734)	(166)	(25,122)
Share acquisition rights	444	357	4,083
Net assets attributable to common stock at the end of the year	¥427,048	¥448,519	\$3,923,996
Number of shares of common stock at the end of the year used for the calculation of net assets per share of common stock (shares in thousands)	116,684	116,677	



# Consolidated Financial Statements

## 31. Segment Information

### (1) Segment information

Segment information for the years ended March 31, 2020 and 2019, was as follows:

#### 1) Description of reportable segments

##### (a) Identification of operating segments

The Bank has classified its Group's business operations into business groups based upon the nature of the customers served and products offered: Retail Banking Group ('RBG'), Institutional Banking Group ('IBG'), Allied Banking Group ('ABG'), Specialty Finance Group ('SFG'), International Finance Group ('IFG'), and Financial Markets Group ('FMG'). The Bank has designated these business groups as operating segments and reportable segments for the purpose of the disclosures contained herein.

Financial information for these groups is regularly reported to the Management Committee, which comprises members from amongst the Executive Officers who are approved and appointed by the Board of Directors, and is utilized for management decisions on the allocation of resources, an evaluation of the performance of each business group, etc.

##### (b) Services provided by each reportable segment

RBG offers financial services to retail customers. RBG's major services are the sale of investment products, including deposits, investment trusts and insurance, and other financial services.

IBG offers financial services to corporate customers and public sector customers. Major services offered by IBG are loans and deposits, sale of financial products, financing through securitization, privately placed bonds, M&A advisory, private equity operations, acquisition finance, and other financial services.

ABG offers financial services to financial institutions. Major services offered by ABG are loans and deposits, sale of financial products, and other financial services.

SFG offers financial services that require specialized expertise such as corporate restructuring finance and real estate finance.

IFG offers financial services that require specialized expertise such as overseas loans and investments.

FMG offers derivatives and foreign exchange products to customers, trading derivatives and foreign exchange products, as well as ALM operations.

#### 2) Methods of measurement for the amounts of revenues, profit (loss), assets and liabilities by reportable segments

Revenues, profit (loss), assets and liabilities of reportable segments are recognized and measured in accordance with accounting policies applied to consolidated financial statements.

The Bank calculates its net interest income from funding and investing across reportable segments based on i) the internal transfer rates determined by the average rate of funding by the currency and by contractual term, and ii) the allocation ratio determined by the Bank based on the value of compensation for funding activities.

Fixed assets are not allocated to reportable segments, while the associated expenses are allocated to specific reportable segments and included in the segments' expenses.

### 3) Revenues, profit (loss), assets and liabilities by reportable segment

Year ended March 31, 2020

	Millions of Yen						
	RBG	IBG	ABG	SFG	IFG	FMG	Total
Consolidated net revenue	¥12,247	¥21,893	¥7,157	¥19,646	¥12,851	¥20,055	¥93,851
General and administrative expenses	10,631	11,559	3,600	9,491	6,843	5,540	47,664
Segment profit (loss)	1,616	10,334	3,557	10,155	6,008	14,515	46,187
Segment assets	18,211	1,214,441	82,584	1,117,619	800,817	1,598,930	4,832,602
Segment liabilities	2,041,342	522,158	1,120,229	50,201	58	918,164	4,652,152

	Thousands of U.S. Dollars						
	RBG	IBG	ABG	SFG	IFG	FMG	Total
Consolidated net revenue	\$112,539	\$201,169	\$65,769	\$180,524	\$118,087	\$184,284	\$862,372
General and administrative expenses	97,688	106,213	33,079	87,210	62,879	50,907	437,976
Segment profit (loss)	14,851	94,956	32,690	93,314	55,208	133,377	424,396
Segment assets	167,334	11,159,065	758,835	10,269,402	7,358,421	14,691,997	44,405,054
Segment liabilities	18,757,163	4,797,923	10,293,384	461,279	533	8,436,681	42,746,963

Notes: 1. Due to the nature of the banking business, the Bank uses 'Consolidated net revenue' as a substitute for 'Sales' as would be used by non-financial services companies. Consolidated net revenue represents the total of net interest income, trust fees, net fees and commissions, net trading income and net other ordinary income. The Bank oversees its revenue by reportable segment using consolidated net revenue. The Bank offsets interest income and interest expense for the management purposes, therefore, revenue in transactions between reportable segments is not disclosed.

2. Depreciation expenses are included in the general and administrative expenses of each reportable segment, but are not disclosed as a separate item, because in the calculation process of the segment profit (loss), a part of depreciation expenses is allocated to each reportable segment, aggregated with other general and administrative expenses. Therefore, depreciation expenses by reportable segment are not managed separately. The amount of depreciation expense for the year is ¥5,407 million (\$49,687 thousand).

Year ended March 31, 2019

	Millions of Yen						
	RBG	IBG	ABG	SFG	IFG	FMG	Total
Consolidated net revenue	¥9,095	¥19,780	¥7,983	¥19,396	¥12,774	¥11,487	¥80,518
General and administrative expenses	9,186	11,140	3,807	9,112	6,590	5,236	45,073
Segment profit (loss)	(90)	8,640	4,176	10,284	6,183	6,251	35,445
Segment assets	14,543	1,114,756	101,076	1,059,591	818,289	1,827,787	4,936,042
Segment liabilities	1,825,163	638,831	1,060,592	40,074	242	1,036,064	4,600,966

Notes: 1. Due to the nature of the banking business, the Bank uses 'Consolidated net revenue' as a substitute for 'Sales' as would be used by non-financial services companies. Consolidated net revenue represents the total of net interest income, trust fees, net fees and commissions, net trading income and net other ordinary income. The Bank oversees its revenue by reportable segment using consolidated net revenue. The Bank offsets interest income and interest expense for the management purposes, therefore, revenue in transactions between reportable segments is not disclosed.

2. Depreciation expenses are included in the general and administrative expenses of each reportable segment, but are not disclosed as a separate item, because in the calculation process of the segment profit (loss), a part of depreciation expenses is allocated to each reportable segment, aggregated with other general and administrative expenses. Therefore, depreciation expenses by reportable segment are not managed separately. The amount of depreciation expense for the year is ¥4,784 million.

#### 4) Reconciliation between total segment amounts and the consolidated financial statements

(a) Reconciliation between total consolidated net revenue of reportable segments and the consolidated net revenue in the consolidated statement of income for the years ended March 31, 2020 and 2019, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Total consolidated net revenue of reportable segments	¥93,851	¥80,518	\$862,372
Variances resulting from differences in the basis of revenue and expense recognition and measurement	1,859	3,322	17,083
Net revenue derived from the consolidated statement of income	¥95,711	¥83,840	\$879,455

(b) Reconciliation between total segment profits and income before income taxes in the consolidated statement of income for the years ended March 31, 2020 and 2019, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Total segment profits	¥46,187	¥35,445	\$424,396
Variances resulting from differences in the basis of revenue and expense recognition and measurement	(3,874)	(1,038)	(35,604)
Amortization of actuarial differences on retirement benefit plans, etc.	(282)	101	(2,594)
Credit-related expenses, etc.	(11,742)	(1,018)	(107,901)
Gains (losses) on stock transactions	11,663	13,294	107,176
Others, including net extraordinary income (losses)	1,374	1,009	12,632
Income before income taxes in the consolidated statement of income	¥43,325	¥47,794	\$398,105

Note: Credit-related expenses, etc., represent the total of write-offs of loans, provision of allowance for loan losses and losses on disposition of non-performing loans.

# Consolidated Financial Statements

(c) Reconciliation between total segment assets and total assets in the consolidated balance sheet as of March 31, 2020 and 2019, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Total segment assets	¥4,832,602	¥4,936,042	\$44,405,054
Allowance for loan losses	(40,217)	(45,004)	(369,548)
Assets not allocated to reportable segments	507,431	364,010	4,662,603
Total assets in the consolidated balance sheet	¥5,299,815	¥5,255,048	\$48,698,109

Note: As of March 31, 2020, assets not allocated to reportable segments include foreign exchange of ¥67,168 million (\$617,187 thousand), other assets of ¥201,609 million (\$1,852,518 thousand), fixed assets of ¥42,909 million (\$394,278 thousand) and deferred tax assets of ¥26,960 million (\$247,727 thousand). As of March 31, 2019, assets not allocated to reportable segments include foreign exchange of ¥49,480 million, other assets of ¥169,982 million, fixed assets of ¥42,213 million and deferred tax assets of ¥23,368 million.

(d) Reconciliation between total segment liabilities and total liabilities in the consolidated balance sheet as of March 31, 2020 and 2019, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Total segment liabilities	¥4,652,152	¥4,600,966	\$42,746,963
Liabilities not allocated to reportable segments	222,904	205,371	2,048,189
Total liabilities in the consolidated balance sheet	¥4,875,056	¥4,806,337	\$44,795,152

Note: As of March 31, 2020, liabilities not allocated to reportable segments include other liabilities of ¥110,371 million (\$1,014,166 thousand) and retirement benefit liability of ¥10,348 million (\$95,088 thousand). As of March 31, 2019, liabilities not allocated to reportable segments include other liabilities of ¥134,426 million and retirement benefit liability of ¥9,784 million.

## (2) Related information

### 1) Segment information by service

Year ended March 31, 2020

	Millions of Yen				
	Lending	Securities investment	Derivatives, etc.	Others	Total
Ordinary income from external customers	¥70,732	¥89,291	¥9,911	¥14,470	¥184,406

	Thousands of U.S. Dollars				
	Lending	Securities investment	Derivatives, etc.	Others	Total
Ordinary income from external customers	\$649,936	\$820,471	\$91,074	\$132,968	\$1,694,449

Year ended March 31, 2019

	Millions of Yen				
	Lending	Securities investment	Derivatives, etc.	Others	Total
Ordinary income from external customers	¥68,838	¥65,407	¥8,224	¥17,665	¥160,136

Note: 'Ordinary income' is presented instead of 'Sales' as would be used by non-financial service companies.

## 2) Segment information by geographic region

### (a) Ordinary income

The information by geographic region has been omitted as the transaction data on each customer regarding interest income, gains on sales of securities and income related to derivative transactions, etc., were not available to be segmented by customers' domicile.

### (b) Tangible fixed assets

The information by geographic region has been omitted as the amounts of tangible fixed assets located in Japan exceeded 90% of the total amount of tangible fixed assets in the consolidated balance sheet as of March 31, 2020 and 2019.

## 3) Segment information by major customer

The information by major customer has been omitted as ordinary income from any particular customer was less than 10% of ordinary income in the consolidated statement of income.

### (3) Segment information on impairment losses on fixed assets by reportable segment

Not applicable.

### (4) Segment information on amortization and unamortized portion of goodwill by reportable segment

Not applicable.

### (5) Segment information on profit on negative goodwill by reportable segment

Not applicable.

## 32. Related-Party Transactions

There were no material related party transactions to be disclosed for the years ended March 31, 2020 and 2019.

Information on the parent company (including entities similar to partnerships) is as follows:

Not applicable

## 33. Subsequent Events

### (1) Appropriation of retained earnings

The following distribution of retained earnings to the stockholders of record as of March 31, 2020, was approved at the Board of Directors' meeting held on May 14, 2020:

	Millions of Yen	Thousands of U.S. Dollars
Year-end dividends:		
Common stock, ¥39.00 (\$0.36) per share	¥4,550	\$41,815

# Independent Auditor's Report



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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Aozora Bank, Ltd.:

### Opinion

We have audited the consolidated financial statements of Aozora Bank, Ltd. and its consolidated subsidiaries (the "Group"), which comprise the consolidated balance sheet as of March 31, 2020, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, all expressed in Japanese yen.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

### Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Responsibilities of Management and Audit & Supervisory Board Members and the Audit & Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Member of  
Deloitte Touche Tohmatsu Limited



Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Group's financial reporting process.

#### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgement. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit & Supervisory Board members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit & Supervisory Board members and the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



# Independent Auditor's Report

## Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

*Deloitte Touche Tohmatsu LLC*

June 19, 2020

# Income Analysis (Consolidated)

## Interest-Earning Assets and Interest-Bearing Liabilities

Years Ended March 31

(Millions of Yen, %)

	Average balance			Interest income/expenses			Return/rates		
	2020	2019	Change	2020	2019	Change	2020	2019	Change
<b>Interest-earning assets</b>	<b>4,385,755</b>	<b>4,115,945</b>	<b>269,810</b>	<b>95,409</b>	<b>97,426</b>	<b>(2,016)</b>	<b>2.17</b>	<b>2.36</b>	<b>(0.19)</b>
Due from banks	72,628	66,903	5,724	839	926	(86)	1.15	1.38	(0.23)
Call loans and bills bought	20,768	322	20,445	(5)	5	(11)	(0.02)	1.71	(1.73)
Receivables under resale agreements	1,358	2	1,355	(1)	(0)	(1)	(0.10)	(0.07)	(0.03)
Receivables under securities borrowing transactions	—	283	(283)	—	0	(0)	—	0.00	(0.00)
Securities	1,203,893	1,194,640	9,253	31,409	36,152	(4,742)	2.60	3.02	(0.42)
Loans and bills discounted	2,878,279	2,670,187	208,092	61,440	59,183	2,257	2.13	2.21	(0.08)
<b>Interest-bearing liabilities</b>	<b>4,517,505</b>	<b>4,239,196</b>	<b>278,309</b>	<b>46,594</b>	<b>47,117</b>	<b>(523)</b>	<b>1.03</b>	<b>1.11</b>	<b>(0.08)</b>
Deposits	3,208,266	2,967,104	241,162	7,278	7,391	(113)	0.22	0.24	(0.02)
Negotiable certificates of deposit	76,555	110,659	(34,104)	7	8	(0)	0.00	0.00	0.00
Debentures	50,170	53,847	(3,677)	138	146	(7)	0.27	0.27	0.00
Call money and bills sold	49,823	76,880	(27,056)	632	975	(343)	1.26	1.26	0.00
Payables under repurchase agreements	67,393	40,448	26,944	1,526	962	563	2.26	2.37	(0.11)
Payables under securities lending transactions	457,352	427,505	29,846	9,485	8,804	681	2.07	2.05	0.02
Borrowed money	335,771	305,907	29,863	1,079	1,149	(70)	0.32	0.37	(0.05)
Bonds payable	240,913	224,206	16,706	2,666	1,846	819	1.10	0.82	0.28

Note: Interest expenses are shown after deduction of amounts of assumed cost of funding money held in trust .

## Fees and Commissions

Years Ended March 31

(Millions of Yen)

	2020	2019	Change
<b>Net fees and commissions</b>	<b>12,655</b>	<b>12,949</b>	<b>(294)</b>
<b>Fees and commissions income (including trust fees)</b>	<b>14,631</b>	<b>14,603</b>	<b>27</b>
Deposits, debentures and loan operations	8,143	8,424	(280)
Foreign exchange operations	371	194	176
Securities-related operations	2,407	2,428	(21)
Agency services	1,086	1,634	(547)
Guarantee operations	139	91	47
<b>Fees and commissions expenses</b>	<b>1,975</b>	<b>1,653</b>	<b>321</b>
Foreign exchange operations	230	136	93

## Trading Income

Years Ended March 31

(Millions of Yen)

	2020	2019	Change
<b>Net trading income</b>	<b>18,073</b>	<b>8,340</b>	<b>9,733</b>
<b>Trading income</b>	<b>26,505</b>	<b>8,340</b>	<b>18,165</b>
Gains on trading account securities transactions	17,444	115	17,329
Income from securities and derivatives related to trading transactions	—	2,172	(2,172)
Income from trading-related financial derivatives transactions	9,061	6,052	3,008
Other trading income	—	—	—
<b>Trading expenses</b>	<b>8,431</b>	<b>—</b>	<b>8,431</b>
Expenses on trading securities and derivatives	—	—	—
Expenses on securities and derivatives related to trading transactions	8,431	—	8,431
Expenses on trading-related financial derivatives transactions	—	—	—
Other trading expenses	—	—	—

## Other Ordinary Income

Years Ended March 31

(Millions of Yen)

	2020	2019	Change
<b>Net other ordinary income</b>	<b>16,191</b>	<b>12,265</b>	<b>3,925</b>
<b>Other ordinary income</b>	<b>31,175</b>	<b>22,995</b>	<b>8,179</b>
Gains on foreign exchange transactions	—	—	—
Gains on sales of bonds and other securities	19,677	7,661	12,016
Gains on redemption of bonds and other securities	—	—	—
Gains on derivatives	—	—	—
Other	11,498	15,334	(3,836)
<b>Other ordinary expenses</b>	<b>14,983</b>	<b>10,729</b>	<b>4,253</b>
Losses on foreign exchange transactions	3,263	5,651	(2,388)
Losses on sales of bonds and other securities	4,586	2,174	2,411
Losses on redemption of bonds and other securities	292	579	(286)
Losses on devaluation of bonds and other securities	209	0	209
Amortization of debenture and bond issuance costs	244	245	(0)
Losses on derivatives	3,158	322	2,835
Other	3,229	1,755	1,473

# Non-Consolidated Business Results

## Non-Consolidated Financial Highlights [Five-Year Summary]

Years Ended March 31

(Millions of Yen)

	2020	2019	2018	2017	2016
Ordinary income	176,858	156,829	143,932	130,272	118,975
Trust fees (Note 5)	462	189	—	—	—
Ordinary profit	45,342	51,335	56,948	50,081	54,460
Net income	28,669	38,043	42,015	43,475	42,631
Share capital	100,000	100,000	100,000	100,000	100,000
Number of issued shares (in thousands)					
Common stock	118,289	118,289	118,289	1,182,894	1,182,894
Total equity	424,309	443,611	429,092	411,678	397,742
Total assets	5,212,668	5,205,876	4,907,226	4,583,403	4,589,699
Debentures and Bonds payable	259,935	283,946	257,563	246,269	259,465
Deposits (Note 1)	3,325,989	3,196,659	2,980,351	2,866,434	2,945,374
Loans and bills discounted	2,937,508	2,782,131	2,624,742	2,538,325	2,515,868
Securities	1,151,561	1,314,968	1,209,919	1,010,660	987,411
Total equity per share (yen) (Note 2)	3,632.56	3,798.95	3,675.35	3,526.93	340.84
Common stock dividends per share (yen) (Note 3)	156.00	154.00	184.00	18.70	18.60
1st quarter end	(39.00)	(40.00)	(4.00)	(4.00)	(4.00)
2nd quarter end	(39.00)	(40.00)	(4.00)	(4.00)	(4.00)
3rd quarter end	(39.00)	(40.00)	(50.00)	(5.00)	(5.00)
Year end	(39.00)	(34.00)	(54.00)	(5.70)	(5.60)
Basic net income per share (yen) (Note 2)	245.70	326.06	360.17	372.73	36.55
Diluted net income per share (yen) (Note 2)	245.43	325.80	359.90	372.49	33.68
Dividend payout ratio (%)	63.49	47.23	51.08	50.17	50.88
Capital adequacy ratio (domestic standard) (%)	10.26	10.19	10.25	10.56	10.83
Number of employees (Note 4)	1,928	1,878	1,787	1,730	1,695
Trust assets (Note 5)	835,481	797,320	—	—	—
Loans and bills discounted (Trust account) (Note 5)	43,312	40,981	—	—	—
Securities (Trust account) (Note 5)	163,390	175,292	—	—	—

Notes: 1. Deposits include negotiable certificates of deposit (NCDs).

2. The Bank consolidated every ten common shares into one common share on October 1, 2017. 'Total equity per share,' 'Basic net income per share' and 'Diluted net income per share' are presented as if the share consolidation was effective at the beginning of the fiscal year ended March 31, 2017.

3. The Bank consolidated every ten common shares into one common share on October 1, 2017. 'Common stock dividends per share' of FY2017 (184 yen) is presented as if the share consolidation was effective at the beginning of the fiscal year ended March 31, 2018. The dividend payments for the 1st quarter end and the 2nd quarter end of FY2017 are actual amounts before the share consolidation, and those for the 3rd quarter end and year-end are actual amounts after the share consolidation.

4. Number of employees includes executive officers and locally hired overseas staff, but excludes the Bank's employees seconded to other firms.

5. Due to the transfer of the trust business operations from GMO Aozora Net Bank, Ltd., to the Bank on October 1, 2018, 'Trust fees', 'Trust assets', 'Loans and bills discounted (Trust account)' and 'Securities (Trust account)' are added from the fiscal year ended March 31, 2019, going forward. 'Trust assets' is assets in trust pertaining to trust business under the Act on Engagement in Trust Business by a Financial Institution (the Concurrent Business Act).

