AOZORA BANK

# Integrated Report
# —Annual Report—
# 2023

April 1, 2022 – March 31, 2023

# Our History of Taking on Challenges

# Aozora History

## From 1957

### Stage 1 Taking on Challenges: Aozora Bank's Origins

- Established as Nippon Fudosan Bank in 1957, with ambitions to tackle underserved markets
  - —Contributed to industrial development during Japan's high economic growth period by providing loans to small and medium-sized enterprises and commercial real estate loans
- Expanded the network of regional financial institutions
  - —Important partner stakeholders developed through the issuance of bank debentures
- Focus on overseas markets and new financial technologies
  - —Proactive business development overseas and pioneering initiatives in derivatives and securitized products

## From 2001

### Stage 2 Taking on Challenges: Establishing New Business Models

- Relaunched as Aozora Bank in 2001 following the asset price bubble collapse, nationalization, and subsequent re-privatization in 2000
- Efforts to address new financial fields, both domestically and overseas
  - —Initiatives in structured finance
  - —Strove to enhance risk management while redeveloping overseas business
- Accelerated diversification of human resources
  - —Proactively recruiting and promoting overseas talent and mid-career professionals leading to integration of diverse human resources

## From 2015

### Stage 3 Taking on Challenges: Evolving into a Specialized Financial Group That Grows with Its Customers through a Unique Business Model

- Expanded new business areas following the full repayment of public funds
  - —Established GMO Aozora Net Bank, Ltd. as an Internet bank and commenced financial services for SMEs and small businesses
  - —Expanded financial services by establishing Aozora Corporate Investment Co., Ltd. and other subsidiaries
  - —Launched the BANK™ app to support new customer needs for Internet banking
- Established the foundation for a unique strategic investments business model
  - —Applied corporate valuation analysis and financing technologies developed through structured finance
  - —A business model ranging from debt to equity that evolves alongside customers' challenges
- Accelerated business development in fast-growing Asia
  - —Invested in Orient Commercial Joint Stock Bank, a commercial bank based in Vietnam

# A Highly Specialized Financial Group That Endures through the Times

## Taking on Challenges: Aozora Bank's Origins

Aozora Bank was founded on April 1, 1957, as Nippon Fudosan Bank. At the time, there were already so many banks, creating highly competitive and overcrowded markets in some regions. Despite these conditions, there remained a considerable number of customers who were being underserved.

Since inception, the main purpose of our business was to provide long-term financing to support the development of SMEs and to offer commercial real estate loans, both of which were underserved markets at the time. The Bank was expected to expand the availability of financing to customers, which was critical to Japan's post-war economic expansion.

Kiyoji Hoshino, then-president of Nippon Fudosan Bank, delivered the following remarks at a ceremony held when the Bank business was formed.

"Nippon Fudosan Bank will develop new fields that the public believes to be the most difficult. As the only real estate bank in Japan, we aim to demonstrate our authority and unique capabilities to contribute to Japan's industrial and business communities."

As a long-term credit bank, we have developed our network with regional financial institutions since the inception of our business by issuing bank debentures. To this day, regional financial institutions remain important stakeholders for Aozora, with whom we conduct a broad range of businesses.

Aozora has developed a new customer base while expanding business in new areas. We have actively entered overseas markets and have been a leader in incorporating new financial technologies from abroad, such as derivatives and securitized products, which have now become commonplace. These efforts have allowed us to help our customers solve the issues that they face.

Our approach of taking on challenges in new areas, and our efforts to develop enterprises, are still being continued nearly 70 years after our founding.



Relocation to the former Head Office (Kudankita, Chiyoda-ku)



Reception desk (in 1966)

In 1977, we changed our name from Nippon Fudosan Bank, Limited to Nippon Credit Bank, Ltd. The importance of the long-term credit bank system, which played the role of providing long-term financing, began to be questioned as Japan's high economic growth period ended, and companies' demand for capital investment financing was no longer as strong as before. In the 1990s, as Japan was facing the collapse of its bubble economy, the Bank failed to take the proper steps to control risk and reform its operation in response to a changing environment. As a result, non-performing loan issues seriously weakened its financial strength.

On December 13, 1998, the Bank failed and was put under special public management (nationalization), and regrettably, caused considerable difficulty for numerous stakeholders, including shareholders.



Former Nippon Credit Bank, Ltd. Head Office

## Taking on Challenges: Establishing New Business Models
## New Initiatives to Provide Buyout Finance, Business Recovery Finance and Real Estate Finance

We relaunched as Aozora Bank on January 4, 2001, following nationalization and subsequent re-privatization in 2000.

At the time, we remained firm in our belief that developing new fields was our reason for existence and our means of contributing to society. In addition to the employees with experience in the process of bringing onboard new financial technologies domestically and internationally, new colleagues joined Aozora Bank. This diverse mix of people worked together to develop Aozora's business.

We also relaunched our business in global markets, while emphasizing risk management through diversified investment. Buyout finance, which had already evolved substantially in the U.S. where the M&A market was well-developed, was one of the business areas where there were still only a few transactions in Japan at the time.

We also strove to shift towards a credit system focused on cash flow lending, in addition to traditional lending based on collateral values, in fields such as business recovery finance for companies seeking to rebuild their business, and real estate non-recourse finance, which analyzes the revenue generated by the real estate alone. We are proud that we continue to play a pivotal role as a major player in these types of structured finance markets.



The Aozora elephant mascot character ("Ao-zoora") makes its debut

## Taking on Challenges: Evolving into a Specialized Financial Group That Grows with Its Customers through a Unique Business Model

On June 29, 2015, Aozora made a full repayment of public funds received in conjunction with nationalization. Subsequently, Aozora has been pursuing the expansion of new business areas in accordance with the needs of society.

GMO Aozora Net Bank, Ltd. (GANB), an Internet bank, offers even more highly convenient services to SMEs and small business customers.

Aozora Bank has also enhanced its Internet banking services and introduced the new BANK™ app. The transactions with new retail customers have grown through the BANK™ app, and we strive to make asset management even more convenient for our customers through this app.

We focused on providing investment and financing ranging from debt to equity by applying the corporate valuation analysis and financing technologies we have developed through structured finance. In 2021, we launched Aozora's Strategic Investments Business, a business model that supports customers who are addressing new challenges. Under this business model, the Aozora Group, in an integrated manner, provides financial services that follow the corporate growth cycle. The key areas of Aozora's Strategic Investments Business have been included in "Aozora's Sustainability Targets" and we are implementing a wide range of measures to realize a sustainable society.

We aim to develop this business model into an ecosystem that contributes to society—one that puts a premium on our relationships and networks with our customers and business partners and grows together with them.

The Aozora Group will continue to take on challenges in order to remain a specialized financial group that benefits all of our stakeholders.



Town Hall Meeting

AOZORA BANK

Management Philosophy

## 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

### Cover Design Concept

The cover design uses the corporate color blue as its base color and represents the five "ecosystems" that form the core of the new Mid-term Plan "Aozora 2025."



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### Editorial Policy

The purpose of this document is to provide our stakeholders with an overview of the Aozora Group and information regarding its value-creation initiatives. This document provides financial and non-financial information, taking into consideration the International Integrated Reporting Framework published by the International Integrated Reporting Council as well as the Ministry of Economy, Trade, and Industry's "Guidance for Collaborative Value Creation."

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

This document has been prepared in an effort to help our customers, shareholders, and all other stakeholders understand the driving force of the Aozora Group's value creation.

### Forward-looking Statements

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

# CEO Message



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

## To Our Stakeholders

First and foremost, I'd like to extend my deep appreciation to all of Aozora's stakeholders, including our shareholders, customers, and all of our staff members, for their extensive and continuing support of the Aozora Group.

I hope that you find this year's integrated report to be helpful in gaining a better understanding of the driving force behind Aozora Group's Value Creation, our goals, and the thoughts and aspirations of our people working at the Aozora Group.

In April 2023, we launched our new Mid-term Plan "Aozora 2025" (FY2023–25).

The keywords of this plan are Fostering, Change and Recovery.

The next three years are expected to be a period of historic change in our environment. I'm convinced that now is the time for Aozora to fulfill our management philosophy of "Contribute to the development of society through the creation of new value-added financial services," by focusing on our strengths in the "Fostering" of customers' businesses and assets, providing support for "Change" in customers' businesses, and assisting the "Recovery" of customers' businesses.

## "Aozora 2022" in Review

The foundation of our prior Mid-term Plan "Aozora 2022" was a management philosophy consisting of Aozora's mission, vision and key priorities, which we created in 2020 to more clearly define our position and core purpose. During the three-year period of "Aozora 2022," we built on this foundation and worked to create new added value through cross-divisional co-working across the Aozora Group. Customer business related to our Strategic Investments Business, where we assume risks to foster newly created businesses and assist with the restructuring and recovery of businesses seeking to change, has grown steadily. Progress on our newly established Aozora's Sustainability Targets has also steadily exceeded the plan.

Due to these efforts, our results exceeded our initial plan in FY2020 and FY2021. However, in FY2022, the final year of the previous Mid-term Plan, we recorded disappointing results that fell short of the initial plan. This was largely due to the restructuring of our securities portfolio, which was affected by rising interest rates in the U.S., and a review of our retail business which is undergoing structural transformation. As CEO, I take quite seriously the fact that our efforts fell short, and we were unable to live up to the trust of our stakeholders. Consequently, we made the decision not to pay performance-based remuneration to Aozora's three representative directors, including myself, because we were unable to achieve both the earnings forecasts and key performance indicators (KPIs) that we had set.

In FY2023, the first year of our new Mid-term Plan "Aozora 2025," we intend to recover from our performance in FY2022 and target net revenue of 86.0 billion yen and profit attributable to owners of parent of 24.0 billion yen by establishing a solid business foundation for Aozora's Strategic Investments Business and growing our customer business. We also aim to deliver steady dividend payments to our shareholders by meeting our earnings targets.

I invite you to review the CFO Message in this report for a more detailed discussion of our FY2022 financial results and FY2023 plan.

As we had expected, we have seen significant changes over the past three years, including digitalization, expansion in virtual domains, and changes in how people communicate. We overcame an organization with many silos and rigid personnel assignments through determined efforts to encourage teamwork across divisions. Through these efforts, we have made strides toward creating a sustainable organization that will foster the growth of the entire Group.

We foresee even more significant changes in the environment over the next three years. The environmental changes and risks we anticipate in FY2023 are summarized in this year's annual report. We are committed to assuming our unique role in making this period of historic change a period of growth that will lead to the next stage for our stakeholders and the Aozora Group.

## Value Creation in "Aozora 2025"

Under the new Mid-term Plan "Aozora 2025," we will implement five priority initiatives: Aozora's Strategic Investments Business, Aozora's Platform Business, Investments in Human Capital, Promoting Digital Transformation (DX), and Promoting Aozora Sustainability.

By implementing these initiatives, we intend to achieve a higher level of capital efficiency, asset efficiency, and productivity, while enhancing our financial strength, which will lead to our sustainable growth and stable dividends.

In FY2025, the final year of the Mid-term Plan, we are targeting net revenue of 112.0 billion yen and profit attributable to owners of parent of 37.0 billion yen. We have established new key performance indicators (KPIs), which are ROE of 8%, a capital adequacy ratio of 9% or higher, business-related profit per employee of 20.0 million yen and business-related profit RORA of 1.3%. We are further targeting ROE of 10% over the medium to long term.

For our FY2025 dividend forecast, we expect a full-year dividend of 158 yen per share based on a dividend payout ratio of 50%, on the assumption that we achieve our targeted earnings levels. This also means that we aim to increase dividends from FY2022's dividend of 154 yen per share.

### 1. Aozora's Strategic Investments Business

The keywords of "Aozora 2025" are Fostering, Change and Recovery. These simple words are intended to convey a clear message to our stakeholders about Aozora's Strategic Investments Business, which involves engagement activities aligned with each customer's stage of growth.

In the three phases of Fostering, Change and Recovery, we will create the following five ecosystems: support for startups, buyout finance, environmental finance, commercial real estate, and support for business recovery. Our goal for these ecosystems is to drive the collective growth of customers, the Aozora Group and our partner companies.

Through in-depth conversations with our customers, we will strive to understand the nature of their businesses and assets, identify and exchange issues, and combine all of the Aozora Group's functions and partner companies' business capabilities, in order to support customers as they address new challenges.

### 2. Aozora's Platform Business

Aozora's Platform Business provides a broad range of services across business groups to customers including retail customers and owners of small and medium-sized businesses, as well as regional financial institutions. For our retail customers, we will provide a broad range of services in

financial and non-financial areas. For our regional financial institution customers, who have been valued partners since our founding, we will focus on offering securities investment and risk management support, retail business support regarding asset management, and solution services to their regional corporate customers, including business recovery.

### 3. Investments in Human Capital

We will foster our human capital, which is the source of the Aozora Group's value creation.

As stated in Aozora's Key Priorities, we aim to enable our highly skilled people to take on challenges through enhanced teamwork. The Aozora Group's workforce of approximately 2,400 is comprised of numerous mid-career hires with diverse knowledge and a high level of expertise, as well as new graduates. Through a range of work styles, each Group executive and employee will contribute to our value creation.

We have proactively improved wage levels through pay-scale increases and pay raises. We will increase investments in human capital by approximately 2.0 billion yen in three years' time in order to provide attractive compensation and opportunities for skill development by employees willing to take on new challenges, as well as hire mid-career professionals. We will ensure that Aozora is highly rated by customers in each of the Fostering, Change and Recovery phases and that it has workplaces that attract talented personnel.

Many of our staff are participating in high-level training programs across divisions, such as the Program focused on developing Human Resources for Equity Investment with a Primary focus on Engagement. I'm encouraged to see that we are making steady progress in our efforts to establish a solid foundation for our human capital.

### 4. Promotion of Digital Transformation (DX)

We are implementing initiatives to promote digital transformation (DX). These initiatives include effective management, accumulation and use of diverse information assets, DX talent development, open communication, and systems improvement for promoting DX. Through these initiatives, we aim to achieve new business and services, enhanced productivity, sustainability and job satisfaction as well as work style reforms.

In addition, GMO Aozora Net Bank (GANB) has entered the sixth year since its launch of business. As a next-generation tech-first bank, GANB will provide the following five forms of value: reliability, speed, low cost, convenience and new experience. By offering these values, GANB provides services that support our customers' growth. Together with GMO Internet Group, we will support GANB's business growth, with the aim of making GANB profitable in FY2024.

### 5. Promoting Aozora Sustainability

We have established Aozora's Sustainability Targets, which we seek to achieve between FY2025 and FY2050. We have so far been making steady progress on the previous targets set in FY2021. For this reason, in "Aozora 2025" we have brought forward final target deadlines and raised target levels. We have also set new targets related to the number of customers receiving non-financial services, $CO_2$ emissions in the investment and loan portfolio, diversity, equity & inclusion, and diversity of core personnel.

Aozora Sustainability comprises specific activities in which all business group and support group members collaborate on Key Sustainability Issues (Materiality) at each worksite through the distinctive businesses on which we focus. In light of this, we regard the implementation of initiatives outlined in "Aozora 2025" to be synonymous with Aozora Sustainability.

## What We Value

Since my appointment as president in 2020, I've focused on communication to ensure sustainability in each area of business, resources, and governance, with an eye on the future of Aozora.

A little more than three years ago, when the pandemic first struck, I set out first to ensure continuity in our core operations while giving top priority to the health of our customers and Aozora Group members. Around the world, the pandemic led to an expansion in virtual domains and profound changes in how people communicate. The crisis provided an opportunity to implement new work approaches in which individuals could work from anywhere and at any time. Now that the world is overcoming the pandemic through people's determined efforts and wisdom, we face a new issue. We must now address the deficit in our in-person communications.

In order for the Aozora Group to fulfill our unique roles through collaboration, close communication with customers, within and across divisions in many different situations is essential. While dialogue can take many different forms, it's important to directly visit customers, ask them questions, ascertain their needs, and consider how to provide them with appropriate services. This natural, basic activity has been the driving force behind the Aozora Group's attempts to take on new challenges throughout its history, and we are doing everything we can to pursue it now. The frontlines are where issues and opportunities arise. We are working to coordinate activities at each frontline, avoid becoming an organization with many silos, and assign human resources in a flexible manner in order to meet our customer needs with a high level of agility.

Through the timely distribution of messages from management, including myself, arranging small meetings to identify issues and ideas on the frontlines, and encouraging participation in more effective surveys, I have gained



numerous insights from our staff members.

Our employee survey participation rate, an important metric for assessing engagement, grew to a record high of 85% in the last fiscal year. We also introduced a new system tool for visualizing employee engagement. I believe that we're collecting more proposals and suggestions, as well as taking a deeper look at actual issues on the frontlines in areas such as everyday issues, working comfort, and job satisfaction.

In addition, active communication takes place to establish a sustainable control environment for corporate governance, risk governance, compliance, cybersecurity and other areas.

Aozora's Board of Directors engages in active and detailed discussions, with outside directors from various backgrounds providing a range of perspectives. Aozora has adopted an organization structure of a "Company with Audit and Supervisory Board" as defined in Japan's Companies Act. Aozora also has in place the Nomination and Remuneration Committee and Audit and Compliance Committee, both of which are voluntary committees chaired by outside directors. Through these committees, Aozora ensures the effectiveness of the Board of Directors, which makes proposals and discusses significant issues and other matters considering the business environment. In FY2023, Aozora appointed two new outside directors and one new outside Audit & Supervisory Board member. With these appointments, we have established a sustainable framework for continuing to hold active discussions.

In light of the lessons learned from our business management challenges in FY2022 and the seven key risks identified for FY2023, we have made revisions to our risk governance. With regards to compliance, cybersecurity, and related risks, in order to effectively address changes in the external environment and businesses, we must go out into the frontlines and deepen our communications, while the relevant departments must collaborate closely and respond with agility to issues and business opportunities that are taking place. Risk management based only on "desk theories" has its limitations.

## In Closing

We wanted this year's Integrated Report to aid the understanding of all of our stakeholders. Based on this intent, we have prepared the report from a perspective closer to where our business takes place, with a diverse mix of new members joining the editorial team.

One of our Key Priorities is to "Learn from the past while adapting to and focusing on the future." To that end, this report retraces Aozora's history of taking on challenges from its founding to the present day.

We will always bear in mind the day when we were nationalized 25 years ago on December 13, 1998, while continuing our effort to remain a specialized financial group that serves all of our stakeholders.

We ask for your continued understanding and support for the Aozora Group.

# New Mid-term Plan "Aozora 2025" (FY2023-25)

—Fostering, Change and Recovery—

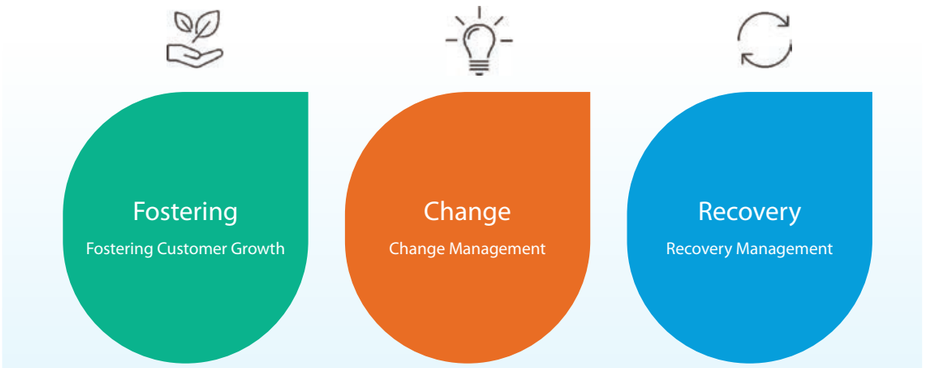
The three-year period covered by "Aozora 2025" is expected to be a period of historic change that is likely to experience a significant reshaping of the external environment. This change is expected to be driven by trends such as shifts in major counties' monetary easing policy, deglobalization and supply chain realignment, and recovery from the COVID-19 pandemic. Other trends include rising geopolitical risk, advances in decarbonization, and progress on digital transformation (DX).

We see these conditions as a major opportunity to realize our management philosophy of "**Contribute to the development of society through the creation of new value-added financial services**."

- In the three phases where the Aozora Group plans to leverage its strengths, specifically, "Fostering," "Change" and "Recovery," we will foster customers' business and assets, support change in customers' business structure and environmental responses. We will also assist with the recovery of customers' businesses and assets.
- We will vigorously expand **Aozora's Strategic Investments Business** through focused allocation of resources, with efforts centered on the **Aozora Ecosystem**, which will be built in collaboration with our customers and lead to mutual growth, and on long-term customer **engagement activities**.

## Goals under the new Mid-term Plan "Aozora 2025"

### Three phases where the Aozora Group plans to leverage its strengths




| "Fostering" of customers' assets and businesses | Support for the "change" in customers' business structure and environmental responses | Support for the "recovery" of customers' businesses and assets |
|---|---|---|
| ● Growth of start-ups<br>● Customers' wealth building | ● Promotion of business restructuring<br>● Response to climate change | ● Recovery of distressed companies, businesses and assets |

Focus on **Aozora's Strategic Investments Business** through focused allocation of resources

Creating the **Aozora Ecosystem** with customers leading to mutual growth

Long-term customer **engagement activities**

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

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

## Outline of the New Mid-term Plan "Aozora 2025"

Under the new Mid-term Plan "Aozora 2025," we will implement five priority initiatives: **Aozora's Strategic Investments Business**, **Aozora's Platform Business**, **Investments in Human Capital**, **Promoting Digital Transformation (DX)**, and **Promoting Aozora Sustainability**. As a result of these initiatives, we aim to achieve **financial KPIs** in FY2025, the final year of the plan. Concurrently, we will also steadily implement our **capital policies** (see the **CFO Message** on page **22**).

### "Aozora 2025" — Fostering, Change and Recovery —

1. Aozora's Strategic Investments Business
2. Aozora's Platform Business
3. Investments in Human Capital
4. Promoting Digital Transformation (DX)
5. Promoting Aozora Sustainability

**Financial KPIs (final fiscal year)**

| | |
|---|---|
| Capital efficiency | ROE: 8% (medium- to long-term target: 10%) |
| Financial strength | Capital adequacy ratio: 9% or higher |
| Productivity | Business-related profit*1 per employee: 20.0 million yen |
| Profitability | Business-related profit RORA*2: 1.3% |
| Earnings | Profit attributable to owners of parent: 37.0 billion yen |

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

**Capital policy**

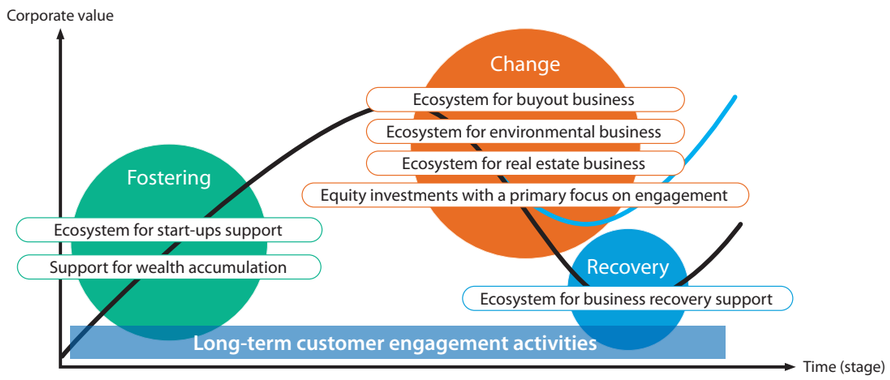
A capital policy which aims to maintain a proper balance among "stable shareholder returns," "strategic investments" and "financial strength"

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

### 1 Aozora's Strategic Investments Business

Aozora's Strategic Investments Business is a business that grows together with customers by supporting customers' businesses and assets in the "Fostering," "Change" and "Recovery" phases through long-term engagement with customers through investment and financing activities, ranging from debt to equity.

By working closely with customers and partners in these three phases, where the Aozora Group plans to leverage its strengths, we will create the **Aozora Ecosystem** (see page **13**), with the aim of achieving mutual growth with customers mainly through the five ecosystems, support for wealth accumulation, and equity investments with a primary focus on engagement.

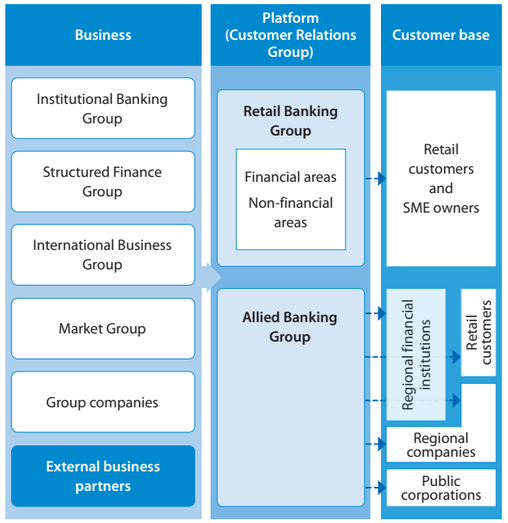


# New Mid-term Plan "Aozora 2025"

## 2 Aozora's Platform Business

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

It provides Aozora's broad financial and non-financial services to retail customers and small and medium-sized enterprise owners. A diverse array of services will also be provided to regional financial institutions and their clients.