# Non-Consolidated Financial Statements

## Non-Consolidated Balance Sheet (Unaudited)

Aozora Bank, Ltd.

March 31, 2020

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
<b>Assets</b>			
Cash and cash equivalents	¥310,477	¥491,678	\$2,852,868
Due from banks	54,166	47,422	497,719
Receivables under resale agreements	71,011	—	652,495
Monetary claims bought	44,708	26,512	410,812
Trading assets	259,369	199,898	2,383,257
Money held in trust	14,455	18,107	132,830
Securities	1,151,561	1,314,968	10,581,284
Loans and bills discounted	2,937,508	2,782,131	26,991,713
Foreign exchange	67,168	49,480	617,187
Other assets	267,759	233,563	2,460,349
Tangible fixed assets	22,888	22,912	210,319
Intangible fixed assets	12,068	12,182	110,892
Prepaid pension costs	4,669	4,272	42,908
Deferred tax assets	26,705	23,724	245,391
Customers' liabilities for acceptances and guarantees	21,731	24,103	199,684
Allowance for loan losses	(53,183)	(44,279)	(488,688)
Allowance for investment losses	(399)	(800)	(3,671)
<b>Total</b>	<b>¥5,212,668</b>	<b>¥5,205,876</b>	<b>\$47,897,349</b>

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
<b>Liabilities and Equity</b>			
<b>Liabilities:</b>			
Deposits	¥3,325,989	¥3,196,659	\$30,561,330
Debentures	44,660	51,360	410,365
Call money	38,728	51,723	355,859
Payables under repurchase agreements	27,758	49,658	255,062
Payables under securities lending transactions	281,325	450,860	2,585,004
Trading liabilities	211,223	177,764	1,940,862
Borrowed money	427,430	319,817	3,927,501
Bonds payable	215,275	232,586	1,978,089
Other liabilities	183,843	197,650	1,689,275
Provision for retirement benefits	9,834	9,245	90,369
Provision for credit losses on off-balance-sheet instruments	557	837	5,118
Acceptances and guarantees	21,731	24,103	199,684
<b>Total liabilities</b>	<b>4,788,358</b>	<b>4,762,265</b>	<b>43,998,518</b>
<b>Equity:</b>			
Share capital	100,000	100,000	918,864
Capital surplus			
Legal capital surplus	87,313	87,313	802,292
Other capital surplus	74	64	688
Retained earnings			
Legal retained earnings	12,686	12,686	116,575
Other retained earnings	251,201	240,150	2,308,201
Treasury stock-at cost	(3,297)	(3,312)	(30,301)
Valuation difference on available-for-sale securities	(24,343)	23,461	(223,683)
Deferred gains or losses on hedges	229	(17,111)	2,112
Share acquisition rights	444	357	4,083
<b>Total equity</b>	<b>424,309</b>	<b>443,611</b>	<b>3,898,831</b>
<b>Total</b>	<b>¥5,212,668</b>	<b>¥5,205,876</b>	<b>\$47,897,349</b>

Note: The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at the rate of ¥108.83 to \$1.00, the approximate rate of exchange at March 31, 2020.

# Non-Consolidated Financial Statements

## Non-Consolidated Statement of Income (Unaudited)

Aozora Bank, Ltd.

Year Ended March 31, 2020

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
<b>Income:</b>			
Interest income:			
Interest on loans and discounts	¥58,955	¥56,821	\$541,717
Interest and dividends on securities	31,389	36,117	288,425
Interest on due from banks	704	798	6,470
Other interest income	1,726	1,181	15,861
Trust fees	462	189	4,251
Fees and commissions income	15,864	15,026	145,771
Trading income	22,052	8,224	202,635
Other ordinary income	30,480	22,663	280,072
Other income	15,223	15,806	139,886
Total income	176,858	156,829	1,625,088
<b>Expenses:</b>			
Interest expenses:			
Interest on deposits	7,237	7,379	66,504
Interest on debentures and bonds payable	2,804	1,992	25,773
Interest on borrowings and rediscounts	1,703	2,103	15,648
Other interest expenses	34,817	35,624	319,925
Fees and commissions expenses	4,279	2,644	39,322
Trading expenses	8,431	2,031	77,479
Other ordinary expenses	14,460	10,900	132,868
General and administrative expenses	43,780	40,771	402,281
Other expenses	14,005	2,046	128,690
Total expenses	131,519	105,495	1,208,490
<b>Income before income taxes</b>	<b>45,338</b>	<b>51,334</b>	<b>416,598</b>
<b>Income taxes:</b>			
Current	18,530	13,058	170,266
Deferred	(1,861)	233	(17,100)
Total income taxes	16,669	13,291	153,166
<b>Net income</b>	<b>¥28,669</b>	<b>¥38,043</b>	<b>\$263,432</b>

Note: The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at the rate of ¥108.83 to \$1.00, the approximate rate of exchange at March 31, 2020.

## Non-Consolidated Statement of Changes in Equity (Unaudited)

Aozora Bank, Ltd.

Year Ended March 31, 2020

	Millions of Yen									
	Share capital	Capital surplus		Retained earnings		Treasury stock-at cost	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Share acquisition rights	Total equity
		Legal capital surplus	Other capital surplus	Legal retained earnings	Other retained earnings					
Balance, April 1, 2018	¥100,000	¥87,313	¥32	¥12,686	¥222,407	¥(3,351)	¥35,253	¥(25,581)	¥331	¥429,092
Net income					38,043					38,043
Cash dividends paid					(20,300)					(20,300)
Disposal of treasury stock			32			39				71
Net changes in items during the year							(11,792)	8,469	25	(3,296)
Balance, March 31, 2019	¥100,000	¥87,313	¥64	¥12,686	¥240,150	¥(3,312)	¥23,461	¥(17,111)	¥357	¥443,611
Net income					28,669					28,669
Cash dividends paid					(17,618)					(17,618)
Purchase of treasury stock						(0)				(0)
Disposal of treasury stock			10			14				24
Net changes in items during the year							(47,804)	17,341	86	(30,376)
Balance, March 31, 2020	¥100,000	¥87,313	¥74	¥12,686	¥251,201	¥(3,297)	¥(24,343)	¥229	¥444	¥424,309

	Thousands of U.S. Dollars (Note)									
	Share capital	Capital surplus		Retained earnings		Treasury stock-at cost	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Share acquisition rights	Total equity
		Legal capital surplus	Other capital surplus	Legal retained earnings	Other retained earnings					
Balance, March 31, 2019	\$918,864	\$802,292	\$592	\$116,575	\$2,206,661	\$(30,434)	\$215,576	\$(157,229)	\$3,287	\$4,076,184
Net income					263,433					263,433
Cash dividends paid					(161,893)					(161,893)
Purchase of treasury stock						(0)				(0)
Disposal of treasury stock			96			133				229
Net changes in items during the year							(439,259)	159,341	796	(279,122)
Balance, March 31, 2020	\$918,864	\$802,292	\$688	\$116,575	\$2,308,201	\$(30,301)	\$(223,683)	\$2,112	\$4,083	\$3,898,831

Note: The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at the rate of ¥108.83 to \$1.00, the approximate rate of exchange at March 31, 2020.



# Income Analysis (Non-Consolidated)

## Net Revenue, Business Profit

(Millions of Yen)

	2020			2019		
	Total	Domestic operations	International operations	Total	Domestic operations	International operations
<b>Net interest income</b>	<b>46,237</b>	<b>20,899</b>	<b>25,337</b>	<b>47,842</b>	<b>17,793</b>	<b>30,049</b>
Interest income	92,774	27,132	68,443	94,919	24,204	73,618
		[2,801]			[2,903]	
Interest expenses	46,537	6,232	43,105	47,076	6,411	43,568
			[2,801]			[2,903]
<b>Trust fees</b>	<b>462</b>	<b>462</b>	<b>—</b>	<b>189</b>	<b>189</b>	<b>—</b>
<b>Net fees and commissions</b>	<b>11,584</b>	<b>10,142</b>	<b>1,442</b>	<b>12,381</b>	<b>11,085</b>	<b>1,295</b>
Fees and commissions (income)	15,864	13,689	2,175	15,026	12,872	2,153
Fees and commissions (expenses)	4,279	3,546	733	2,644	1,786	858
<b>Net trading income</b>	<b>13,620</b>	<b>18,227</b>	<b>(4,606)</b>	<b>6,193</b>	<b>5,367</b>	<b>825</b>
Trading income	22,052	20,895	1,157	8,224	7,399	825
Trading expenses	8,431	2,668	5,763	2,031	2,031	0
<b>Net other ordinary income</b>	<b>16,020</b>	<b>11,522</b>	<b>4,497</b>	<b>11,763</b>	<b>13,909</b>	<b>(2,146)</b>
Other ordinary income	30,480	13,373	17,106	22,663	15,359	7,304
Other ordinary expenses	14,460	1,850	12,609	10,900	1,449	9,451
<b>Net revenue</b>	<b>87,925</b>	<b>61,254</b>	<b>26,670</b>	<b>78,369</b>	<b>48,345</b>	<b>30,024</b>
<b>Net revenue ratio (%)</b>	<b>2.00</b>	<b>1.66</b>	<b>1.18</b>	<b>1.89</b>	<b>1.38</b>	<b>1.35</b>
<b>Business profit</b>	<b>41,666</b>	<b>—</b>	<b>—</b>	<b>40,505</b>	<b>—</b>	<b>—</b>
<b>Core net business profit</b>	<b>44,427</b>	<b>—</b>	<b>—</b>	<b>37,496</b>	<b>—</b>	<b>—</b>
<b>Core net business profit excluding gains (losses) on bonds</b>	<b>29,838</b>	<b>—</b>	<b>—</b>	<b>32,590</b>	<b>—</b>	<b>—</b>
<b>Core net business profit excluding gains (losses) on bonds and cancellation on investment trusts</b>	<b>29,345</b>	<b>—</b>	<b>—</b>	<b>28,473</b>	<b>—</b>	<b>—</b>

- Notes: 1. Domestic operations include yen-denominated transactions by domestic offices, while international operations include foreign currency-denominated transactions by domestic offices and transactions by overseas offices. Yen-denominated nonresident transactions and Japan offshore banking accounts are included under international operations.
2. Interest expenses are shown after deduction of amounts equivalent to interest expenses on money held in trust (¥25 million for the fiscal year ended March 31, 2020 and ¥23 million for the fiscal year ended March 31, 2019).
3. Figures in brackets [ ] indicate interest received/paid as a result of interdepartmental lending and borrowing activities between domestic and international operations.
4. Net revenue ratio is calculated as follows:
- $$\text{Net revenue ratio} = \frac{\text{net revenue}}{\text{average balance of interest-bearing assets}} \times 100$$
5. Business profit is calculated by deducting the net provision to general allowance for loan losses and general and administrative expenses from net revenue.
6. Core net business profit is calculated by deducting the general and administrative expenses from net revenue.
7. Due to the transfer of the trust business operations from GMO Aozora Net Bank, Ltd., to the Bank on October 1, 2018, 'Trust fees' is added from the fiscal year ended March 31, 2019, going forward.

## Ratios

(%)

	2020	2019
Ordinary profit to total assets	0.90	1.08
Ordinary profit to equity	10.44	11.76
Net income to total assets	0.56	0.80
Net income to equity	6.60	8.71

- Notes: 1. Return on assets, as calculated using ordinary profit or net income =  $\frac{\text{ordinary profit or net income}}{(\text{average balance of total assets} - \text{customers' liabilities for acceptances and guarantees})} \times 100$
2. Return on equity, as calculated using ordinary profit or net income =  $\frac{\text{ordinary profit or net income}}{(\text{equity, beginning of year} + \text{equity, end of year}) \div 2} \times 100$

## Yield on Interest-Earning Assets, Interest Rate on Interest-Bearing Liabilities, Net Yield/Interest Rate

(%)

	2020			2019		
	Total	Domestic operations	International operations	Total	Domestic operations	International operations
Yield on interest-earning assets	2.11	0.73	3.04	2.29	0.69	3.33
Interest rate on interest-bearing liabilities	2.01	1.21	2.08	2.08	1.21	2.15
Net yield/interest rate	0.10	(0.48)	0.96	0.21	(0.52)	1.18

## Average Balance of Interest-Earning Assets and Interest-Bearing Liabilities

(Millions of Yen)

		2020			2019		
		Total	Domestic operations	International operations	Total	Domestic operations	International operations
<b>Balance of interest-earning assets</b>	<b>Average balance</b>	<b>4,386,274</b>	<b>3,690,043</b>	<b>2,248,517</b>	<b>4,144,391</b>	<b>3,495,928</b>	<b>2,209,039</b>
	<b>Interest income/expense</b>	<b>92,774</b>	<b>[1,552,287]</b>	<b>68,443</b>	<b>94,919</b>	<b>[1,560,577]</b>	<b>73,618</b>
	<b>Return/rates (%)</b>	<b>2.11</b>	<b>0.73</b>	<b>3.04</b>	<b>2.29</b>	<b>0.69</b>	<b>3.33</b>
Due from banks	Average balance	39,152	353	38,798	42,933	4,774	38,159
	Interest income/expense	704	0	704	798	0	798
	Return/rates (%)	1.79	0.02	1.81	1.86	0.00	2.09
Call loans	Average balance	249	246	2	322	55	267
	Interest income/expense	0	0	0	5	0	5
	Return/rates (%)	0.05	0.02	2.26	1.71	0.12	2.04
Receivables under resale agreements	Average balance	1,358	1,358	—	2	2	—
	Interest income/expense	(1)	(1)	—	(0)	(0)	—
	Return/rates (%)	(0.10)	(0.10)	—	(0.07)	(0.07)	—
Receivables under securities borrowing transactions	Average balance	—	—	—	283	283	—
	Interest income/expense	—	—	—	0	0	—
	Return/rates (%)	—	—	—	0.00	0.00	—
Securities	Average balance	1,279,631	300,647	978,984	1,259,832	304,013	955,819
	Interest income/expense	31,389	4,780	26,609	36,117	5,628	30,489
	Return/rates (%)	2.45	1.58	2.71	2.86	1.85	3.18
Loans and bills discounted	Average balance	2,879,883	1,738,633	1,141,249	2,682,336	1,571,792	1,110,543
	Interest income/expense	58,954	18,095	40,859	56,816	14,799	42,016
	Return/rates (%)	2.04	1.04	3.58	2.11	0.94	3.78
<b>Balance of interest-bearing liabilities</b>	<b>Average balance</b>	<b>4,469,091</b>	<b>3,745,417</b>	<b>2,275,962</b>	<b>4,221,336</b>	<b>3,579,749</b>	<b>2,202,164</b>
	<b>Interest income/expense</b>	<b>46,537</b>	<b>6,232</b>	<b>[1,552,287]</b>	<b>47,076</b>	<b>6,411</b>	<b>[1,560,577]</b>
	<b>Return/rates (%)</b>	<b>1.04</b>	<b>0.16</b>	<b>1.89</b>	<b>1.11</b>	<b>0.17</b>	<b>1.97</b>
Deposits	Average balance	3,160,434	3,048,801	111,632	2,950,817	2,843,296	107,520
	Interest income/expense	7,230	4,831	2,398	7,371	4,804	2,567
	Return/rates (%)	0.22	0.15	2.14	0.24	0.16	2.38
Negotiable certificates of deposit	Average balance	76,555	76,555	—	110,659	110,659	—
	Interest income/expense	7	7	—	8	8	—
	Return/rates (%)	0.00	0.00	—	0.00	0.00	—
Debentures	Average balance	50,170	50,170	—	53,847	53,847	—
	Interest income/expense	138	138	—	146	146	—
	Return/rates (%)	0.27	0.27	—	0.27	0.27	—
Call money	Average balance	49,823	26,131	23,692	76,880	40,367	36,513
	Interest income/expense	632	(1)	634	975	(10)	986
	Return/rates (%)	1.26	(0.00)	2.67	1.26	(0.02)	2.70
Payables under repurchase agreements	Average balance	67,393	—	67,393	40,448	2	40,445
	Interest income/expense	1,526	—	1,526	962	(0)	962
	Return/rates (%)	2.26	—	2.26	2.37	(0.02)	2.37
Payables under securities lending transactions	Average balance	457,352	32,034	425,317	427,505	53,268	374,236
	Interest income/expense	9,485	0	9,485	8,804	0	8,804
	Return/rates (%)	2.07	0.00	2.23	2.05	0.00	2.35
Borrowed money	Average balance	335,189	329,165	6,024	304,334	295,613	8,720
	Interest income/expense	1,070	946	124	1,127	937	190
	Return/rates (%)	0.31	0.28	2.06	0.37	0.31	2.17
Bonds payable	Average balance	240,913	159,341	81,571	224,206	172,364	51,842
	Interest income/expense	2,666	177	2,489	1,846	190	1,655
	Return/rates (%)	1.10	0.11	3.05	0.82	0.11	3.19

Notes: 1. Interest-earning assets are shown after deduction of the average balance of non-interest-earning deposits. Interest-bearing liabilities are shown after deduction of amounts equivalent to the average balance of money held in trust and corresponding interest.

2. Figures in brackets [ ] indicate the average balances of interdepartmental lending and borrowing activities between domestic and international operations and corresponding interest income/expenses.

# Income Analysis (Non-Consolidated)

## Analysis of Interest Income and Interest Expenses

(Millions of Yen)

		2020			2019		
		Total	Domestic operations	International operations	Total	Domestic operations	International operations
<b>Interest income</b>	<b>Volume-related increase (decrease)</b>	<b>5,539</b>	<b>1,343</b>	<b>1,315</b>	<b>4,811</b>	<b>1,456</b>	<b>5,930</b>
	<b>Rate-related increase (decrease)</b>	<b>(7,684)</b>	<b>1,583</b>	<b>(6,490)</b>	<b>12,979</b>	<b>(1,260)</b>	<b>11,774</b>
	<b>Net increase (decrease)</b>	<b>(2,144)</b>	<b>2,927</b>	<b>(5,174)</b>	<b>17,790</b>	<b>195</b>	<b>17,705</b>
Due from banks	Volume-related increase (decrease)	(70)	(0)	13	24	2	(31)
	Rate-related increase (decrease)	(24)	0	(107)	266	(2)	323
	Net increase (decrease)	(94)	(0)	(94)	291	0	291
Call loans	Volume-related increase (decrease)	(1)	0	(5)	(0)	0	(0)
	Rate-related increase (decrease)	(4)	(0)	0	1	(0)	1
	Net increase (decrease)	(5)	0	(5)	1	(0)	1
Receivables under resale agreements	Volume-related increase (decrease)	(0)	(0)	—	(0)	(0)	—
	Rate-related increase (decrease)	(0)	(0)	—	—	—	—
	Net increase (decrease)	(1)	(1)	—	(0)	(0)	—
Receivables under securities borrowing transactions	Volume-related increase (decrease)	(0)	(0)	—	0	0	—
	Rate-related increase (decrease)	—	—	—	—	—	—
	Net increase (decrease)	(0)	(0)	—	0	0	—
Securities	Volume-related increase (decrease)	567	(62)	738	3,118	106	3,244
	Rate-related increase (decrease)	(5,295)	(785)	(4,618)	3,842	(177)	3,787
	Net increase (decrease)	(4,728)	(848)	(3,879)	6,961	(70)	7,031
Loans and bills discounted	Volume-related increase (decrease)	4,184	1,570	1,161	1,565	144	2,215
	Rate-related increase (decrease)	(2,045)	1,724	(2,318)	9,069	249	8,026
	Net increase (decrease)	2,138	3,295	(1,156)	10,635	394	10,241
<b>Interest expenses</b>	<b>Volume-related increase (decrease)</b>	<b>2,762</b>	<b>296</b>	<b>1,460</b>	<b>1,467</b>	<b>258</b>	<b>3,014</b>
	<b>Rate-related increase (decrease)</b>	<b>(3,302)</b>	<b>(475)</b>	<b>(1,922)</b>	<b>15,530</b>	<b>(202)</b>	<b>14,037</b>
	<b>Net increase (decrease)</b>	<b>(539)</b>	<b>(178)</b>	<b>(462)</b>	<b>16,998</b>	<b>55</b>	<b>17,052</b>
Deposits	Volume-related increase (decrease)	523	347	98	317	191	678
	Rate-related increase (decrease)	(665)	(319)	(266)	976	(345)	769
	Net increase (decrease)	(141)	27	(168)	1,294	(153)	1,448
Negotiable certificates of deposit	Volume-related increase (decrease)	(2)	(2)	—	(0)	(0)	—
	Rate-related increase (decrease)	1	1	—	0	0	—
	Net increase (decrease)	(0)	(0)	—	(0)	(0)	—
Debentures	Volume-related increase (decrease)	(9)	(9)	—	(101)	(101)	—
	Rate-related increase (decrease)	2	2	—	15	15	—
	Net increase (decrease)	(7)	(7)	—	(86)	(86)	—
Call money	Volume-related increase (decrease)	(343)	3	(346)	(348)	(0)	(630)
	Rate-related increase (decrease)	0	5	(6)	51	(5)	340
	Net increase (decrease)	(343)	9	(352)	(296)	(6)	(290)
Payables under repurchase agreements	Volume-related increase (decrease)	641	0	641	603	(0)	603
	Rate-related increase (decrease)	(77)	—	(77)	321	—	321
	Net increase (decrease)	563	0	563	925	(0)	925
Payables under securities lending transactions	Volume-related increase (decrease)	614	(0)	1,201	141	(0)	152
	Rate-related increase (decrease)	66	(0)	(520)	3,719	7	3,699
	Net increase (decrease)	681	(0)	681	3,860	7	3,852
Borrowed money	Volume-related increase (decrease)	114	106	(58)	44	91	(263)
	Rate-related increase (decrease)	(171)	(98)	(6)	(161)	(10)	64
	Net increase (decrease)	(57)	8	(65)	(117)	81	(199)
Bonds payable	Volume-related increase (decrease)	137	(14)	949	469	58	500
	Rate-related increase (decrease)	682	0	(116)	339	(5)	255
	Net increase (decrease)	819	(13)	833	809	53	756

Note: Changes due to a combination of volume- and rate-related increases (decreases) have been included in rate-related increase (decrease).