## 3 Investments in Human Capital

We will increase investments in human capital by approximately 2.0 billion yen in three years' time in order to provide attractive rewards and opportunities for skill development by employees willing to take on new challenges, as well as hire mid-career professionals. Through these steps, we will realize Fostering, Change and Recovery in the Aozora Group's working environment (see page **74**).

- Merit-based personnel evaluation and payment of attractive rewards
- Organization where each individual realizes self-driven career development
- Redeployment of human resources
- Work environment where employees can take on new challenges, grow and perform

Career development | Flexible resource transfer | Hiring mid-career professionals

## 4 Promoting DX (Digital Transformation)

We aim to secure the Aozora Group's competitive advantage and enhance its corporate value by transforming our business (products and services) and corporate culture through the use of wide-ranging information assets (data) and digital technologies (see page **72**).

**Four initiatives for DX**

- Proper management, accumulation and use of diverse information assets (data)
- DX talent development
- Enhance productivity through open communication
- System improvement to enhance productivity through sharing of data and duties

**To achieve:**

- New business/services
- Enhanced productivity
- Sustainability
- Job satisfaction Work style reforms

## 5 Promoting Aozora Sustainability

We will continue to promote sustainability initiatives, which are incorporated into all of our business operations.

Aozora's Sustainability Targets were set in 2021. In line with "Aozora 2025," we have revised the targets, including bringing forward final target deadlines and defining additional target items (see page **20**).

**Aozora's Sustainability Targets**

**Target 1 Promotion of Aozora's Strategic Investments Business**

*Growth Support for Venture Companies*
- Number of venture-related investments
- GMO Aozora Net Bank account openings by small businesses & start-ups

*Contributing to Regional Communities through Business Recovery*
- Number of business recovery fund-based transactions

*Investments Designed to Support Structural Transformation*
- Number of equity investments with a primary focus on engagement

**Target 2 Response to Climate Change**
- Sustainable financing amount

*Becoming Carbon Neutral*
- $CO_2$ emissions as a business entity (Scope 1 & Scope 2, compared to FY2020)
- $CO_2$ emissions in the investment and loan portfolio (Scope 3: Category 15) NEW
- Balance of project financing for coal-fired power plants

**Target 3 Retail Banking Platform**
- Number of business/asset succession consulting contracts
- Number of customers receiving non-financial services NEW

**Target 4 Diversity & Inclusion (diversity of core personnel)** NEW
- Percentage of female managers / female deputy managers
- Percentage of male employees taking childcare leave
- Percentage of non-Japanese managers
- Percentage of mid-career managers

## Aozora Ecosystem

The Aozora Ecosystem refers to an ecosystem where the Aozora Group and its customers and business partners perform their assigned roles, or work as a unit, to pursue the business development of customers at each phase of growth. Leveraging all of the Aozora Group's managerial resources, we will work together with our business partners to establish virtuous cycle of mutual growth by supporting our customers who are taking on new challenges.

### Fostering Ecosystem for Start-ups Support

We will enhance support for start-ups. The entire Group aims to establish a positive development cycle by providing services and support of essential functions for start-ups, such as funding, business, and human resources.

**Funding support**

Aozora's support for start-ups focuses on funding support. We will provide start-ups with funding support at each stage of growth mainly through **venture debt-based investments/ loans provided by Aozora Corporate Investment** (see page **39**).

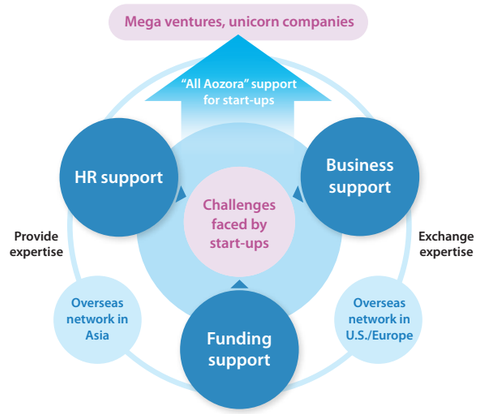
**Business support**

We will make efforts across the Aozora Group to expand the businesses of start-ups and conduct activities that lead to an increase in their corporate value.

- **GMO Aozora Net Bank** (see page **73**) provides an inexpensive, user-friendly account opening service and "Simple Embedded Financial Services" for start-ups in the seed phase.
- **B Spark** (see page **39**) will work to provide business opportunities that leverage the DX solutions held by start-ups and solve a range of DX issues faced by companies.
- We will create open innovation with major companies through M&A advisory and other services, as a means of providing new business opportunities.

**Human resources (HR) support**

We will provide HR support such as staff agency and staffing services as a new business for the Aozora Group.




### Change Ecosystem for Buyout Business

We will offer solutions that meet customer needs by providing M&A information and investment and financing ranging from debt to equity. We will strive to realize mutual growth with our customers by supporting business restructuring and succession, together with promoting industrial transition.

**M&A information**

The **M&A Advisory Group** (see page **40**) will take the lead in providing M&A information through its extensive business network, encompassing private equity funds, domestic and overseas offices, group company ABN Advisors and business partners, in collaboration with overseas partners including Orient Commercial Joint Stock Bank (OCB) in Vietnam, and business succession consulting.

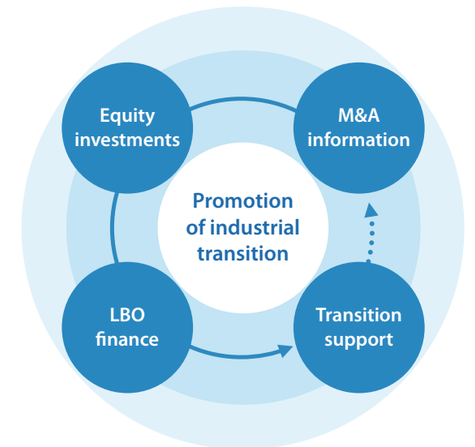
**Equity investments and LBO finance**

The **Acquisition & Structured Finance Group** (see page **43**) will take the lead in providing LP investments in private equity funds, direct and indirect investments through target funds, investment and financing as support for management seeking a non-sponsored MBO, and LBO/MBO finance.

**Transition support**

We will provide transition support through growth and organization support via additional acquisition, acting as a financial advisor at the time of sale of a business, and equity investments with a primary focus on engagement.

(See page **43** for the **Acquisition & Structured Finance Group**)



# New Mid-term Plan "Aozora 2025"

## Change Ecosystem for Environmental Business

We will create a positive cycle aimed at realizing a decarbonized society through the promotion of green transformation (GX), with measures including finance that leverages our knowledge of structured finance in Japan and overseas and providing services in collaboration with local communities. Through initiatives led by the **Environment Business Group** (see page **42**) ("**Value Creation from the Environmental Finance Team's Perspective**" (see page **36**)), we aim to achieve Aozora's Sustainability Targets.

- **Finance**
  We will arrange and provide project finance for domestic renewable energy, transition finance, sustainability-linked loans, and loans for green buildings.
- **Global**
  We will promote the development of new power sources and encourage broader use of transition energy in Japan, leveraging our expertise acquired through innovative project finance transactions in Europe and the U.S.
- **Local Community**
  We will promote syndicated loans in collaboration with regional financial institutions.
- **New Business**
  We will actively pursue new businesses, such as financing for new technologies and new fields and arranging environment-related funds.

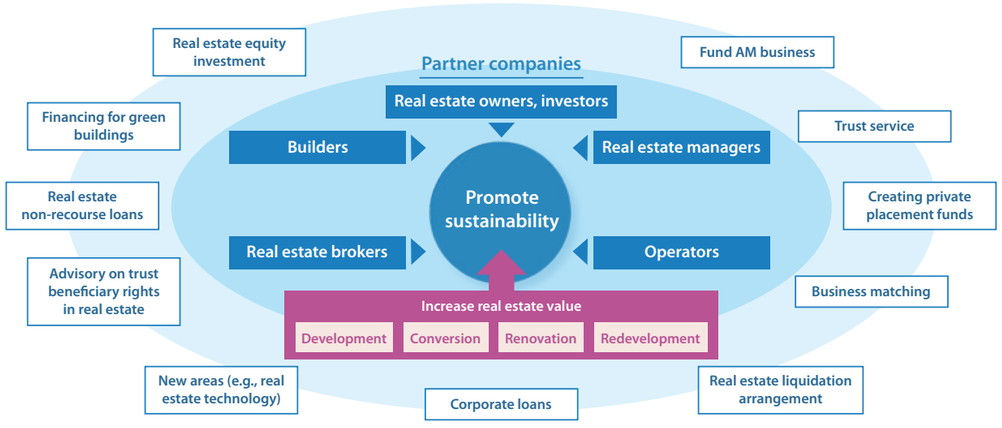



## Change Ecosystem for Real Estate Business

At the Aozora Group, the **Real Estate Finance Group** (see page **46**) has played a pivotal role over many years in providing a wide range of real estate-related services together with many partner companies. By entering new fields and conducting SDGs activities, we will provide new, highly convenient financial services to a changing real estate market. We will create a positive cycle for sustainable social and economic growth and development by increasing real estate value.

- In the **real estate non-recourse loan** market, we anticipate social and economic needs for real estate and are working on projects focused on growth and stability. In particular, we will actively provide loans for real estate properties that have environmental certifications.
- In the **real estate equity investment** field, we will increase investments in growth areas, while balancing income and capital gains. We will also promote investment in and management support for real estate-related companies that offer opportunities for DX-led growth through equity investments with a primary focus on engagement.
- In collaboration with **Aozora Real Estate Investment Advisors**, we will provide real estate-related solution services, such as **real estate liquidation arrangement** and the **creation of private placement funds**.
- The real estate-related business area is one of the major service sectors of **Aozora's Platform Business**, which is being implemented Group-wide. We will strive to provide services to regional financial institutions and retail customers through **business matching** in collaboration with Group companies and partner companies.

### Aozora Group's Real Estate-related Services

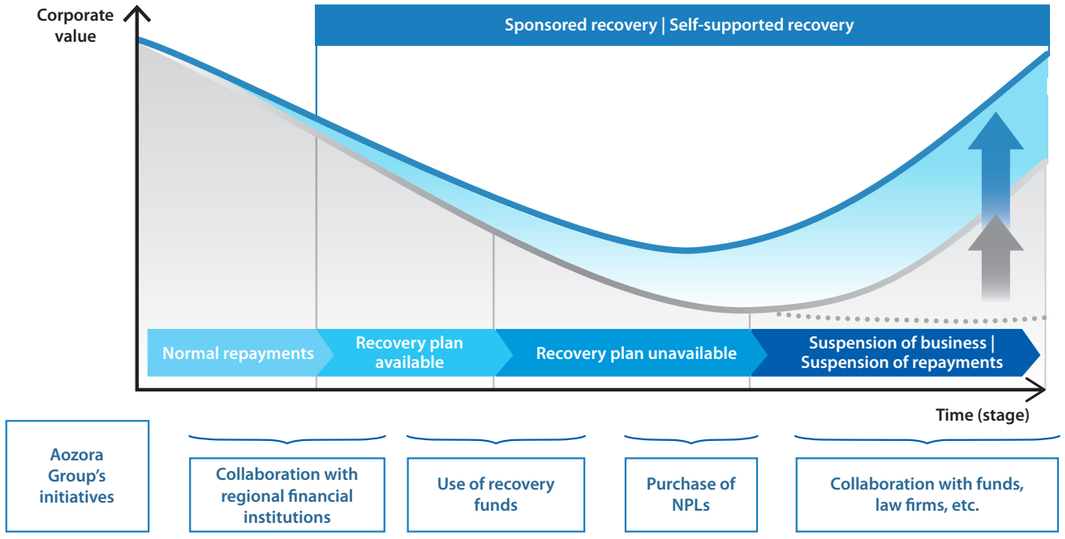



## Recovery Ecosystem for Business Recovery Support

We have focused on business recovery finance as one of the market pioneers, and we were one of the first in establishing a loan servicing company, **Aozora Loan Services**, in 1999. The **Special Situations Group** (see page **44**) will provide customers with solutions tailored to each stage of recovery by strengthening the collaboration with business partners including regional financial institutions. We will solve local community issues through business recovery, thereby realizing a more sustainable society.

We will propose services to customers tailored to each stage of the business cycle in cooperation with regional financial institutions, recovery funds, law firms, and other partners.

- In the "**Recovery plan available**" **stage**, we will collaborate with regional financial institutions to provide support for management improvement mainly through consulting, M&A advisory, and business matching.
- In the "**Recovery plan unavailable**" **stage**, we will provide business recovery finance and propose the use of the Aozora Group's recovery funds and loan servicing.
- In the "**Suspension of business / Suspension of repayments**" **stage**, we will collaborate with recovery funds and law firms to provide LBO finance, exit finance, and M&A advisory services.



## Value Creation Process

**Environmental awareness** | **Rising geopolitical risk** | **Deglobalization, supply chain realignment** | **Shift in Japan's monetary easing policy** | **Recovery from the COVID-19 pandemic** | **Advances in decarbonization** | **Progress on digital transformation (DX)**

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

**Aozora Mission**

### Inputs

**Managerial resources**

- Human capital
- Intellectual capital
- Social and relational capital
- Financial capital
- Environment-related capital

+ Taking on challenges

### Business activities

#### Aozora's Strategic Investments Business

**Fostering**
- Ecosystem for start-up support
- Wealth building

**Change**
- Ecosystem for buyout business
- Ecosystem for environmental business
- Ecosystem for real estate business
- Equity investments with a primary focus on engagement

**Recovery**
- Ecosystem for business recovery support

Long-term customer engagement activities

**Aozora's Platform Business**
**Investments in Human Capital**
**Digital Transformation (DX)**
**Solving Materiality Issues (Promoting Sustainability)**

**Support structure for value creation**

IT and facilities | Compliance | Stakeholder communication | Risk governance | Corporate governance

### Outcomes

**Creation of social/economic value**

- Contribution to environment and society
- Contribution to customers
- Contribution to shareholders and investors
- Contribution to employees

**Achievement of sustainability targets**

**Financial KPIs**

ROE: 8% in FY2025
Medium- to long-term target: 10%
Capital adequacy ratio: 9% or higher

**Return to managerial resources**

# Key Sustainability Issues (ESG Materiality)

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

Amid changing social trends and increasingly insightful and diverse expectations for the role of companies in addressing social challenges, the Aozora Group will strive to realize its management philosophy to "Contribute to the development of society through the creation of new value-added financial services" through the targeted allocation of limited managerial resources in key challenge areas (ESG materiality) and the maximization of social and economic value creation.

In the process of identifying Materiality issues, we reviewed them in June 2022 in light of "Double Materiality," which takes into account the importance to the Group's corporate management as well as social trends and the importance to Aozora's stakeholders. As a result, we selected the following eight items.

The Aozora Group will continue to flexibly review Materiality issues in response to changes in the business environment while developing a PDCA cycle and incorporating it into the management strategy, and will steadily promote Group-wide efforts to resolve issues.

| | Main Initiatives to Solve Challenges | Reasons for Identification as Materiality Issues |
|---|---|---|
| **Response to climate change** | ● **Promotion of initiatives to achieve a decarbonized society under the "Aozora Carbon Neutral Initiatives"**<br>• Support for the decarbonization of companies by promoting sustainable finance, including environmental finance, and consulting on decarbonization<br>• Reduction of $CO_2$ emissions as a business entity (Scope 1 & 2) and phased measurement and reduction of emissions (Scope 3) in the investment and loan portfolios<br>• Improvement of a risk management framework, including enhanced climate change scenario analysis, and the strengthening of risk tolerance | The Group has an important role to play and an opportunity to expand its business through financing and other means to support the movement toward a decarbonized society, such as advancing green transformation (GX) and transitions in companies, promoting renewable energy, and creating innovative new technologies and fields. At the same time, delays in response could pose risks that significantly affect corporate management. |
| **Promoting industrial transition** | ● **Support for customers' structural transformation to address new challenges through the promotion of Aozora's Strategic Investments Business**<br>• Support for structural transformation through equity investments with a primary focus on engagement, M&A advisory, LBO finance, transition support, real estate business, etc.<br>• Support for solving management issues faced by regional financial institutions and their clients through Aozora's network of regional financial institutions | The Aozora Group has an important role and an opportunity to expand our business to support the structural transformation of customers who are taking on new challenges during the time of industrial transition by providing unique and value-added financial services and proactive involvement in their management though the promotion of Aozora's Strategic Investments Business. |
| **Expanding access to corporate financial services (start-ups/business recovery)** | ● **Support for funding, business, and human resources through the "Ecosystem for Start-up Support"**<br>• Support for funding with a focus on venture debt available through our venture capital subsidiary, Aozora Corporate Investment<br>• Business support that contributes to business expansion and increasing corporate value at each phase of growth (GMO Aozora Net Bank, B Spark)<br>● **Revitalization of regional communities through support for business recovery at each stage of the recovery process**<br>• Support for companies' business recovery and restart through recovery funds provided by Aozora Loan Services<br>• Strengthening of collaboration with regional financial institutions and other partners, investment in business recovery claims, and provision of solutions at each stage of recovery | The Group has an important role to play and an opportunity to expand its business by ensuring that all individuals and companies have access to the financial services they need to obtain opportunities for economic activity and by contributing to corporate growth and community revitalization, particularly focusing on the two areas of support for the growth of start-ups and support for business recovery and restart in the community. |
| **Promoting DX** | ● **Transformation of business operations (products and services) and corporate culture through the use of information assets (data) and digital technology**<br>• Appropriate management, storage, and utilization of diverse information assets (data) and strengthening of digital marketing<br>• Fostering open communications, improving business efficiency and productivity, and promoting working styles regardless of location<br>• DX talent development<br>● **Provision of solutions to customers' DX issues and improvement of customer convenience**<br>• Provision of DX solutions through B Spark, a DX support company for corporate customers, and GMO Aozora Net Bank, a bank with a next-generation tech-first approach, and support for the growth of start-ups<br>• Improvement of UI/UX and customer convenience in the BANK™ app and online services | The accelerated advancement of digital technology is having irreversible and widespread effects on all companies and individuals, including the loss of existing business areas and lifestyle changes. The Group increases its corporate competitiveness and provides new opportunities for business expansion by advancing digital transformation (DX) within the Group and improving the productivity of operations and the quality of products and services, while focusing on services that support its customers' DX. |
| **Business and asset formation, transfer to the next generation** | ● **Support for wealth accumulation and business/asset succession needs of retail and corporate customers**<br>• Support for medium- to long-term wealth accumulation through the provision of "Aozora Core Funds" and other products<br>• Expansion of non-financial services to meet a wide range of customer needs, such as business succession, asset succession, and utilization of real estate | In Japan's aging society, the Group has an important role to play and an opportunity to expand its business by helping individuals lead fulfilling lives and pass on their assets to the next generation and by helping SMEs, which are a source of competitiveness in domestic industries, solve succession and human resource challenges for passing on the business to the next generation. |
| **Governance/ compliance** | • Establishment of transparent corporate governance<br>• Enhancement of a risk management framework, maintenance of financial strength, and reinforcement of compliance<br>• Strengthening of an operational resilience framework (cybersecurity and crisis management)<br>• Strengthening and improving the effectiveness of internal audit governance | Improper corporate governance, neglect of compliance, triggering of damage to creditworthiness and delayed response to system failures are risks that have a material impact on all of the stakeholders involved in the operations of financial institutions as well as the sustainability of corporate management. It is extremely important to maintain management discipline and ensure soundness through the enhancement of the proper risk governance framework in response to external environmental changes and by upgrading compliance risk management. |
| **Respect for human rights** | • Efforts to establish a human rights due diligence framework based on international norms<br>• Further raising of awareness of human rights and elimination of harassment in the workplace<br>• Ensuring anti-bribery and corruption measures | Any involvement in or neglect of human rights abuses may pose the risk of legal compliance violation, administrative penalty, as well as social criticism and damage to our reputation. While it is natural that we do not violate human rights as a business entity, it is extremely important to eliminate human rights abuse, discrimination, and corruption from all businesses and supply chains involving the Group and take proper measures through dialogue when improvements are necessary. |
| **Improving sustainability of human capital** | • Developing, hiring, and deploying human resources in line with business strategies, and redeployment of human resources to focus areas<br>• Support for career development, a creation of more comfortable workplace, and high job satisfaction<br>• Creation of a work environment where personnel with a diverse range of backgrounds/values can play an active role; improvement of diversity, equity & inclusion | Any personnel shortage/outflow as well as insufficient progress of skill/expertise transfer to the next generation mainly due to the slow development of the HR system and working environment are risks that have a material impact on the sustainability of Aozora Group's corporate management. On the other hand, in order to enhance corporate competitiveness, it is important to make investments in human capital that support the Group's value creation, such as the provision of highly professional and distinctive financial services. |

### Materiality Identification and Revision Process

**STEP 1**

**Identification of Environmental and Social Issues**

Identify domestic and international environmental and social issues in light of the overlap between various guidelines and management strategies and businesses.

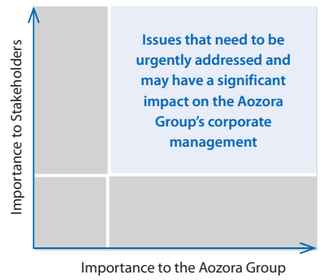
**<Examples of reference guidelines>**
**(at the time of the 2022 review)**

- The United Nations Global Compact
- GRI Guidelines
- Stakeholder Capitalism Metrics
- SASB Guidelines on the Commercial Bank Sector
- Evaluation items of ESG rating and information provision agencies
- SDGs Action Plan 2021 (SDGs Promotion Headquarters)
- JBA SDGs Report 2020-2021 (Japanese Bankers Association)

**STEP 2**

**Analysis and Prioritization of Significant Themes**

The identified issues were mapped along the two axes of "importance to stakeholders" and "importance to the Aozora Group." The items that were determined to be particularly important on both axes were chosen as the final candidates.




**STEP 3**

**Interviews with Internal and External Stakeholders**

Through interviews with internal and external stakeholders, confirm whether there are any discrepancies in issues to be considered and recognized. (In FY2022, an Employee Satisfaction Survey and one-on-one meetings with investors were conducted.)

**STEP 4**

**Discussions and Decisions at Management Meetings**

Based on the aforementioned process, multiple discussions were held by the Board of Directors and the Sustainability Committee, consisting of all executive officers, and the final decision was made at the Board of Directors meeting.

# Aozora's Sustainability Targets

In September 2021, the Aozora Group announced the establishment of Aozora's Sustainability Targets as long-term business targets aimed at creating economic and social value.

In conjunction with the formulation of the new Mid-term Plan "Aozora 2025," the Aozora Group conducted a reevaluation of these targets, made a commitment to becoming carbon neutral including its investment and loan portfolio, raised the level of targets as well as advanced the achievement deadline related to Aozora's Strategic Investments Business, and created additional targets.

## Promoting Aozora's Strategic Investments Business

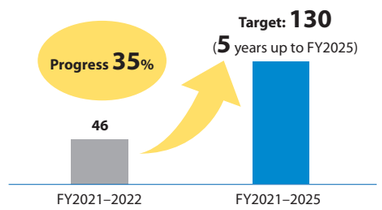
### Expanding Corporations' Access to Financial Services (Business Recovery / Start-ups)

#### Growth Support for Venture Companies

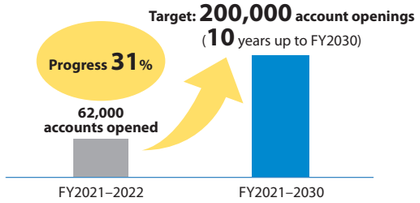
Raised and advanced

**◆Number of Venture-related Investments**

- Advanced the achievement deadline to FY2025 from FY2030.
- Raised the target from 100 to 130




**◆GMO Aozora Net Bank Account Openings by Small Businesses & Startups**

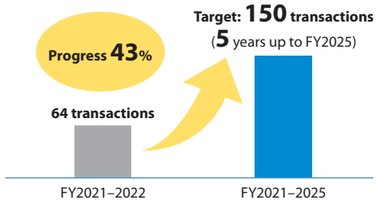



#### Contributing to Regional Communities through Business Recovery

Raised

**◆Number of Business Recovery Fund-based Transactions**

- Raised the target number from 100 to 150



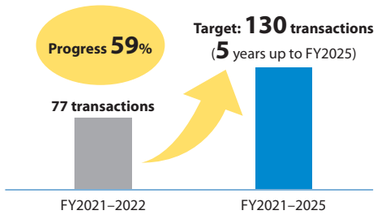

### Promoting Industrial Transition

#### Equity Investments with a Primary Focus on Engagement Aimed at Structural Transformation

Raised

**◆Number of Equity Investments with a Primary Focus on Engagement**

- Raised target from 100 to 130

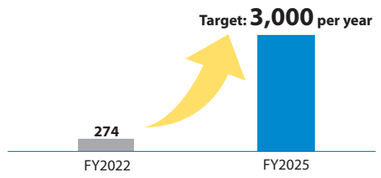



## Retail Customer Platform

### Business/Asset Formation, Business Succession/ Wealth Transfer to the Next Generation

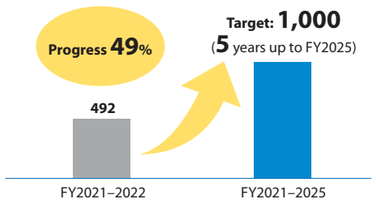
Added

**◆Number of Non-financial Service Customers**




**◆Number of Business and Asset Succession Consulting Contracts**

- Revised the target number from 1,800 to 1,000
  (Due to restructuring in line with the addition of "Number of Non-financial Service Customers")




The Aozora Group will promote Group-wide efforts to achieve these targets.