## Fees and Commissions

(Millions of Yen)

	2020			2019		
	Total	Domestic operations	International operations	Total	Domestic operations	International operations
<b>Net fees and commissions</b>	<b>11,584</b>	<b>10,142</b>	<b>1,442</b>	<b>12,381</b>	<b>11,085</b>	<b>1,295</b>
<b>Fees and commissions income</b>	<b>15,864</b>	<b>13,689</b>	<b>2,175</b>	<b>15,026</b>	<b>12,872</b>	<b>2,153</b>
Deposits, debentures and loan operations	7,944	7,053	891	7,873	7,128	744
Foreign exchange operations	174	155	19	177	141	35
Securities-related operations	1,233	1,233	—	2,358	2,358	—
Agency services	5,719	4,516	1,202	3,453	2,310	1,142
Guarantee operations	140	100	39	91	79	11
<b>Fees and commissions expenses</b>	<b>4,279</b>	<b>3,546</b>	<b>733</b>	<b>2,644</b>	<b>1,786</b>	<b>858</b>
Foreign exchange operations	144	102	42	122	88	34

## Trading Income

(Millions of Yen)

	2020			2019		
	Total	Domestic operations	International operations	Total	Domestic operations	International operations
<b>Net trading income</b>	<b>13,620</b>	<b>18,227</b>	<b>(4,606)</b>	<b>6,193</b>	<b>5,367</b>	<b>825</b>
<b>Trading income</b>	<b>22,052</b>	<b>20,895</b>	<b>1,157</b>	<b>8,224</b>	<b>7,399</b>	<b>825</b>
Gains on trading account securities transactions	12,991	12,992	(1)	—	—	—
Income from securities and derivatives related to trading transactions	—	—	—	2,172	1,155	1,017
Income from trading-related financial derivatives transactions	9,061	7,902	1,158	6,052	6,243	(191)
Other trading income	—	—	—	—	—	—
<b>Trading expenses</b>	<b>8,431</b>	<b>2,668</b>	<b>5,763</b>	<b>2,031</b>	<b>2,031</b>	<b>0</b>
Expenses on trading securities and derivatives	—	—	—	2,031	2,031	0
Expenses on securities and derivatives related to trading transactions	8,431	2,668	5,763	—	—	—
Expenses on trading-related financial derivatives transactions	—	—	—	—	—	—
Other trading expenses	—	—	—	—	—	—

# Income Analysis (Non-Consolidated)

## Other Ordinary Income

(Millions of Yen)

	2020			2019		
	Total	Domestic operations	International operations	Total	Domestic operations	International operations
<b>Net other ordinary income</b>	<b>16,020</b>	<b>11,522</b>	<b>4,497</b>	<b>11,763</b>	<b>13,909</b>	<b>(2,146)</b>
<b>Other ordinary income</b>	<b>30,480</b>	<b>13,373</b>	<b>17,106</b>	<b>22,663</b>	<b>15,359</b>	<b>7,304</b>
Gains on foreign exchange transactions	—	—	—	—	—	—
Gains on sales of bonds and other securities	19,677	4,099	15,577	7,659	2,377	5,282
Gains on redemption of bonds and other securities	—	—	—	—	—	—
Gains on derivatives	—	—	—	—	—	—
Other	10,803	9,274	1,529	15,003	12,982	2,021
<b>Other ordinary expenses</b>	<b>14,460</b>	<b>1,850</b>	<b>12,609</b>	<b>10,900</b>	<b>1,449</b>	<b>9,451</b>
Losses on foreign exchange transactions	3,468	—	3,468	5,732	—	5,732
Losses on sales of bonds and other securities	4,586	0	4,585	2,174	15	2,159
Losses on redemption of bonds and other securities	292	64	227	579	221	357
Losses on devaluation of bonds and other securities	209	209	0	0	—	0
Amortization of debenture and bond issuance costs	295	200	95	303	241	61
Losses on derivatives	3,158	—	3,158	322	—	322
Other	2,449	1,376	1,072	1,788	970	817

## General and Administrative Expenses

(Millions of Yen)

	2020	2019
<b>General and administrative expenses</b>	<b>43,780</b>	<b>40,771</b>
Salaries and allowances	17,313	16,381
Retirement benefit expenses	1,166	766
Welfare expenses	542	505
Depreciation	4,256	3,988
Rent and lease expenses	3,088	3,107
Building and maintenance expenses	310	185
Supplies expenses	274	227
Utilities expenses	323	339
Traveling expenses	275	283
Communication expenses	532	464
Advertising expenses	844	443
Taxes and dues	2,741	2,462
Other	12,111	11,615

# Deposit Operations (Non-Consolidated)

## Balance of Deposits

(Millions of Yen, %)

		2020			2019		
		Total	Domestic operations	International operations	Total	Domestic operations	International operations
<b>Deposits</b>							
<b>Liquid deposits</b>	<b>Average balance</b>	<b>591,341</b>	<b>591,341</b>	—	<b>466,403</b>	<b>466,403</b>	—
	<b>(%)</b>	<b>(18.71)</b>	<b>(19.40)</b>	—	<b>(15.81)</b>	<b>(16.40)</b>	—
	<b>Term-end balance</b>	<b>766,123</b>	<b>766,123</b>	—	<b>497,170</b>	<b>497,170</b>	—
	<b>(%)</b>	<b>(23.37)</b>	<b>(24.19)</b>	—	<b>(16.20)</b>	<b>(16.77)</b>	—
Interest-bearing deposits	Average balance	561,130	561,130	—	438,583	438,583	—
	(%)	(17.75)	(18.40)	—	(14.86)	(15.43)	—
	Term-end balance	735,576	735,576	—	471,740	471,740	—
	(%)	(22.43)	(23.22)	—	(15.37)	(15.92)	—
<b>Time deposits (in general)</b>	<b>Average balance</b>	<b>2,456,823</b>	<b>2,456,823</b>	—	<b>2,376,032</b>	<b>2,376,032</b>	—
	<b>(%)</b>	<b>(77.74)</b>	<b>(80.58)</b>	—	<b>(80.52)</b>	<b>(83.57)</b>	—
	<b>Term-end balance</b>	<b>2,400,595</b>	<b>2,400,595</b>	—	<b>2,465,322</b>	<b>2,465,322</b>	—
	<b>(%)</b>	<b>(73.22)</b>	<b>(75.78)</b>	—	<b>(80.34)</b>	<b>(83.18)</b>	—
Deregulated interest rate time deposits (fixed)	Average balance	1,818,117	1,818,117	—	1,792,329	1,792,329	—
	(%)	(57.53)	(59.63)	—	(60.74)	(63.04)	—
	Term-end balance	1,726,059	1,726,059	—	1,839,176	1,839,176	—
	(%)	(52.64)	(54.49)	—	(59.93)	(62.06)	—
Deregulated interest rate time deposits (floating)	Average balance	638,706	638,706	—	583,703	583,703	—
	(%)	(20.21)	(20.95)	—	(19.78)	(20.53)	—
	Term-end balance	674,535	674,535	—	626,145	626,145	—
	(%)	(20.57)	(21.29)	—	(20.40)	(21.13)	—
<b>Others</b>	<b>Average balance</b>	<b>112,269</b>	<b>636</b>	<b>111,632</b>	<b>108,381</b>	<b>861</b>	<b>107,520</b>
	<b>(%)</b>	<b>(3.55)</b>	<b>(0.02)</b>	<b>(100.00)</b>	<b>(3.67)</b>	<b>(0.03)</b>	<b>(100.00)</b>
	<b>Term-end balance</b>	<b>112,030</b>	<b>1,041</b>	<b>110,989</b>	<b>106,239</b>	<b>1,269</b>	<b>104,970</b>
	<b>(%)</b>	<b>(3.41)</b>	<b>(0.03)</b>	<b>(100.00)</b>	<b>(3.46)</b>	<b>(0.05)</b>	<b>(100.00)</b>
<b>Subtotal</b>	<b>Average balance</b>	<b>3,160,434</b>	<b>3,048,801</b>	<b>111,632</b>	<b>2,950,817</b>	<b>2,843,296</b>	<b>107,520</b>
	<b>(%)</b>	<b>(100.00)</b>	<b>(100.00)</b>	<b>(100.00)</b>	<b>(100.00)</b>	<b>(100.00)</b>	<b>(100.00)</b>
	<b>Term-end balance</b>	<b>3,278,749</b>	<b>3,167,760</b>	<b>110,989</b>	<b>3,068,732</b>	<b>2,963,761</b>	<b>104,970</b>
	<b>(%)</b>	<b>(100.00)</b>	<b>(100.00)</b>	<b>(100.00)</b>	<b>(100.00)</b>	<b>(100.00)</b>	<b>(100.00)</b>
<b>Negotiable certificates of deposit</b>	<b>Average balance</b>	<b>76,555</b>	<b>76,555</b>	—	<b>110,659</b>	<b>110,659</b>	—
	<b>Term-end balance</b>	<b>47,240</b>	<b>47,240</b>	—	<b>127,927</b>	<b>127,927</b>	—
<b>Total</b>	<b>Average balance</b>	<b>3,236,990</b>	<b>3,125,357</b>	<b>111,632</b>	<b>3,061,477</b>	<b>2,953,956</b>	<b>107,520</b>
	<b>Term-end balance</b>	<b>3,325,989</b>	<b>3,215,000</b>	<b>110,989</b>	<b>3,196,659</b>	<b>3,091,688</b>	<b>104,970</b>

Notes: 1. Liquid deposits = Current deposits + ordinary deposits + saving deposits + deposits at notice

2. Time deposits (in general) = Time deposits

Deregulated interest rate time deposits (fixed) = Deregulated interest rate time deposits for which the interest up to the due date is determined when the deposits are made.

Deregulated interest rate time deposits (floating) = Deregulated interest rate time deposits for which the interest varies according to changes in market interest rates during the period of deposit.



# Deposit Operations (Non-Consolidated)

## Balance of Time Deposits by Residual Period

Years Ended March 31

(Millions of Yen)

	2020			2019		
	Total	Deregulated interest rate (fixed)	Deregulated interest rate (floating)	Total	Deregulated interest rate (fixed)	Deregulated interest rate (floating)
Less than 3 months	427,711	413,317	14,394	531,279	510,511	20,768
3–6 months	364,745	363,668	1,077	378,453	368,884	9,568
6 months–1 year	578,252	577,718	534	577,102	575,533	1,569
1–2 years	183,955	183,655	300	229,174	222,323	6,851
2–3 years	98,126	51,448	46,678	99,715	96,703	3,012
More than 3 years	747,803	136,250	611,552	649,597	65,221	584,376
<b>Total</b>	<b>2,400,595</b>	<b>1,726,059</b>	<b>674,535</b>	<b>2,465,322</b>	<b>1,839,176</b>	<b>626,145</b>

## Balance of Deposits by Depositor

Years Ended March 31

(Millions of Yen, %)

	2020		2019	
	Balance	Share	Balance	Share
Corporate	609,849	18.60	610,825	19.91
Retail	1,942,374	59.24	1,752,898	57.12
Public sector	50,829	1.55	94,967	3.09
Financial institutions	675,694	20.61	610,040	19.88
<b>Total</b>	<b>3,278,749</b>	<b>100.00</b>	<b>3,068,732</b>	<b>100.00</b>

Note: The above balance does not include negotiable certificates of deposit in offshore market accounts.

## Deposits per Office

Years Ended March 31

(Number of Offices, Millions of Yen)

	2020			2019		
	Total	Domestic offices	Overseas offices	Total	Domestic offices	Overseas offices
Number of offices	20	20	—	20	20	—
Deposits per office	166,299	166,299	—	159,832	159,832	—

Notes: 1. Deposits include negotiable certificates of deposit.

2. Number of offices does not include domestic sub-branches and overseas representative offices.

## Deposits per Employee

Years Ended March 31

(Number of Employees, Millions of Yen)

	2020			2019		
	Total	Domestic offices	Overseas offices	Total	Domestic offices	Overseas offices
Number of employees	1,935	1,935	—	1,859	1,859	—
Deposits per employee	1,718	1,718	—	1,719	1,719	—

Notes: 1. Deposits include negotiable certificates of deposit.

2. Number of employees represents the average number of employees in each fiscal year. The number of employees in domestic offices includes head office staff.

# Loan Operations (Non-Consolidated)

## Balance of Loans

Years Ended March 31

(Millions of Yen)

		2020			2019		
		Total	Domestic operations	International operations	Total	Domestic operations	International operations
Loans on deeds	Average balance	2,678,790	1,537,541	1,141,249	2,500,437	1,389,925	1,110,512
	Term-end balance	2,754,819	1,614,200	1,140,619	2,622,401	1,494,816	1,127,584
Loans on bills	Average balance	13,963	13,963	—	15,981	15,950	31
	Term-end balance	11,356	11,356	—	13,846	13,846	—
Overdrafts	Average balance	187,108	187,108	—	165,867	165,867	—
	Term-end balance	171,332	171,332	—	145,883	145,883	—
Bills discounted	Average balance	20	20	—	50	50	—
	Term-end balance	—	—	—	—	—	—
<b>Total</b>	<b>Average balance</b>	<b>2,879,883</b>	<b>1,738,633</b>	<b>1,141,249</b>	<b>2,682,336</b>	<b>1,571,792</b>	<b>1,110,543</b>
	<b>Term-end balance</b>	<b>2,937,508</b>	<b>1,796,889</b>	<b>1,140,619</b>	<b>2,782,131</b>	<b>1,654,546</b>	<b>1,127,584</b>

Note: The Bank carries out partial and direct write-off of loans. This also applies to the table shown below.

## Balance of Loans by Residual Period

Years Ended March 31

(Millions of Yen)

	2020			2019		
	Total	Fixed interest	Floating interest	Total	Fixed interest	Floating interest
Less than 1 year	1,277,102			1,251,508		
1–3 years	611,189	193,514	417,675	566,003	200,378	365,624
3–5 years	548,885	168,236	380,649	489,851	125,683	364,167
5–7 years	312,756	72,133	240,623	284,248	58,412	225,836
Over 7 years	187,573	64,761	122,812	190,519	39,954	150,564
Indefinite period	—	—	—	—	—	—
<b>Total</b>	<b>2,937,508</b>			<b>2,782,131</b>		

Notes: 1. Maturity is based on scheduled final maturity dates.

2. No distinction has been made between fixed interest and floating interest for loans with a residual period of less than 1 year.

## Ratio of Loans and Bills Discounted to Debentures/Deposits

(Millions of Yen, %)

	2020			2019		
	Total	Domestic operations	International operations	Total	Domestic operations	International operations
Loans and bills discounted (A)	2,937,508	1,796,889	1,140,619	2,782,131	1,654,546	1,127,584
Debentures and deposits (B)	3,370,649	3,259,660	110,989	3,248,019	3,143,048	104,970
Ratio(A)/(B)	87.14	55.12	1,027.68	85.65	52.64	1,074.18
Average during the year	87.61	54.75	1,022.32	86.10	52.25	1,032.86

Note: Deposits include negotiable certificates of deposit.

## Loans per Office

(Number of Offices, Millions of Yen)

	2020			2019		
	Total	Domestic offices	Overseas offices	Total	Domestic offices	Overseas offices
Number of offices	20	20	—	20	20	—
Loans per office	146,875	146,875	—	139,106	139,106	—

Note: Number of offices does not include domestic sub-branches and overseas representative offices.

# Loan Operations (Non-Consolidated)

## Loans per Employee

(Number of Employees, Millions of Yen)

	2020			2019		
	Total	Domestic offices	Overseas offices	Total	Domestic offices	Overseas offices
Number of employees	1,935	1,935	—	1,859	1,859	—
Loans per employee	1,518	1,518	—	1,496	1,496	—

Note: Number of employees represents the average number of employees in each fiscal year. The number of employees in domestic offices includes head office staff.

## Loans to Small and Medium-Sized Enterprises(SMEs)

(Number of Borrowers, Millions of Yen, %)

	2020		2019	
	Number of borrowers	Value	Number of borrowers	Value
Total loans and bills discounted (A)	1,123	2,937,508	1,211	2,782,131
Loans to small and medium-sized enterprises(SMEs) (B)	884	2,362,313	927	2,156,102
(B)/(A)	78.71	80.41	76.54	77.49

Notes: 1. In this table, the balance of loans and bills discounted does not include offshore banking accounts.

2. SMEs are defined as companies having capital of not more than ¥300 million (¥100 million in wholesale, and ¥50 million in retail, food service and leasing business categories), or companies with not more than 300 full-time employees (100 in wholesale and leasing, 50 in retail and food service business categories), etc.

## Consumer Loans Outstanding

(Millions of Yen)

	2020	2019
<b>Consumer loans</b>	<b>1,539</b>	<b>1,904</b>
Housing loans	1,119	1,462
Others	420	442

Note: Consumer loans outstanding includes personal housing loans, as well as personal loans for general spending purposes and tax payments, and does not include business loans to sole proprietorships or their owners.

## Breakdown of Loans and Bills Discounted by Industry

Years Ended March 31

(Millions of Yen, %)

	2020		2019	
	Balance of loans	Share	Balance of loans	Share
<b>Domestic offices</b>	<b>2,937,508</b>	<b>100.00</b>	<b>2,782,131</b>	<b>100.00</b>
(excluding Japan offshore market accounts)				
Manufacturing	240,906	8.20	226,863	8.15
Agriculture, forestry and fisheries	4,628	0.16	3,677	0.13
Mining, quarry and gravel extraction	—	—	—	—
Construction	10,212	0.35	10,762	0.39
Electricity, gas, heat supply and water	47,275	1.61	32,130	1.15
Information and communications	77,707	2.65	47,853	1.72
Transport and postal service	35,565	1.21	42,483	1.53
Wholesale and retail trade	68,384	2.33	72,158	2.59
Finance and insurance	412,053	14.03	389,965	14.02
Real estate	625,814	21.30	567,699	20.41
Leasing	32,652	1.11	43,292	1.56
Other services	213,015	7.25	184,983	6.65
Local government	7,146	0.24	4,417	0.16
Others	1,162,143	39.56	1,155,842	41.54
<b>Overseas offices</b>	—	—	—	—
(including Japan offshore market accounts)				
Government	—	—	—	—
Financial institutions	—	—	—	—
Others	—	—	—	—
<b>Total</b>	<b>2,937,508</b>		<b>2,782,131</b>	

Note: Domestic offices refer to the Bank's head office and branch offices; overseas offices refer to the Bank's overseas branch offices.

## Risk-Monitored Loans by Industry

Years Ended March 31

(Millions of Yen)

	2020	2019
<b>Domestic offices</b>	<b>28,285</b>	<b>15,610</b>
(excluding Japan offshore market accounts)		
Manufacturing	3,379	4,378
Agriculture, forestry and fisheries	4,612	—
Mining, quarry and gravel extraction	—	—
Construction	—	—
Electricity, gas, heat supply and water	—	—
Information and communications	—	748
Transport and postal service	2,176	—
Wholesale and retail trade	2,164	2,168
Finance and insurance	—	—
Real estate	—	1,030
Leasing	—	—
Other services	1,239	1,250
Local government	—	—
Others	14,711	6,033
<b>Overseas offices</b>	—	—
(including Japan offshore market accounts)		
Government	—	—
Financial institutions	—	—
Others	—	—
<b>Total</b>	<b>28,285</b>	<b>15,610</b>

# Loan Operations (Non-Consolidated)

## Balance of Loans and Bills Discounted, Classified by Purpose

(Millions of Yen, %)

	2020		2019	
	Balance of loans	Share	Balance of loans	Share
Funds for capital investment	390,099	13.28	301,320	10.83
Funds for working capital	2,547,408	86.72	2,480,810	89.17
<b>Total</b>	<b>2,937,508</b>	<b>100.00</b>	<b>2,782,131</b>	<b>100.00</b>

## Breakdown of Balance of Acceptances and Guarantees

(Millions of Yen)

	2020	2019
Acceptances of bills	—	—
Letters of credit	3,453	1,051
Guarantees	18,278	23,051
<b>Total</b>	<b>21,731</b>	<b>24,103</b>

## Breakdown of Loans and Bills Discounted by Collateral

(Millions of Yen)

	2020	2019
Securities	6,478	7,021
Claims	40,741	24,832
Merchandise	—	—
Real estate	175,395	178,234
Others	14,636	17,726
<b>Subtotal</b>	<b>237,251</b>	<b>227,816</b>
Guaranteed	76,704	66,216
Unsecured	2,623,552	2,488,098
<b>Total</b>	<b>2,937,508</b>	<b>2,782,131</b>

## Breakdown of Collateral for Customers' Liabilities for Acceptances and Guarantees

(Millions of Yen)

	2020	2019
Securities	—	—
Claims	—	—
Real estate	—	—
Others	100	632
<b>Subtotal</b>	<b>100</b>	<b>632</b>
Guaranteed	1,362	365
Unsecured	20,269	23,104
<b>Total</b>	<b>21,731</b>	<b>24,103</b>

## Write-Off of Loans

(Millions of Yen)

	2020	2019
Write-off of loans	1,133	149

## Allowance for Loan Losses

Years Ended March 31

(Millions of Yen)

	2020					2019				
	Balance at beginning of year	Provision	Reduction during year		Balance at end of year	Balance at beginning of year	Provision	Reduction during year		Balance at end of year
			Used for specific purpose	Other				Used for specific purpose	Other	
General allowance	36,851	39,612	—	36,851	39,612	39,860	36,851	—	39,860	36,851
	(105)					(12)				
Specific allowance	7,322	13,571	1,809	5,513	13,571	3,364	7,428	130	3,233	7,428
	(20)					(12)				
Related to non-residents	1,094	4,891	659	435	4,891	-12	1,114	—	-12	1,114
Allowance for loans to restructuring countries	—	—	—	—	—	—	—	—	—	—

Note: Figures in parentheses for balance at beginning of year indicate translation difference due to foreign exchange fluctuations.

## Country Risk Reserve

None.

## Disclosed Claims under the Financial Reconstruction Law

Years Ended March 31

(Billions of Yen)

	2020	2019
Disclosed claims under the Financial Reconstruction Law		
Bankrupt and similar credit	4.4	—
Doubtful credit	21.7	14.2
Special attention credit	2.2	1.4
Subtotal (A)	28.3	15.6
Normal credit	2,951.5	2,805.0
Total credit (B)	2,979.8	2,820.6
(A/B)	0.95%	0.55%



# Loan Operations (Non-Consolidated)

## Risk-Monitored Loans

Years Ended March 31

### Non-consolidated

(Billions of Yen)

	2020	2019
Risk-monitored loans:		
Loans to bankrupt borrowers	4.4	—
Past due loans	21.6	14.2
Loans overdue for three months or more	—	—
Restructured loans	2.2	1.4
Total (A)	28.2	15.6
Year-end balance of total loans (B)	2,937.5	2,782.1
(A/B)	0.96%	0.56%

### Consolidated

(Billions of Yen)

	2020	2019
Risk-monitored loans:		
Loans to bankrupt borrowers	4.4	—
Past due loans	21.6	14.2
Loans overdue for three months or more	—	—
Restructured loans	2.2	1.4
Total (A)	28.3	15.6
Year-end balance of total loans (B)	2,954.1	2,779.8
(A/B)	0.95%	0.56%

## Reserve Ratios for Each Category of Borrower, Based on Asset-Assessments

Years Ended March 31

### Non-consolidated

(%)

Definition of Borrower Categories	2020	2019
Normal	0.9	0.9
Need attention:		
Other need attention borrowers	4.8	4.1
Special attention borrowers (Ratio of reserve to unsecured)	74.1	100.0
In danger of bankruptcy (Ratio of reserve to unsecured)	98.4	88.1
De facto bankrupt and bankrupt (Ratio of reserve to unsecured)	100.0	100.0

## Asset-Assessment, Disclosed Claims, Write-Offs, Reserves and Risk-Monitored Loans

(After Partial and Direct Write-Offs, Non-Consolidated Basis) as of March 31, 2020

(Billions of Yen)

Borrower categories for self-assessment	Disclosed credit under the FRL		Reserve and coverage for claims under the FRL	Reserve to unsecured credit ratio	Reserve and coverage ratio for claims under the FRL	Risk-monitored loans	
	Loans	Other					
Bankrupt borrowers	Bankrupt and similar credit 4.4		Collateral/Guarantee coverage Reserve	4.4 —	100.0%	100.0%	Loans to bankrupt borrowers 4.4
De facto bankrupt borrowers							
In danger of bankruptcy borrowers	Doubtful credit 21.7		Collateral/Guarantee coverage Reserve Estimated collections	7.9 13.5 0.2	98.4%	99.0%	Past due loans 21.6
Need attention borrowers	Special attention credit 2.2		Collateral/Guarantee coverage Reserve Estimated collections	— 1.6 0.5	74.1%	74.1%	Loans overdue for three months or more — Restructured loans 2.2
	Normal credit 2,951.5						
Normal borrowers							
	Disclosed claims under the FRL 28.3		Collateral/Guarantee coverage Reserve Estimated collections	12.3 15.2 0.8	Reserve ratio for disclosed claims under the FRL 94.9%	Reserve and coverage ratio for disclosed claims under the FRL 97.1%	Risk-monitored loans 28.2
	Total credit	2,979.8	Total reserve	53.1			

FRL: Financial Reconstruction Law

Reserve to unsecured credit ratio = Reserve ÷ (Claims – Collateral, guarantees, etc.)

Reserve and coverage ratio = (Collateral, guarantees, etc. ÷ Reserve) ÷ Claims

### <Definitions of Borrower Categories>

<b>Normal</b>	Business performance is strong and no special financial problems exist.
<b>Need attention</b>	Borrowers that need to be monitored carefully because of weak business fundamentals, financial problems or problematic lending conditions.
<b>In danger of bankruptcy</b>	Borrowers that are not currently bankrupt but are highly likely to become bankrupt.
<b>De facto bankrupt</b>	Borrowers that are substantially bankrupt but are not legally or practically bankrupt yet.
<b>Bankrupt</b>	Borrowers that are legally or practically bankrupt.

### <Definitions of Asset Classifications>

<b>Category I</b>	Assets that present no particular risk of collectability or impairment of value.
<b>Category II</b>	Assets, including credits, which bear above-average risk of collectability.
<b>Category III</b>	Assets that bear substantial risk of final collectability or impairment of value, and are likely to incur losses.
<b>Category IV</b>	Assets deemed to be uncollectable or valueless.

### <Write-Off and Reserve Provision Rules>

<b>Normal and Need attention borrowers</b>	A general allowance is provided by applying the estimated loan-loss ratio determined based on the historical loan-loss data over a defined period in the past. However, for borrowers with large credit exposure, the loan-loss amount estimated by the DCF method is reflected as an addition to the allowance for loan losses calculated based on the estimated loan-loss ratio, if necessary.
<b>In danger of bankruptcy borrowers</b>	A specific allowance is provided for the loan losses at an amount considered to be necessary based on an overall solvency assessment of the borrowers and expected collectible amounts through the disposal of collateral or execution of guarantees, etc. For loans whose future cash flows of principal and interest are reasonably estimated, the difference between the discounted cash flows and the carrying value is accounted for as an allowance for loan losses.
<b>De facto bankrupt and Bankrupt borrowers</b>	In principle, the full amounts of credits that bear substantial risk of final collectability or impairment of value, and credits deemed to be uncollectable or valueless are written off directly.

### <Definitions of Disclosed Claims under the Financial Reconstruction Law>

<b>Bankrupt and similar credit</b>	Bankrupt and similar credit refers to the credit of borrowers who have filed for bankruptcy, corporate reorganization, composition, etc., as well as those borrowers who are in an equivalent situation.
<b>Doubtful credit</b>	Doubtful refers to credit with serious doubt concerning the recovery of principal and receiving of interest as contract provisions, because the borrower's financial condition and business results have worsened, although they have not reached the point of management collapse.
<b>Special attention credit</b>	Special attention refers to loans in arrears for more than three months or with mitigated conditions.

### Normal credit

Normal credit refers to credit to borrowers whose financial condition and business results have no particular problem and which are not categorized in any of the above categories.

### <Risk-Monitored Loans>

#### Loans to bankrupt borrowers

Loans to bankrupt borrowers are loans for which interest in arrears has not been accrued because recovery or settlement of principal or interest is unlikely due to the prolonged delay in payment of principal or interest (which hereafter shall be called 'non-accrual loans') and whose borrowers are legally bankrupt (defined below), excluding the amount of write-offs.

1. Borrowers that have applied for commencement of company or financial institution reorganization procedures under the provisions of the Corporate Reorganization Law.
2. Borrowers that have applied for reorganization under the provisions of the Civil Reorganization Law.
3. Borrowers that have applied for bankruptcy under the provisions of the Bankruptcy Law.
4. Borrowers that have applied to commence special liquidation under the provisions of the Company Law.
5. Borrowers with reasons equivalent to 1. to 4. above as defined by Ministry of Finance ordinances.
6. Borrowers who have applied for commencement of legal liquidation procedures under overseas laws, corresponding to those listed above.

#### Past due loans

Past due loans refer to non-accrual loans except those for which concessions on payment of interest were made in order to assist the reorganization of bankrupt borrowers and loans to them.

#### Loans overdue for three months or more

Loans overdue for three months or more refer to those loans, excluding loans to bankrupt borrowers and past due loans for which principal or interest remains unpaid for at least three months.

#### Restructured loans

Restructured loans refer to those loans, excluding loans to bankrupt borrowers, past due loans and loans overdue for three months or more for which agreement was made to provide reduction or a moratorium on interest payments, or concessions in the borrower's favor on interest or principal payments or to waive claims for the purpose of assisting the reconstruction of insolvent borrowers.

### <Differences Between Disclosed Claims under the Financial Reconstruction Law and Risk-Monitored Loans>

#### • Disclosed Claims

Disclosure:	Loans and other claims equivalent thereof (foreign exchange, acceptances and guarantees, suspense payments, as well as loaned securities that require notation [limited to only those subject to a usage and lending or lending agreement], etc.).
Disclosed:	By borrower (by loan for special attention credit)

#### • Risk-Monitored Loans

Disclosure:	Loans only
Disclosed:	By loan

# Securities (Non-Consolidated)

## Balance of Securities Held

(Millions of Yen, %)

		2020			2019		
		Total	Domestic operations	International operations	Total	Domestic operations	International operations
<b>Total</b>	<b>Average balance (%)</b>	<b>1,279,631 (100.00)</b>	<b>300,647 (100.00)</b>	<b>978,984 (100.00)</b>	<b>1,259,832 (100.00)</b>	<b>304,013 (100.00)</b>	<b>955,819 (100.00)</b>
	<b>Term-end balance (%)</b>	<b>1,151,561 (100.00)</b>	<b>311,484 (100.00)</b>	<b>840,076 (100.00)</b>	<b>1,314,968 (100.00)</b>	<b>346,271 (100.00)</b>	<b>968,697 (100.00)</b>
Japanese national government bonds	Average balance (%)	—	—	—	7,744 (0.61)	7,744 (2.55)	—
	Term-end balance (%)	—	—	—	—	—	—
Japanese local government bonds	Average balance (%)	34,898 (2.73)	34,898 (11.61)	—	32,804 (2.60)	32,804 (10.79)	—
	Term-end balance (%)	37,859 (3.29)	37,859 (12.15)	—	31,811 (2.42)	31,811 (9.19)	—
Japanese short-term corporate bonds	Average balance (%)	—	—	—	—	—	—
	Term-end balance (%)	—	—	—	—	—	—
Japanese corporate bonds	Average balance (%)	56,614 (4.42)	56,614 (18.83)	—	39,123 (3.11)	39,123 (12.87)	—
	Term-end balance (%)	59,994 (5.21)	59,994 (19.26)	—	50,157 (3.81)	50,157 (14.49)	—
Japanese stocks	Average balance (%)	39,260 (3.07)	39,260 (13.06)	—	41,028 (3.26)	41,028 (13.50)	—
	Term-end balance (%)	43,081 (3.74)	43,081 (13.83)	—	92,879 (7.06)	92,879 (26.82)	—
Others	Average balance (%)	1,148,857 (89.78)	169,873 (56.50)	978,984 (100.00)	1,139,131 (90.42)	183,312 (60.29)	955,819 (100.00)
	Term-end balance (%)	1,010,625 (87.76)	170,548 (54.76)	840,076 (100.00)	1,140,119 (86.71)	171,421 (49.50)	968,697 (100.00)

Note: Total for 'Others' is the sum of domestic operations and international operations.

## Balance of Securities by Residual Period

(Millions of Yen)

	2020						2019					
	Japanese national government bonds	Japanese local government bonds	Japanese short-term corporate bonds	Japanese corporate bonds	Japanese stocks	Others	Japanese national government bonds	Japanese local government bonds	Japanese short-term corporate bonds	Japanese corporate bonds	Japanese stocks	Others
Less than 1 year	—	2,527	—	58		5,997	—	1,876	—	4,184		5,018
1–3 years	—	6,610	—	3,708		31,909	—	6,318	—	4,514		48,831
3–5 years	—	9,039	—	7,963		101,840	—	8,234	—	3,547		95,603
5–7 years	—	8,590	—	7,572		73,874	—	3,478	—	7,064		121,328
7–10 years	—	11,091	—	3,841		71,200	—	11,894	—	5,281		65,175
Over 10 years	—	—	—	36,849		201,772	—	8	—	25,565		229,423
Indefinite period	—	—	—	—	43,081	524,030	—	—	—	—	92,879	574,737
<b>Total</b>	<b>—</b>	<b>37,859</b>	<b>—</b>	<b>59,994</b>	<b>43,081</b>	<b>1,010,625</b>	<b>—</b>	<b>31,811</b>	<b>—</b>	<b>50,157</b>	<b>92,879</b>	<b>1,140,119</b>

## Ratio of Securities to Debentures and Deposits

(Millions of Yen, %)

	2020			2019		
	Total	Domestic operations	International operations	Total	Domestic operations	International operations
Securities (A)	1,151,561	311,484	840,076	1,314,968	346,271	968,697
Debentures and deposits (B)	3,370,649	3,259,660	110,989	3,248,019	3,143,048	104,970
Ratio (A)/(B)	34.16	9.55	756.89	40.48	11.01	922.82
Average during the year	38.92	9.46	876.96	40.43	10.10	888.96

Note: Deposits include negotiable certificates of deposit.

# Securities Business (Non-Consolidated)

## Underwriting of Public Bonds

(Millions of Yen)

	2020	2019
Japanese national government bonds	—	—
Japanese local government bonds and government-guaranteed bonds	—	—
<b>Total</b>	—	—

## Over-the-Counter Sales of Public Bonds and Securities Investment Trusts

(Millions of Yen)

	2020	2019
Japanese national government bonds	—	—
Japanese local government bonds and government-guaranteed bonds	—	—
<b>Total</b>	—	—
Securities investment trusts	36,043	36,505

# International Operations (Non-Consolidated)

## Foreign Exchange Transactions

Years Ended March 31

(Millions of U.S. Dollars)

		2020	2019
Outward exchange:	Foreign bills sold	9,145	7,117
	Foreign bills bought	—	—
Incoming exchange:	Foreign bills payable	2,431	2,332
	Foreign bills receivable	—	—
<b>Total</b>		<b>11,576</b>	<b>9,450</b>

## Balance of Assets in International Operations

(Millions of Yen)

	2020			2019		
	Total	Domestic offices	Overseas offices	Total	Domestic offices	Overseas offices
Balance of assets in international operations	2,257,507	2,257,507	—	2,358,813	2,358,813	—

# Trust Business Operations (Non-Consolidated)

※On October 1, 2018, the Bank assumed direct responsibility for the trust business operations from GMO Aozora Net Bank, Ltd.

## Statement of Trust Assets and Liabilities

(Millions of Yen)

Account	2020	2019
<b>(Assets)</b>		
<b>Loans</b>	<b>43,312</b>	<b>40,981</b>
Loans on deeds	43,309	40,970
Loans on bills	3	11
<b>Securities</b>	<b>163,390</b>	<b>175,292</b>
Government bonds	4,105	5,101
Local government bonds	9,075	—
Corporate bonds	27,349	29,437
Foreign securities	122,861	140,753
<b>Beneficiary rights</b>	<b>6,457</b>	<b>6,989</b>
<b>Securities held in custody accounts</b>	<b>267,021</b>	<b>271,092</b>
<b>Money claims</b>	<b>162,245</b>	<b>111,627</b>
Money claims on home mortgage	2,072	2,515
Other money claims	160,173	109,112
<b>Tangible fixed assets</b>	<b>98,319</b>	<b>103,117</b>
Real estate	98,319	103,117
<b>Other claims</b>	<b>9,511</b>	<b>6,729</b>
<b>Cash and due from banks</b>	<b>85,221</b>	<b>81,489</b>
Due from banks	85,221	81,489
<b>Assets Total</b>	<b>835,481</b>	<b>797,320</b>
<b>(Liabilities)</b>		
<b>Specified money trusts</b>	<b>172,407</b>	<b>186,066</b>
<b>Money entrusted, other than money trusts</b>	<b>134,400</b>	<b>137,132</b>
<b>Securities trusts</b>	<b>267,192</b>	<b>271,244</b>
<b>Monetary claims trusts</b>	<b>47,253</b>	<b>2,951</b>
<b>Composite trusts</b>	<b>214,227</b>	<b>199,925</b>
<b>Liabilities Total</b>	<b>835,481</b>	<b>797,320</b>

Notes: 1. "Beneficiary rights", which the Bank acquired from a trust where the Bank acts as entrustor and trustee, is deducted from the total amount of beneficiary rights in the trust account, in order to avoid duplication.

The principal balance of the corresponding trust account is deducted from liabilities by the same amount.

2. There are no balances for guaranteed trusts.

## Balance of Money Trusts under Management

(Millions of Yen)

Type	2020	2019
Money trusts	172,407	186,066
<b>Total</b>	<b>172,407</b>	<b>186,066</b>

Note: There are no balances for pension trusts, asset formation benefit trusts or loan trusts.



# Trust Business Operations (Non-Consolidated)

## Balance of Securities Related to Money Trusts

(Millions of Yen, %)

Type	2020		2019	
	Balance	Percentage	Balance	Percentage
Government bonds	3,102	1.92	4,098	2.36
Local government bond	9,075	5.62	—	—
Short-term corporate bonds	—	—	—	—
Corporate bonds	26,345	16.33	28,433	16.41
Stocks	—	—	—	—
Other securities	122,861	76.13	140,753	81.23
<b>Total</b>	<b>161,384</b>	<b>100.00</b>	<b>173,286</b>	<b>100.00</b>

Note: There are no balances for pension trusts, asset formation benefit trusts or loan trusts.

## Balance of Principal of Money Trusts by Trust Period

(Millions of Yen)

Type	2020	2019
Money trusts		
Less than 1 year	1	5
1-2 years	10,597	10,001
2-5 years	287	913
Over 5 years	1,270	1,478
Others	—	—
<b>Total</b>	<b>12,157</b>	<b>12,398</b>

Note: There are no balances for loan trusts.