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

## Response to Climate Change

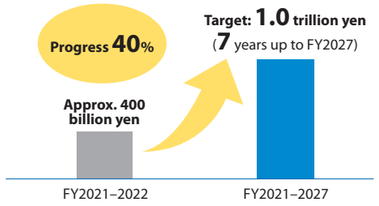
### Response to Climate Change

Advanced

**◆Sustainable Financing Amount**

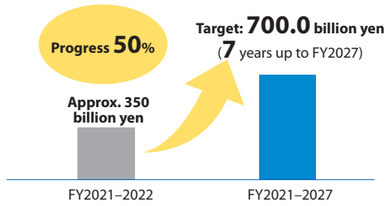
- Advanced the achievement deadline from FY2030 to FY2027

| | Results (FY2021–2022) | (FY2021–FY2027) |
|---|---|---|
| | Approx. 400 billion yen | Total: 1.0 trillion yen |




Including Environmental Financing

| | Results (FY2021-2022) | (FY2021–FY2027) |
|---|---|---|
| | Approx. 350 billion yen | Total: 700.0 billion yen |




#### Achieving Carbon Neutrality

| | | FY2022 Results | By FY2030 |
|---|---|---|---|
| Advanced | **◆$CO_2$ Emissions as a Business Entity** (Scope 1, 2: Compared to FY2020)<br>• Advanced the achievement deadline to FY2030 from FY2050 | 4,373 t-$CO_2$<br>(31% reduction from FY2020) | Net zero |
| Added | **◆$CO_2$ Emissions in Investment and Loan Portfolio** (Scope 3: Category 15) | Refer to page 69 | Net zero |
| | **◆Amount of Project Financing for Coal-fired Power Plants** | As of March 31, 2023<br>27.5 billion yen | By FY2040<br>zero balance |

## Diversity & Inclusion (Diversity of Core Personnel)

### Improving Sustainability of Human Capital

| | | As of March 31, 2023 | By FY2027 |
|---|---|---|---|
| Added | **◆Percentage of Female Managers** | 13.3% | 20%<br>(25% in the medium to long term) |
| Added | **◆Percentage of Female Deputy Managers** | 37.3% | 40% |
| Added | **◆Percentage of Eligible Male Employees Taking Childcare Leave** | 91% | 100% |
| | | **As of March 31, 2023** | **Constantly** |
| Added | **◆Percentage of Non-Japanese Managers** | 2.8% | Maintain 3% or higher |
| Added | **◆Percentage of Mid-career Managers** | 49.6% | Maintain 40% or higher |

# CFO Message



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

## FY2022 Financial Results in Review

Earnings decreased significantly in FY2022 with net revenue of 59.5 billion yen, a decline of 43.4 billion yen compared to last year, business profit of 2.5 billion yen, 45.2 billion yen lower, and profit attributable to owners of parent of 8.7 billion yen, a decrease of 26.2 billion yen versus last year.

(billion yen)

| Consolidated | FY2022 results | Change (year-on-year) |
|---|---|---|
| **Net revenue** | 59.5 | –43.4 |
| Including customer-related business (excluding financial market-related and retail businesses) | 69.3 | +0.3 |
| Including retail business | 2.8 | –5.1 |
| Including financial market-related business | –12.6 | –38.6 |
| **Business profit*** | 2.5 | –45.2 |
| **Profit attributable to owners of parent** | 8.7 | –26.2 |

*Including gains/losses on equity method investments

The decline in earnings was mainly due to the loss-cut we made with the securities portfolio in the financial market-related business, as well as a review of the sales policy for structured bonds in our retail business. Net revenue from customer-related business mainly driven by Aozora's Strategic Investments Business was strong with an increase from last year.

G&A expenses were 59.3 billion yen, an increase of 1.5 billion yen versus last year. We maintained our focus on cost control while making necessary personnel and system-related investments, including pay-scale increases. Overall G&A expenses were within our original budget of 60.0 billion yen.

Credit-related expenses were a net expense of 1.7 billion yen for the full year, which was within the range of our initial forecast. In 4Q, provisions were made as a result of the re-evaluation of our overseas real estate non-recourse loan portfolio based on more conservative appraisals, mainly in the U.S. office sector. We also continued to rebalance our overseas corporate loan portfolio and recognized some losses on loan sales.

In FY2020 and FY2021, our financial results showed continued progress toward reaching the financial targets of our previous Mid-term Plan "Aozora 2022." However, a large decline in earnings was recorded in FY2022, the final year of the plan. As a result, we were not able to meet the financial targets set in the prior Mid-term Plan.

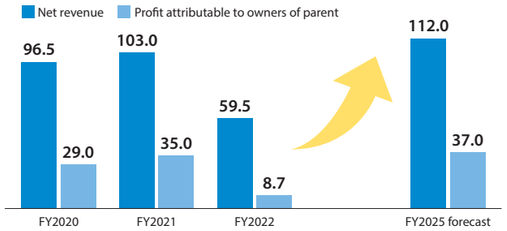
## Financial Targets of the New Mid-term Plan "Aozora 2025"

Under our new Mid-term Plan "Aozora 2025," we will further promote Aozora's Strategic Investments Business. We also intend to reach an ROE target of 8%, which is a key priority for us, by addressing issues such as restructuring of our securities portfolio, restructuring of the operations of our retail business, and making GMO Aozora Net Bank profitable, with a view to enhancing our overall earnings capacity.

First, we have set our earnings targets as net revenue of 112.0 billion yen and profit attributable to owners of parent of 37.0 billion yen. Our financial goal over the next three years is to reach these targets and reach an earnings level that improves upon our FY2021 results.

In FY2023, the first year of our new Mid-term Plan, we will drive forward the customer-related business focused on our Strategic Investments Business and consistently reach our earnings targets. Our net revenue forecast is 86.0 billion yen, an increase of 26.5 billion yen year-on-year, and our forecast for profit attributable to owners of parent is 24.0 billion yen, an increase of 15.3 billion yen. We are forecasting a full-year dividend of 154 yen per share, the same level as in FY2022.

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




### Key Performance Indicators (KPIs)

| | | FY2021 (Results) | FY2022 (Results) | FY2025 (Targets) |
|---|---|---|---|---|
| Capital efficiency | ROE | 7.2% | 1.9% | 8% (medium- to long-term: 10%) |
| Financial strength | Capital adequacy ratio | 10.4% | 9.4% | 9% or higher |
| Productivity | Business-related profit*1 per employee | 19.0 million yen | 4.0 million yen | 20.0 million yen |
| Profitability | Business-related profit RORA*2 | 1.1% | 0.2% | 1.3% |

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

Next, let's review our key performance indicators (KPIs). We have established KPIs with a continued focus on our efficiency performance.

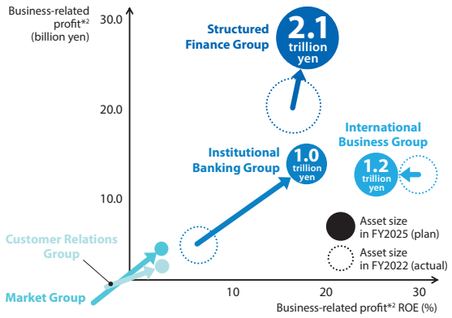
For the period covered in our new Mid-term Plan, we have set a target of 8% for ROE, an indicator of capital efficiency, and we will aim for 10% in the medium- to long-term. We anticipate that achieving this goal will help us improve our PBR as well.

Previously, we had set OHR as our primary productivity indicator target. Now, we have set business-related profit per employee as our new target for productivity. While making the necessary investments in our people, we'll strive to improve productivity per employee in order to increase our overall earnings capacity.

We have set business-related profit RORA as our profitability indicator. In order to increase profitability, we will assess the risk and return profile of each asset and invest capital in risk assets accordingly.

I believe that it's important to ensure that our capital adequacy ratio does not become too high, as we must consider the balance between improving capital efficiency (ROE) and maintaining an adequate level of capital from the standpoint of maintaining our financial strength. Because Aozora is subject to domestic standards, the minimum level required by regulation is 4%. While we can maintain this level even under severe stress scenarios, we have chosen to set a target of 9% or higher. In addition, we will manage our risk assets with an awareness of the CET1 (Common Equity Tier 1) ratio of 7%, the minimum required by international standards.

### Financial Targets by Segment*1




*1 Management accounting basis
*2 Business-related profit = Business profit + Gains/losses on stock transactions

The chart above shows our financial targets by business group (segment).

The Structured Finance Group will aim to increase earnings by growing assets while maintaining a high level of profitability. Their main focus will be on our buyout finance and business recovery areas.

Our Institutional Banking Group intends to increase profitability without needing to increase the size of its assets. This group's main priorities are to generate returns on equity investments, and fees and commissions from M&A advisory services, as well as developing business opportunities through our equity investments with a primary focus on engagement.

Given unstable conditions in overseas markets, our International Business Group will maintain its policy of carefully originating investments and loans for the foreseeable future. When managing investments and loans, top priority will be given to portfolio quality by selectively originating corporate loans with favorable risk and return profiles and flexibly rebalancing the portfolio.

## Capital Policy

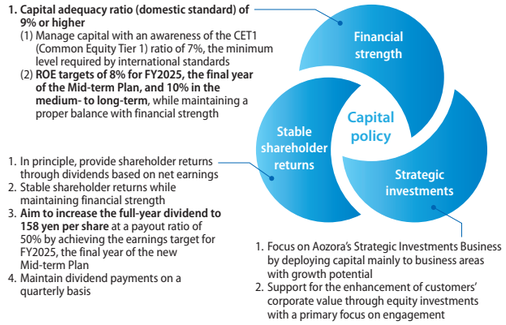
Under "Aozora 2025," we will implement a capital policy that maintains a proper balance among the three factors of financial strength, stable shareholder returns, and strategic investments, as we did during the prior Mid-term Plan.

From the perspective of financial strength, we will manage capital maintaining a capital adequacy ratio of 9% or higher, with an awareness of the CET1 (Common Equity Tier 1) ratio of 7%.

We will also provide stable shareholder returns by achieving our earnings targets each fiscal year and by continuing to generate growth. For the final year of our new Mid-term Plan, we are aiming for a full-year dividend of 158 yen per share based on a dividend payout ratio of 50%, and based upon reaching our target for profit attributable to owners of parent of 37.0 billion yen. By doing so, we aim to increase our dividends from the dividend paid in FY2022 and dividend forecast for FY2023 of 154 yen.

With our strategic investments, as we focus on Aozora's Strategic Investments Business, we will undertake PDCA cycles on capital efficiency and profitability while flexibly deploying capital to business areas with attractive growth and earnings prospects.

**We will maintain a capital policy that has a good balance among "stable shareholder returns," "strategic investments," and "financial strength."**




## Tax Compliance

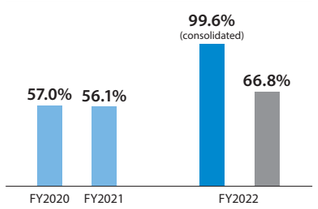
As a business enterprise, we have a social responsibility to comply with all tax laws and pay taxes as required when conducting our business. In accordance with the "Tax Compliance Policy" (see the Financial and Corporate Data Section), the Aozora Group will comply with all tax laws and regulations,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

# Financial and Non-financial Highlights

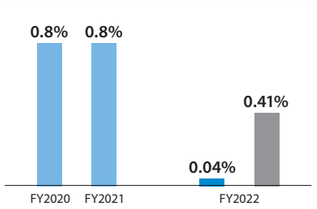
## Financial Highlights

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

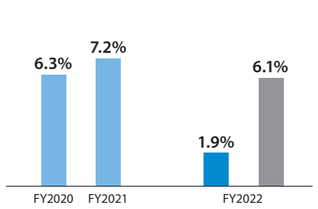
### Overhead Ratio (OHR)




### Business Profit*1 ROA

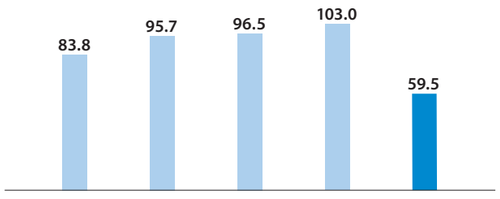



### ROE

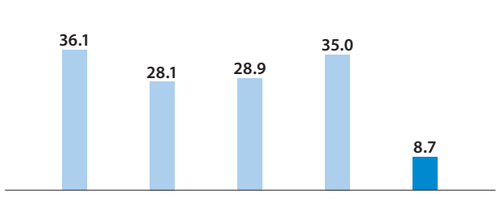



*1 Business profit includes gains/losses on equity method investments
*2 Based on each major bank's publicly available data (MUFG, SMFG, Mizuho FG, Resona HD, Sumitomo Mitsui Trust HD and SBI Shinsei)

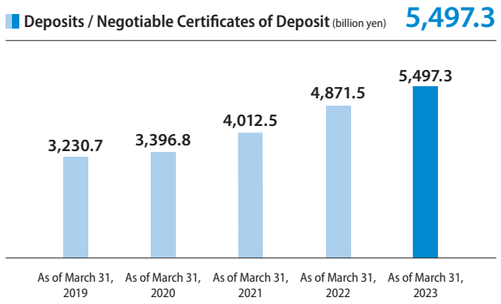
### Consolidated Net Revenue (billion yen) 59.5



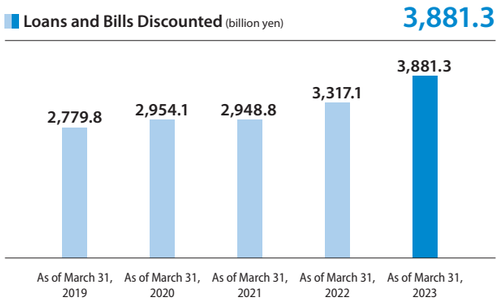

### Profit Attributable to Owners of Parent (billion yen) 8.7



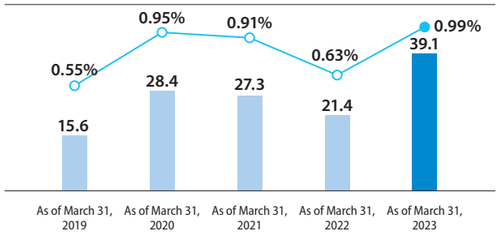

### Deposits / Negotiable Certificates of Deposit (billion yen) 5,497.3




### Loans and Bills Discounted (billion yen) 3,881.3

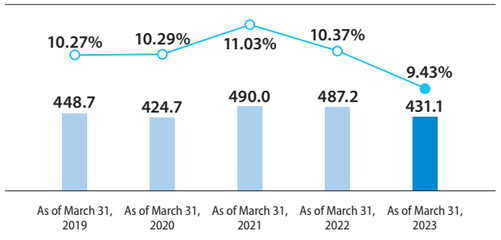



### Non-performing Loans Based on the FRA* (Consolidated) (billion yen) 39.1
### NPL Ratio 0.99%




*Financial Reconstruction Act

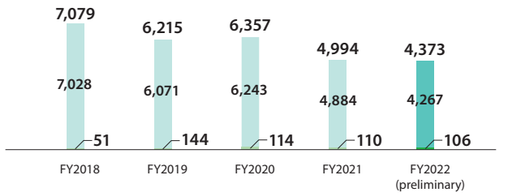
### Consolidated Net Assets (billion yen) 431.1
### Consolidated Capital Adequacy Ratio (Domestic Standard) 9.43%



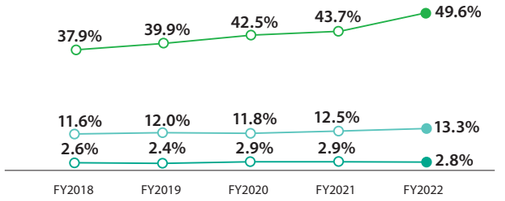

## Non-financial Highlights

### $CO_2$ Emissions

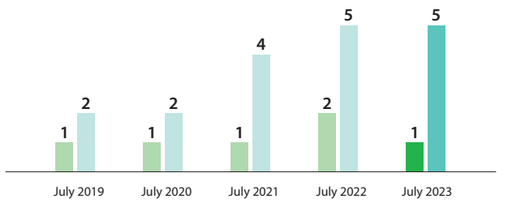
Scope 1: Direct Emissions (t-$CO_2$) 106 t-$CO_2$
Scope 2: Indirect Emissions (t-$CO_2$) 4,267 t-$CO_2$



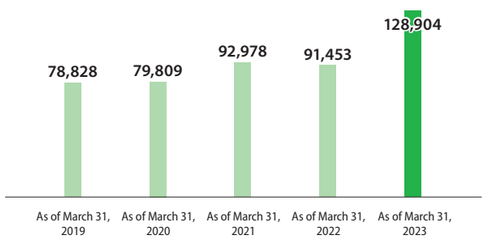

Percentage of Mid-career Managers 49.6%
Percentage of Female Managers 13.3%
Percentage of Non-Japanese Managers 2.8%




Number of Female Directors 1
Number of Female Executive Officers 5

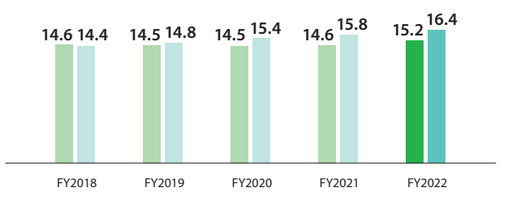



Number of Retail Shareholders 128,904



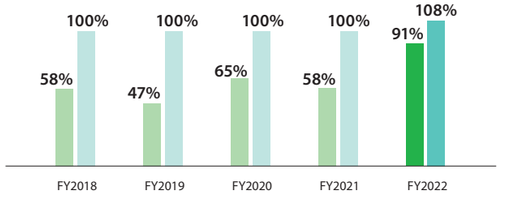

### Average Length of Service (years)

Male 15.2 years
Female 16.4 years




### Rate of Childcare Leave Taken*

Male 91%
Female 108%




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

### Evaluation by Third Parties*

**2023** CONSTITUENT MSCI JAPAN EMPOWERING WOMEN INDEX (WIN)
MSCI Japan Empowering Women Index

Morningstar

2023 健康経営優良法人 Health and productivity
2023 Health and Productivity Management Organization

"Eruboshi" certification

"Kurumin" certification

*https://www.aozorabank.co.jp/english/sustainability/promotion/

# Messages from Outside Directors

## Ippei Murakami

Chairperson of the Audit and Compliance Committee



### What do you most hope to achieve through the new Mid-term Plan "Aozora 2025"?

Society has changed significantly in the wake of the COVID-19 pandemic, and combined with long-lasting low interest rate policies, even the financial industry has been forced to shift its focus away from operations centered on over-the-counter banking, which had been its traditional earnings base.

That is to say, the expectations placed on banks have changed. Banks have traditionally collected funds from corporate institutions and retail customers through a large number of branches and employees and managed such funds through loans and other services. Now, banks are being required to contribute directly to the objectives of corporate customers, such as business expansion and succession. They are also required to act as intermediaries for retail customers to help them achieve their goals—not only the universal goal of earning interest income but also goals in areas of lifelong growth, including further education, as well as inheritance and stability in retirement. In other words, banks that are capable of doing these things are the ones that are chosen by customers. It is not a question of how many branches and employees they have; what's important are the capabilities of each and every employee, their collective capabilities as an organization, and how effectively they can be used by customers.

The new Mid-term Plan "Aozora 2025" aims for us to become exactly this kind of bank. Aozora's employees are sufficiently qualified to respond to these requirements, and the bank's size is well suited for these goals.

**Profile**

He has served as President and Representative Director of Nisshin Seifun Group Inc. and Chair of the Board of Trustees of Kwansei Gakuin and he has a wealth of experience, credentials and deep insight as a member of senior management of corporate institutions and educational institution, as well as extensive knowledge of corporate finance and accounting. He was appointed as an Outside Director of the Bank in June 2014.

**Concurrent Posts**

Special Advisor, Nisshin Seifun Group Inc.
Chair of the Board of Trustees, Kwansei Gakuin

## Sakie Tachibana Fukushima

Chairperson of the Nomination and Remuneration Committee



### What were the key points discussed during the process of formulating the new Mid-term Plan "Aozora 2025"?

Last year, the financial industry went through major upheavals due to factors such as bank failures in Europe and the U.S. Globalization and digitalization, which had been advancing prior to the COVID-19 pandemic, had to be redefined in light of heightened geopolitical risks.

Taking these changes in the external environment as a period of transformation, we have formulated the new Mid-term Plan "Aozora 2025," with the aim of establishing "Aozora's Strategic Investments Business" model. In the first year of the plan, we will work together across the entire Group to enhance corporate value by leveraging the characteristics of each business, under the key words "Fostering, Change, and Recovery," which are the three phases where the Group will leverage its strengths. Outside directors participated in discussing these key points, reconfirming our strengths and weaknesses as a financial institution and organization, and discussing the appropriateness of our strategies in light of market trends.

Aozora has agility that allows it to adapt to changing times. Since strategy is all about execution and results, we confirmed the importance of the following foundational points: 1) investment in human capital, such as hiring and training professionals to enable the placement of the right people in the right places, including reskilling; 2) raising the awareness of all employees to enable cross-sectional optimization throughout the Group; and 3) speedy implementation of strategies. We will continue to closely monitor, supervise and support the execution of these strategies this fiscal year.

**Profile**

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

**Concurrent Posts**

President and Representative Director, G&S Global Advisors Inc.
Outside Director, Ushio Inc.
Outside Director, Kyushu Electric Power Company, Incorporated

## Hideyuki Takahashi

Audit and Compliance Committee Member



### A message to our shareholders (at the time of appointment)

I joined the Industrial Bank of Japan (currently Mizuho Bank, Ltd.) in 1980. During my banking career, I have been mainly responsible for corporate management and financial strategies, and after the holding company had transitioned to a Company with Nominating Committee, etc., I was engaged in governance reform as Deputy Chairman of the Board of Directors, Chairman of the Audit Committee and Chairman of the Risk Committee. At present, corporate management of financial institutions are facing two significant challenges. One is that we are facing the need to redefine our raison d'etre as a financial institution, as the progress of ESG and digitalization lead to discontinuous changes in social and economic structures and transform the existing values themselves.

The other is the need to respond to constant materialization of unexpected risks such as extreme weather events and the Ukraine crisis. In order to ride out these major trends, it is important for the executive officers to have management skills with speed and resilient responsiveness. I believe Corporate Governance underpins these management skills and its keystone is the Board of Directors.

With my experience in the management of financial institutions, I'll do my best to contribute to the sustainable growth of the Bank as an Outside Director.

**Profile**

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

**Concurrent Posts**

Outside Director, Sunshine City Corporation
Outside Corporate Auditor, Hanwa Co., Ltd.
Outside Director, Audit & Supervisory Committee Member, WOWOW Inc.

## Hideaki Saito

Nomination and Remuneration Committee Member



### A message to our shareholders (at the time of appointment)

I've worked in the financial and IT industries and gained management experience as president.

In addition, as a management consultant, I've worked on a variety of management issues in many industries, not limited to finance and IT, and have had firsthand experience of the management styles and governance models of Japanese, American and European companies.

I'll provide the essence of these diverse experiences in order to maximize the Bank's corporate value. For example, in the IT area, I believe it is important to consider from the business model development stage, not only the efficiency of IT investment, but also the areas that should be strengthened to demonstrate Aozora's unique characteristics, areas where efficiency should be pursued, and areas where we should not explore. It is also essential to keep up with constantly evolving technology trends.

I'll do my best to contribute to maximizing corporate value by pursuing the strengths of the Bank from the perspective of our shareholders.

**Profile**

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

**Concurrent Posts**

President and CEO, Japan Systems Co., Ltd.
Representative Director, NetCam Systems Corporation
Representative Director, Blueship. Co., Ltd.

# Stakeholder Communication




## Communication with Customers

### Customer Survey

Aozora conducts a customer satisfaction survey every year for corporate and individual customers. Based on the results of the survey, in order to respond to diverse needs and increase customer satisfaction, Aozora will continue to take customer feedback seriously and use it to improve its services, such as by setting evaluation indicators with an awareness of improving the quality of proposals and raising the quality of its employees through training.

In accordance with Aozora's "Basic Policy on Customer-Oriented Business Management," Aozora is committed to providing specialized financial services that take into consideration not only asset management needs but also wealth transfer needs and business succession needs while maintaining a customer-oriented business attitude in pursuit of the best interests of our customers.

### Reception for Regional Financial Institutions

We host receptions where we invite our regional financial institution customers. As a result of the COVID-19 pandemic, the event was held in person in FY2022 for the first time in three years. On the day of the event, a string quartet featuring members of the Sophia Philharmonic Orchestra gave a live performance, and their elegant melodies made for a harmonious moment from start to finish.





### Customer Seminars

Every year, the Aozora Group holds a series of seminars which are of relevance and interest to our customers. In November 2022, we held a seminar for regional financial institution customers on the topic of business recovery in the third year of the COVID-19 pandemic. We made presentations on methods of determining revitalization according to the stage of the business, and also offered individual consultations to customers who were in attendance.