## Balance of Loans and Securities Held in Money Trust by Type

(Millions of Yen)

Type	2020	2019
Money trusts		
Loans	—	—
Securities	161,384	173,286
<b>Money trusts Total</b>	<b>161,384</b>	<b>173,286</b>
<b>Total Loans</b>	<b>—</b>	<b>—</b>
<b>Total Securities</b>	<b>161,384</b>	<b>173,286</b>
<b>Total Loans and Securities</b>	<b>161,384</b>	<b>173,286</b>

Note: There are no balances for pension trusts, asset formation benefit trusts or loan trusts.

The followings are not applicable.

- Balance of guaranteed trust (including trust assets entrusted to other banks for asset management) by type.
- Balance of loans held in money trusts by type.
- Balance of loans related to money trusts by category (loans on deeds, loans on bills and bills discounted).
- Balance of loans related to money trusts by contract term.
- Balance of loans related to money trusts by type of collateral (securities, claims, commodities, real estate, guarantees and unsecured).
- Balance of loans related to money trusts by purpose of use (capital spending and working capital).
- Balance of loans related to money trusts by industry and ratios to total loans.
- Balance of loans to Small and Medium-Sized Enterprises (SMEs) related to money trusts and ratios to total loans.  
SMEs are defined as companies having capital of not more than ¥300 million (¥100 million in wholesale, and ¥50 million in retail, food service and leasing business categories), or companies with not more than 300 full-time employees (100 in wholesale and leasing, 50 in retail and food service business categories), etc.
- Balance of Risk-Monitored Loans related to guaranteed trust (including trust assets entrusted to other trust banks for asset management).  
Risk-Monitored Loans are "Loans to bankrupt borrowers", "Past due loans", "Loans overdue for three months or more" and "Restructured loans."

# Capitalization (Non-Consolidated)

## History of Capitalization

(Millions of Yen)

Month/Year	Capital increases	Capital thereafter	Remarks
Sep. 2000	66,666	419,781	Compensatory private placement (common stock, 333,334 thousand shares); Issue price ¥300; Transfer to capital ¥200
Oct. 2000	(260,000)	159,781	Non-compensatory reduction of capital • Capital reduction of ¥105,287 million by redemption of the 2nd preferred stock, 102,000 thousand shares; the 3rd preferred stock, 386,398 thousand shares; and the 4th preferred stock, 71,856 thousand shares • Capital reduction of ¥154,712 million exceeding face amount of common stock and transferred to capital
Oct. 2000	260,000	419,781	Compensatory private placement (the 5th preferred stock, 866,667 thousand shares); Issue price ¥300; Transfer to capital ¥300
Nov. 2012	(319,781)	100,000	Capital reduction (Change in capital composition) Capital stock was reduced by ¥319,781 million. Of which, ¥53,980 million was transferred to legal capital surplus, and the remaining ¥265,801 million was transferred to other capital surplus.

## Major Shareholders

(As of March 31, 2020)

	Number of shares held	Percentage of total outstanding shares
The Master Trust Bank of Japan, Ltd. (Trust Account)	9,731 Thousands	8.23%
Japan Trustee Services Bank, Ltd. (Trust Account)	4,550	3.85
Japan Trustee Services Bank, Ltd. (Trust Account 9)	3,965	3.36
Japan Trustee Services Bank, Ltd. (Trust Account 5)	2,393	2.02
JP MORGAN CHASE BANK 385151	2,079	1.76
STATE STREET BANK WEST CLIENT-TREATY 505234	1,703	1.44
JPMorgan Securities Japan Co., Ltd.	1,640	1.39
Aozora Bank, Ltd.	1,604	1.36
STATE STREET BANK AND TRUST COMPANY 505103	1,572	1.33
Japan Trustee Services Bank, Ltd. (Trust Account 7)	1,473	1.25
The Nomura Trust and Banking Co., Ltd. (Investment Trust Account)	1,406	1.19
Others	86,168	72.82
Total	118,289	100.00

Notes: The above table was compiled based on the Bank's Shareholder Registry as of March 31, 2020.

## Ownership and Distribution of Shares

(As of March 31, 2020)

Classification	Stock Status (1 <i>tangen</i> unit = 100 shares)								Fractional shares of common stock
	National and municipal governments	Financial institutions	Financial instruments firms	Other domestic companies	Foreign Investors		Individuals and others	Total	
					Other than individuals	Individuals			
Number of shareholders	1	48	42	729	566	111	77,666	79,173	—
Number of shares held ( <i>tangen</i> )	9	313,696	62,642	31,673	305,776	1,103	467,511	1,182,410	48,418
Percentage of total number of shares	0.00	26.53	5.30	2.68	25.86	0.09	39.54	100.00	—

Notes: 1. Treasury stock of 1,604,619 shares comprises 16,046 *tangen* units under Individuals and others and 19 shares under Fractional shares of common stock.

2. In the Other domestic companies column, shares in the name of Japan Securities Depository Center Incorporated represent one *tangen* unit.

# Disclosure Based on Basel III

## Capital Accord Pillar III—Market Discipline

This section describes the information consistent with FSA Notice Number 7, Basel III Pillar III—Market Discipline, based on Article 19-2.1.5.d and 19-3.1.3.c of the Ordinance for the Enforcement of the Banking Act (Ministry of Finance Ordinance Number 10, 1982), issued in 2014.

‘Notice’ in this section refers to FSA Notice Number 19, Basel III Pillar I—Minimum Capital Requirements and Buffers, issued in 2006.

### Composition of Capital Disclosure

#### Composition of Capital Disclosure (Consolidated)

(Basel III)

(Millions of Yen)

Items	March 31, 2020	March 31, 2019
<b>Core capital: instruments and reserves (1)</b>		
Directly issued qualifying common share capital and preferred share capital with mandatory conversion clause plus related stock surplus and retained earnings	449,283	439,312
of which: capital and capital surplus	187,388	187,377
of which: retained earnings	269,746	259,217
of which: treasury stock (—)	3,297	3,312
of which: national specific regulatory adjustments (earnings to be distributed) (—)	4,553	3,970
of which: other than above	—	—
Accumulated other comprehensive income included in Core capital	(2,476)	(958)
of which: foreign currency translation adjustment	(806)	(291)
of which: remeasurements of defined benefit plans	(1,669)	(667)
Subscription rights to common shares and preferred shares with mandatory conversion clause	444	357
Adjusted non-controlling interests (amount allowed in group Core capital)	—	—
Total of general allowance for loan losses and eligible provisions included in Core capital	40,780	38,436
of which: general allowance for loan losses	40,780	38,436
of which: eligible provisions	—	—
Eligible non-cumulative perpetual preferred shares subject to transitional arrangements included in Core capital	—	—
Eligible capital instruments, other than non-cumulative perpetual preferred shares, subject to transitional arrangements included in Core capital	—	—
Capital instruments issued using public capital injection programs included in Core capital	—	—
Amounts equivalent to 45% of land revaluation excess subject to transitional arrangements included in Core capital	—	—
Non-controlling interests subject to transitional arrangements included in Core capital	357	443
Core capital: instruments and reserves (A)	488,389	477,592
<b>Core capital: regulatory adjustments (2)</b>		
Total intangible assets (net of related tax liability, excluding those relating to mortgage servicing rights)	13,328	12,885
of which: goodwill (including those equivalent)	—	—
of which: other intangibles other than goodwill and mortgage servicing rights	13,328	12,885
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	174	262
Shortfall of eligible provisions to expected losses	—	—
Securitization gain on sale	—	—
Gains and losses due to changes in own credit risk on fair valued liabilities	—	—
Defined-benefit pension fund net assets (prepaid pension costs)	1,739	2,546
Investments in own shares (excluding those reported in the Net assets section)	25	38
Reciprocal cross-holdings in capital instruments	—	—
Investments in the common stock and preferred stock with mandatory conversion clause of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	—	—

(Millions of Yen)

Items	March 31, 2020	March 31, 2019
Amount exceeding the 10% threshold on specified items	—	—
of which: significant investments in the common stock and preferred stock with mandatory conversion clause of financials	—	—
of which: mortgage servicing rights	—	—
of which: deferred tax assets arising from temporary differences (net of related tax liability)	—	—
Amount exceeding the 15% threshold on specified items	—	—
of which: significant investments in the common stock and preferred stock with mandatory conversion clause of financials	—	—
of which: mortgage servicing rights	—	—
of which: deferred tax assets arising from temporary differences (net of related tax liability)	—	—
Core capital: regulatory adjustments (B)	15,268	15,733
<b>Regulatory capital</b>		
Regulatory capital ((A)–(B)) (C)	473,121	461,859
<b>Risk-weighted assets (3)</b>		
Credit risk assets	4,065,125	4,006,351
Total of items subject to transitional arrangements included in risk-weighted assets	(22,500)	(22,500)
of which: investments in capital instruments of financials	(22,500)	(22,500)
of which: other than above	—	—
Risk assets derived from market risk equivalents	380,164	335,085
Risk assets derived from operational risk equivalents	149,632	151,729
Adjustments to credit risk assets	—	—
Adjustments to operational risk equivalents	—	—
Total risk-weighted assets (D)	4,594,922	4,493,166
<b>Consolidated capital adequacy ratio</b>		
Consolidated capital adequacy ratio ((C)/(D))	10.29%	10.27%

Notes: Consolidated capital adequacy ratio is calculated based on the Notice.

The Bank uses the domestic standard applicable to Japanese banks without overseas branches or banking subsidiaries.

Methods used to calculate risk-weighted assets and amounts of required capital for each risk are as follows:

(Millions of Yen)

	Methods	March 31, 2020	March 31, 2019
Total required capital		183,796	179,726
Credit risk	Standardized approach	162,605	160,254
Market risk equivalents	Internal models approach and Standardized approach	15,206	13,403
Operational risk equivalents	Standardized approach	5,985	6,069

# Disclosure Based on Basel III

## Capital Accord Pillar III—Market Discipline

### Composition of Capital Disclosure (Non-Consolidated)

(Basel III)

(Millions of Yen)

Items	March 31, 2020	March 31, 2019
<b>Core capital: instruments and reserves (1)</b>		
Directly issued qualifying common share capital and preferred share capital with mandatory conversion clause plus related stock surplus and retained earnings	443,428	432,936
of which: capital and capital surplus	187,388	187,377
of which: retained earnings	263,888	252,837
of which: treasury stock (–)	3,297	3,312
of which: national specific regulatory adjustments (earnings to be distributed) (–)	4,550	3,967
of which: other than above	–	–
Subscription rights to common shares and preferred shares with mandatory conversion clause	444	357
Total of general allowance for loan losses and eligible provisions included in Core capital	40,169	37,688
of which: general allowance for loan losses	40,169	37,688
of which: eligible provisions	–	–
Eligible non-cumulative perpetual preferred shares subject to transitional arrangements included in Core capital	–	–
Eligible capital instruments, other than non-cumulative perpetual preferred shares, subject to transitional arrangements included in Core capital	–	–
Capital instruments issued using public capital injection programs included in Core capital	–	–
Amounts equivalent to 45% of land revaluation excess subject to transitional arrangements included in Core capital	–	–
Core capital: instruments and reserves (A)	484,041	470,982
<b>Core capital: regulatory adjustments (2)</b>		
Total intangible assets (net of related tax liability, excluding those relating to mortgage servicing rights)	8,373	8,452
of which: goodwill (including those equivalent)	–	–
of which: other intangibles other than goodwill and mortgage servicing rights	8,373	8,452
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	–	–
Shortfall of eligible provisions to expected losses	–	–
Securitization gain on sale	–	–
Gains and losses due to changes in own credit risk on fair valued liabilities	–	–
Defined-benefit pension fund net assets (prepaid pension costs)	3,239	2,964
Investments in own shares (excluding those reported in the Net assets section)	25	38
Reciprocal cross-holdings in capital instruments	–	–
Investments in the common stock and preferred stock with mandatory conversion clause of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	–	–
Amount exceeding the 10% threshold on specified items	–	–
of which: significant investments in the common stock and preferred stock with mandatory conversion clause of financials	–	–
of which: mortgage servicing rights	–	–
of which: deferred tax assets arising from temporary differences (net of related tax liability)	–	–
Amount exceeding the 15% threshold on specified items	–	–
of which: significant investments in the common stock and preferred stock with mandatory conversion clause of financials	–	–
of which: mortgage servicing rights	–	–
of which: deferred tax assets arising from temporary differences (net of related tax liability)	–	–
Core capital: regulatory adjustments (B)	11,638	11,454
<b>Regulatory capital</b>		
Regulatory capital ((A)–(B)) (C)	472,403	459,527

(Millions of Yen)

Items	March 31, 2020	March 31, 2019
<b>Risk-weighted assets (3)</b>		
Credit risk assets	4,085,188	4,029,980
Total of items subject to transitional arrangements included in risk-weighted assets	(22,500)	(22,500)
of which: investments in capital instruments of financials	(22,500)	(22,500)
of which: other than above	—	—
Risk assets derived from market risk equivalents	379,703	334,664
Risk assets derived from operational risk equivalents	139,183	142,631
Adjustments to credit risk assets	—	—
Adjustments to operational risk equivalents	—	—
Total risk-weighted assets (D)	4,604,075	4,507,275
<b>Non-consolidated capital adequacy ratio</b>		
Non-consolidated capital adequacy ratio ((C)/(D))	10.26%	10.19%

Notes: Non-consolidated capital adequacy ratio is calculated based on the Notice.

The Bank uses the domestic standard applicable to Japanese banks without overseas branches or banking subsidiaries.

Methods used to calculate risk-weighted assets and amounts of required capital for each risk are as follows:

(Millions of Yen)

	Methods	March 31, 2020	March 31, 2019
Total required capital		184,163	180,291
Credit risk	Standardized approach	163,407	161,199
Market risk equivalents	Internal models approach and Standardized approach	15,188	13,386
Operational risk equivalents	Standardized approach	5,567	5,705



# Disclosure Based on Basel III

## Capital Accord Pillar III—Market Discipline

### Qualitative Disclosure

#### 1. Items pertaining to the scope of consolidation

- (1) A discrepancy between the definition of companies belonging to the group of companies (hereafter, 'Consolidated Group') subject to calculation of consolidated capital adequacy ratio, in accordance with Article 26 of the Notice, and companies included within the scope of accounting consolidation, and cause of the discrepancy

Subsidiaries deemed as 'financial subsidiaries' according to the Notice but excluded from the scope of accounting consolidation are included in the Consolidated Group in accordance with Article 26 of the Notice.

- (2) Number of consolidated subsidiaries, names of principal consolidated subsidiaries and major lines of business

Number of consolidated subsidiaries for the consolidated financial statements: 25

Principal consolidated subsidiaries:

GMO Aozora Net Bank, Ltd. (banking business)  
Aozora Loans Services Co., Ltd. (distressed loan servicing)  
Aozora Securities Co., Ltd. (financial instruments services)  
Aozora Regional Consulting Co., Ltd. (business consulting services)  
Aozora Investment Management Co., Ltd. (investment management services)  
Aozora Real Estate Investment Advisors Co., Ltd. (investment advisory services)  
ABN Advisors Co., Ltd. (M&A advisory services)  
Aozora Corporate Investment Co., Ltd. (venture capital investment)  
Aozora Asia Pacific Finance Limited (financial services)  
Aozora Europe Limited (financial services)  
Aozora North America, Inc. (Investments)  
AZB Funding (investment vehicle)  
AZB Funding 2 (investment vehicle)  
AZB Funding 3 (investment vehicle)  
AZB Funding 4 Limited (investment vehicle)  
AZB Funding 5 (investment vehicle)  
AZB Funding 6 (investment vehicle)  
AZB Funding 7 (investment vehicle)  
AZB Funding 8 Limited (investment vehicle)  
AZB Funding 9 Limited (investment vehicle)  
AZB Funding 10 Limited (investment vehicle)  
AZB Funding 11 Limited (investment vehicle)  
AZB Funding 12 Limited (investment vehicle)

- (3) Number of affiliates conducting financial services and having applied Article 32 of the Notice, and names, amounts of total assets and net assets and main business of such affiliates

Not applicable

- (4) Names, amounts of total assets and net assets, and main business of companies belonging to the Consolidated Group but not included in the scope of accounting consolidation, and companies not belonging to the Consolidated Group but included in the scope of accounting consolidation

(Companies belonging to the Consolidated Group but not included in the scope of accounting consolidation)

(Millions of Yen)

Name	Total assets	Net assets	Main business
AT Investments Co., Ltd.	665	238	financial services
AHT Investments	11	11	financial services
Tokyo Recovery	217	3	financial services
Aozora Recovery Acquisition 1	4,466	4	financial services
Momiji Recovery	2	2	financial services
Chiba-Musashino Partner	229	2	financial services
Shinkumi Recovery Co., Ltd.	571	3	financial services
Aozora Recovery Support Co., Ltd.	1,422	2	financial services
AL3 Co., Ltd.	80	3	financial services
AL4 Co., Ltd.	2	2	financial services
Aozora Asset Co., Ltd.	599	2	financial services
Fukushima Recovery Co., Ltd.	214	208	financial services
Aozora Chiiki Saisei Co., Ltd.	3,628	10	financial services

(Companies not belonging to the Consolidated Group but included in the scope of accounting consolidation)

Not applicable

- (5) Summary of restrictions on the movement of cash and equity capital within the Consolidated Group

Not applicable

## 2. Summary of equity financing methods

The Aozora Bank Group executes equity financing through the issuance of shares of common stock as follows.

(As of March 31, 2020)

Item	Common Stock
Issuing entity	Aozora Bank
Amounts included in core capital	¥187,388 million

## 3. Outline of capital adequacy assessment method

The Bank manages its capital based on 'risk capital,' namely economic capital, in order to control the size of its business within its intended scope and secure sufficient capital to match the risk it faces. We assess our capital adequacy by comparing the amounts of total capital for the fiscal year and risk capital usage in which actual risk profile is reflected, and thus confirming that an adequate amount of capital for the risk is secured.

Such assessment is also made from the perspective of whether the Bank can maintain sufficient capital to cover the effects of the estimated impact of a loss assumed in a stress-testing on the Bank's capital position and ensure the continuous operation from the following fiscal year onwards, and secure the required capital adequacy ratio. The status of risk capital is reported to the senior management on an approximately monthly basis.

## 4. Items pertaining to credit risk

### (1) Summary of risk management policies and procedures

The policies and procedures applied to risk management at Aozora Bank are described in the Risk Management section of this annual report under the heading 'Credit Risk Management,' in the Consolidated Financial Statements: Basic Requirements for the Preparation of Consolidated Financial Statements and the Non-Consolidated Financial Statements: Significant Accounting Policies.

### (2) Eligible rating agencies used for the judgment on risk weight

The eligible rating agencies which we use for the judgment on risk weight are as follows. We do not use country risk scores of OECD or Export Credit Agencies.

Type of exposure	Eligible rating agencies used
Sovereign (including government-affiliated organizations)	Rating and Investment Information, Inc. (R&I)
Financial institutions (including securities firms)	Japan Credit Rating Agency, Ltd. (JCR)
Securitization	Moody's Investors Service (Moody's)
Exposures to corporates	S&P Global Ratings(S&P)

## 5. Risk management policy associated with credit risk mitigation and outline of procedures

The Bank uses a standard form of documentation for collateral or guarantee contracts which we confirm as to its legal enforceability. When this standard documentation is not used, we take steps such as confirming the legal enforceability of each contract, among other procedures in the process of our decision to grant or refuse a transaction.

The concentration of credit and market risks resulting from the use of credit risk mitigation is modest.

### (Major collateral)

Type of collateral	Valuation	Management policy	Procedures
Financial assets (deposits at Aozora Bank, securities)	Notional amount or market price	Prices are reviewed on a monthly basis. (Prices of listed securities are reviewed every business day.)	In the calculation of risk-weighted assets, such financial collateral are applied as eligible credit risk mitigations. If a strong positive correlation exists between the credit risk of the counterparty and that of the subject eligible for financial collateral, we do not use such collateral as a credit risk mitigation.
Real estate, etc.	Appraisal	Value is reviewed annually or semiannually according to the credit strength of the borrower.	In the calculation of risk-weighted assets, we do not use such collateral as credit risk mitigation.
Nominative claims, etc.	Amount of billed receivables	Change in creditworthiness of the underlying obligor is monitored appropriately.	
Others	Judged individually	Judged individually	

# Disclosure Based on Basel III

## Capital Accord Pillar III—Market Discipline

### (Guarantees/CDS)

	Type and creditworthiness of counterparty
Guarantees	<p>We individually judge the creditworthiness of the guarantor or the necessity of obtaining a proof thereof.</p> <p>We use a guarantee transaction as a credit risk mitigation contingent on the following:</p> <ol style="list-style-type: none"> <li>1. The risk weight of the guarantor must be lower than that of the borrower.</li> <li>2. The guarantor must be a sovereign or financial institution.</li> <li>3. If a guarantor is not a sovereign or financial institution, the Bank will use the rating of the guarantor assigned by eligible ratings agencies for the judgment of risk weight.</li> </ol>
CDS	<p>The providers of protection in CDS transactions mainly consist of domestic and overseas financial institutions, and we judge the creditworthiness of the protection provider individually.</p> <p>When a CDS transaction is used as a credit risk mitigation, we set the minimum requirement of meeting the prerequisites of a guarantee as stated above.</p>

### (Offsetting/Netting)

	Policy/procedures/type of transaction/scope
Loan and deposit at Aozora Bank (On-balance-sheet netting)	<p>(Policy)</p> <p>In extending a loan, we conclude a contract with a clause of special agreement on general requirements needed for offsetting, which allows legal offsetting of loans and deposits at Aozora Bank. In the calculation of risk-weighted assets, an amount after netting of a loan and deposit at Aozora subject to the offsetting agreement is treated as an exposure after credit risk mitigations are applied.</p> <p>(Type and scope of transactions)</p> <p>Claim against which the balance on the deposit account is offset: Loans</p> <p>Claims used to offset a loan: Time deposits</p> <p>(Procedures)</p> <p>Under the appropriate maturity control, we apply credit risk mitigations through netting of a loan provided by Aozora and time deposits at Aozora. However, if the remaining period of the loan exceeds the remaining period of time deposits at Aozora, credit risk mitigating effects are recognized only when the initial contract period of time deposits at Aozora is one year or longer and the remaining period as of the base date of calculation is over 3 months.</p>
Derivatives	<p>(Policy)</p> <p>We apply netting for derivative transactions subject to a legally enforceable netting agreement. Transactions exempt from calculation of credit equivalent amounts are not included in the target transactions of netting.</p> <p>(Type and scope of transactions)</p> <p>Interest derivatives, foreign exchange derivatives, credit derivatives, equity derivatives, commodity derivatives, and other various derivatives.</p> <p>(Procedures)</p> <p>We use the ISDA Master Agreement, whose legal enforceability has been confirmed by an outside law firm, as the standard form of derivative transactions. We have also confirmed that there is rational legal opinion for its use.</p>
Repo-style transactions	<p>(Policy)</p> <p>We apply netting for repo-style transactions subject to a legally enforceable netting agreement.</p> <p>(Type and scope of transactions)</p> <p>Repo-style transactions</p> <p>(Procedures)</p> <p>We use a contract, whose legal enforceability has been confirmed by an outside law firm, as the standard form of repo-style transactions. We have also confirmed that there is rational legal opinion for its use.</p>

## 6. Summary of risk management policies and procedures associated with counterparties to derivative product transactions and long-term settlement transactions

Policies and procedures are described under 'Risk Management section,' 'Credit Risk Management' and 'Market Risk Management.' The Bank is obliged to provide additional collateral for derivative product transactions when there is a deterioration of its credit quality.

## 7. Items pertaining to securitization exposures

### (1) Summary of risk management policies and risk characteristics

Securitization transactions refer to transactions which are structured with two or more tranches in line with underlying credit and which are either partially or wholly transferred to a third party.

The main role of the Bank in securitization transactions is that of investor or servicer. Sometimes, it may also act as originator or swap provider.

Securitization transactions have various risks depending on underlying assets and the Bank's role in securitization transactions.

Risk management policies are described under 'Risk Management section' and 'Credit Risk Management.'

### (2) Summary of system development and management status in accordance with No. 1 to No. 4 of Paragraph 1, Article 248 of the Capital Adequacy Ratio Notice (this includes cases in which Paragraph 2 of Article 302-2 apply).

Regarding securitization transactions (including resecuritization transactions), individual transactions and portfolios are monitored in accordance with risk characteristics by establishing monitoring policies for each product in line with the underlying assets.

### (3) Policy for using securitization transactions as credit risk mitigation

Securitization transactions as a way to manage the portfolio are considered when necessary.

### (4) Name of method used to calculate the amount of credit risk assets for securitization exposures

This is described in this document under the heading 'Quantitative Disclosures' 2. (1).

### (5) Name of method used to calculate equivalent market risk amounts of securitization exposures

Not applicable.

### (6) Name of SPE types and whether the Bank or its consolidated subsidiaries have securitization exposures to securitization transactions which Aozora Group makes for a third party's assets using an SPE for securitization.

There are no applicable securitization transactions as of March 31, 2020.

### (7) Names of subsidiaries (excluding consolidated subsidiaries) and affiliates which have securitization exposures to securitization transactions made by the Aozora Group (including securitization transactions in which the Aozora Group uses SPEs)

There are no applicable subsidiaries or affiliates as of March 31, 2020.

### (8) Accounting policy for securitization transactions

When the Group originates securitization transactions, the following treatments are applied:

- The Group recognizes the securitization transactions as sale of assets if conditions required for the elimination of assets, based on the Accounting Standards for Financial Instruments, have been satisfied.
- The Group recognizes sale of assets when the assets are reassigned (delivery standard).
- The Group records remainders at the acquisition price. However, if severe impairment mars assessment of the securitized assets, the Group will consider a charge-off.
- The Group provides the necessary amount of provisions for off-balance credits including liquidity facilities or credit facilities, based on internal Write-off and Reserve Standards and related rules.

When the Group acquires securitized products, the assets are treated according to the Accounting Standards for Financial Instruments.

### (9) Names of eligible rating agencies used for the judgment of risk weights according to type of securitization exposure

This is described in this document under the heading 'Qualitative Disclosure' 4. (2).

# Disclosure Based on Basel III Capital Accord Pillar III—Market Discipline

## 8. Items pertaining to market risk

- (1) Summary of risk management policies and procedures
  - (2) Methods used to calculate market risk equivalents
  - (3) Techniques used to accurately assess value according to transaction characteristics, given such factors as assumed holding period and the probability of an extended holding period
  - (4) Outline of models applied to market risk and explanations about back testing and stress tests
  - (5) Assumptions on and evaluation techniques for assessing the level of capital reinforcement required to cover market risk
- These items are described in the Risk Management section of this annual report under the heading 'Market Risk Management.'

## 9. Items pertaining to operational risk

- (1) Summary of risk management policies and procedures
  - (2) Methods used to calculate operational risk equivalents
- These items are described in this document under the heading 'Composition of Capital Disclosure' and in the Risk Management section of this annual report under the heading 'Operational Risk Management.'

## 10. Summary of policies and procedures for risk management related to equity exposures

Accounting policies applicable to equity exposures are as follows:

The Group evaluates equity exposures by holding purposes, in line with the Accounting Standards for Financial Instruments.

- a) Stocks in subsidiaries and affiliates are stated at cost.
- b) Available-for-sale securities with fair value are reported at fair value.
- c) Available-for-sale securities whose fair value cannot be reliably determined are stated at cost.

## 11. Items pertaining to interest rate risk

- (1) Summary of risk management policies and procedures  
Consolidated and non-consolidated interest rate risk is measured on a quarterly basis and the CRO reports  $\Delta$ EVE and related items to the ALM Committee, etc. Interest rate risk is controlled by using bond transactions, swaps to which hedge accounting is applied, bond and interest rate futures, and options for those.
- (2) Summary of interest rate risk calculation method  
Interest rate risk in the banking book is measured in such a way that the interest due date under contract for each transaction is recognized as the maturity date, and prepayments of fixed rate housing loans and term deposits are assumed. We adopt the assumed rates for repayment and cancellation set by the Regulator. For liquid deposits, "core deposits" (liquid deposits that are to remain in the bank for a long period without withdrawal) are considered. Maturity dates of core deposits are set monthly by equal amount to the maximum maturity of 5 years for whichever is the lowest amount over the past 1 year among the following three criteria: (1) the minimum balance over the past 5 years, (2) the balance delivered by subtracting the largest annual outflow over the past 5 years from the current balance or (3) 50% of the current balance. The maximum maturity set to liquid deposits is 5 years, and the average maturity is 0.7 years on a non-consolidated basis and 0.6 years on a consolidated basis. For the aggregation of interest rate risk amount calculated per currency,  $\Delta$ EVE is calculated by adding only the currencies with positive  $\Delta$ EVE and  $\Delta$ NII is calculated by simply adding up  $\Delta$ NII of each currency. Also, spreads are considered in cash flows.  
Other items are described in the Risk Management section of this annual report under the heading 'Market Risk Management'.

## Quantitative Disclosure

### 1. Names of subsidiaries classified as other financial institutions under the Notice whose capital is short of the regulatory amount required, and total shortfall amount of such subsidiaries

(As of March 31, 2020 and 2019)

Not applicable

### 2. Items pertaining to capital adequacy

#### (1) Breakdown by Portfolio (Non-Consolidated)

(100 Million Yen)

Category	March 31, 2020			March 31, 2019		
	Amount of exposure	Amount of credit risk assets	Amount of capital requirements	Amount of exposure	Amount of credit risk assets	Amount of capital requirements
Cash	106	—	—	189	—	—
Claims on Japanese government/bank	4,826	—	—	5,833	—	—
Claims on foreign central government/bank	2,803	72	2	3,873	33	1
Claims on Bank for International Settlements (BIS)	—	—	—	—	—	—
Claims on Japanese local public bodies	455	0	0	364	1	0
Claims on non-central government public sector entities (PSEs) of foreign countries	1,365	273	10	890	186	7
Claims on multilateral development banks (MDBs)	—	—	—	—	—	—
Claims on Japan Finance Organization for Municipalities (JFM)	29	0	0	24	0	0
Claims on organs affiliated with the Japanese government	143	3	0	158	11	0
Claims on three major local public corporations	27	1	0	59	1	0
Claims on financial institutions and Type I financial instruments business operators	3,369	693	27	2,908	587	23
Claims on corporates	21,159	18,565	742	21,104	19,246	769
Claims on SMEs and individuals	—	—	—	—	—	—
Mortgage-backed housing loans	6	2	0	7	2	0
Claims on projects including acquisition of real estate properties	1,865	1,865	74	1,997	1,997	79
Loans overdue for three months or more	1,184	1,670	66	983	1,419	56
Cash items in process of collection	—	—	—	—	—	—
Loans guaranteed by Credit Guarantee Association, etc	0	0	0	0	0	0
Loans guaranteed by Regional Economy Vitalization Corporation of Japan (REVIC), etc	—	—	—	—	—	—
Equity, etc	1,237	1,237	49	1,158	1,158	46
Securitization exposure	1,970	715	28	1,299	583	23
Rating-based approach	1,884	671	26	1,174	494	19
Standardised approach	86	44	1	124	88	3
Risk weight = 1,250%	—	—	—	0	0	0
Specialised lending	6,619	6,471	258	5,576	5,424	216
Exposures relating to funds	4,852	5,354	214	5,009	5,704	228
Look-through approach	4,805	5,308	212	4,916	5,612	224
Mandate-based approach	46	46	1	92	92	3
250%	—	—	—	—	—	—
400%	—	—	—	—	—	—
Fall-back approach = 1,250%	—	—	—	—	—	—
Amount calculated by dividing equivalent CVA risk amount by 8%	—	838	33	—	780	31
Central counterparty-related	6,153	249	9	4,890	198	7
Total of items included in risk-weighted assets subject to phase-out arrangements	150	150	6	150	150	6
Other	1,268	2,682	107	1,309	2,812	112
<b>Total</b>	<b>59,595</b>	<b>40,851</b>	<b>1,634</b>	<b>57,790</b>	<b>40,299</b>	<b>1,611</b>

Notes: 1. Amount of exposure

• After deducting the amount equivalent to partial direct write-offs.

Specific allowance for loan losses and allowance for loans to restructuring countries are not subject to the deduction.

• The amount is equivalent to credit extension set forth in the Notice (after the effect of deducting the amount equivalent to credit extension under netting agreement).

• After credit risk mitigation.

• As the Bank is subject to domestic standards, the amount is calculated as 'credit risk assets ×4%.'

• There were no securitization transactions originated or sponsored by the Aozora Group.

• The amount is rounded down to the whole number. The same applies to the following charts.

2. Amount of credit risk assets

3. Amount of capital requirements

4. Securitization exposure

5. Indication method after the decimal point



# Disclosure Based on Basel III

## Capital Accord Pillar III—Market Discipline

### Breakdown by Portfolio (Consolidated)

(100 Million Yen)

Category	March 31, 2020			March 31, 2019		
	Amount of exposure	Amount of credit risk assets	Amount of capital requirements	Amount of exposure	Amount of credit risk assets	Amount of capital requirements
Cash	106	—	—	189	—	—
Claims on Japanese government/bank	5,647	—	—	5,883	—	—
Claims on foreign central government/bank	2,803	72	2	3,873	33	1
Claims on Bank for International Settlements (BIS)	—	—	—	—	—	—
Claims on Japanese local public bodies	455	0	0	364	1	0
Claims on non-central government public sector entities (PSEs) of foreign countries	1,365	273	10	890	186	7
Claims on multilateral development banks (MDBs)	—	—	—	—	—	—
Claims on Japan Finance Organization for Municipalities (JFM)	29	0	0	24	0	0
Claims on organs affiliated with the Japanese government	143	3	0	158	11	0
Claims on three major local public corporations	27	1	0	59	1	0
Claims on financial institutions and Type I financial instruments business operators	3,466	711	28	3,021	610	24
Claims on corporates	21,392	18,848	753	21,327	19,498	779
Claims on SMEs and individuals	—	—	—	—	—	—
Mortgage-backed housing loans	6	2	0	7	2	0
Claims on projects including acquisition of real estate properties	1,865	1,865	74	1,997	1,997	79
Loans overdue for three months or more	1,461	2,086	83	1,291	1,881	75
Cash items in process of collection	2	0	0	—	—	—
Loans guaranteed by Credit Guarantee Association, etc	0	0	0	0	0	0
Loans guaranteed by Regional Economy Vitalization Corporation of Japan (REVIC), etc	—	—	—	—	—	—
Equity, etc	772	772	30	693	693	27
Securitization exposure	1,970	715	28	1,299	583	23
Rating-based approach	1,884	671	26	1,174	494	19
Standardised approach	86	44	1	124	88	3
Risk weight = 1,250%	—	—	—	0	0	0
Specialised lending	6,619	6,471	258	5,576	5,424	216
Exposures relating to funds	4,423	4,794	191	4,547	5,114	204
Look-through approach	4,377	4,748	189	4,455	5,021	200
Mandate-based approach	46	46	1	92	92	3
250%	—	—	—	—	—	—
400%	—	—	—	—	—	—
Fall-back approach = 1,250%	0	0	0	—	—	—
Amount calculated by dividing equivalent CVA risk amount by 8%	—	838	33	—	780	31
Central counterparty-related	6,153	249	9	4,890	198	7
Total of items included in risk-weighted assets subject to phase-out arrangements	150	150	6	150	150	6
Other	1,566	2,790	111	1,983	2,896	115
<b>Total</b>	<b>60,431</b>	<b>40,651</b>	<b>1,626</b>	<b>58,231</b>	<b>40,063</b>	<b>1,602</b>

Notes: 1. Amount of exposure

- After deducting the amount equivalent to partial direct write-offs. Specific allowance for loan losses and allowance for loans to restructuring countries are not subject to the deduction.
- The amount is equivalent to credit extension set forth in the Notice (after the effect of deducting the amount equivalent to credit extension under netting agreement).
- After credit risk mitigation.
- As the Bank is subject to domestic standards, the amount is calculated as 'credit risk assets ×4%'.
- There were no securitization transactions originated or sponsored by the Aozora Group.

2. Amount of credit risk assets
3. Amount of capital requirements
4. Securitization exposure

**(2) Amount of capital required to cover credit risk related to exposures held in funds:**

This item is described in 'Exposures relating to funds' of (1).

**(3) Amount of capital required to cover market risk and amounts presented by each method used by the Consolidated Group:**

This information is described in the Risk Management section of this annual report under the heading 'Market Risk Management.'

**(4) Amount of capital required to cover operational risk and amounts presented by each method used by the Consolidated Group:**

This information is described in this document under the heading 'Composition of Capital Disclosure' and in the Risk Management section of this annual report under the heading 'Operational Risk Management.'

**(5) Total capital requirements:**

This information is described in 'Composition of Capital Disclosure.'

**3. Items pertaining to credit risk**

**(1) Breakdown of year-end credit risk exposure balance by area, industry and residual period, as well as category:**

**Breakdown of Exposure by Area (Non-Consolidated)**

(100 Million Yen)

Area	March 31, 2020				March 31, 2019			
	Loans, etc.	Securities	Derivatives	Total	Loans, etc.	Securities	Derivatives	Total
Japan	27,897	3,041	6,830	37,769	27,047	2,886	5,380	35,314
Overseas	12,591	8,313	920	21,826	12,363	9,467	644	22,475
<b>Total</b>	<b>40,489</b>	<b>11,354</b>	<b>7,751</b>	<b>59,595</b>	<b>39,411</b>	<b>12,353</b>	<b>6,025</b>	<b>57,790</b>

Notes: 1. Loans, etc. include on-balance and off-balance-sheet exposures such as loans and commitment lines, other than securities and derivatives above.  
2. Disclosure of the average balance is not made because there is no significant difference between the average risk position of the exposure for the term and the balance at the term-end.

**Breakdown of Exposure by Area (Consolidated)**

(100 Million Yen)

Area	March 31, 2020				March 31, 2019			
	Loans, etc.	Securities	Derivatives	Total	Loans, etc.	Securities	Derivatives	Total
Japan	29,480	2,340	6,830	38,652	28,213	2,200	5,380	35,795
Overseas	12,743	8,114	920	21,779	12,493	9,298	644	22,436
<b>Total</b>	<b>42,224</b>	<b>10,455</b>	<b>7,751</b>	<b>60,431</b>	<b>40,707</b>	<b>11,498</b>	<b>6,025</b>	<b>58,231</b>

Notes: 1. Loans, etc. include on-balance and off-balance-sheet exposures such as loans and commitment lines, other than securities and derivatives above.  
2. Disclosure of the average balance is not made because there is no significant difference between the average risk position of the exposure for the term and the balance at the term-end.

# Disclosure Based on Basel III Capital Accord Pillar III—Market Discipline

## Breakdown of Exposure by Industry Sector (Non-Consolidated)

(100 Million Yen)

Industry sector	March 31, 2020				March 31, 2019			
	Loans, etc.	Securities	Derivatives	Total	Loans, etc.	Securities	Derivatives	Total
Sovereign	5,003	4,624	24	9,652	6,054	5,138	12	11,205
Financial institution	1,977	248	1,443	3,669	1,982	248	973	3,204
Manufacturing	4,685	244	82	5,012	5,056	270	90	5,417
Agriculture/forestry/fisheries	46	—	2	48	48	—	3	51
Mining	60	—	—	60	84	—	—	84
Construction	201	11	0	212	209	13	3	226
Utilities (electric power/gas/ heat supply/water service)	1,244	168	77	1,490	1,071	363	72	1,507
Information & telecommunications	1,718	127	0	1,845	1,705	311	0	2,016
Transport	634	43	165	843	626	44	74	745
Wholesale/retail	1,335	73	102	1,510	1,335	74	104	1,514
Other financial business (moneylending, leasing)	7,574	4,462	5,791	17,828	6,324	4,704	4,621	15,651
Real estate	9,438	1,333	33	10,805	8,795	1,164	37	9,997
Various services (excluding leasing)	3,838	5	26	3,869	3,485	5	26	3,517
Others	2,731	12	1	2,745	2,629	15	3	2,648
<b>Total</b>	<b>40,489</b>	<b>11,354</b>	<b>7,751</b>	<b>59,595</b>	<b>39,411</b>	<b>12,353</b>	<b>6,025</b>	<b>57,790</b>

Note: Loans, etc. include on-balance and off-balance-sheet exposures such as loans and commitment lines, other than securities and derivatives above.