## Communication with Shareholders

### General Meeting of Shareholders

The 90th Ordinary General Meeting of Shareholders was held on June 22, 2023. As with the last fiscal year, Aozora offered a livestream of the Ordinary General Meeting of Shareholders alongside the in-person event, which allowed for the participation of shareholders who resided in remote areas or did not wish to attend in person. Of the total participants, 63 shareholders attended the event in person and approximately 200 attended via livestream. At the venue, newly appointed Director Hideyuki Takahashi, Director Hideaki Saito, Director and Senior Managing Executive Officer Masayoshi Ohara and Audit & Supervisory Board Member Junichi Maeda gave a brief speech to the shareholders. We will continue to periodically revise conventional methods of hosting the event as we aim for an open general shareholders meeting in a new era.

We also publish a shareholders report "Aozora Tsushin" twice per year on our website as a report for shareholders.



### Investors Meetings

Aozora strives for the timely and appropriate disclosure of information to enable all shareholders and investors to acquire deeper understanding of the Group's management strategy and financial results. As part of IR activities, following the release of our financial results, we actively conduct a series of investor relations events, such as investors meetings, one-on-one meetings and retail investors meetings, both in person and online. The number of one-on-one meetings with domestic and overseas institutional investors and analysts held increased from FY2021.

**IR Events Conducted in FY2022**

| | |
|---|---|
| Teleconferences and presentation meetings with institutional investors and analysts | Number of meetings held: 6 |
| One-on-one meetings with domestic/overseas institutional investors and analysts | Total number of participating companies: 141 |
| Retail investors meetings | Number of meetings held: 5<br>Number of participants: 1,682 |

## Communication with Employees

### Town Hall Meeting

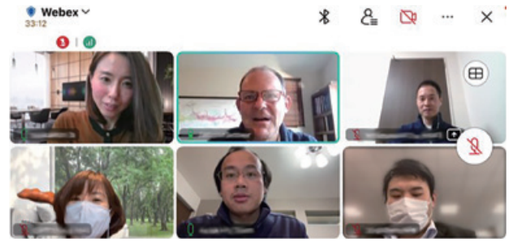
In November 2022, Aozora Town Hall Meeting was held for the first time in three years via a hybrid format in three venues—Nihonbashi, Toyosu, and Toshimaen—and remotely through Zoom. Being the first event in three years, three themes, "Aozora Today," "Our Goals," and "Reviewing the Three-year Period between 2020 and 2022," were addressed, and video messages were streamed from overseas offices.



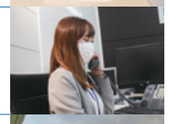



### Internal Small-sized Meetings

Aozora holds internal small-sized meetings as a way to foster better communication between employees and management by leveraging our manageable size. The Bank periodically holds internal small-sized meetings which are designed to facilitate communication among small groups. In FY2022, in addition to a meeting conducted by non-Japanese employees on the topic of "Career Motivation in the Aozora Group," executive officers visited each branch office nationwide and engaged in active discussions about issues such as the roles that will be required at each branch office in the future.




### Examples of Other Initiatives

| | | |
|---|---|---|
| Employee Survey | Since FY2017, we have conducted a participatory survey in order to improve the working environment for all Aozora Group employees. In the survey conducted in November 2022, we received responses from 1,915 employees (a response rate of 85%). |  |
| Message from Management | We periodically communicate messages from top management to Group executives and employees. In FY2022, a total of 50 messages were shared. |  |
| Aozora Photo News | Various Group events (e.g., the status of holding customer seminars, donations to various organizations, TV appearances by employees) are made available on the Group's portal site. Approximately 157 articles are shared a year, making the site a useful tool for promoting active communication. |  |
| One Day at Aozora | We distribute articles on our daily business activities to provide employees with an opportunity to better understand the work executives and employees conduct and what kind of thoughts they have about their work, which leads to more active communication and collaboration between divisions. |  |
| Aozora Pen Relay | In FY2022, we launched a "pen relay program" in which executives and employees write self-introductions on any theme, such as job description, work experience, hobbies and interests, and share them on the Aozora Group's portal site and ask their managers, staff, and colleagues who have helped them to write the next self-introduction. |  |




# Value Creation Strategy


32 Aozora Network

33 Business Promotion Structure

34 Why Equity Investments Now?

36 Value Creation from the Environmental Finance Team's Perspective

38 Business Groups

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64 Response to Climate Change

70 Initiatives to Contribute to Society

72 Promotion of Digital Transformation (DX)

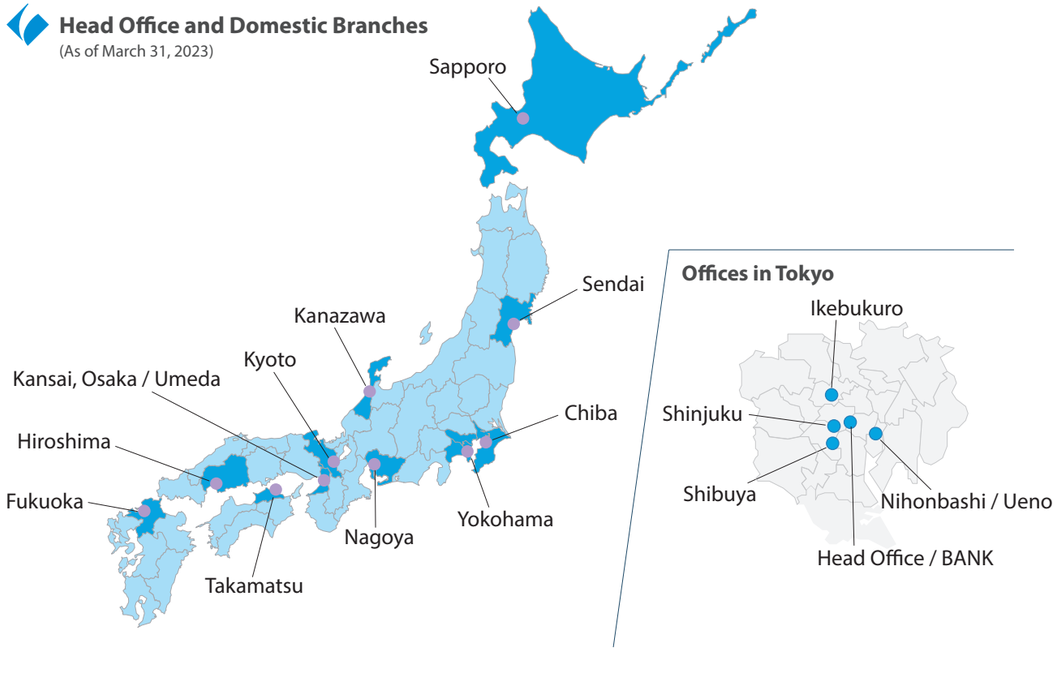
73 GMO Aozora Net Bank Initiatives

74 Human Resources Strategy

# Aozora Network

## Domestic Network

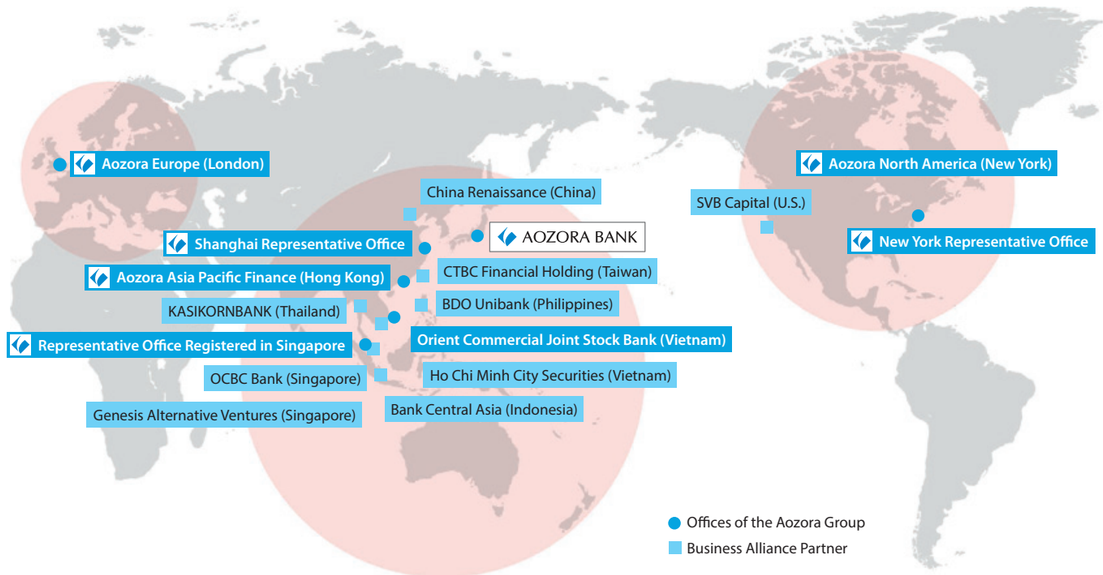
### Head Office and Domestic Branches
(As of March 31, 2023)




### Offices in Tokyo




## Overseas Network




# Business Promotion Structure

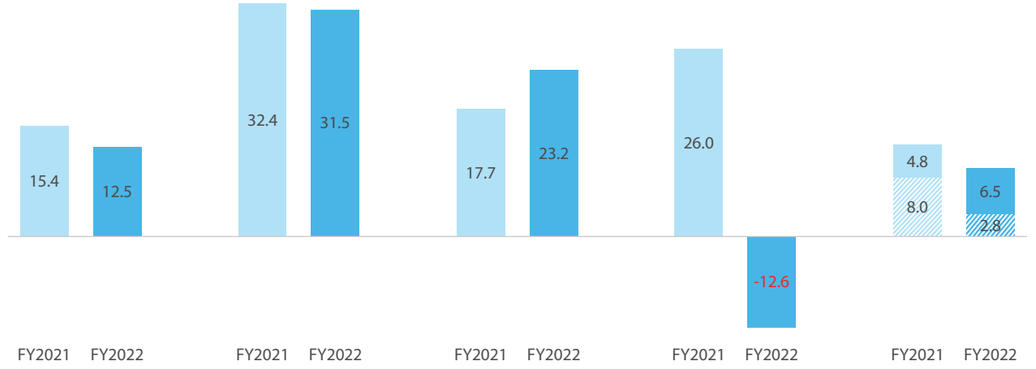
## Aozora Bank's Business Groups and Main Group Companies

| Institutional Banking Group | | Structured Finance Group | | | | International Business Group | Market Group | Customer Relations Group | |
|---|---|---|---|---|---|---|---|---|---|
| Corporate Business Group | M&A Advisory Group | Acquisition & Structured Finance Group | Environment Business Group | Special Situations Group | Real Estate Finance Group | International Business Group | Financial Markets Group | Allied Banking Group | Retail Banking Group |
| Aozora Corporate Investment<br>B Spark | ABN Advisors<br>AJ Capital<br>AZ-Star | | | Aozora Loan Services | Aozora Real Estate Investment Advisors | Aozora Asia Pacific Finance Limited<br>Aozora Europe Limited<br>Aozora North America, Inc.<br>Orient Commercial Joint Stock Bank | | Aozora Regional Consulting<br>Aozora Securities<br>Aozora Investment Management | GMO Aozora Net Bank |

Main Group Companies (Consolidated Subsidiaries and Affiliates)

## Results by Business Group

**Business revenue*1**
**(combined total of net revenue, gains/losses on equity method investments, and gains/losses on stock transactions)**
(billion yen)




### Institutional Banking Group
- ◆Corporate Business Group
- ◆M&A Advisory Group

### Structured Finance Group
- ◆Environment Business Group
- ◆Acquisition & Structured Finance Group
- ◆Special Situations Group
- ◆Real Estate Finance Group

### International Business Group
- ◆International Finance Group*2
- ◆Asia Investment Group*2

### Market Group
- ◆Financial Markets Group

### Customer Relations Group
- ◆Allied Banking Group
- ◆Retail Banking Group

*1 On a management accounting basis
*2 The International Finance Group and Asia Investment Group were consolidated starting in FY2023.

# Why Equity Investments Now?

## Equity Investments Focused on Corporate Customers in Aozora's Strategic Investments Business

The world today is facing unprecedented changes. While these environmental changes may have a negative impact on some companies, they also provide an opportunity for companies to start new businesses, change their business structure, move past a negative legacy and implement a recovery and relaunch. On the one hand, it is difficult to forecast the cash flows for new or rapidly changing businesses, and the valuation and acquisition of collateral for intangible assets, which are increasingly important in a digital society, are difficult using conventional bank financing methods. As a result, funding can be inadequate.

Although Japanese companies' earnings have been recovering since corporate governance reforms began, capital efficiency still lags behind that of Western companies, and investment for long-term growth has been inadequate. Companies are expected to engage in constructive and substantial dialogues with their stakeholders about the long-term vision of corporate management, and to refine this dialogue in order to realize the ability to generate long-term and sustainable growth and earning power while increasing corporate value.

Through equity investment under Aozora's Strategic Investments Business, the Bank provides the necessary funds, and intends to fulfill its role as a partner that engages in dialogues with corporations.

## What the Aozora Group Provides

### Specialization in Structured Finance: The Road to Equity Investment for Corporate Businesses

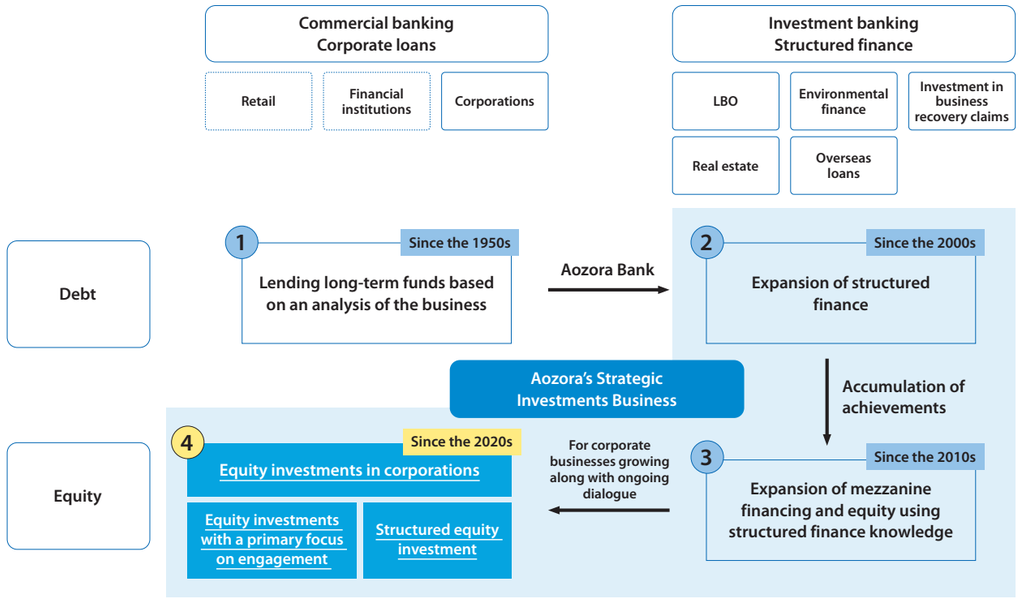
Throughout its history, Aozora has a track record of providing funds by engaging in risk analysis and control, with structured finance as its core business.

The Group has provided long-term business financing and engaged in dialogue with companies from a long-term perspective since its foundation as Nippon Fudosan Bank, Limited in 1957.

Amid the collapse of the bubble economy and the changing expectations and roles of bank during the subsequent financial crisis, from 2000 onward, in Japan the Bank began working on DIP finance, real estate non-recourse loans, and LBO loans, which were well established in overseas markets at the time. These types of finances are referred to as "structured finance," and are characterized by credit analysis based on cash flows and a structure in which loans are extended from the start of lending to repayment according to detailed contractual terms and conditions. Through these initiatives, Aozora has provided loans to companies and projects that were needed by society but had not yet been pursued due to the difficulty of assessing creditworthiness.

From 2010 onward, as a result of further accumulating investment knowledge through structured finance, it expanded its investment range to include debt and equity, such as private equity, real estate equity, and venture capital.

In this way, for over 20 years, Aozora has established a track record ranging from structured finance to equity investments, fostering industries and companies newly created by social, economic, and market changes, and providing funds for the restructuring and revitalization of businesses that are in the process of changing.




### Equity Investments in Corporate Customers: Equity Investments with a Primary Focus on Engagement and Structured Equity Investment

Aozora provides funds ranging from debt to equity through structured finance under Aozora's Strategic Investments Business and equity investment for corporate business. These are both businesses that leverage the strengths which have arisen from the Aozora's history. They are businesses that will be developed by shifting from the traditional banking business that focuses on lending to becoming a partner that provides a broad range of financial services that respond to the business needs of companies and help them grow and enhance their corporate value.

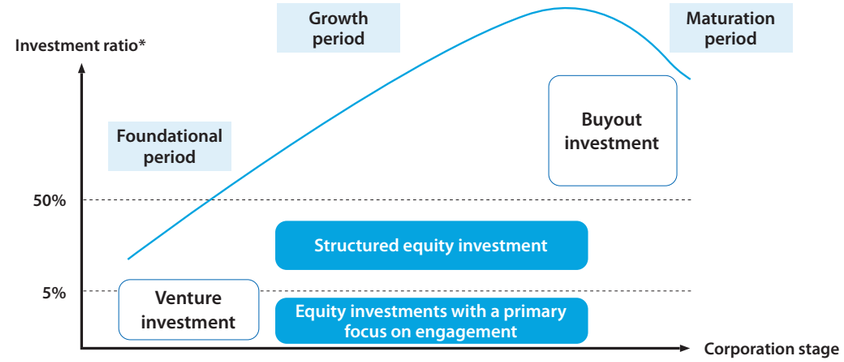
In equity investments for corporate customers, Aozora acquires the equity of customers, and gains a deep understanding of their businesses through dialogue based on sound governance, and aims to obtain dividends and capital gains as a result of its commitment to management.

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

Companies being pressured to transform their business structure require a partner who understand their business and can offer guidance on managerial issues.

Through equity investments with a primary focus on engagement, Aozora acquires equity at an investment stake of less than 5%, and aims to achieve economic returns while solving social issues as a management partner mainly for listed companies.

Through structured equity investment, Aozora's primary role is acquiring a minority share (investment stake of less than 50%) of unlisted companies primarily together with its investment partners, and supports enhancement of corporate value while working closely alongside the owner and management of the company.




*Combined investment ratio of the Bank and its partners

### Human Resource Development: Programs Focused on Developing Human Resources for Equity Investments with a Primary Focus on Engagement



Aozora is developing human resources to promote equity investments with a primary focus on engagement through programs with business schools.

The program consists of classroom lectures and interactive learning. In the classroom lectures, participants seek to acquire the knowledge required for equity investments with a primary focus on engagement through lectures by a team of instructors who have participated actively on the frontlines of the business world.

In interactive learning, working in small teams, the participants will draft specific proposals for enhancing corporate value based on actual cases.

(Refer to **"Human Resources Strategy"** (see page **78**))

# Value Creation from the Environmental Finance Team's Perspective

Aozora arranges a significant level of project finance related to renewable energy, both domestically and overseas. This is the story from members of the Infrastructure and Environment Finance Division who are engaging with leading-edge technology while developing new financial markets.




## Aozora's Environmental Finance

Kido: Aozora Bank began project finance for solar power plants using a FIT (Feed-in Tariff)[*1] for the first time in Japan in 2013. Since then, we've been involved in a large number of project finance projects for multiple types of renewable energy. In domestic project finance, we also invite regional financial institutions into the syndication in collaboration with financial institution divisions/branches and the Syndication & Securitization Division. More than 20 regional financial institutions have participated so far. I'm very proud that we can also contribute to the development of the regional economy through our business.

Aoyama: The staff working in the Infrastructure and Environment Finance Division come from diverse backgrounds. For example, we have Japanese and non-Japanese staff, people who joined us as new graduates and mid-career hires, people with/without project finance experience, people with banking experience and people from other areas, senior employees, working parents raising children, as well as people with shortened work hours. As manager, I respect the diverse values of each staff member, and try to encourage the members to be motivated. Aozora has been committed to overseas project finance for a decade, and provides financing for renewable energy projects such as onshore wind farms and solar power plants, primarily in the U.S.

## The Value of Business and the Highlight of the Job

Terada: While I'm responsible for the existing projects, I'm also engaged in making proposals and originating new domestic projects. In addition, I'm involved in monitoring and agency business as well as negotiations with regional financial institutions that serve as our syndication participants. Renewable energy is currently the area that major companies are most focused on, so there's a lot of business opportunities. Each corporate customer has a different approach. Therefore, it is necessary to make a proposal that meets each customer's needs. This is sometimes challenging for me, but when I understand the customer's needs through communications/dialogue and overcome the difficulty together as their business partner, I feel great satisfaction. Also, one of Aozora's strengths is its strong relationships with regional financial institutions. I would say that our capability to contribute to both the development of the local economy and the realization of a decarbonized society, in addition to responding to our customers' financing needs, is essential to the "new value-added financial services."

Itsuki: I'm mainly responsible for managing our project finance throughout its term. As to my day-to-day duties, there are few things that can be completed in Aozora alone, so it's essential to maintain ongoing communication with our customers. It's rewarding to complete a project in cooperation with our customer. In addition, as Mr. Terada mentioned, our connection with regional financial institutions is our major strength, and I always enjoy working with them. Many sponsors of large-scale power plants are based in Tokyo and Osaka, and oftentimes do not have connections to sponsors from regional financial institutions. In those situations, we utilize our financial institutions platform, which is the Bank's strength, and act as a bridge between the sponsor and the regional financial institutions through our syndicated loans. I can feel firsthand that we're contributing to the development of the local economy when oftentimes we receive positive feedback from regional financial institutions for our efforts.

Iwagami: I'm mostly engaged in originating new overseas projects. First, I partner with our New York Representative Office to gather information about potential projects from the arranger of the finance transaction. We select projects that Aozora can be involved in, and prepare an application form to obtain approval for the financing. Creating the application form requires me to investigate not only the relevant terms and conditions but also all agreements associated with the project including construction agreements, and requires understanding and analysis of the technical aspects as well. It's really interesting to be able to experience the leading-edge technologies through these projects, and also expand my own knowledge.

## Expectations toward Environmental Finance and Its Future Potential

Aoyama: In overseas project finance, we'll continue to actively originate financing for renewable energy projects and pursue new financing opportunities by gathering and analyzing information about new technologies by leveraging LP investments for infrastructure funds, etc. In Japan, the diversification of power sources and systems is expected to develop further, and more FIP[*2] and corporate PPA[*3] projects for solar power plants are expected to replace the existing FIT system. Internationally, there are many merchant-type power generation projects taking risk in the electric power market without signing a PPA, so, by utilizing our expertise acquired through overseas projects such as analysis of the electric power market and hedging methods, we aim to integrate domestic and overseas business to further enhance the Bank's initiatives toward environmental finance.

Kido: The renewable energy financing market is extremely active both domestically and overseas, and I believe this trend will continue for some time. As Mr. Aoyama mentioned, in addition to solar power and onshore wind power, offshore wind power and geothermal power generation will be added to the types of power sources for projects in Japan. In addition to expanding our business in response to these changes, we'll also be actively involved in financing transition of fossil fuels in order to contribute to the realization of a decarbonized society.

## Aozora Bank's Corporate Culture of Taking on Challenges

Iwagami: Aozora has a corporate culture that respects and supports taking on challenges. I conducted an analysis of projects and due diligence, and led to a successful origination of the first domestic offshore wind farm project by leveraging my expertise and experience cultivated through overseas offshore wind farm projects. Technology for decarbonization is rapidly evolving. I hope to capitalize on these developments and actively work on projects with new technologies.

Itsuki: I find it encouraging that the Infrastructure and Environment Finance Division entrusts important and diverse tasks to even junior employees like myself. I'm able to obtain considerate training, including practical experience, from my experienced colleagues, so I'm sure this is the right place for me to grow as a professional.

Terada: I've been concurrently working for the overseas team since FY2023, and adding depth to my career. In the future, I'd like to be involved in arranging syndicated loans for overseas project finance, by utilizing the knowledge and expertise in arranging syndicated loans acquired through domestic project finance.

Aoyama: The current Infrastructure and Environment Finance Division includes members with their own unique strengths, forming a team that is capable of effectively evaluating projects while utilizing their strengths and expertise. We've created a work environment that maximizes the sharing of knowledge and expertise by actively utilizing experienced senior personnel to pass on knowledge and expertise to middle and junior employees, and by sharing information through collaboration with colleagues in New York, London, and other overseas offices. We'll continue to support the self-improvement of each and every member with a mindset of taking on challenges, which is part of the Bank's corporate culture, to raise the level of our entire division going forward.

*1 FIT (Feed-in Tariff)
A system under which the government promises that electric power companies (retail electric power companies) will purchase electricity generated from renewable energy sources at a fixed price for a certain period of time. This system will make it easier to recover the high construction costs of power generation facilities and promote their widespread use

*2 FIP system (Feed-in Premium)
A system to promote the introduction of renewable energy by adding a certain premium (subsidy) to the price at which electricity is sold on the wholesale market by renewable energy power producers, rather than purchasing electricity at a fixed price as in the FIT system

*3 Corporate PPA (Corporate Power Purchase Agreement)
Refers to a long-term power purchase agreement (PPA) that a company (electricity consumer) enters into directly with an independent power producer (IPP)

# Institutional Banking Group

## Corporate Business Group

### Business Areas and Strengths

The Corporate Business Group (CBG) aims to solve customers' issues and address social issues.

We provide a broad range of structured finance, sustainable finance, support for DX and foreign exchange and commodity price risk hedging products, in which we have a strong track record. In addition, we're accelerating the promotion of equity investments with a primary focus on engagement, "Structured Equity Investments" and ecosystem for start-ups support mainly including venture debt.

In promoting these businesses, we closely engage (have a dialogue) with management based on a deep understanding of our customer's business, identify issues facing the customer and society, and provide value-added advice on how to resolve issues by fully leveraging Aozora's managerial resources.

Each person responsible carries out these activities with integrity and a wish to continue to be appreciated by our customers.



Jun Shinozaki
Managing Executive Officer
Head of Corporate Business Group



Kazuhiro Yasuda
Managing Executive Officer
Head of Corporate Banking Group



Akemi Hashimoto
Managing Executive Officer
General Manager of Kansai Branch

### Environmental and Issue Awareness

The COVID-19 pandemic, which has lasted for more than three years, is showing signs of coming to an end, and revitalized economic activity post-COVID-19 and under the new normal is becoming apparent.

While there are factors that threaten the external environment, such as rising raw material prices and concerns about overseas economic downturns, we believe our customers will be faced with more rapid changes in the areas of business succession, business recovery, structural transformation and business restructuring against the background of DX and environmental transition against the background of decarbonization.

We will emphasize communication through dialogue with our customers and seek to expand our new business base through equity investments with a primary focus on engagement and support for start-ups, while understanding the issues our customers face and strengthening our ability to propose solutions to them.

We will use engagement as a starting point for our investments to support enhancement of customers' corporate value, support start-ups in the areas of funding, business development, and human resources, and propose solutions, instead of just providing loans, to assist customers' growth, business transformation and recovery.

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

Over the course of considering an investment with a primary focus on engagement in one of the systems integrator companies, we decided to conduct a workshop for them on new business (for a period of three months with members comprised of eight people from each of the companies).

We called for workshop participants from across multiple departments at both companies and decided on the members, combined the technological capabilities of the target company with Aozora's network as well as finance skills and presented ideas for four new businesses.

Communication with people from a different industry was really refreshing, and the workshop was full of energy with many new ideas arising out of a lively exchange of ideas. We found the times that members of both companies gathered voluntarily and discussed about new business models particularly meaningful.

As we proceeded with the workshop we were able to gain a better understanding of the target company's strengths, including competitiveness against its peers, its unique services, and diversity of its human resources.

After recognizing the technological capabilities of the target company, we evaluated the corporate value including its future growth potential, and made an investment with a primary focus on engagement.

We will promote investments with a primary focus on engagement in this way, by closely communicating with our corporate customers and gaining a deeper understanding of their corporate vision, business details, and earnings structure.



Tomotsune Sano
Corporate banking

## Aozora Corporate Investment



Akifumi Kubo
Representative Director,
President and CEO

### Making Debt Financing Commonplace for Start-ups

### Business Areas and Strengths

As a venture capital subsidiary of Aozora Bank, we take on the challenge to add value to services provided by conventional financial institutions, and support ambitious start-ups financially as well as expand the ecosystem for start-ups support. For financing and investment activities, our main product is venture debt, leveraging knowledge of both equity and debt finance.

### What is Venture Debt?

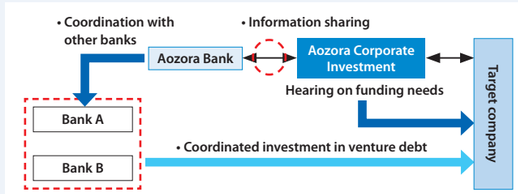
Venture debt is a general term for financial products with features of both equity and debt finance, such as convertible bonds and loans with stock options.

The product is designed to meet the funding needs unique to start-ups to avoid the dilution of management's ownership stake and ensuring financing sources at a firm's critical growth phase. Venture debt is attracting attention as a financing method that fills the gap between equity investment by venture capitalists and general bank financing.

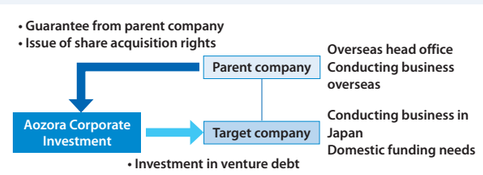
**Initiative Example**

We go beyond a "one-size-fits-all" approach and feature flexible product design that matches well with the needs of start-ups.

**Provide large-size venture debt by coordinating with other banks**




**Provide venture debt to overseas-registered start-ups conducting business in Japan**




## B Spark



Etsuo Zaitoku
President and CEO

### Teaming Up with Start-ups to Provide Society with New Value

### Business Areas and Strengths

B Spark Inc. is a company established as a joint venture between B Dash Ventures Inc., a major independent IT venture capital firm, and Aozora Bank under the concept of gathering the abilities of start-ups to accelerate DX in Japan.

B Spark is a unique company with two businesses: corporate DX support, which provides ideal DX solutions for the various DX issues that companies face by leveraging an extensive start-up network, and business development support, which encourages start-up growth.

Moreover, B Spark collaborates with regional financial institutions to not only provide solutions but to proactively disseminate information through events and other means to promote regional DX.

Furthermore, we also take on the challenge of new business creation through support in such areas as green transformation (GX) aimed at decarbonization management and support for business building in the Web 3.0 domain using blockchain technologies.

**Initiative Example**

**Project to Migrate a Customer's Accounting System**

We provided a customer with consultancy services from an alliance partner start-up, and supported them in streamlining inefficient administration at multiple offices by introducing a cloud-based system, and assisted their business operation construction. This was an example where Aozora Bank, the consultancy company and B Spark collaborated to provide a DX problem solution for a customer.

**Joint Webinar with a Regional Financial Institution**

B Spark held a seminar on the invoice system with the objective of providing the latest information on the revised tax system and introducing solutions. A local tax office official served as a speaker and we were highly commended by participating companies.

# Institutional Banking Group

## M&A Advisory Group (MAG)

### Business Areas and Strengths

We provide one-stop support to corporate customers ranging from SMEs to large companies for domestic and cross-border M&As through our expertise and extensive network established over many years.

Our strength lies in providing consultations that matches companies' growth cycles through services provided by highly experienced professionals with long careers in M&A and the private equity businesses in collaboration with business groups such as the Retail Banking Group, Institutional Banking Group and buyout /business succession funds.

We are registered as an M&A support organization with the Small and Medium Enterprise Agency, and work in collaboration with regional financial institutions and other organizations throughout Japan to address the issues of business succession for SMEs and revitalizing regional economies.

We proactively advance business alliances with M&A companies that have specialties and strengths such as regional specialization or industry specialization. Overseas, we meet a wide range of our customers' M&A needs by leveraging alliances with financial institutions across Asia, including Orient Commercial Joint Stock Bank (OCB) in Vietnam.



Shu Takahashi
Executive Officer
Head of M&A Advisory Group

### Environmental and Issue Awareness

Globally, many companies are showing a cautious attitude toward M&A against a background of rising uncertainties due to factors such as rapidly progressing inflation and U.S. bank failures.

Japan, where there are many SMEs, has a growing number of aging managers, with the average age over 60 and continuing to rise, and a high level in the rate of lacking a successor for the business at approximately 60%.

Moreover, many companies face surging raw material prices, labor shortages and borrowings inflated by the COVID-19 pandemic, and these factors have accelerated the closure of businesses and having a significant impact on local economies.

In Japan, while there are still many managers who are reluctant to sell their business through an M&A, the need to pass on the valuable technology and skilled human resources of SMEs to next generations is growing every year.

Given these conditions, through our M&A advisory services, we will provide support for the enhancement of our customers' corporate value, structural transformation, and addressing issues including business succession, with a view to contributing to the development of society.

### Business Succession in Collaboration with the Retail Banking Group

The wide range of consulting services provided by the Retail Banking Group and the customized consulting services provided by ABN Advisors were able to provide significant reassurance to a customer of the Fukuoka Branch with business succession needs, and business succession was successfully accomplished through a business succession fund managed by AJ Capital.




## ABN Advisors

### Business Areas and Strengths

ABN Advisors started in 2017 as a wholly-owned subsidiary of Aozora Bank. Through our approximately 30 advisors, the majority of whom are in their 20s to early-30s, we provide M&A advisory services focused on business succession for SMEs in regions throughout Japan. As a bank-affiliated M&A specialist company, we provide customized solutions with reliability and reassurance that are tailored to the unique conditions facing each customer.




An advertisement on the Yaesu north exit side of Tokyo Station



Keiichi Yamamoto
Representative Director and President

## Initiative Examples Rolling Out across Japan

### Initiative to Revitalize Regional Economies

We have had M&A advisors stationed permanently at the Nagoya and Fukuoka branches since 2023. We're engaged in revitalizing regional economies in the Tokai and Kyushu regions where M&A and business succession needs are expected, focusing on the automobile and semiconductor-related industries, where the industry transition is taking place.





### Business Alliances with M&A Companies with Regional and Industry Specializations

We will form business alliances related to M&A with companies that have strengths in the Tokai region, Kyushu region and TMT (technology, media, telecommunications) industries: meinan M&A co., ltd., DOGAN, Inc. and Sangyo Sosei Advisory Inc.

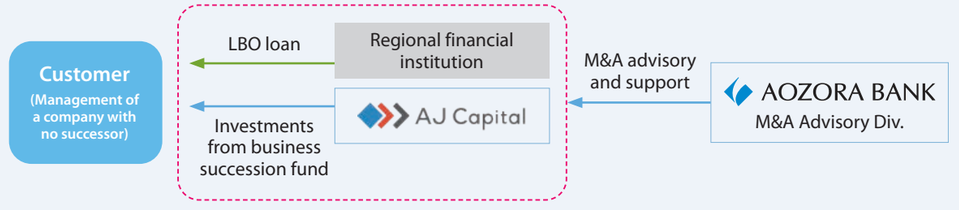






### Collaboration with Regional Financial Institutions

We provided business succession support for a civil engineering company in the Sanin region through collaboration with a regional financial institution. The Aozora Group collaborates with regional financial institutions throughout Japan and supports business succession for the SMEs that are the core of local economies.




### Held a Business Succession Seminar

We held a business succession seminar with Gifu Shoko Shinyo Kumiai. We described an example of using the AJ Capital business succession fund and business succession case studies for about 50 officers and employees of the institution's sales divisions.



# Structured Finance Group

## Environment Business Group (EBG)

### Business Areas and Strengths

The Infrastructure and Environment Finance Division made a full-scale start in April 2022 with the merger of the team responsible for project finance mainly for domestic renewable energies and the team responsible for overseas project finance.

The name of the Infrastructure and Environment Finance Division derives from a strong desire and determination to contribute to the social economy through a focus on financing to realize a decarbonized society that includes renewable, clean and transition energies.

We were one of the top level originators, having arranged domestic project financings for 11 solar power plant projects totaling over 90 billion yen in FY2022. We will contribute to the expansion of clean energy and development of local economies by collaborating with regional financial institutions in syndicated loans and by providing financing opportunities through our financial institutions platform.

We are developing our overseas environment business by participating in financing projects in Europe and the U.S., the environmentally advanced countries in order to accumulate knowledge and experience, and leveraging a variety of information obtained through our overseas offices including New York Representative Office.

We aim to become the No. 1 bank in the environmental finance field by further expanding our business globally going forward through the integration of the domestic and overseas teams.



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

### Collaboration with Regional Financial Institutions in the Environmental Finance Field

We originated syndicated loans totaling over 90 billion yen for multiple projects including mega solar development/purchase projects in Japan as a lead arranger in FY2022. We syndicated a total of more than 30 billion yen to regional financial institutions through our financial institutions platform to support the development of local economies and the realization of a decarbonized society.

**Major Businesses**

- Arrangement, execution and syndicated loan origination for environment-related project financing primarily for renewable energies
- Initiatives in the new area of environmental finance, including green energy finance and transition finance domestically and overseas
- LP investments in environment-related equity funds and infrastructure funds

### Environmental and Issue Awareness

Based on Aozora's Sustainability Targets announced in September 2021, we positioned sustainable finance as one of our most important financial businesses and are moving forward on initiatives toward the realization of a decarbonized society in response to climate change.

The environment surrounding global energy security has changed significantly and we need to shift from fossil fuels to renewable and clean energies.

In addition to construction of power plants with the existing technologies such as solar power and onshore wind power, which are the main renewable energy generators, offshore wind power plants are expected to be fully developed in Japan. Renewable energy generation in new fields and using new technologies such as hydrogen and ammonia is also expected to expand going forward.

Given this environment, the Environment Business Group is working in a focused manner on environment-related project finance in Japan and overseas to achieve targets of a cumulative total of one trillion yen in sustainable financing, including 700.0 billion yen in environmental financing, by FY2027, three years ahead of the initial target of FY2030, and endeavor to reach our target even earlier.





## Acquisition & Structured Finance Group (ASG)

### Business Areas and Strengths

We have been participating in LBO financing in Japan since the early 2000s, and involved as an arranger in many large-scale projects such as carve-outs of major companies and going-private projects, as well as SME business succession projects, supported by our strong network with many private equity funds, including global funds.

Group members are comprised of experienced professionals with a high level of expertise and risk analysis and structuring skills. For example, the source of our competitiveness comes from high-level due diligence conducted mainly by people from consulting firms and a deal-specific in-house legal team comprised of qualified members.

We will further enhance the efficiency of investments and loans by strengthening our underwriting capability for mid- to large-sized projects, supported by our strong distribution capabilities.

We will contribute to the development of a sound LBO market in Japan by providing attractive investment and financing opportunities to investors such as central institutional investors and regional financial institutions through syndicated loans and loan funds, as well as by providing information on LBO financing and specific transactions.

In collaboration with our M&A-related divisions, we have developed a one-stop system that can provide a range of services from advisory to financing, and, we provide tailor-made M&A financing to regional financial institutions for their clients' business successions and other issues that need to be resolved through our financial institutions platform. We contribute to the community in collaboration with regional financial institutions.

**Major Businesses**

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

### Environmental and Issue Awareness

For the LBO market, M&A activities including business succession carve-out (sales of subsidiaries and businesses, etc.) resulting from the selection and concentration of major listed companies and the privatization of listed companies, continue to be active and a record number of buyouts is expected in 2023.

The number and volume of our LBO finance transactions remain strong, and we are further enhancing our presence in the market and position as a leading bank. Market size is expected to expand even further in the post-COVID-19 world and we aim to promote industrial transition and realignment through LBO/M&A financing, and will contribute to solving social issues such as business succession.

**Column**

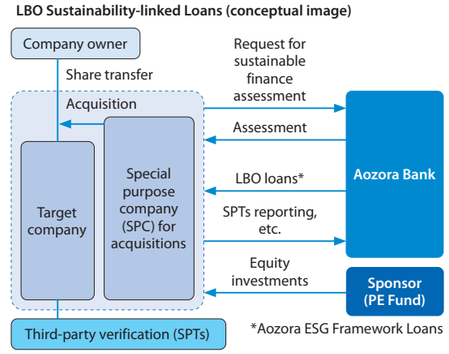
Aozora originated a syndicated loan as the Bank's first LBO sustainability-linked loan, utilizing the Aozora ESG Framework Loans for a domestic private equity fund's acquisition of shares in an intermediate waste processing company.

LBO sustainability-linked loans are loans intended to support customers' sustainable business activities and growth by establishing ambitious Sustainability Performance Targets ('SPTs') that are consistent with their sustainability strategies and aligning loan terms and conditions, including interest rates, with the achievement of SPTs, and encourage them to achieve the target.



Aozora is striving to foster and develop a sound LBO loan market by providing training and case study sessions and accepting trainees upon requests from regional financial institutions to be of help in solving local business succession issues and other problems.

**LBO Sustainability-linked Loans (conceptual image)**



# Structured Finance Group

## Special Situations Group (SSG)

### Business Areas and Strengths

Business environments are becoming more challenging for companies with rising commodity prices, labor shortages and the end of government's financial support system. The knowledge and experience the Aozora Group has developed over many years in the recovery business is expected more than ever now as solutions for issues that companies face from the impact of the COVID-19 pandemic. The Aozora Group is proactively addressing the recovery financing needs of regional financial institutions and distressed businesses.

Moreover, as digitalization and overseas expansion have not progressed in the business recovery area yet compared to other businesses, we will strengthen our recovery business initiatives for the next generation, including DX promotion and overseas expansion, as well as support the business revitalization of regional financial institutions' clients through our recovery funds.

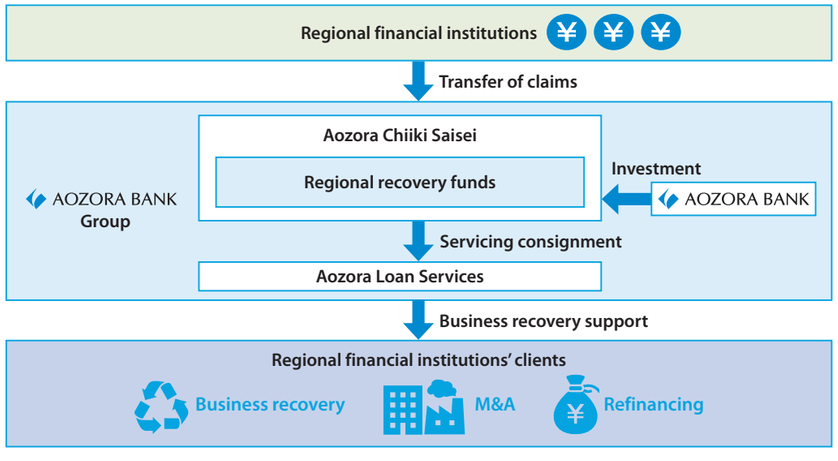


Takashi Hagio
Executive Officer
Head of Special Situations Group
President of Aozora Loan Services

### Environmental and Issue Awareness

The Aozora Group has over 20 years of experience in the recovery business. Our group company, Aozora Loan Services (Aozora Servicer), is a leading company in the servicing industry and has built up a network covering over 80% of the nation's regional financial institutions. In addition, the Bank's Special Situations Division is engaged in recovery-related financing domestically and overseas and is highly recognized within the industry. There are almost no other financial institutions in Japan where the servicer and a business division specialized in recovery finance work as closely together, which makes our capabilities quite distinctive.

**Overview of Business Recovery Scheme**




## Aozora Loan Services

### Business Areas and Strengths

Aozora Loan Services (Aozora Servicer) was established in 1999 with the enactment of the Act on Special Measures Concerning Claim Management and Collection Business and since then as a leading company in the servicing industry it has been engaged in a number of recovery businesses. In our initiatives using regional recovery funds, we support a wide range of projects, from recovery-oriented to business closure-oriented projects and from large to small projects, and provide recovery support by utilizing the capabilities of the Aozora Group.

## Dialogue between Front-line Professionals Responsible for Business Recovery




**Please tell us about being on the front lines of business recovery.**

Aoyama: I'm engaged in financial institution sales for Aozora Loan Services. Servicers (loan servicing companies) used to work for the business of non-performing loan servicing for banks, but recently there have been more consultations with financial institutions related to business recovery. Although the government's financial support system may have helped the financial institutions to support their clients get through the COVID-19 pandemic, they now have many concerns about client support after the pandemic.

**Why are the number of consultations regarding business recovery increasing?**

Aoyama: Currently, use of "recovery-type servicers" is being encouraged as part of government-led measures to support SMEs toward the post-COVID-19 era. In addition, the Aozora Group has been managing recovery funds for two decades, and I think this track record in business recovery up until now has probably led to some expectations.

Fujiwara: Aozora Loan Services has been involved in a wide range of cases of varying sizes, industries, regions. I believe that our greatest strength is the wealth of human resources developed through experience with these initiatives.

**How do you respond to customers' consultations on business recovery?**

Aoyama: We ask questions about the customer's own history and history of their business with financial institutions, then try to get detailed information about what kind of support they need going forward.

**What are the most frequent kinds of cases?**

Aoyama: I often get the feeling that the regional financial institutions have a strong desire to have their clients overcome their difficult situation and return to normal financial transactions with their clients. There are many cases where the client has done everything they possibly can and is worried about being unable to see a way out, so come to the Aozora Group to see if there is something that we can do, and we strive to think together and link that to proposals.

**Do you have a dedicated business recovery division?**

Aoyama: Aozora Loan Services has a Business Recovery Support Division. The division has shared issues being faced by clients with the relevant relationship managers and then proposed solution measures.

**What kind of difficulties are involved in business recovery?**

Fujiwara: Financial institutions often fail to share their concerns with their clients, so we start with solving the concerns of these financial institutions first. Some customers may think this is overly intrusive, but there are times when we visit clients together with the regional institution and propose solutions to the client if it is necessary for us to do so. Recently, we have been increasingly involved in business recovery of mid- and large-sized companies and not just SMEs. In such cases, we collaborate with Aozora Bank and other group companies as part of the recovery support framework.

**What is it about business recovery that you feel rewarded?**

Aoyama: I'm truly delighted when we've solved a local customer's problem together. I feel great happiness when I am able to stand by and hear the financial institution and its client say "thank you" to us after we have once temporarily taken over their liabilities and they have been able to return to normal transactions with a regional financial institution. When I think about being able to contribute to local communities, even a little, I'm ready to go out on business trips day after day.

Fujiwara: Business recovery initiatives are difficult because they never follow a pre-set path. Who could have imagined the COVID-19 pandemic? However, taking on difficult problems that were inconceivable to me at first and then overcoming these problems together with clients and colleagues, despite concerns, made me feel like this has gradually led to my own personal growth. Now, I have a strong desire to be involved in as many consultations as possible.

**What business recovery issues do you think are going to need to be addressed in the future?**

Aoyama: I think it's important to get involved in as many business recoveries as possible and communicate with business recovery specialists to gain their trust. I would like to engage myself in business recoveries not only by working within the Aozora Group but by proactively seeking help from outside experts.

Fujiwara: Going forward, I would be very pleased to see the entrenchment of an Aozora-style business recovery leveraging recovery financing provided by Aozora Bank.

Aoyama: Although there are great expectations and pressure from those around me, I have many reliable colleagues within and outside of the company, which is an asset. I'm delighted that I can share my concerns, joys and growth with my colleagues.

# Structured Finance Group

## Real Estate Finance Group (RFG)

### Business Areas and Strengths

Since its inception, Aozora has focused on real estate finance. Initially, our main focus was on loans to real estate companies, but as the real estate securitization market developed in Japan, we have expanded our business areas to include real estate non-recourse loans and real estate equity investments, as well as extended our business coverage areas from the domestic market to North America and Europe.

Aozora's strength lies in its ability to manage specialized real estate financing based on the experience, track record, and expertise accumulated in real estate finance over many years.

Members of the RFG are a diverse team of human resources, including permanent employees with many years of involvement in real estate finance, mid-career hires with various experience accumulated in real estate companies or other financial institutions, young employees who joined Aozora as new graduates, and foreign nationals and those who are fluent in English.

In collaboration with Aozora Real Estate Investment Advisors ("AREIA") and other Group companies, we will create new financial added value in the real estate area and contribute to the development of society.



Kouji Igarashi
Executive Officer
Head of Real Estate Finance Group

### Environmental and Issue Awareness

Real estate and the real estate industry targeted by real estate financing are expected to contribute to society and the global environment through evolution by DX as well as promotion of the SDGs. We hope to be useful in resolving issues for real estate and the real estate industry by promoting sustainable finance that supports the SDGs and leveraging IT technologies to develop new financial services related to real estate.

For real estate financing targeting the real estate market, which is cyclical with rises and falls, it is important to: 1) have a deep understanding of real estate; 2) have a disciplined approach; and 3) always maintain a diversified portfolio. In falling phases, we need to devise ways to turn new projects needing investments and loans into quality projects that can be expected to be profitable while controlling risk. Because of that, we always want to have the mind-set of adding value through finance and contributing to the development of customers and society learning thoroughly about real estate, society and the world.

**Column**

Aozora is involved in the real estate finance area, including financing for green buildings, sustainability-linked loans, and social loans (the building in the image below is a condominium for sale for seniors where a loan was provided).



## Aozora Real Estate Investment Advisors ("AREIA")

### Business Areas and Strengths

As a real estate asset management company that is a wholly owned subsidiary of Aozora, we provide real estate-related fund products and solutions services to investors, centered on regional financial institutions engaged in a wide variety of transactions with the Aozora Group.

The business model AREIA aims for is to continue to create products and services including advisory services for real estate transactions using fund functions such as real estate trusts and special purpose companies, and assist in regional revitalization through real estate funds by making the most of our position of being able to engage in real estate finance from a variety of standpoints and the real estate resources the Aozora Group has accumulated in addition to providing financing opportunities.



Takashi Imai
Representative Director
and President

## Real Estate + Finance + The World: Talking to Professionals on the Front Lines of Real Estate Finance

**Please tell us about the strengths of Aozora's real estate finance operations**

Igarashi: Aozora Bank has focused on real estate finance since its inception, and the accumulation of experience since then is one of our strengths. In addition, we have a system in place for close collaboration between the RFG, the Appraisal Division, which conducts real estate appraisals, the Credit Division with a rich history in real estate projects, and overseas offices such as the New York Representative Office, which supports overseas projects. We have highly knowledgeable human resources who are active as real estate professionals.