## Breakdown of Exposure by Industry Sector (Consolidated)

(100 Million Yen)

Industry sector	March 31, 2020				March 31, 2019			
	Loans, etc.	Securities	Derivatives	Total	Loans, etc.	Securities	Derivatives	Total
Sovereign	5,355	4,624	24	10,004	6,054	5,188	12	11,255
Financial institution	2,072	3	1,443	3,518	2,092	3	973	3,068
Manufacturing	4,707	244	82	5,034	5,084	270	90	5,444
Agriculture/forestry/fisheries	72	—	2	75	59	—	3	63
Mining	67	—	—	67	92	—	—	92
Construction	222	11	0	233	209	13	3	226
Utilities (electric power/gas/ heat supply/water service)	1,315	168	77	1,561	1,142	363	72	1,578
Information & telecommunications	1,766	127	0	1,894	1,754	311	0	2,065
Transport	634	43	165	843	626	44	74	745
Wholesale/retail	1,349	73	102	1,524	1,335	74	104	1,514
Other financial business (moneylending, leasing)	7,587	3,812	5,791	17,191	6,344	4,049	4,621	15,015
Real estate	9,438	1,333	33	10,805	8,795	1,164	37	9,997
Various services (excluding leasing)	3,853	1	26	3,880	3,501	1	26	3,529
Others	3,782	12	1	3,796	3,614	15	3	3,632
<b>Total</b>	<b>42,224</b>	<b>10,455</b>	<b>7,751</b>	<b>60,431</b>	<b>40,707</b>	<b>11,498</b>	<b>6,025</b>	<b>58,231</b>

Note: Loans, etc. include on-balance and off-balance-sheet exposures such as loans and commitment lines, other than securities and derivatives above.

## Breakdown of Exposure by Residual Period (Non-Consolidated)

(100 Million Yen)

Residual period	March 31, 2020				March 31, 2019			
	Loans, etc.	Securities	Derivatives	Total	Loans, etc.	Securities	Derivatives	Total
< 1 year	5,138	86	444	5,669	5,487	110	254	5,852
≥ 1 year < 5 years	12,566	1,277	2,560	16,404	10,878	1,456	1,831	14,166
≥ 5 years	22,784	9,990	4,746	37,521	23,046	10,785	3,938	37,770
<b>Total</b>	<b>40,489</b>	<b>11,354</b>	<b>7,751</b>	<b>59,595</b>	<b>39,411</b>	<b>12,353</b>	<b>6,025</b>	<b>57,790</b>

Notes: 1. Loans, etc. include on-balance and off-balance-sheet exposures such as loans and commitment lines, other than securities and derivatives above.  
2. Exposures with a residual period of ≥ 5 years also include the transactions for which no maturity period is stipulated.

## Breakdown of Exposure by Residual Period (Consolidated)

(100 Million Yen)

Residual period	March 31, 2020				March 31, 2019			
	Loans, etc.	Securities	Derivatives	Total	Loans, etc.	Securities	Derivatives	Total
< 1 year	4,845	86	444	5,376	5,230	110	254	5,595
≥ 1 year < 5 years	12,566	1,277	2,560	16,404	10,878	1,456	1,831	14,166
≥ 5 years	24,812	9,091	4,746	38,650	24,599	9,931	3,938	38,469
<b>Total</b>	<b>42,224</b>	<b>10,455</b>	<b>7,751</b>	<b>60,431</b>	<b>40,707</b>	<b>11,498</b>	<b>6,025</b>	<b>58,231</b>

Notes: 1. Loans, etc. include on-balance and off-balance-sheet exposures such as loans and commitment lines, other than securities and derivatives above.  
2. Exposures with a residual period of ≥ 5 years also include the transactions for which no maturity period is stipulated.

## (2) Balance of year-end exposure overdue for three months or more and breakdown by area and industry:

### Breakdown of Exposure Overdue for Three Months or More by Area (Non-Consolidated)

(100 Million Yen)

Area	March 31, 2020				March 31, 2019			
	Loans, etc.	Securities	Derivatives	Total	Loans, etc.	Securities	Derivatives	Total
Japan	7	—	0	7	44	—	—	44
Overseas	1,177	—	—	1,177	938	—	—	938
<b>Total</b>	<b>1,184</b>	<b>—</b>	<b>0</b>	<b>1,184</b>	<b>983</b>	<b>—</b>	<b>—</b>	<b>983</b>

Notes: 1. Loans, etc. include on-balance and off-balance-sheet exposures such as loans and commitment lines, other than securities and derivatives above.  
2. 'Exposures Overdue for Three Months or More' shows assets which have 150% of risk weight that is before write-off/reserve by Provision 71 of the Notice.

### Breakdown of Exposure Overdue for Three Months or More by Area (Consolidated)

(100 Million Yen)

Area	March 31, 2020				March 31, 2019			
	Loans, etc.	Securities	Derivatives	Total	Loans, etc.	Securities	Derivatives	Total
Japan	283	—	0	284	352	—	—	352
Overseas	1,177	—	—	1,177	938	—	—	938
<b>Total</b>	<b>1,461</b>	<b>—</b>	<b>0</b>	<b>1,461</b>	<b>1,291</b>	<b>—</b>	<b>—</b>	<b>1,291</b>

Notes: 1. Loans, etc. include on-balance and off-balance-sheet exposures such as loans and commitment lines, other than securities and derivatives above.  
2. 'Exposures Overdue for Three Months or More' shows assets which have 150% of risk weight that is before write-off/reserve by Provision 71 of the Notice.

# Disclosure Based on Basel III

## Capital Accord Pillar III—Market Discipline

### Breakdown of Exposure Overdue for Three Months or More by Industry Sector (Non-Consolidated)

(100 Million Yen)

Industry sector	March 31, 2020				March 31, 2019			
	Loans, etc.	Securities	Derivatives	Total	Loans, etc.	Securities	Derivatives	Total
Sovereign	—	—	—	—	—	—	—	—
Financial institution	—	—	—	—	—	—	—	—
Manufacturing	415	—	0	415	282	—	—	282
Agriculture/forestry/fisheries	—	—	—	—	—	—	—	—
Mining	—	—	—	—	—	—	—	—
Construction	—	—	—	—	—	—	—	—
Utilities (electric power/gas/ heat supply/water service)	102	—	—	102	66	—	—	66
Information & telecommunications	184	—	—	184	132	—	—	132
Transport	0	—	—	0	0	—	—	0
Wholesale/retail	187	—	—	187	175	—	—	175
Other financial business (moneylending, leasing)	—	—	—	—	1	—	—	1
Real estate	47	—	—	47	110	—	—	110
Various services (excluding leasing)	246	—	—	246	212	—	—	212
Others	0	—	—	0	0	—	—	0
<b>Total</b>	<b>1,184</b>	<b>—</b>	<b>0</b>	<b>1,184</b>	<b>983</b>	<b>—</b>	<b>—</b>	<b>983</b>

Notes: 1. Loans, etc. include on-balance and off-balance-sheet exposures such as loans and commitment lines, other than securities and derivatives above.  
2. 'Exposures Overdue for Three Months or More' shows assets which have 150% of risk weight that is before write-off/reserve by Provision 71 of the Notice.

### Breakdown of Exposure Overdue for Three Months or More by Industry Sector (Consolidated)

(100 Million Yen)

Industry sector	March 31, 2020				March 31, 2019			
	Loans, etc.	Securities	Derivatives	Total	Loans, etc.	Securities	Derivatives	Total
Sovereign	—	—	—	—	—	—	—	—
Financial institution	—	—	—	—	—	—	—	—
Manufacturing	416	—	0	416	282	—	—	282
Agriculture/forestry/fisheries	—	—	—	—	—	—	—	—
Mining	—	—	—	—	—	—	—	—
Construction	—	—	—	—	—	—	—	—
Utilities (electric power/gas/ heat supply/water service)	102	—	—	102	66	—	—	66
Information & telecommunications	184	—	—	184	132	—	—	132
Transport	0	—	—	0	0	—	—	0
Wholesale/retail	187	—	—	187	175	—	—	175
Other financial business (moneylending, leasing)	—	—	—	—	1	—	—	1
Real estate	47	—	—	47	110	—	—	110
Various services (excluding leasing)	246	—	—	246	212	—	—	212
Others	276	—	—	276	307	—	—	307
<b>Total</b>	<b>1,461</b>	<b>—</b>	<b>0</b>	<b>1,461</b>	<b>1,291</b>	<b>—</b>	<b>—</b>	<b>1,291</b>

Notes: 1. Loans, etc. include on-balance and off-balance-sheet exposures such as loans and commitment lines, other than securities and derivatives above.  
2. 'Exposures Overdue for Three Months or More' shows assets which have 150% of risk weight that is before write-off/reserve by Provision 71 of the Notice.

**(3) Year-end balances and year-on-year changes for general allowance for loan losses, specific allowance for loan losses and country risk allowance:**

**Breakdown of Allowance by Area (Non-Consolidated)**

(100 Million Yen)

Area	Mar. 2020	Mar. 2019	Difference
General allowance	396	368	27
Specific allowance	135	74	61
Japan	86	47	38
Overseas	48	26	22
Allowance for loans to restructuring countries	—	—	—
<b>Total</b>	<b>531</b>	<b>442</b>	<b>89</b>

**Breakdown of Allowance by Area (Consolidated)**

(100 Million Yen)

Area	Mar. 2020	Mar. 2019	Difference
General allowance	402	375	26
Specific allowance	135	74	61
Japan	86	47	38
Overseas	49	26	22
Allowance for loans to restructuring countries	—	—	—
<b>Total</b>	<b>537</b>	<b>450</b>	<b>87</b>

**Breakdown of Allowance by Industry Sector (Non-Consolidated)**

(100 Million Yen)

Industry sector	Mar. 2020	Mar. 2019	Difference
General allowance	396	368	27
Specific allowance	135	74	61
Sovereign	—	—	—
Financial institution	—	—	—
Manufacturing	17	23	(6)
Agriculture/forestry/fisheries	44	—	44
Mining	—	—	—
Construction	—	—	—
Utilities (electric power/gas/heat supply/water service)	—	—	—
Information & telecommunications	19	17	2
Transport	—	—	—
Wholesale/retail	28	18	9
Other financial business (moneylending, leasing)	—	—	—
Real estate	14	1	12
Various services (excluding leasing)	11	12	(0)
Others	0	0	(0)
Allowance for loans to restructuring countries	—	—	—
<b>Total</b>	<b>531</b>	<b>442</b>	<b>89</b>



# Disclosure Based on Basel III

## Capital Accord Pillar III—Market Discipline

### Breakdown of Allowance by Industry Sector (Consolidated)

(100 Million Yen)

Industry sector	Mar. 2020	Mar. 2019	Difference
General allowance	402	375	26
Specific allowance	135	74	61
Sovereign	—	—	—
Financial institution	—	—	—
Manufacturing	17	23	(6)
Agriculture/forestry/fisheries	44	—	44
Mining	—	—	—
Construction	—	—	—
Utilities (electric power/gas/heat supply/water service)	—	—	—
Information & telecommunications	19	17	2
Transport	—	—	—
Wholesale/retail	28	18	9
Other financial business (moneylending, leasing)	—	—	—
Real estate	14	1	12
Various services (excluding leasing)	11	12	(0)
Others	0	0	(0)
Allowance for loans to restructuring countries	—	—	—
<b>Total</b>	<b>537</b>	<b>450</b>	<b>87</b>

### (4) Write-offs by industry sector:

### Breakdown of Write-Offs by Industry Sector (Non-Consolidated)

(100 Million Yen)

Industry sector	Mar. 2020	Mar. 2019	Difference
Sovereign	—	—	—
Financial institution	—	—	—
Manufacturing	0	—	0
Agriculture/forestry/fisheries	—	—	—
Mining	6	1	5
Construction	—	—	—
Utilities (electric power/gas/heat supply/water service)	—	—	—
Information & telecommunications	—	—	—
Transport	—	—	—
Wholesale/retail	4	—	4
Other financial business (moneylending, leasing)	—	—	—
Real estate	—	—	—
Various services (excluding leasing)	—	—	—
Others	—	—	—
<b>Total</b>	<b>11</b>	<b>1</b>	<b>9</b>

Note: The table shows the breakdown of the write-off of loans in the Statement of Operations.

### Breakdown of Write-Offs by Industry Sector (Consolidated)

(100 Million Yen)

Industry sector	Mar. 2020	Mar. 2019	Difference
Sovereign	—	—	—
Financial institution	—	—	—
Manufacturing	3	—	3
Agriculture/forestry/fisheries	—	—	—
Mining	—	1	(1)
Construction	—	—	—
Utilities (electric power/gas/heat supply/water service)	—	—	—
Information & telecommunications	—	—	—
Transport	—	—	—
Wholesale/retail	4	—	4
Other financial business (moneylending, leasing)	—	0	(0)
Real estate	—	—	—
Various services (excluding leasing)	—	—	—
Others	3	0	2
<b>Total</b>	<b>10</b>	<b>2</b>	<b>8</b>

Notes: 1. The table shows the breakdown of the write-off of loans in the Statement of Operations.

2. The 'Write-offs' include write-offs made by AOZORA Loan Services Co., Ltd., which are shown on the 'Others' line.

## (5) Outstanding exposure after credit risk mitigation by risk weight:

## (Non-Consolidated)

(100 Million Yen)

Risk weight	March 31, 2020		March 31, 2019	
	Amount of exposure		Amount of exposure	
		Application of external rating		Application of external rating
0%	8,540	2,486	11,097	3,784
> 0% ≤ 10%	6,195	22	5,022	19
> 10% ≤ 20%	6,804	6,740	4,826	4,714
> 20% ≤ 50%	2,111	2,052	1,614	1,538
> 50% ≤ 75%	1,693	413	1,358	642
> 75% ≤ 100%	28,267	7,777	28,592	8,576
> 100% ≤ 150%	3,751	1,195	3,622	996
> 150% < 1,250%	1,361	4	1,466	—
1,250%	0	—	3	—
<b>Total</b>	<b>58,727</b>	<b>20,693</b>	<b>57,604</b>	<b>20,273</b>

Note: In the 'Application of external rating' section, the exposures to which an external rating is applied in the calculation of risk weight are included.

## (Consolidated)

(100 Million Yen)

Risk weight	March 31, 2020		March 31, 2019	
	Amount of exposure		Amount of exposure	
		Application of external rating		Application of external rating
0%	9,416	2,486	11,640	3,784
> 0% ≤ 10%	6,195	22	5,022	19
> 10% ≤ 20%	7,105	6,834	5,083	4,827
> 20% ≤ 50%	2,102	2,052	1,637	1,568
> 50% ≤ 75%	1,665	413	1,298	642
> 75% ≤ 100%	27,934	7,915	28,235	8,699
> 100% ≤ 150%	3,765	1,195	3,645	996
> 150% < 1,250%	1,376	4	1,478	—
1,250%	0	—	3	—
<b>Total</b>	<b>59,562</b>	<b>20,924</b>	<b>58,045</b>	<b>20,539</b>

Note: In the 'Application of external rating' section, the exposures to which an external rating is applied in the calculation of risk weight are included.

## 4. Items pertaining to credit risk mitigation techniques

## Breakdown of Exposure for Which Credit Risk Mitigations Are Applied (Non-Consolidated)

(100 Million Yen)

Credit risk mitigation	March 31, 2020	March 31, 2019
Eligible financial collateral	1,245	1,069
Cash and deposits at Aozora	1,234	1,056
Debt securities	—	—
Equities	11	13
Others	—	—
Guarantees and credit derivatives	662	652
Guarantees	662	652
Credit derivatives	—	—
<b>Total</b>	<b>1,907</b>	<b>1,722</b>

Note: The exposure above does not include the amount for which a credit risk mitigation is recognized through netting between loans and deposits at the Bank under the netting agreement (Provision 117 of the Notice) and the repo transactions etc.

# Disclosure Based on Basel III

## Capital Accord Pillar III—Market Discipline

### Breakdown of Exposure for Which Credit Risk Mitigations Are Applied (Consolidated)

(100 Million Yen)

Credit risk mitigation	March 31, 2020	March 31, 2019
Eligible financial collateral	1,245	1,069
Cash and deposits at Aozora	1,234	1,056
Debt securities	—	—
Equities	11	13
Others	—	—
Guarantees and credit derivatives	662	652
Guarantees	662	652
Credit derivatives	—	—
<b>Total</b>	<b>1,907</b>	<b>1,722</b>

Note: The exposure above does not include the amount for which a credit risk mitigation is recognized through netting between loans and deposits at the Bank under the netting agreement (Provision 117 of the Notice) and the repo transactions etc.

### 5. Items pertaining to counterparty risk on derivative transactions and long-settlement transactions

#### Breakdown of Derivative Transactions and Long-Settlement Transactions (Non-Consolidated)

(100 Million Yen)

	March 31, 2020	March 31, 2019
Replacement cost(RC)	2,395	1,527
Collateral used in this transaction		
Received collateral	992	981
Posted collateral	688	506
Potential future exposures(PFE)	3,141	2,775
Credit-equivalent amount(RC + PFE) x 1.4	7,751	6,025
Amount of credit risk assets	1,032	813

Notes: 1. Credit-equivalent amounts are figures after credit risk mitigation.

2. Received collateral and posted collateral are cash and deposits at Aozora. Received collateral is after taking into account credit risk mitigation.

## Breakdown of Derivative Transactions and Long-Settlement Transactions (Consolidated)

(100 Million Yen)

	March 31, 2020	March 31, 2019
Replacement cost(RC)	2,395	1,527
Collateral used in this transaction		
Received collateral	992	981
Posted collateral	688	506
Potential future exposures(PFE)	3,141	2,775
Credit-equivalent amount(RC + PFE) x 1.4	7,751	6,025
Amount of credit risk assets	1,032	813

Notes: 1. Credit-equivalent amounts are figures after credit risk mitigation.

2. Received collateral and posted collateral are cash and deposits at Aozora. Received collateral is after taking into account credit risk mitigation.

## Breakdown of Credit Derivative Transactions (Non-Consolidated)

(100 Million Yen)

Type of transaction	Purchase or supply of guarantee	March 31, 2020	March 31, 2019
		Notional principal	Notional principal
Transactions subject to the calculation of credit-equivalent amount		2,969	2,899
Credit derivatives (credit reference asset of single organization)	Purchase	1,402	1,422
	Supply	1,567	1,477
First-to-default type	Purchase	—	—
	Supply	—	—
Second-to-default type	Purchase	—	—
	Supply	—	—
Transactions not subject to the calculation of credit-equivalent amount	Purchase	—	—

Note: The transactions not subject to the calculation of credit-equivalent amount are figures used for credit risk mitigation.

## Breakdown of Credit Derivative Transactions (Consolidated)

(100 Million Yen)

Type of transaction	Purchase or supply of guarantee	March 31, 2020	March 31, 2019
		Notional principal	Notional principal
Transactions subject to the calculation of credit-equivalent amount		2,969	2,899
Credit derivatives (credit reference asset of single organization)	Purchase	1,402	1,422
	Supply	1,567	1,477
First-to-default type	Purchase	—	—
	Supply	—	—
Second-to-default type	Purchase	—	—
	Supply	—	—
Transactions not subject to the calculation of credit-equivalent amount	Purchase	—	—

Note: The transactions not subject to the calculation of credit-equivalent amount are figures used for credit risk mitigation.

# Disclosure Based on Basel III Capital Accord Pillar III—Market Discipline

## 6. Items pertaining to securitization transactions

### (1) Securitization transactions originated by the Aozora Group

As of March 31, 2019 and 2020, there were no securitization transactions originated by the Aozora Group.