**Please tell us about the types of duties that members of the RFG are responsible for.**



Masayuki Kamihira
Corporate Business Div. I

I'm responsible for real estate companies, with the attributes being that we have many long-term and close customers. While leveraging the knowledge we have cultivated in corporate finance and real estate finance, we aim to be commended for ascertaining customers' latent needs and increasing added-value through specialized proposals.



Miki Iwase
Corporate Business Div. V

I'm responsible for major real estate companies and REIT loans. Recently, customers have shown an even greater level of interest in SDGs and ESG. To respond to these needs, addressing sustainable finance has never been more important for Aozora as well, and we are promoting proposals leveraging "Aozora ESG Framework Loans" and other options.



Akihiro Kakehashi
Real Estate Finance Div.

In the Real Estate Finance Division, we originate domestic real estate non-recourse loans and real estate equity investments in Japan and overseas, and I am responsible for real estate equity investments in Japan and overseas. Aozora has a rich track record in real estate finance, focused on loans, and we can use that cultivated expertise in equity investment operations. I am a mid-career hire via a real estate-related company and we have many other Bank employees in the division with a range of backgrounds. We have a corporate culture that enables diverse human resources to thrive, which I believe is a significant strength of Aozora.



Yao Tong
Global Real Estate
Structured Debt Div.

The Global Real Estate Structured Debt Division utilizes the professional knowledge the Aozora Group has accumulated over a long period to originate overseas real estate non-recourse loans. We carefully select and acquire overseas real estate non-recourse loans originated by major overseas financial institutions. For project management, we exchange emails and phone calls with major financial institutions that work as local agents. We communicate in English in places where there are time differences, but also closely collaborate with the New York Representative Office for projects in North America. We have many officers and employees of different nationalities actively involved, myself included.

**What sort of work does the Group company AREIA carry out?**



Kenji Maekawa
AREIA

At our company, I am responsible for managing existing funds, acquiring real estate for investment in new funds and considering loan structure. In managing existing funds, I realize that increasing the value of real estate in cooperation with many parties concerned is leading to the creation of a better "city."

I feel that only our company can provide such an experience.

As we aim to provide products and services that "go beyond finance," we need to break out of the mold and explore new possibilities, which can be challenging, but also provides many new discoveries.

# International Business Group

## North America/Europe

### Business Areas and Strengths

North American/European corporate finance is an important contributor to Aozora Bank's earnings. With a sizable market in Europe and the U.S., we aim to generate stable earnings by financing industries and companies with favorable potential.

In our New York and London subsidiaries, we have direct access to the market and are expanding our business by building a broad network of market participants, including the market leaders in these regions. Through a seamless monitoring framework where the three local offices in Tokyo, London, and New York work closely together, we are able to closely monitor changes in the credit status of our borrowers and respond flexibly to maintain, manage, and operate a globally risk-diversified loan portfolio.

We are also strengthening the governance of our subsidiaries by holding regular meetings between Tokyo and each office to share credit policies, among other measures.



Mitsuhiro Segawa
Executive Officer
Head of International Business Group

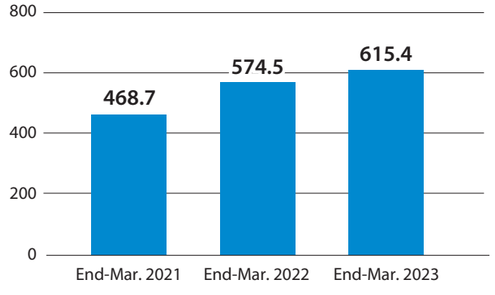
### Environmental and Issue Awareness

We will strive to earn stable income by selectively growing high-quality assets in line with the risk appetite of the Bank, while paying attention to the impact of financial market trends on the economy and corporate performance against the backdrop of global inflation.

In addition, through the cooperation of the three offices mentioned above, we will continue seamless monitoring on a global basis and aim to maintain and improve the quality of our portfolio through flexible risk management.

In order to achieve sustainable business growth, we will continue to implement specific measures to enhance our operating base, such as strengthening business collaboration among offices and improving infrastructure, including IT, while further promoting the development of international human resources, securing the necessary personnel, and ensuring their optimal deployment.

**Overseas Corporate Loan Outstandings***
(billion yen)




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

## Aozora Europe Limited

### Business Areas and Strengths

Aozora Europe Limited has established a business infrastructure that includes analytical skills and a network for investment and loans to European companies and others, which is not something that can be achieved overnight. We are one of the few Japanese financial institutions in the region that is growing including new businesses initiatives. Our employees of diverse nationalities are knowledgeable about local conditions, and they engage in friendly competition to further grow as a member of the Aozora Group and as a European company with strong roots in the region.



Tsuyoshi Sasaki
Managing Director

## Aozora North America, Inc.

### Business Areas and Strengths

Aozora North America, Inc. is focused on the sustainable performance of our North American corporate loan investment portfolio. In order to maintain portfolio creditworthiness amid volatile market conditions, we take a disciplined operational approach that prioritizes investment selection and risk management. As the North American base of the Aozora Group, we monitor North American market trends in real time and respond appropriately to the current unstable market conditions. We will continue these activities in the future as well.



Anthony Pui
President

### Aozora Europe Limited (AEL): Real Voices from Local Offices

#### Our pride in being a European liaison office

AEL is the Aozora Group's only European liaison office. We have access to the latest European financial products, know-how, and market trends. Active carbon trading is very uniquely European.

We contribute to the Aozora Group by providing a variety of support and timely information.

#### Taking on new business challenges

In addition to our investment advisory service with debt fund investments, we identify and review products through communication with external counterparties. We also take on the challenge of new markets to capture growth opportunities. We leverage the insights gained from our venture-related business in Europe to support Aozora Group's ecosystem and DX promotion.

Since its establishment, AEL's business has continued to grow and expand, having established its market position as one of the few entities in Europe that takes and holds leveraged loans through a team of specialists.




### Aozora North America, Inc. (ANA): Real Voices from Local Offices

#### Our dedication to growing the North American business as a local subsidiary

ANA began operations in New York in September 2020. We're developing our North American business while communicating with Tokyo Head Office staff. The majority of ANA employees are locally hired, and they gain important experience through detailed corporate analysis unique to the Aozora Group. We look forward to continuing to grow our business in North America as part of the ANA team and contributing to the ongoing success of the Aozora Group.

#### Timely access to the latest local information

One of the most significant advantages of the ANA office based in New York is its direct contact with relevant business counterparties: financial institutions, rating agencies, and even the corporate borrowers. Compared to Tokyo, given the time difference, ANA is able to obtain updated and useful information in a more timely manner, and we experience the significance of its presence every day. We will dedicate ourselves to promoting operations that are always attuned to global trends while receiving inspiration from our local employees, who are a valuable group of diverse human resources.



# International Business Group

## Asia Investment

### Business Areas and Strengths

#### Partner Strategy + Capturing Growth in Asia

Our key phrase for our Asia-focused business is "capturing growth in Asia," and the basic strategy is "partner strategy." This "partner strategy" complements our proprietary office network by forming capital and business alliances with leading financial institutions in Asia, and investing in their funds that are knowledgeable in local business.

In order to capture growth in Asian countries which are expected to continue growing rapidly, our Asia-focused business will strengthen equity-related businesses that can target potential growth opportunities.

In addition to our office network, we are developing a strategy to capture the high growth in Asia, keeping in mind the optimal allocation of assets and resources by country and region, through our broad network of local strategic partners, including the Orient Commercial Joint Stock Bank in Vietnam, our capital and business alliance partner in Asia, and other business alliance partners.



Shin Kato
Executive Officer
Head of Asia Investment Group

### Environmental and Issue Awareness

The recent COVID-19 pandemic caused a temporary disruption in economic activity around the world, including in Asia. Fortunately, infection levels have been tapering off, and economic activity and business have resumed worldwide.

In other Asian countries, post-COVID business development is progressing at a faster rate than in Japan, and we are accelerating our business expansion in Asia, including investment and financing, so as to not miss out on this trend.

There is a growing need among our customers and our partner financial institutions' customers to enter and develop business in Asia and promote transactions between Japan and other Asian countries. We will continue to support these needs by making full use of our Group's resources.




## Aozora Asia Pacific Finance Limited (AAPF)

### Business Areas and Strengths

We will fully leverage our partnerships with leading players in Asian countries and regions and our proprietary network to advance our role as an R&D center in Greater China by striving to discover unique and attractive business opportunities specific to Asia that cannot be found in Japan or the U.S.

#### Major Businesses

- Asset management services for the Aozora Group in the Asia-Pacific region
- Promotion of Aozora Group's Greater China-related business



Ryouhei Sasaki
Managing Director

#### Pursuing Unique Asian Investment Opportunities That Only AAPF Can Develop

I am responsible for investing in a private debt fund. The fund invests in a wide range of countries in the Pacific region, including China, India, Hong Kong, Singapore, and Australia, and our investment strategies include direct lending, special situations, and distressed investments. From Hong Kong, I make frequent visits to each country and region to deepen our relationships with fund managers and discover new investment opportunities.



Kohei Nakai
Senior Vice President

## Orient Commercial Joint Stock Bank (OCB)

**Established: 1996**
**Stock listing: Ho Chi Minh Stock Exchange**
**Total assets: approximately 194 trillion Vietnamese dong** (approx. 1,086 billion yen)
**Number of employees: 6,052**
**Number of branches: 149**
(As of December 31, 2022)

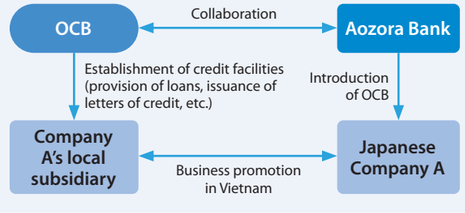
OCB supports the overseas development and business expansion of the Vietnamese subsidiaries of Japanese corporate customers of the Bank and regional financial institutions. OCB Japan Desk staff members assigned by Aozora Bank provide financial services such as opening deposit accounts, foreign currency remittance, funding (loans and trade finance), and business matching through the local network.

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

**Extensive lineup of services**

- Local account opening
- Local information provision
- Assistance with remittance
- M&A advisory
- Local funding

**Example**




#### Japan Desk and OCB's Japan-related Business

Since its capital and business alliance with Aozora Bank, OCB has focused on expanding its Japanese corporate client base. Members assigned from Aozora Bank to OCB serve as a bridge between OCB and the Aozora Group and operate the Japan Desk. The Japan Desk collaborates with OCB's foreign business team to support sales activities and promote Vietnam-related business.

OCB excels in digital banking, and in order to make this strength directly available for Japanese corporate customers, OCB has released a Japanese language version of its corporate Internet banking service, "OMNI CORP," the first Vietnamese private bank to do so. Japanese corporate customers can now use the Internet banking service on OCB's website in Japanese. In addition, while OCB's services have traditionally focused on Japanese companies, it is currently conducting a campaign in the retail sector to open accounts for individuals, targeting more than 20,000 Japanese residents in Vietnam.

OMNI CORP Japanese Language Project team members



OCB Japanese Campaign Project team members



# Customer Relations Group

## Allied Banking Group (ABG)

### Business Areas and Strengths

The ABG serves as a business platform in the Group covering financial institutions, regional companies and public institutions nationwide.

The source of our value creation lies in sharing the issues and needs of regional financial institutions, who are local stakeholders, as well as business corporations, individuals, and public institutions, which are their customers, and creating business by utilizing our different solutions, and eventually contributing to the enhancement of added value and also achieving sustainability of the region.

Our strength lies in a strong network built by engaging in a broad range of transactions with regional financial institution customers across Japan for over 60 years. By leveraging this strength, together we will continue to create value as well as contribute to a virtuous cycle of business in the region.



Naoko Tanaka
Executive Officer
Head of Allied Banking Group



Akemi Hashimoto
Managing Executive Officer
General Manager of Kansai Branch

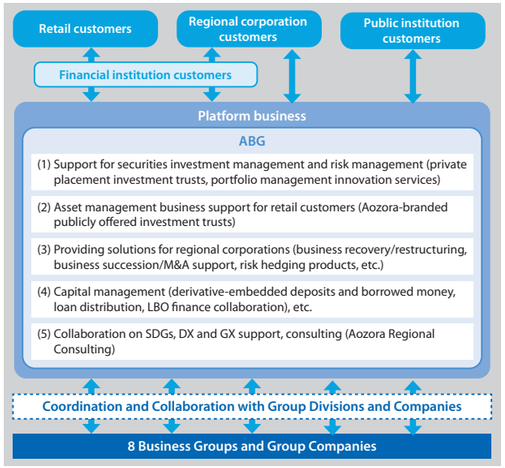
### Environmental and Issue Awareness

The environment surrounding financial institutions has been changing drastically due to changes in the global market and responses to new managerial challenges such as corporate social responsibilities, including SDGs and DX.

In addition, the conditions of the regional economy supported by regional financial institutions, who are our important customers, are undergoing drastic changes, and demands for the Aozora Group are also diversifying and accelerating.

In response to such changes in customer needs, Aozora is promoting collaboration across the group through the provision of multiple types of solutions and tailor-made proposals. In order to meet these needs, we are constantly required to enhance our capabilities for human resources, solutions and products.

We will enhance the training of human resources suited for a platformer as one of our basic policies and work to ensure organizational flexibility.




## Aozora Regional Consulting

### Business Areas and Strengths

We will leverage our expertise accumulated over the years and the Aozora Group's network across industrial, academic, governmental and financial sectors to offer consulting on issues faced by regional financial institutions such as management improvements, human capital investment, and growth support for business partners, thereby helping to revitalize the regional economy.



Nobuyuki Horiuchi
Representative Director
and President

### Initiatives for Industry-Academia Collaboration

We hold a Basic Banking Seminar every year in collaboration with the Faculty of Economics at Sophia University. The seminar takes the form of a discussion-based lecture in which we address new challenges such as investment for personal wealth building, environmental issues and finance, and financial innovation.



The following is an introduction to topics that demonstrate the characteristics of ABG in the three key aspects of value creation (fostering, change and recovery).

### Property Development Business toward Regional Revitalization —Providing Group-wide Solutions—

- Bank A, a regional financial institution, and Aozora have had a good relationship over the years through regular business meetings and information exchanges. The discussions have covered a wide range of issues, not limited to financial transactions, but also methods to promote regional revitalization.



- Bank A was asked by its customer Company Z for support to create a new business opportunity concerning property within the prefecture.
- Bank A determined that this would improve the value of the region, and while considering various proposals related to the project, it also wanted to make a higher value-added proposal with the Aozora Group as a partner based on the trust they have developed over the years.
- The Financial Institution Banking Group which received the consultation formed a team extending across the Group. Aozora Real Estate Investment Advisors served as the advisor, and participated in not only the financial transaction but the conceptual formation of the entire project.
- Having received the Group's advice, Bank A and Company Z both saw the potential of future business development, and established a finance transaction using a trust structure.
- By providing a broad range of solutions, we were able to meet the expectations of Bank A. We were pleased that we further strengthened our relationship of trust with Bank A, and also helped improve the region's value with them.

### Support for Strengthening Customers' Management in the Post-pandemic Era —Focusing on the Value of People—

- Bank B, a regional financial institution, carried out multiple types of support to strengthen the management of customers during the COVID-19 pandemic. Meanwhile, as daily life and economic activities gradually normalized, it considered a new approach to support for strengthening business partners' management in the post-pandemic era.
- Bank B and Aozora have a business history of over 60 years. During that time, Aozora has continued to collaborate with Bank B to meet the demands of the times, including fund management, syndicated loans, business recovery, and regional revitalization.
- Aozora Regional Consulting, whose strength lies in management consulting with a peer perspective as a financial institution, presented to Bank B the necessities which are commonly heard at regional financial institutions nationwide. In the presentation, we highlighted that the most important managerial resource for regional financial institutions is human capital, and that there is a need to develop human resources who can consider new business ideas, propose specific approaches, and identify management issues and provide solutions for their customers.
- The program, which integrated human resource development for regional financial institution staff to become manpower who can think like management consultants and develop plans to expand business opportunities, and support for strengthening the management of their customers, was a new initiative. It may take time to see the results of this program, but Aozora received positive feedback from Bank B, which said that it wanted to work on new initiatives emphasizing value creation and sustainability rather than immediate results.
- The Bank's attitude of continuing to make new proposals in response to management issues that meet the needs of the times, based on a relationship of trust cultivated over a long history of business, became an example that will lead to brand new initiatives with Bank B.



# Customer Relations Group

## Retail Banking Group (RBG)



Jun Nakashima
Executive Officer
Head of Retail Banking Group

### Business Areas and Strengths

#### Deposit Operations: BANK™

We provide BANK™, a highly convenient financial service that allows customers to engage in a broad range of transactions, including account openings, via a smartphone app. We will commit ourselves to providing a full array of simple and easy-to-understand services so that customers from all over Japan will be pleased they used our bank.

In addition to offering ordinary deposits and time deposits with attractive interest rates and debit cards enhanced with cashback rewards, we assist customers with cash management through ATMs in coordination with banks such as JAPAN POST BANK and Seven Bank. Our branches, BANK™ app, call center, and chatbot on our website enable us to help customers with daily use and inquiries. We will constantly work to improve these products and services through daily customer feedback and surveys to ensure that our customers are always satisfied.

#### Comprehensive Consulting Services beyond the Financial Domain

In order to meet a wide range of requests from individual customers and business owners in areas such as asset management, business succession, wealth transfer, and utilization of real estate, all of our business groups, including our licensed tax accountants, work together through branch consultants as our contact point and do their best to meet each customer's needs. One example is the introduction of non-financial services such as real estate and senior residences utilizing the Bank's network, which provides even greater opportunities to satisfy our customers. We will continue to promote Aozora's Platform Business, expand the services we are capable of proposing, and provide solutions tailored to the lifestyles and concerns of our customers.

#### Initiatives for Customers' Medium- to Long-term Wealth Building

We engage in proposal activities with the aim of growing customers' assets under management primarily focusing on Aozora Core Funds, a product that contributes to medium- to long term wealth building.

Under the new NISA system beginning in January 2024, we will provide information which is simple and easy to understand. Our website has been newly equipped with a purchasing simulation function that makes it possible to experience asset management up close, introduced new products to the periodic investment and growth investment frameworks, respectively, and we will offer even more proposals tailored to investment styles and life plans according to each generation. In addition, through the use of digital marketing, we will do all we can to help our customers' wealth building while trying out creative methods of communication so that customers seeking information can access it in a timely manner.

### Environmental and Issue Awareness

In an environment where the needs of people and companies are becoming increasingly diverse and complex, with the advent of the 100-year life span, changing lifestyles, the digitalization of society as a whole, and the convergence of financial and non-financial domains, we believe it is important to provide financial and non-financial services and know-how appropriately tailored to our customers' characteristics and needs.

Using BANK™, we will create an environment that enables all customers to access our services, and support the fulfillment of customers' rich lives through comprehensive consulting as we aim to become a bank with a meaningful existence.

In order to strongly adhere to our Basic Policy on Customer-Oriented Business Management and pursue the best interest for our customers, we will listen attentively to their diverse needs, and provide products and services tailored to each individual. We believe that the satisfaction of many customers will lead to the Group's growth, and will continue to offer services and consulting with high-added-value in a timely manner and aim to become a unique, sustainable bank that customers will select as their life partner.







In a survey (in March 2023) on internet banking conducted by Shirumiru Kenkyujo, we obtained the highest overall satisfaction ranking among internet banks chosen by women.

### Supporting Customers' Saving and Wealth Building, and Beyond

We are focused on providing information and offering guidance about products to BANK™ customers. We have newly established an outbound group across multiple locations consisting of the representatives of each branch across Japan to meet a wide range of customer needs, not limited to investment products, through close collaboration with branches.

Banks are often thought of as being able to provide two services to retail customers: "saving" and "building" wealth. However, we believe that the true value of money lies in "spending" it, and distribute "BANK The Story" through the BANK™ app based on the theme of how to wisely spend money to enrich one's life. The number of distributions has exceeded 200 in eight categories such as gourmet, travel, and shopping from the launch in 2019 up until now.

The app also includes a goal-setting function that allows customers to "save" the amount of money needed to realize their favorite story while having fun. In these and other ways, we support our customers' fulfilled lives.




### Comprehensive Consulting that Earnestly Addresses Customer Needs

We provide consulting services for asset management and business succession to our customers by assigning staff members who are certified tax accountants with expertise in business and asset succession. In particular, through comprehensive consulting services tailor-made for the succession of businesses and assets to the next generation, we listen carefully to the customer's current situation and future issues and needs, and handle everything from proposing solutions to enacting them by utilizing a network composed of specialists from both within and outside the Group.

We offer a testamentary trust service in which we help customers to draft and execute their wills. We think together with the customer about who they want to use their assets, and support drafting a will to make that a reality. We value the opportunity for customers to think about what they want to do in their future, and hope to relay that customer's thoughts and way of living to their surviving family members. Through the testamentary trust service, we aim to not only transfer assets but also to provide contentment and satisfaction to our customers and their families.



### For Secure Management Consultations

#### Initiatives for Customers Making Their First Investment

We have launched a project in collaboration with KINYU JOSHI, a female-led financial community, to deliver online and application content from a woman's perspective. As content for periodic investment released in April 2023, we held repeated discussions with KINYU JOSHI based on our desire for even those with no investment experience to take the first step toward investment at Aozora with peace of mind, included content to address concerns such as mistakes beginners make when starting to invest, and collaborated while trying to reflect feedback from real people as much as possible. We hope to continue delivering these types of projects to many customers in the future as well.




#### A Call Center Where Calls Are Connected Right Away

At our call center, we periodically organize our manuals, which are revised on a regular basis by those in charge of each operation as well as the team of operators who handle incoming calls based on the motto of a composition that is easily visible and can be understood by anyone in order to respond quickly and precisely to various customers.

We are making efforts so that we do not keep our customers on hold, such as introducing tools to simplify operators' paperwork to make customers feel comfortable when making inquiries. Our team works together to manage the call center, encouraged daily by the compliments we receive, such as that they can connect to the call center right away.

# Market Group

## Financial Markets Group (FMG)

### Business Areas and Strengths

#### Derivatives Sales & Trading

We provide optimal solutions to meet the needs of our retail, corporate, and financial institution customers. Our product development, sales, and trading teams work together to provide a range of derivative products, including interest rate, foreign exchange, and commodity derivatives, and propose and develop tailor-made financial products through detailed consultations.

#### ALM

In addition to building a balanced yen and foreign currency funding base and managing interest rate and liquidity risks on the balance sheet, we work to build optimal portfolios and secure stable earnings through globally diversified investments with a focus on highly liquid securities.



Tetsuji Okuda
Managing Executive Officer
Head of Financial Markets Group

### Environmental and Issue Awareness

#### Derivatives Sales & Trading

Amid increasing volatility in foreign exchange rates and commodities prices (such as oil and raw materials), we will offer hedging products matched to corporate customers' business type and their needs in order to stabilize their business results. We will also provide a diverse array of investment products primarily for retail and financial institution customers, and improve price competitiveness through appropriate risk control and by flexibly utilizing low-cost hedging methods.

#### ALM

Major central banks have significantly raised interest rates at an unprecedented speed against the backdrop of rising inflation in Europe and the U.S., but we may be approaching a turning point. We will aim to manage ALM through flexible risk control by identifying signs of market changes and implementing swift decision making.

### Column

### Proposing Products Tailored to Hedging Needs — Commodity Derivatives —

We propose products that help stabilize trading prices, such as customers' purchasing and selling prices, to address the fluctuation risk of energy and raw material prices.

**Features of Aozora's Commodity Derivatives**

- Conducting detailed risk analysis through correlation analysis and simulations
- Compatible with diverse product price indices
- Tailor-made product design based on customers' commercial distribution and raw materials
- Able to provide products (as a commodity futures business operator) to a wide range of customers from SMEs to major corporations

**Verification of hedge effectiveness (correlation analysis)**




**Examples of indices and hedged assets**




### Market Information Delivered by a Chief Market Strategist

Chief Market Strategist Akira Moroga delivers a broad range of market information through the media, including TV, newspapers, and financial information vendors, in order to address the global financial market which changes in complex ways on a daily basis. Mr. Moroga also actively engages in a number of activities to meet customer needs, such as visiting corporate and financial institution customers to make presentations and holding seminars at our branch locations.



# Aozora Investment Management

### Business Areas and Strengths

Aozora Investment Management was established in February 2014 as an asset management company of the Aozora Group and is now in its 10th year. We have consistently practiced our founding philosophy of "assisting customers with the important task of building wealth and providing investment trusts that help them lead affluent lives," and we offer investment opportunities on a global scale by developing investment trusts that incorporate excellent proven asset management approaches.

With the support of many customers, we have assets under management of 323.0 billion yen as of March 31, 2023. Of note, our "*Zenzo*" series and "*Juunen Toiro*" series, publicly offered investment trusts for retail customers, have been popular as unique products that achieve time diversification and sound stock diversification of investment portfolios. The assets under management of both series combined amounted to 381.8 billion yen.

We will continue to develop distinctive, customer-oriented products that meet the needs and best interests of our customers and contribute to their asset management by delivering detailed and high-value-added information.



Takayoshi Nomura
President & CEO

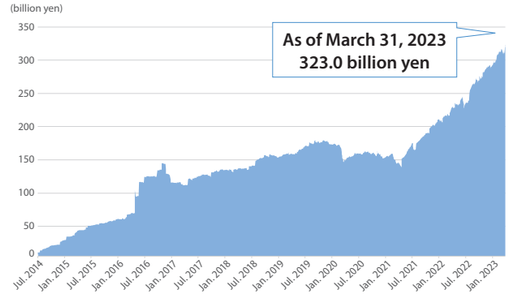
### Environmental and Issue Awareness

In November 2022, the "Doubling Asset-based Incomes Plan" was finalized by the Council of New Form of Capitalism Realization. The NISA system, the first pillar of the plan, will be expanded and made permanent as a new system from January 2024. In recent years, interest in investment and wealth building has been growing among young people, and we believe that the start of the new NISA system will be a catalyst for a broader shift from savings to wealth building.

Institutional investors have faced challenging operating environments due to the impact of rising interest rates worldwide. The environment continues to be uncertain this fiscal year regarding the timing of the end of the inflationary period in the U.S., the future direction of the Bank of Japan's monetary policy, and heightened geopolitical risks, including Russia's invasion of Ukraine.

Given these circumstances, we consider it our primary mission to promote the delivery of products and services that truly benefit our customers while pursuing the refinement of our asset management strategies. In the area of individual wealth building, we will also focus on financial investment education and contribute to the realization of a sustainable society through asset management.

**Aozora Investment Management: Changes in Assets under Management (Through Mar. 31 2023)**




### Initiatives of Aozora Investment Management

#### Creation of Aozora Investment Management's Official Characters, "Aozora FARM Friends"

The official characters of Aozora Investment Management were created at the time of the website renewal in March 2023. Aozora FARM friends, including "Aozoram," will guide you through the investment trust evaluation process in a way that is easy to understand.



Aozora FARM Friends

#### Collaboration with Sophia Start-up Club, a Student Organization at Sophia University

In collaboration with the Sophia Start-up Club, we have started a serial column on investment, economics, life, and community from the perspective of university students. The column provides easy-to-understand information for investment beginners and young people, and support wealth building among the younger generation.

Please visit us on Twitter (@Aozora_im_2014) and Instagram (@aozora_im_2014).

#### Aozora Investment Management's Work Style: Options to Work at the Office, from Home, or at a Satellite Office

Aozora Investment Management allows employees to work from approximately 150 satellite offices nationwide. A variety of work styles are offered to suit different business situations and work-life balance. Employees can come to the office when customers visit, work from home to balance work with childcare, or work from a satellite office when on a business trip or when they want to work in a different environment.

# Aozora Securities

## Business Areas and Strengths

Aozora Securities is a business platform in the securities business of the Aozora Group covering business areas restricted to securities firms. Our Retail Division provides products through bank intermediaries, while our Institutions Division focuses on the sale of financial products through integrated banking and securities services.

Currently, for customers of our Retail Division, we are diversifying our product lineup to include real estate products in small-lot and loan asset securitization products by utilizing the Bank's expertise, in addition to our existing product lineup centered on multiple types of bonds.

For customers of our Institutions Division, primarily regional financial institutions, we are branching out beyond Aozora Bank's corporate bonds and leveraging our position as a bank-affiliated securities firm to offer products and services focusing on a broad range of private placement funds through consulting-style sales that emphasizes the investor's perspective. In addition, we will continue to deepen our collaborative relationship with regional financial institutions in terms of supplying and structuring a range of financial instruments, aiming to build long-term relationships that are beneficial for both parties.



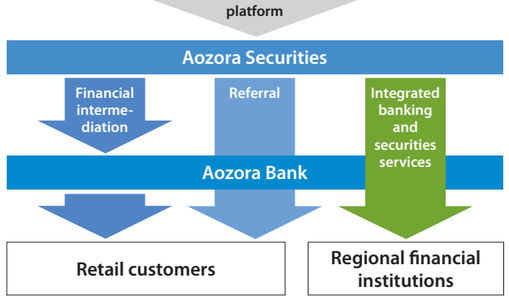
Satoru Mizumachi
Representative Director and President

## Environmental and Issue Awareness

The current financial environment has been highly volatile due to the emergence of geopolitical risks and changes in monetary policies in different countries in response to inflationary pressures. We have seen price declines and deterioration in performance of our products for retail and financial institution customers.

In this market environment, our Retail Division is reviewing its operational structure to be more customer-oriented. Specifically, we are promoting tighter standards for solicitation and targeting customers, and enhancing verification of risk-return and other aspects of marketability for our products. We are also actively working to strengthen our product proposal capabilities tailored to each customer by diversifying our products.

In the financial institutions business, we are making efforts to provide additional solutions that support the seamless management of institutional investors' securities portfolios. We will provide risk analysis in collaboration with the Bank and promote proposals for multiple bear funds and risk control products to meet risk control needs.




## Message from a Junior Employee



Takahito Uchida
Associate

Aozora Securities has identified security tokens ("ST") as a business that will create new financial added value and is currently working toward its commercialization.

STs are securities that are issued electronically using blockchain technology. They are backed by the value of real assets such as stocks, bonds, and real estate, and are also known as digital securities.

The ST business was launched following consultations with the Digital Transformation Division of Aozora Bank. It started out as a concept, but through a series of active discussions, our knowledge has grown and we are working toward its commercialization. In today's rapidly changing environment, we are focused on the following three elements for creating new innovations: (1) creation of opportunities through intergroup collaboration, (2) wide-ranging interest in a spectrum of fields arising from the curiosity of diverse human resources, and (3) an organizational culture that provides opportunities to challenge oneself regardless of experience level or prior achievements. As a securities firm in the Aozora Group, we are committed to creating new financial added value and providing new value to our customers, such as STs.



**Officers and Employees Supporting the Bank's Value Creation**








Recently graduated new employees will strengthen bonds with their colleagues and grow together through training camps.

Internal information sessions regarding the new Mid-term Plan "Aozora 2025" were held several times both face-to-face at the Head Office and online.



# Sustainability Promotion



Mayumi Takada
Executive Officer
in charge of Sustainability Management

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

From a long-term perspective, we will enhance our corporate value by realizing a sustainable society and contributing to society, customers, shareholders, employees, and all other stakeholders.

Our Key Sustainability Issues (Materiality), which are the issues we must prioritize in order to realize our management philosophy, are incorporated in the business plans of each business group under the new Mid-term Plan "Aozora 2025," and we have established a system to allocate resources in focus areas to steadily implement the plan.

We have made steady progress toward achieving Aozora's Sustainability Targets set in September 2021 through our ambitious efforts. We revised the targets in conjunction with the formulation of the Mid-term Plan and announced them in May 2023. In addition to revising targets for the Group's distinctive financial services and "Diversity, Equity, & Inclusion," the deadline for achieving net zero $CO_2$ emissions as a business entity has been brought forward to FY2030, and a target for achieving net zero $CO_2$ emissions in our investment and loan portfolio has been newly set for FY2050. As part of our responsibility as a financial institution, we will promote the decarbonization of society as a whole by setting long-term targets.

Public awareness of sustainability has been growing over the past few years. The Group sees this as an important phase in making sustainability a personal matter for each individual so that it will impact society in a positive way on a daily practice basis. We will continue as one in our tireless efforts toward a better future and actively contribute to the sustainable development of society.

## Basic Approach to Sustainability Promotion

### Aozora Group's Basic Approach to Sustainability Promotion

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

## Sustainability Governance

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

The Sustainability Committee evaluates and decides on important Group-wide sustainability issues, such as identifying and reviewing Key Sustainability Issues (Materiality) and addressing climate change. Matters for deliberation are discussed and reported to the Board of Directors as necessary.

The Liaison Meeting of Group Sustainability discusses practical matters and shares general sustainability information with the participation of Group companies and affiliates in order to improve Group governance.

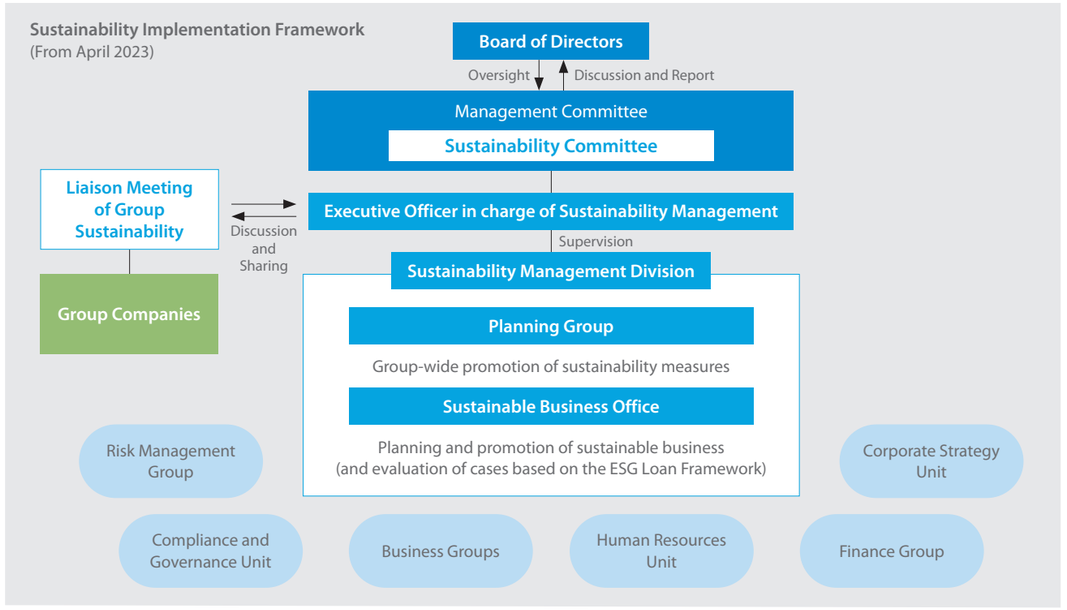
**Status of Meetings Held in FY2022**

| | Sustainability Committee | Liaison Meeting of Group Sustainability |
|---|---|---|
| Members | CEO (Chairperson), Executive Officer in charge of Sustainability Management (Deputy Chairperson), all executive officers, Standing Auditor and Supervisory Board member | Executive Officer in charge of Sustainability Management (Chairperson), presidents of subsidiaries, representatives from relevant divisions of related initiatives |
| Number of meetings held | 9 | 5 |
| Main agenda items | • Identification of new Key Sustainability Issues (Materiality)<br>• Disclosure in the Integrated Report 2022<br>• Revision of the Aozora Bank Group Investment and Lending Policies regarding Environmental and Societal Issues<br>• Membership in the Partnership for Carbon Accounting Financials (PCAF)<br>• Progress report on the measures to become carbon neutral as a business entity<br>• Sustainability promotion initiatives in the new Mid-term Plan<br>• Discussion on the future of the Head Office<br>• Measures to promote sustainability within the Aozora Group | (In addition to sharing information on the matters listed on the left to each Group company)<br>• Consideration and response to the formulation of the Aozora Bank Group Investment and Lending Policies regarding Environmental and Societal Issues at each Group company<br>• Revision of policies related to sustainability promotion |

The Sustainability Management Division, which plans and oversees the initiatives of the entire Group, plays a central role in addressing sustainability issues by incorporating the measures for each item of Materiality in the Mid-term Plan into the annual plans of each division and implementing the PDCA cycle.

In April 2023, the Sustainable Business Office, a team specializing in sustainable finance and decarbonization consulting, was integrated into the Sustainability Management Division. Through this integration, we will (1) strengthen our business with a focus on climate change response, (2) complement each other through integrated management of our business and initiatives as a business entity, and (3) develop human resources for sustainability.

## Sustainability Promotion System




## Support for and Participation in External Initiatives*

Task Force on Climate-related Financial Disclosures

The United Nations Global Compact

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

CDP
(Carbon Disclosure Project)

Equator Principles

Principles for Financial Action for the 21st Century

Partnership for Carbon Accounting Financials

## Inclusion in ESG Indexes (as of June 2023)*

FTSE Blossom Japan Index

FTSE Blossom Japan Sector Relative Index

MSCI Japan Empowering Women Index

Morningstar Japan ex-REIT Gender Diversity Tilt Index

S&P/JPX Carbon Efficient Index

*https://www.aozorabank.co.jp/english/sustainability/promotion/

# Sustainability Promotion

## Sustainability Policy Framework

Companies are expected to assume increasingly sophisticated and diverse roles regarding environmental and social issues, including environmental conservation, protecting human rights, eliminating unfair labor practices, and preventing corruption. Companies are also expected to fulfill environmental and social responsibilities not only in their own business activities but also throughout the supply chain. In particular, financial institutions are expected to contribute to solving environmental and social issues through their investment and loan portfolios.

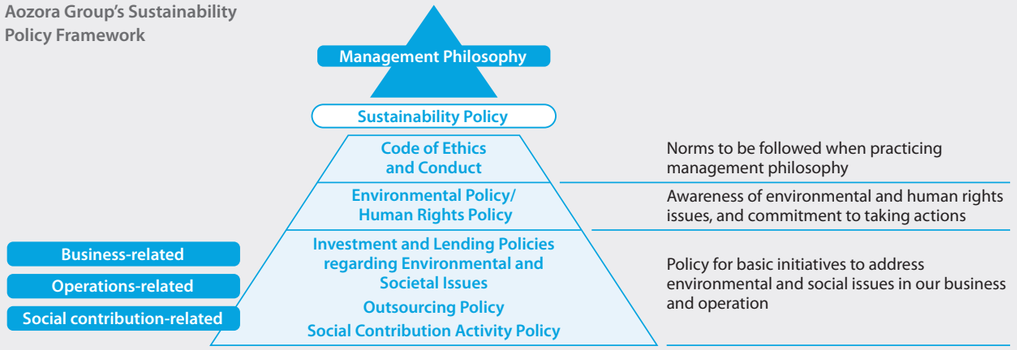
The Group has developed a Code of Ethics and Conduct to be complied by all Group officers and employees to practice our management philosophy. Our Environmental Policy and Human Rights Policy have set forth policies for environmental protection and respect for human rights, including those of our supply chain, based on the Code of Ethics and Conduct.

Based on our Environmental Policy and Human Rights Policy, we have established the Aozora Bank Group Investment and Lending Policies regarding Environmental and Societal Issues for investments and loans (business-related) and the Outsourcing Policy for external procurement (operations-related), including the purchase of goods and services, including systems and facilities, and outsourcing of business.

In June 2023, we established a new Social Contribution Activity Policy as a guideline for social contribution-related activities, and systematically organized the significance and positioning of donations, volunteer activities, and other social contribution activities of the Group.

These policies are disclosed to all stakeholders, including employees.

Aozora Group's Sustainability Policy Framework




Note: For the full text of each policy, please see the Financial and Corporate Data Section.

## Initiatives to Promote Respect for Human Rights

The Group regards respect for human rights as one of its Key Sustainability Issues. While it is natural that the Group does not violate human rights as a business entity, we aim to fulfill our social responsibility by eliminating human rights abuse, discrimination, and corruption from all businesses and supply chains involving the Group and taking proper countermeasures through dialogue when improvements are necessary.

In June 2023, we made significant revisions to our Human Rights Policy to be complied by all Group officers and employees, and added new provisions on compliance with international standards such as the United Nations' Guiding Principles on Business and Human Rights, specific details on what should be addressed for each stakeholder, and human rights due diligence and remedial measures.

Going forward, we will improve our implementation of human rights due diligence, develop a framework for respecting human rights in our operations, and continue to conduct educational programs for our employees to further raise human rights awareness throughout the Group.

## Outsourcing Policy

The Aozora Group has developed an Outsourcing Policy to promote environmentally and socially responsible outsourcing activities throughout the supply chain that conform with international standards such as the United Nations Global Compact and Guiding Principles on Business and Human Rights.

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

**Overview of the Outsourcing Policy**

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

## Investment and Lending regarding Environmental and Societal Issues

Regarding business activity that may have a negative impact on the environment or on society, the Aozora Group has established "Investment and Lending Policies regarding Environmental and Societal Issues" that outline policies for "cross-sectoral" and "specific sector." In July 2022, we revised the policies to specify investigation and verification that include the entire supply chain and reinforce aspects involving respect for human rights and conservation of biodiversity.

**Initiatives in sectors that have or may have a negative impact on the environment and society**

| Policy | | |
|---|---|---|
| Cross-sectoral | Credit prohibited | **Businesses, etc., deemed illegal**<br>• Illegal acts, acts violating international rules on environmental issues and human rights, customers associated with businesses involving acts against the public order/conventional morality, customers indirectly assisting such acts, anti-social elements<br>• Businesses which have a negative impact on wetlands registered under the Ramsar Convention<br>• Businesses which have a negative impact on UNESCO World Heritage sites (with the exception of businesses that have received the advanced consent of the government of the relevant country and UNESCO)<br>• Businesses which violate the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) (in consideration of the reservation clause of each country)<br>• Customers that are associated with businesses involved in child labor or forced labor |
| | Credit that requires close attention | • Businesses which have a negative impact on the regional societies of indigenous peoples<br>• Businesses that require the expropriation of land leading to the involuntary relocation of inhabitants |
| Project financing (Equator Principles) | | • When considering providing financing or project finance advisory services for projects which fall into the scope of the Equator Principles, the Aozora Group will verify adherence to the requirements set out in the Principles. |
| Specific sector (credit restricted/ prohibited) | Coal-fired power generation | The Aozora Group will not provide financing for the construction of new coal-fired power plants or expansion of coal-fired power generation facilities. Furthermore, the Group will proactively provide investments and loans to support its customers' initiatives that help contribute to the transition to a decarbonized society, including carbon dioxide capture, usage, and storage technologies. |
| | Coal mining | When considering making investments or loans for the development of a new coal mine, the Aozora Group will verify the customer's consideration of environmental and social issues. The Aozora Group will not make any investment or loan for mountaintop removal (MTR) coal mining that has a substantial impact on the environment, nor for the development of new coal mines that supply power generation operators with coal. |
| | Oil & gas | When considering making investments or loans for oil sands, shale oil & gas, oil & gas pipelines, and development in the Arctic Circle (the area 66°33'north of the Equator), the Aozora Group will verify the customer's consideration of environmental and social issues. |
| | Large-scale hydroelectric power generation | When considering making investments or loans for new large-scale hydroelectric power generation (with an embankment of 15 meters or higher, as well as output of 30,000 kW or above), the Aozora Group will verify the customer's consideration of environmental and social issues. |
| | Deforestation | When considering making investments or loans for businesses involved in deforestation, the Aozora Group will verify the customer's consideration of environmental and social issues. |
| | Large-scale agriculture | When considering making investments or loans for businesses involved in large-scale agriculture in areas with inadequate legal systems regarding environmental/social issues, the Aozora Group will verify the customer's attitude and efforts to address environmental and social issues. |
| | Palm oil | When providing investments or loans for the development of palm oil plantations, the Aozora Group requests that its customers publicly announce that they will make an NDPE (No Deforestation, No Peat, No Exploitation) commitment. When considering making investments or loans for businesses associated with the distribution, etc., of palm oil, the Aozora Group will verify the customer's consideration of environmental and social issues, including whether they have obtained RSPO (Roundtable on Sustainable Palm Oil) certification. |
| | Tobacco manufacturing | When considering making investments or loans related to tobacco manufacturing, the Aozora Group will verify the customer's consideration of environmental and social issues, including health hazards as well as child and forced labor. |
| | Inhumane weapons | The Aozora Group will not make any investment or loan related to the manufacturing of inhumane weapons such as cluster munitions. |
| | Nuclear power, plastics, shipping, mining | When considering investments or loans for related businesses, the Aozora Group will gather information regarding the customer's consideration of and stance on addressing environmental and social issues. |

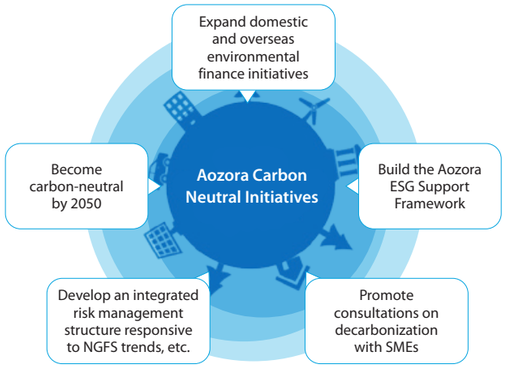
# Response to Climate Change

## Aozora Carbon Neutral Initiatives

As initiatives towards carbon neutrality accelerate throughout the world, the Aozora Group has clearly set out the role that it should play to realize a decarbonized society by consolidating its initiatives for addressing climate change in a set of new Aozora Carbon Neutral Initiatives.

Coupled with promoting decarbonization efforts as a business entity based on these initiatives, Aozora is also aiming to become carbon-neutral by 2050 while actively supporting our customers' climate change initiatives and transition towards decarbonization through engagement.

Aozora Carbon Neutral Initiatives




**Expand domestic and overseas environmental finance initiatives**

Work towards environmental finance targets by providing decarbonization innovation finance, transition finance, green energy finance, etc.

**Build the Aozora ESG Support Framework**

Establish a distinctive position by building and implementing a finance framework based on Aozora Group's features

**Promote consultations on decarbonization with SMEs**

Expand consulting services including support for customers' $CO_2$ emissions measurement and reduction target-setting and environmental value creation

**Develop an integrated risk management structure responsive to NGFS trends, etc.**

Develop and refine an integrated risk management structure by improving TCFD scenario analysis in light of advanced cases

**Become carbon-neutral by 2050**

Formulate a roadmap towards becoming carbon-neutral, including the investment and loan portfolios. Disclose progress in order to facilitate communication with all stakeholders

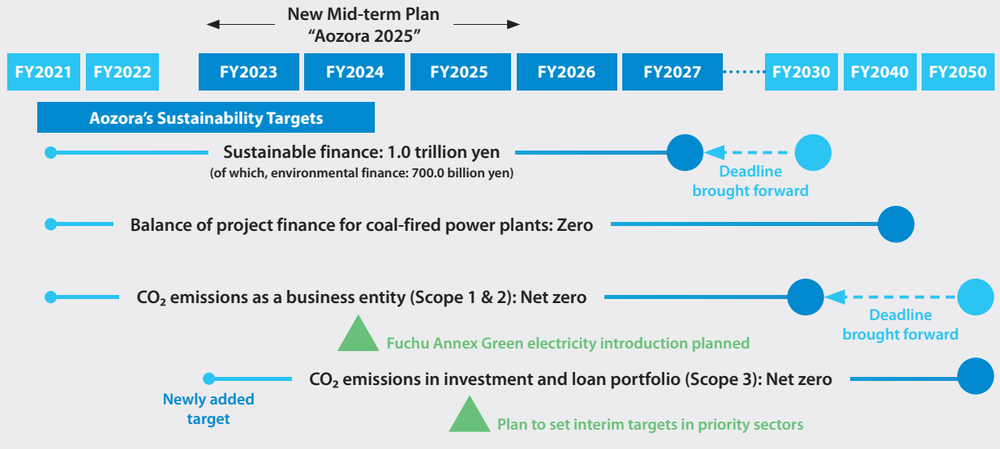
## Roadmap to Becoming Carbon-neutral

The Aozora Group has developed a roadmap to becoming carbon-neutral in line with the Paris Climate Agreement and includes a specific action plan.

Based on Aozora's Sustainability Targets, the Bank has pledged 1) to execute/originate 1.0 trillion yen in sustainable financing by FY2027, which includes environmental financing of 700.0 billion yen, and 2) to reduce $CO_2$ emissions and achieve net zero emissions as a business entity (Scope 1 and 2) by FY2030, and 3) to reduce $CO_2$ emissions in its investment and loan portfolio (Scope 3: Category 15), aiming for net zero $CO_2$ emissions by FY2050.

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

Roadmap to Becoming Carbon-neutral




## Initiatives on Environmental Issues through Sustainable Finance

The Aozora Group understands that utilizing our financial intermediary function to provide finance for companies' initiatives to become carbon-neutral, expanding the use of green energy and technological innovation towards decarbonization is a mission-critical role for financial institutions.

We have set the goal of executing/originating sustainable financing of 1.0 trillion yen (including environmental financing of 700.0 billion yen) by FY2027 (seven years) as part of Aozora's Sustainability Targets.

We are striving to achieve these targets by continuing to proactively provide environment-related project finance and green building finance with a focus on renewable energy as well as by promoting corporate finance, including green loans and sustainability-linked loans.

### Domestic and Overseas Environment-related Project Finance

The Aozora Group is proactively providing green energy finance such as renewable energy project finance in Japan, mainly for solar and wind power, and contributing to the expansion of green energy and the development of regional economies in Japan by collaborating with regional financial institutions, including through providing syndicated loans.

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

Aozora established the Infrastructure and Environment Finance Division as a group of professionals from diverse backgrounds, to consolidate our domestic and overseas knowledge and expertise, and further promote our environmental business in Japan and overseas.



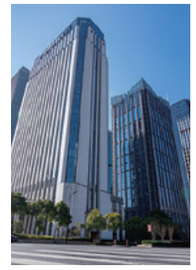
The Aozora Group is expanding its domestic business to offshore wind, geothermal, and other types of power. It will also promote transition finance in Japan and overseas and take on new challenge areas, including decarbonization innovation finance to support technological innovation by accumulating knowledge through its participation in infrastructure projects in leading countries in environmental finance, such as the U.S. and Europe.