### (2) Securitization transactions in which the Aozora Group invests

#### Securitization Exposure Held by the Group (Non-Consolidated)

(100 Million Yen)

Category of underlying assets	March 31, 2020					
	Securitization exposure		Resecuritization exposure		Total	
	On-Balance	Off-Balance	On-Balance	Off-Balance	On-Balance	Off-Balance
Corporate exposures	914	68	—	—	914	68
Retail exposures	970	0	—	—	970	0
Residential loan receivables	—	—	—	—	—	—
Lease receivables	—	—	—	—	—	—
Others	16	—	—	—	16	—
<b>Total</b>	<b>1,902</b>	<b>68</b>	<b>—</b>	<b>—</b>	<b>1,902</b>	<b>68</b>

(100 Million Yen)

Category of underlying assets	March 31, 2019					
	Securitization exposure		Resecuritization exposure		Total	
	On-Balance	Off-Balance	On-Balance	Off-Balance	On-Balance	Off-Balance
Corporate exposures	596	39	—	—	596	39
Retail exposures	630	—	—	—	630	—
Residential loan receivables	—	—	—	—	—	—
Lease receivables	—	—	—	—	—	—
Others	32	—	0	—	32	—
<b>Total</b>	<b>1,259</b>	<b>39</b>	<b>0</b>	<b>—</b>	<b>1,259</b>	<b>39</b>

# Securitization Exposure Held by the Group (Consolidated)

(100 Million Yen)

Category of underlying assets	March 31, 2020					
	Securitization exposure		Resecuritization exposure		Total	
	On-Balance	Off-Balance	On-Balance	Off-Balance	On-Balance	Off-Balance
Corporate exposures	914	68	—	—	914	68
Retail exposures	970	0	—	—	970	0
Residential loan receivables	—	—	—	—	—	—
Lease receivables	—	—	—	—	—	—
Others	16	—	—	—	16	—
<b>Total</b>	<b>1,902</b>	<b>68</b>	<b>—</b>	<b>—</b>	<b>1,902</b>	<b>68</b>

(100 Million Yen)

Category of underlying assets	March 31, 2019					
	Securitization exposure		Resecuritization exposure		Total	
	On-Balance	Off-Balance	On-Balance	Off-Balance	On-Balance	Off-Balance
Corporate exposures	596	39	—	—	596	39
Retail exposures	630	—	—	—	630	—
Residential loan receivables	—	—	—	—	—	—
Lease receivables	—	—	—	—	—	—
Others	32	—	0	—	32	—
<b>Total</b>	<b>1,259</b>	<b>39</b>	<b>0</b>	<b>—</b>	<b>1,259</b>	<b>39</b>

# Outstanding Securitization Exposure by Risk Weight and Capital Requirement Thereof (Non-Consolidated)

(100 Million Yen)

Risk weight	March 31, 2020							
	Securitization exposure				Resecuritization exposure			
	On-Balance		Off-Balance		On-Balance		Off-Balance	
	Outstanding	Capital requirement	Outstanding	Capital requirement	Outstanding	Capital requirement	Outstanding	Capital requirement
0%	—	—	—	—	—	—	—	—
> 0% ≤ 20%	1,319	10	50	0	—	—	—	—
> 20% ≤ 50%	83	1	18	0	—	—	—	—
> 50% ≤ 100%	382	9	—	—	—	—	—	—
> 100% < 1,250%	116	6	—	—	—	—	—	—
1,250%	—	—	—	—	—	—	—	—
<b>Total</b>	<b>1,902</b>	<b>27</b>	<b>68</b>	<b>0</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>



# Disclosure Based on Basel III

## Capital Accord Pillar III—Market Discipline

(100 Million Yen)

Risk weight	March 31, 2019							
	Securitization exposure				Resecuritization exposure			
	On-Balance		Off-Balance		On-Balance		Off-Balance	
	Outstanding	Capital requirement	Outstanding	Capital requirement	Outstanding	Capital requirement	Outstanding	Capital requirement
0%	—	—	—	—	—	—	—	—
> 0% ≤ 20%	587	4	39	0	—	—	—	—
> 20% ≤ 50%	32	0	—	—	—	—	—	—
> 50% ≤ 100%	607	16	—	—	—	—	—	—
> 100% < 1,250%	32	1	—	—	—	—	—	—
1,250%	—	—	—	—	0	0	—	—
<b>Total</b>	<b>1,259</b>	<b>23</b>	<b>39</b>	<b>0</b>	<b>0</b>	<b>0</b>	—	—

### Outstanding Securitization Exposure by Risk Weight and Capital Requirement Thereof (Consolidated)

(100 Million Yen)

Risk weight	March 31, 2020							
	Securitization exposure				Resecuritization exposure			
	On-Balance		Off-Balance		On-Balance		Off-Balance	
	Outstanding	Capital requirement	Outstanding	Capital requirement	Outstanding	Capital requirement	Outstanding	Capital requirement
0%	—	—	—	—	—	—	—	—
> 0% ≤ 20%	1,319	10	50	0	—	—	—	—
> 20% ≤ 50%	83	1	18	0	—	—	—	—
> 50% ≤ 100%	382	9	—	—	—	—	—	—
> 100% < 1,250%	116	6	—	—	—	—	—	—
1,250%	—	—	—	—	—	—	—	—
<b>Total</b>	<b>1,902</b>	<b>27</b>	<b>68</b>	<b>0</b>	—	—	—	—

(100 Million Yen)

Risk weight	March 31, 2019							
	Securitization exposure				Resecuritization exposure			
	On-Balance		Off-Balance		On-Balance		Off-Balance	
	Outstanding	Capital requirement	Outstanding	Capital requirement	Outstanding	Capital requirement	Outstanding	Capital requirement
0%	—	—	—	—	—	—	—	—
> 0% ≤ 20%	587	4	39	0	—	—	—	—
> 20% ≤ 50%	32	0	—	—	—	—	—	—
> 50% ≤ 100%	607	16	—	—	—	—	—	—
> 100% < 1,250%	32	1	—	—	—	—	—	—
1,250%	—	—	—	—	0	0	—	—
<b>Total</b>	<b>1,259</b>	<b>23</b>	<b>39</b>	<b>0</b>	<b>0</b>	<b>0</b>	—	—

### Securitization Exposure Calculated By Risk Weight of 1,250% (Non-Consolidated)

(100 Million Yen)

Category of underlying assets	March 31, 2020	March 31, 2019
	Amount of exposure	Amount of exposure
Corporate exposures	—	—
Retail exposures	—	—
Residential loan receivables	—	—
Lease receivables	—	—
Others	—	0
<b>Total</b>	<b>—</b>	<b>0</b>

### Securitization Exposure Calculated By Risk Weight of 1,250% (Consolidated)

(100 Million Yen)

Category of underlying assets	March 31, 2020	March 31, 2019
	Amount of exposure	Amount of exposure
Corporate exposures	—	—
Retail exposures	—	—
Residential loan receivables	—	—
Lease receivables	—	—
Others	—	0
<b>Total</b>	<b>—</b>	<b>0</b>

### Presence/Absence of Method Applied to Reduce Credit Risk to Resecuritization Exposures in Which the Aozora Group Invests and Breakdown of Risk-Weight Categories Applied to Guarantors

As of March 31, 2019 and 2020, there were no res securitization exposures to which methods to reduce credit risk have been applied.

#### (3) Securitization exposure in which Aozora Group invests that is subject to the calculation of the market risk amount

There was no securitization exposure in which Aozora Group invests that was subject to the calculation of the market risk amount as of March 31, 2019 and 2020.

#### (4) Securitization exposure originated by Aozora Group that is subject to the calculation of the market risk amount

There was no securitization exposure originated by Aozora Group that was subject to the calculation of the market risk amount as of March 31, 2019 and 2020.

# Disclosure Based on Basel III

## Capital Accord Pillar III—Market Discipline

### 7. Items pertaining to market risk

- (1) The Value at Risk (VaR) number at year-end as well as the highest, lowest and average VaR numbers during the disclosure period
- (2) The Stressed Value at Risk (Stressed VaR) amount at term-end, and the highest, lowest and average Stressed VaR amounts during the disclosure period

These items are described in the Risk Management section of this annual report under the heading 'Market Risk Management.'

- (3) Back-testing results and explanations in the event actual losses strayed significantly downward from VaR numbers

As a result of back-testing for 241 business days from April 2019 to March 2020, the daily loss exceeded VaR on one business day. This loss excess was caused by the stock price decline in March 2020 which exceeded the assumptions for VaR calculation.

- (4) Amount of required capital for additional and comprehensive risk at term-end and the highest, lowest and average capital requirements during the disclosure period

There was no applicable required capital amount as of March 31, 2019 and 2020.

### 8. Items pertaining to equity exposures

- (1) Balance sheet amount

(Millions of Yen)

	March 31, 2020		March 31, 2019	
	Non-consolidated	Consolidated	Non-consolidated	Consolidated
Balance sheet amount	126,687	80,159	174,914	128,386
Listed stock exposures	79,698	79,698	122,587	122,587
Other	46,988	460	52,326	5,799

- (2) Gains and losses on sales, and write-offs of equity exposure

(Millions of Yen)

	FY2019		FY2018	
	Non-consolidated	Consolidated	Non-consolidated	Consolidated
Gains on sales	17,505	17,505	16,364	16,364
Losses on sales	0	0	15	15
Write-off	1,744	1,744	—	—

- (3) Unrealized gains/losses recognized on the balance sheet but not recognized on the statement of income

(Millions of Yen)

	March 31, 2020		March 31, 2019	
	Non-consolidated	Consolidated	Non-consolidated	Consolidated
Unrealized gains (losses)	(5,682)	(5,682)	47,148	47,148

- (4) Unrealized gains/losses not recognized on the balance sheet or the statement of income

(As of March 31, 2020 and 2019)

Consolidated: Not applicable

Non-consolidated: Not applicable

## 9. Amount of exposures held in funds

This item is described in 'Exposures relating to funds' of 2.(1).

## 10. Items pertaining to interest rate risk

### • Non-consolidated

(Millions of Yen)

IRRBB1 : Interest rate risk					
Item No.		a	b	c	d
		△EVE		△NII	
		March 31, 2020	March 31, 2019	March 31, 2020	March 31, 2019
1	Parallel up	54,949	68,246	△10,464	/
2	Parallel down	40	2,369	1,185	/
3	Steepener	24,838	32,601	/	/
4	Flattener	/	/	/	/
5	Short-term interest rate up	/	/	/	/
6	Short-term interest rate down	/	/	/	/
7	Maximum	54,949	68,246	1,185	/
		e		f	
		March 31 2020		March 31 2019	
8	Regulatory capital	472,403		459,527	

### • Consolidated

(Millions of Yen)

IRRBB1 : Interest rate risk					
Item No.		a	b	c	d
		△EVE		△NII	
		March 31, 2020	March 31, 2019	March 31, 2020	March 31, 2019
1	Parallel up	60,246	73,127	△11,842	/
2	Parallel down	19	2,288	10,792	/
3	Steepener	25,130	32,538	/	/
4	Flattener	/	/	/	/
5	Short-term interest rate up	/	/	/	/
6	Short-term interest rate down	/	/	/	/
7	Maximum	60,246	73,127	10,792	/
		e		f	
		March 31 2020		March 31 2019	
8	Regulatory capital	473,121		461,859	

# Disclosure Related to Remuneration

This section describes the information consistent with FSA Notice Number 11, items pertaining to remuneration, issued on March 14, 2018 in accordance with Articles 19-2.1.6, 19-3.4, and 34-26-1-5 of the Ordinance for the Enforcement of the Banking Act.

## 1. Items pertaining to the framework of remuneration for officers and employees of the Aozora Group

### (1) Scope of 'officers and employees' covered herein

As stated in the remuneration notice, the scope of 'officers' and 'employees' ('officers and employees' together) covered herein, subject to disclosure, is as follows:

#### (a) Scope of 'officers' covered herein

'Officers' refers to the Bank's directors, including outside directors and members of the Audit & Supervisory Board.

#### (b) Scope of 'employees' covered herein

'Employees' refers to Bank employees and those of its main consolidated subsidiaries who receive high remuneration and who also have a significant influence on the execution of business of the Bank and its main consolidated subsidiaries or on its assets.

#### (i) Scope of 'main consolidated subsidiaries' covered herein

A 'main consolidated subsidiary' is defined as one in which the ratio of its total assets exceeds 2% of the total consolidated assets of the Bank. The Bank does not have such a main consolidated subsidiary.

#### (ii) Scope of 'Receivers of high remuneration' covered herein

'Receivers of high remuneration' refers to those who are remunerated above 'the average level of remuneration for officers' which is calculated by dividing the total remuneration amount by the number of officers, which are both stated in the Bank's Securities Report.

#### (iii) Scope of 'those who have a significant influence on the execution of business of the Bank and its main consolidated subsidiaries or on its assets' covered herein

'Those who have a significant influence on the execution of business of the Bank and its main consolidated subsidiaries or on its assets' refers to those who have a significant influence on the execution of business of the Bank and its main consolidated subsidiaries when engaged in transactions or matters of management, or those who have a significant influence on its assets when losses are incurred as a result of transactions. Specifically, this refers to executive officers, general managers, and any other such persons to which this definition applies.

### (2) Determination of remuneration for officers and employees covered herein

#### (a) Determination of remuneration for officers covered herein

The Bank has established a Nomination and Remuneration Committee (NRC) which is delegated authority by the Board of Directors (BoD) for the purpose of complementing the BoD's supervisory function over its directors. The NRC comprises mainly outside directors and in order to ensure the sound management and suitable business execution of the Bank, the NRC, which is independent from business promotion groups, discusses and determines policies and amounts of remuneration for individual directors in line with the basic policies for determining remuneration as stipulated by the NRC.

The remuneration for individual members of the Audit & Supervisory Board is determined based on discussions among the members of the Audit & Supervisory Board in accordance with Article 387-2 of the Companies Act and based on deliberations and recommendations by NRC.

#### (b) Determination of remuneration for employees covered herein

The remuneration of employees in the Aozora Group is determined and paid according to the basic policy stated in the Bank's 'Human Resource Master Policy.' Remuneration of the Bank's employees is determined in accordance with the policy on HR rules developed and documented by the HR Division independently from business promotion groups. Individual remuneration amounts for executive officers are discussed and determined by the NRC.

Individual remuneration amounts of certain employees that exceeds a certain level will be reported to the NRC. The remuneration for managers with a certain level of responsibility is determined upon approval from the President and Deputy Presidents of the Bank. In the Bank's consolidated subsidiaries, the HR or related divisions establish the remuneration policy and develop the remuneration framework independently from business promotion groups. The consolidated subsidiaries regularly submit a report on their remuneration policy and related matters to the Bank's HR Division.

#### (c) Determination of remuneration for overseas officers and employees

Remuneration for overseas officers and employees is determined based on prior discussions held between overseas subsidiaries and the relevant divisions of the Bank or HR Division in accordance with local rules, regulations and employment practices. The remuneration amounts of individual employees which exceed a certain level will be reported to the NRC.

### (3) Total remuneration paid to members of the NRC and the total number of meetings held

	No. of meetings held during the FY ending March 2020
Meetings of NRC	7

The sum of individual remunerations of NRC members is not stated as it is difficult to calculate how much of an individual NRC member's total remuneration corresponds to remuneration paid for NRC-related duties.

## 2. Items pertaining to assessing the validity of the design and implementation of the remuneration framework for Aozora Group's 'officers and employees'

### Remuneration policy

#### (a) Remuneration policy for 'officers' covered herein

The remuneration for officers basically consists of the base remuneration (fixed remuneration), bonus and Equity Compensation Type Stock Options for internal directors (full-time directors) and solely of base remuneration (fixed remuneration) for outside directors as well as ASB members. The base remuneration is determined by checking the appropriate level based on the research data obtained by engaging a dedicated third-party institution. The amount of bonus is determined based on achieved performance and the standard amounts set per position and responsibilities. The value granted as Equity Compensation Type Stock Options are determined at an appropriate level by the NRC based on discussions on the proportion of cash remuneration and equity compensation type stock options so as to function as sound incentives towards sustainable growth.

#### (b) Remuneration policy for 'employees' covered herein

Remuneration for the Bank's employees and its main consolidated subsidiaries' officers and employees is determined based on an evaluation of their performance which reflects their contribution to the business results.

The Bank's HR Division confirms that the Bank and its main consolidated subsidiaries do not depend too heavily on 'pay for performance' in the remuneration of the Bank's employees and its main consolidated subsidiaries' officers and employees, by checking the remuneration framework, performance evaluation status and actual remunerations.

## 3. Items pertaining to the consistency between the remuneration framework for officers and employees and risk management in the Aozora Group, and the link between remuneration and business performance

As for the directors, the ceiling amount of 600 million yen has been approved at the 82nd general shareholders' meeting held on June 26, 2015 as the base remuneration and bonus for directors, including those for external directors, and the ceiling of remuneration for ASB members, including external ASB members, was approved in the amount not more than 60 million yen at the 73rd general shareholders' meeting held on June 23, 2006.

As to stock acquisition rights as the Equity Compensation Type Stock Options, allotments to internal directors (full-time directors) were approved at the 81st general shareholders' meeting held on June 26, 2014 in the total annual value up to 150 million yen in addition to the base remuneration and bonus.

In determining the remuneration of employees of the Aozora Group, including those who fall under the scope of 'employees,' a budget is drawn up after considering the financial status of the Group.

## 4. Items pertaining to remuneration type, total amounts and method of payment for Aozora Group's officers and employees

Total remuneration amounts for those who fall under the scope of 'officers' and 'employees' (from April 1, 2019 to March 31, 2020)

(Number of Persons, Millions of Yen)

Classification	Number of persons	Total remuneration	Basic remuneration	Bonus	Stock options	Provision for retirement allowance	Others
'Officers' (including external officers)	12	366	284	37	44	-	-
'Employees' (including executive officers)	22	906	542	212	67	80	3

Notes: 1. The 'officers' listed above are the Bank's directors (including outside directors) and members of the Audit & Supervisory Board.

The breakdown of the Total Remuneration for officers for the fiscal year ended March 2020 is as follows:

Remuneration to directors: 312 million yen  
 Remuneration to the members of the Audit and Supervisory Board ("ASB"): 53 million yen  
 of which remuneration to outside directors and external members of ASB: 80 million yen

2. One member of the Board of Directors is included in the above 'officers' who resigned at the Ordinary General Meeting of Shareholders on June 25, 2019.

3. Because there are no 'employees' subject to disclosure in the Bank's major consolidated subsidiaries, the above 'employees' are the only ones among the Bank's employees, including the Bank's executive officers, to whom this applies.

4. The amount of deferred bonus paid during the fiscal year ended March 2020 was 2 million yen and there is no deferred bonus to be paid in subsequent years as of this fiscal year end.

5. The exercise periods of stock options (Compensation Type Stock Acquisition Rights) are as follows. As per the Agreement for Allotment of Stock Options, the exercise is deferred until the holder ceases to be both an executive officer and a director of the Bank even during the exercise period.

Name of Stock Option Issuance	Exercise Periods
The First Equity Compensation Type Stock Options	As from August 2, 2014 through August 1, 2044
The Second Equity Compensation Type Stock Options	As from July 15, 2015 through July 14, 2045
The Third Equity Compensation Type Stock Options	As from July 16, 2016 through July 15, 2046
The Fourth Equity Compensation Type Stock Options	As from July 14, 2017 through July 13, 2047
The Fifth Equity Compensation Type Stock Options	As from July 14, 2018 through July 13, 2048
The Sixth Equity Compensation Type Stock Options	As from July 12, 2019 through July 11, 2049

6. A payment of compensation with an extraordinary nature was not applicable during the fiscal year ended March 2020 such as a guaranteed bonus, sign-on bonus and additional retirement allowance on involuntary separation among 'officer' and 'employees'.

## 5. Other items pertaining to the framework of the Bank's 'officers and employees'

There are no specific items to be stated here other than the ones already stated above.



# Share Procedure Information

(As of July 1, 2020)

- **Fiscal year** From April 1 to March 31
- **Ordinary General Shareholders' Meeting** Held in June
- **Record date for determination of dividends** March 31, June 30, September 30 and December 31
- **Record date** Ordinary General Shareholders' Meeting: March 31 (also to be held in other cases as deemed necessary, whereby the record date will be set and advance notice given)
- **Public notifications** Electronic public notice via the Internet. In the event that public notice cannot be made via the Internet, the Nihon Keizai Shimbun will be used.
- **Listed on** The First Section of the Tokyo Stock Exchange
- **Securities code** 8304
- **Number of shares constituting one unit (tangen)** 100 shares
- **Manager of register of shareholders and administrator of the 'special account'** Sumitomo Mitsui Trust Bank, Limited  
4-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo
- Manager of register of shareholders' location** Stock Transfer Agency Business Planning Dept.,  
Sumitomo Mitsui Trust Bank, Limited  
4-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo
- (Mailing address)** Stock Transfer Agency Business Planning Dept.,  
Sumitomo Mitsui Trust Bank, Limited  
8-4, Izumi 2-chome, Suginami-ku, Tokyo, 168-0063
- (Contact number)** 0120-782-031 (toll free only if calling from Japan)
- **Inquiries regarding shares and notification of changes**  
We ask that shareholders direct all inquiries, including change of address, to their securities company. For those shareholders who do not have an account with a securities firm, inquiries should be directed to the agent above.
- **Regarding the 'special account'**  
Prior to the implementation of the electronic share certificate system in Japan, an account was established with Sumitomo Mitsui Trust Bank, Limited, for shareholders who did not use JASDEC's hofuri system. Such shareholders should direct all matters related to change of address and other inquiries to the agent above.

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Corporate Communication Division

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