### Financing for Green Buildings

In Japan, Aozora provides finance for "A"-class buildings as rated in the CASBEE*1 Certification, a comprehensive building evaluation system largely based on environmental performance and environmental load reduction levels. We also provide financing for projects such as advanced logistics facilities that offer services designed to improve conditions for people working inside and outside the building.

For overseas lending, our investments and loans include finance for high quality projects that are rated as "Platinum" or "Gold" according to the LEED*2 Certification, a system originated in the U.S. that comprehensively evaluates the environmental performance of buildings.

For real estate finance, we will continue to provide our domestic and overseas debt and equity financing in order to contribute to the sustainable growth and development of societies and economies.



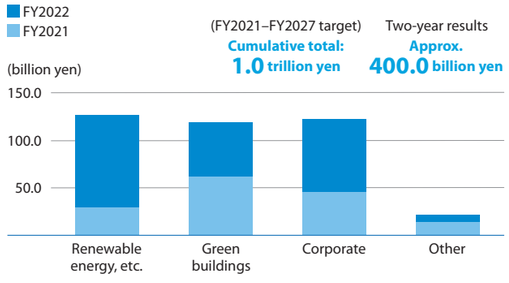
*1 CASBEE (Comprehensive Assessment System for Built Environment Efficiency)
*2 LEED (Leadership in Energy and Environmental Design)

### Corporate Finance

Since the establishment and announcement of Aozora's Sustainability Targets, the Group has elevated its sustainability finance initiatives for corporate customers (corporate finance certified by a third-party entity). In Japan, these initiatives have been steadily expanding, including the arrangement of green loans, social loans, and sustainability-linked loans.

Overseas, we have also been increasing our initiatives for sustainability-linked loans, especially in North America.

Sustainable Financing Amount




(FY2021–FY2027 target) Cumulative total: **1.0** trillion yen

Two-year results **Approx. 400.0** billion yen

**Environment-related renewable energy project finance**

- Promotion of the further expansion of green energy finance inside and outside Japan, the transition of existing power-generating facilities, and the exploration of new areas of innovation towards becoming carbon-neutral by leveraging our domestic and overseas knowledge and experience

**Financing for green buildings**

- Proactive initiatives for both debt and equity finance for certified green buildings inside and outside Japan

**Corporate finance**

- Origination of green loans, social loans and sustainability-linked loans led by the Bank
- Providing comprehensive solutions, including consultations on decarbonization based on the Aozora ESG Support Framework

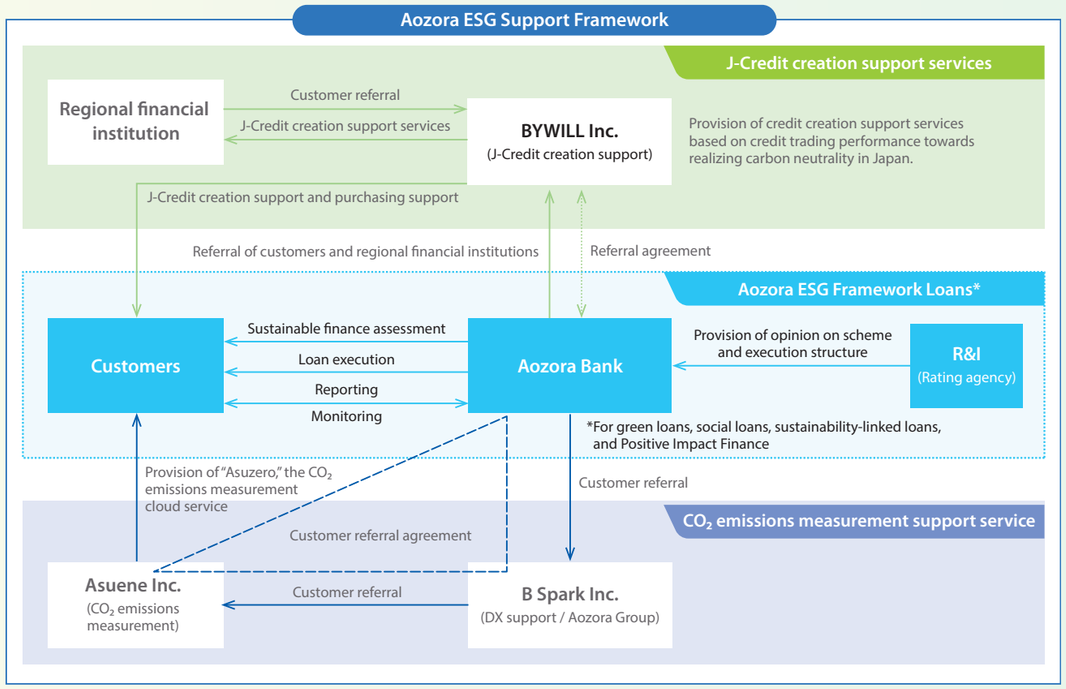
# Response to Climate Change

## Aozora ESG Support Framework

The Bank established the Aozora ESG Support Framework to further support the Environmental, Social, and Governance (ESG) initiatives of its customers.

The Aozora ESG Support Framework is comprised of Aozora ESG Framework Loans, which are assessed for their suitability as sustainable finance, and consulting services provided in collaboration with external experts to resolve customers' ESG-related issues.

Under this framework, the Aozora Group supports the problem-solving efforts of its customers, which are primarily SMEs, thereby actively contributing to broadening the foundation for Japan's sustainable development.




## Aozora ESG Framework Loans

For our Aozora ESG Framework Loans, we have obtained a second opinion from Rating and Investment Information, Inc. (R&I), which has evaluated our green loans, social loans, and sustainability-linked loans and found them to be compliant with international principles*1 and Japan's internal guidelines.*2

To execute the framework loans, we have established the Sustainable Business Office within the Sustainability Management Division, as an independent department from our business divisions, and staffed it with experts who assess whether loans are appropriate. In the LBO finance area, where Aozora has established a presence as one of the market leaders, we have originated loans as framework loans and conducted sustainability-linked loan evaluation, despite the fact that there are few examples of origination inside Japan.

In June 2023, Aozora received a second opinion from R&I to the effect that its Positive Impact Finance Implementation Framework has been evaluated and found to be in compliance with the Principles for Positive Impact Finance (PIF Principles) of the United Nations Environmental Programme Finance Initiative (UNEP FI), and we started offering a new service called Aozora Positive Impact Finance.

Moreover, as developing human resources who are experts in sustainable finance is an important issue for the finance industry, we have been focusing on this area by proactively holding training and study sessions.

*1 Green loans are governed by Green Loan Principles (GLPs), social loans by Social Loan Principles (SLPs), and sustainability-linked loans by Sustainability-linked Loan Principles (SLLPs). The principles were formulated by three entities: the Loan Market Association (LMA), the Loan Syndications and Trading Association (LTSA), and the Asia Pacific Loan Market Association (APLMA).

*2 Green Loan and Sustainability-linked Loan Guidelines (GL SLL Guidelines), Social Bond Guidelines (SB Guidelines)

## Supporting Customers' Initiatives to Decarbonize

For consulting services provided through collaboration with external experts, we focus on supporting customers' initiatives towards decarbonization as a measure to respond to the issue of climate change.

In 2022, we entered a business alliance with Asuene Inc. to provide corporate customers with consultations for their decarbonization initiatives by introducing "Asuzero," a cloud-based service provided by Asuene Inc. that is designed to visualize, reduce, and report $CO_2$ emissions.

In April 2023, we entered a business alliance with BYWILL Inc., which provides support services for creation and purchase of various types of environmental credits. With this alliance, we have a structure in place to provide full support for customers who own assets or businesses with latent environmental value in creating J-Credits, and to support customers with $CO_2$ emissions reduction needs in decarbonizing, including carbon offsetting using environmental credits.

## Initiatives to Address Environmental Issues as a Business Entity

### Reduction of $CO_2$ Emissions and Electricity Usage

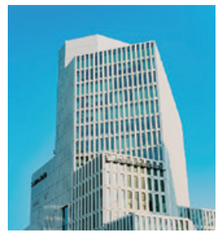
Aozora's Head Office is located in the Sophia Tower which has been using only renewable energy-driven electricity since June 2020. In addition, the Head Office is equipped with highly insulated glass, a natural ventilation system and rooftop greenery. With office areas employing LED lighting with automatic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

We are also gradually transitioning to green electricity at each branch office, starting with the Nagoya Branch, and continuing with the Nihonbashi Branch from April 2023.

We remain focused on reducing $CO_2$ emissions at our Fuchu Annex, which also serves as a data center. In FY2022, we applied carbon offsets using J-Credits* for the hot and cold water used in the building. We have also started studying the possibility of adopting and using green energy from an energy creation business for electricity at the building in FY2024.

In addition, Aozora has made progress in replacing company cars used at its Head Office and branch locations with eco-friendly vehicles, which accounted for 93% of our fleet as of May 2023.

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



Aozora Bank Head Office (Sophia Tower)

*J-Credit: A program in which the government certifies the amount of greenhouse gas emissions (such as $CO_2$) reduced through introduction of energy-saving equipment and the use of renewable energy, or amount removed through appropriate forest management, as "credit."

### Environmentally Friendly Purchasing

Aozora works to reduce paper consumption in offices and promotes the use of eco-friendly paper.

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

In FY2022, the Bank switched to FSC certified paper for many of the standard envelopes used at the Bank.

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

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

Aozora is highly focused on promoting the recycling of waste material, including 100% recycling of all Head Office waste material, except for burnable waste.

In FY2022, we reduced the volume of waste paper further by installing new dedicated collection boxes for confidential documents at each branch and recycling used paper by shredding it.

As another way to actively promote a reduction of environmental load, the Bank introduced eco-friendly materials, such as environment-conscious plastic cups and biodegradable straws, and Rainforest Alliance Certified* coffee beans to its cafeterias at the Head Office and Fuchu Annex.

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

# Response to Climate Change (TCFD)

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

The Aozora Group affirmed its support for the TCFD (Task Force on Climate-related Financial Disclosures) recommendations in March 2020. As one of the most important global issues, Aozora positions responding to climate change as one of its Key Sustainability Issues (Materiality) and is taking steps to further enhance the quality of its climate change-related disclosures based on the TCFD recommendations. The status of our response is as follows.

## Governance

### Policy

- Declared the management philosophy as "Contribute to the development of society through the creation of new value-added financial services"
- Organized the system of sustainability policies, formulating the Aozora Bank Group Environmental Policy under the Code of Ethics and Conduct stipulated in accordance with the management philosophy, and formulated the Aozora Bank Group Investment and Lending Policies regarding Environmental and Societal Issues and the Aozora Bank Group Outsourcing Policy, which are specific operational guidelines

### Organizational Structure

- Established the Sustainability Committee with the CEO as Chairperson as a way to discuss and develop solutions to important sustainability-related issues across the entire Group. Principal topics from the committee are discussed with and reported/submitted for approval to the Board of Directors as necessary
- Established the Liaison Meeting of Group Sustainability in order to promote Group-wide sustainability initiatives
- Established an Executive Officer in Charge of Sustainability Management. Also, established the Sustainability Management Division as an independent division
- Established the Sustainable Business Office within the Sustainability Management Division. Strengthened support capabilities and human resource training functions for promoting sustainability, including climate change response in business

### Matters Deliberated and Decided, etc.

- Resolved by the Board of Directors to include climate change risk in the Group's key risks
- The Board of Directors must approve any setting or revision of Aozora's Sustainability Targets, which are management targets in the distinctive areas that the Aozora Group is focused on. Progress on these targets is also reported to the Board of Directors
- The status of progress and achievement of Aozora's Sustainability Targets is considered as an important qualitative factor in evaluating executive officers and determining their remuneration

## Strategy

### Medium- to Long-term Strategy

- **Strengthen initiatives for net zero $CO_2$ emissions:**
  Become carbon-neutral by achieving net zero $CO_2$ emissions as a business entity (Scopes 1 and 2) by FY2030 and net zero emissions in the investment and loan portfolio (Scope 3) by FY2050
- **Strengthen engagement with customers:**
  Support the transition to a decarbonized society by executing/originating sustainable finance, including environmental finance, and strengthening customer engagement through decarbonization consulting through collaboration with experts
- **Increase the level of risk management:**
  Realize higher level of risk management by increasing the quality and depth of climate change scenario analysis, continuously revising and refining our investment and loan policies giving consideration to the environment and society, and strengthening the techniques and system for $CO_2$ measurement in the investment and loan portfolio

### Recognition and Response to Opportunities Regarding Climate Change

- **Medium- to long-term opportunities:**
  - Increased financing opportunities for social infrastructure development that utilizes digital innovation and new technology developments related to controlling, collecting, and using $CO_2$ emissions such as CCS/CCUS
  - Increased diversity of transaction opportunities with retail customers who share our new value of "contributing to the realization of a decarbonized society"
- **Short-term opportunities (initiatives):**
  - Under the new Mid-term Plan "Aozora 2025," identified initiatives that each division will focus on by Key Sustainability Issue (Materiality), including "response to climate change"
  - Expand environmental finance initiatives in Japan and overseas, including renewable energy finance and decarbonization innovation finance, centered on the Infrastructure and Environment Finance Division
  - Increase initiatives on Aozora ESG Loans (Positive Impact Finance to be added in June 2023) through the Aozora ESG Support Framework, and strengthen consulting capabilities to resolve issues for customers' decarbonization by expanding collaborative partnerships related to the decarbonization business.
  - Continue sales of "*Juunen Toiro*" and "*Manten Kansoku*," ESG investment trusts
  - Issue green bonds to finance investment and loans compliant with the Green Bond Framework for renewable energy finance and green building finance

### Recognition and Response to Risks Related to Climate Change

- **Transition risks:**
  Risks arising from a credit portfolio impacted by the effects on borrower's business operations and financial conditions associated with policies such as a carbon tax accompanying the transition to a decarbonized society and the ongoing replacement of existing products and services in order to keep pace with new low-carbon technologies and customers' changing preferences
- **Physical risks:**
  Risks arising from a credit portfolio impacted by the physical damage caused by natural disasters and/or abnormal weather associated with climate change, such as a greater frequency/scale of storm and flood damage, as well as risks and adverse impacts posed to the business operations of the Bank and its customers caused by a greater frequency of cases of heatstroke or viral pandemics
- **Scenario analysis:**
  The results of our quantitative scenario analysis through to 2050 are as follows. We plan to continue expanding the target for scenario improvement and analysis, and researching and improving methods of reflecting financial impacts on the Bank's credit portfolio

| | Transition Risk* (additions and changes from FY2022 are underlined) | Physical Risk |
|---|---|---|
| Scenario | IEA (International Energy Association) World Energy Outlook STEPS (3°C) scenario, SDS (under 2°C) scenario, NZE (1.5°C) scenario | IPCC (Intergovernmental Panel on Climate Change) RCP 8.5 Scenario (4°C scenario) / RCP 2.6 scenario (2°C scenario) |
| Method of analysis | Preliminary calculation of loss reserves increases after assessing the degree of effect on corporate customers' business results (damage to their creditworthiness) based on parameters and public information, etc. | Preliminary calculation of loss reserves increases arising from damage to properties after assessing the rate of damage due to the properties inundated with floods/high tides (effects of direct harm to properties and suspended business activities) |
| Subject of analysis* | Electricity, energy, automotive, and real estate sectors (excluding non-recourse loans, REITs) as well as raw materials sector (accounted for 18% of total loans*) *as of March 31, 2022 | Security properties for domestic and overseas non-recourse loans (non-recourse loans accounted for 15.1% of total loans*) *as of June 30, 2021 |
| Results of analysis | • Recognized that the raw materials sector is comparatively easily influenced by rising costs from carbon price increases<br>• Recognized that the electricity sector is comparatively easily influenced by rising costs from carbon price increases, as well as the development of technologies for reducing GHGs and changes in the electricity mix<br>• Recognized that for the energy sector and automotive sector it is important to respond to changes in market needs towards transition to a decarbonized society | Confirmed that there are only a limited number of properties with a risk of damage due to flooding/high tides as many are well-secured properties and located in areas less susceptible to natural disasters |
| Additional credit costs | Total increase of around 5.0-10.0 billion yen billion yen by 2050 | Total increase of around 1.0 billion yen by 2050 |

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

## Risk Management

- Manage climate change risk as an important financial risk within the traditional financial risk categories, including credit risk, market risk, liquidity risk and operational risk, and integrate the management of this risk into our existing risk management framework
- Incorporate climate change risk into the Bank's "Key Risks" and focus on key risks when discussing risk appetite and in business planning to increase the level of risk management
- Review the Aozora Bank Group Investment and Lending Policies regarding Environmental and Societal Issues in accordance with the current business environment, societal demands, and changes in business activities, etc.
  - For any credit transactions that are believed to fall under the "prohibited credit" category, the Credit Committee or Investment Committee is responsible for making credit decisions by comprehensively reviewing the background, features, and other factors of each transaction
  - Policy not to finance new projects which involve coal-fired thermal power stations as well as expansion of existing power generating facilities
  - Identify, assess and manage environmental and social risks based on Equator Principles when making investments or loans for large scale development projects
  - When considering projects, ascertain the greenhouse gas emissions data of customer where available

## Metrics and Targets

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

| | Targets | Recent Performance |
|---|---|---|
| $CO_2$ emissions as a business entity (Scopes 1 and 2) | Net zero by FY2030 (achievement timing brought forward) | 31% reduction (vs. FY2020) |
| $CO_2$ emissions from the investment and lending portfolio (Scope 3: category 15) | Net zero by FY2050 (newly set) | See table below |
| Amount of project financing for coal-fired power plants | Zero balance by FY2040 | 27.5 billion yen |
| Sustainable financing amount | 1.0 trillion yen by FY2027 (seven years)<br>Of which, environmental finance of 700.0 billion yen (achievement timing brought forward) | Approx. 400.0 billion yen<br>Of which, environmental finance was approx. 350.0 billion yen |

- Started measuring $CO_2$ emissions in the lending and investment portfolio targeting business loan and project finance asset classes based on the PCAF Standard (measurement results could change significantly going forward due to increased availability and accuracy of data accompanying expanded disclosure of customers and evolution of measurement methodologies). The Bank plans to discuss the timing for setting interim targets and the target scope, etc. going forward

| | FY2022 results | PCAF score |
|---|---|---|
| Electricity sector | Absolute emissions: 744 kt-$CO_2$e (coverage 100%)<br>Emission intensity: 149 kg-$CO_2$/MWh | 2.77 |
| Oil and gas sector | Absolute emissions: 416 kt-$CO_2$e (coverage 100%) | 3.25 |

Projects under construction were excluded from the scope of measurement

- Ratio of carbon-related assets* within lending and investments was 3.5%

*Assets related to "energy" and "utility" companies. However, water companies and renewable energy providers are excluded

# Initiatives to Contribute to Society

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

## Initiative Policy

The Aozora Group has defined its social contribution activities as "activities undertaken without requiring compensation to address social issues that are difficult to address directly through business and that are socially important yet under-supported." The Group has identified themes of particularly high urgency and themes of high interest to officers and employees as its main areas of focus for donations and volunteering.

In FY2022, the Group spent approximately 23 million yen on social contribution activities. We will continue to review this expenditure each year to ensure support for a wide range of fields.

**The Aozora Group's Main Areas of Activity**

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

**Social contribution activity results for FY2022**

| Main areas of activity | Amount* | Number of participating volunteers |
|---|---|---|
| Environmental conservation | 2.0 million yen | 33 |
| Support for the next generation who will be responsible for the future | 7.0 million yen | 107 |
| Regional and community support | 9.0 million yen | 35 |
| Disaster recovery support | 5.0 million yen | – |
| Total | 23.0 million yen | 175 |

*Including monetary conversion amount of donated supplies

## Initiatives to Support Social Contribution Activities of Officers and Employees

The Aozora Group works to encourage participation in social contribution activities by its officers and employees by providing an environment that includes availability of volunteering opportunities and introduction of a support system.

### Providing Volunteering Opportunities



A food drive activity

At Aozora, we believe it is important for our officers and employees to participate in society as a "good corporate citizen" and be more mindful of social issues. To this end, we strive to provide our employees with opportunities to participate in volunteer activities. In FY2021, we started introducing online volunteering opportunities to officers and employees so they could be active even during the COVID-19 pandemic. In FY2022, 175 people participated in these activities. Participants noted that they were able to take part casually at their own pace using downtime between tasks, and that although it was difficult to take action even if they desired to help, the call for volunteers provided a good opportunity to get started. In this way, the program provided opportunities to continue social contribution activities, even when face-to-face activities were restricted.

In FY2022, we collected donations of unused and unopened food from officers' and employees' homes and provided them to organizations that support single-parent households. In total, 104 kg of food was donated.

We also participated as home volunteers for the "Easy Subtitle Project" run by the NPO eboard, which works to provide educational opportunities for children with learning difficulties. We volunteered for a project to apply notes to assist reading *kanji* characters in educational materials supplied by eboard. Volunteer participants who are raising children reflected that the activity prompted conversations with their own children regarding some children having learning difficulties and the availability of programs to assist them.

### Matching Donation Program

In FY2022, we conducted a matching donation program to help widen the view of individual officers and employees and encourage their own involvement in society. This initiative collected donations from the officers and employees and added a contribution from the Bank enabling them to participate in a social contribution activity together. The support themes were set as "environment," "children," "relative poverty," and "welfare," and donations were made to four organizations working to solve issues in each field; namely the Nature Conservation Society of Japan, Chance for Children, Japan Kodomo-Shokudo Support Center "MUSUBIE," and Bridge for Smile. This initiative prompted employees with no history of donating to make a first step, while also providing an opportunity for officers and employees to deepen their understanding of the social issues addressed by each organization.

## Regional and Community Support

### Support for Regional Revitalization Projects

Using programs such as the hometown tax system, we supported regional revitalization projects addressing regional issues. In FY2022, we made donations to six local governments and organizations.

| Donation recipient government or local organization | Supported project or activity |
|---|---|
| Sendai City, Miyagi Prefecture | Sendai City Center Reconstruction Project: Next-generation Synchrotron Radiation Facility-related Industry Support Business |
| Sosa City, Chiba Prefecture | Project to provide school meals using organic ingredients produced locally for local consumption |
| Akashi City, Hyogo Prefecture | National Kindergarten Picture Book Enhancement Project — Smile Picture Book Project |
| Kanazawa City, Ishikawa Prefecture | Children's Individual Creativity Development Project |
| Hokkaido Shinkin Bank Himawari Foundation | Local Community Welfare Organization Support and High School Student Scholarship Project |
| JMACS | Childcare Support Project (After School Childcare and Experiential Seminars) |



Presentation ceremony for certificate of appreciation at Sosa City Hall

Through donations, we deepen our connections with people living in the regions, along with our understanding of local strengths and issues, as we aim to contribute to regional revitalization.

### Donating Disaster Supplies

In September 2022, disaster supplies (7,656 rice cookies, 4,488 units of disaster relief supply bread) stocked at the Bank's Head Office were donated to 11 foodbanks throughout Japan through the mediation of Kuradashi Co., Ltd.

Food bank activities deliver food that is designated for disposal for various reasons despite being edible to facilities and households that need it. The donated disaster supplies were provided to cafeterias for children and welfare institutions through the donation recipients.

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

The Aozora Group is working to support children and young people who will be responsible for the future. Since FY2021, we have participated in the Children's Smile Movement run by the Tokyo Metropolitan Government. In FY2022, we held programming experience events for the children of our officers and employees.

### Programming Experience Event

In FY2022, we held a parent-child programming experience event as a summer holiday plan for families of our officers and employees. The event provided children with an opportunity to acquire knowledge of programming, which is an essential skill in the digital transformation of finance, and also helped improve the IT literacy of their parents, who are our officers and employees.




### Message from Donation Recipient Organization (Chance for Children)

The impact of rising prices has made the issues of child poverty and the wealth gap in Japan much more serious than before. Surveys have found that unaddressed child poverty causes social losses of approximately 42.9 trillion yen, which is a huge impact on our society. One important step towards resolving this issue is to increase the number of people who will pay attention to social issues and take action. Last year, Aozora Bank drew the attention of its employees to child poverty through an internal collection drive and matching donation program and creation of a space for internal seminars. It also provided opportunities to take action. This was really meaningful in my view. I am deeply grateful that a financial institution has taken the effort to address resolving child poverty as part of its social responsibility. Looking ahead, I hope that Aozora will continue these activities and create mechanisms for even more proactive participation by its employees in order to further deepen and entrench this social contribution initiative.



Yusuke Imai
Representative Director
Chance for Children

# Promotion of Digital Transformation (DX)

The Aozora Group will maintain its competitive edge and improve its corporate value by transforming its products, services and corporate culture using diverse information assets (data) and digital technology.

Under the previous Mid-term Plan "Aozora 2022," the Bank had many interactions with retail customers through BANK™ services, focused on non-face-to-face contact, and strengthened our stable funding structure. On the BANK™ app, we offer content that allows customers to experience multiple user interfaces, and endeavor to improve convenience by, for example, introducing I.D. authorization completed online when opening accounts. At our traditional branches, we introduced dedicated tablets making customer applications completely digital. The Bank also intends to gradually centralize all back-office operations in dedicated operation centers and is making progress toward automating and improving the efficiency of back office work.

With regards to the expansion of the retail customer base, which is an issue for the corporate business, the Bank is expanding business with new customers by incorporating "Start-up Ecosystem" supported by GMO Aozora Net Bank and proposing solutions for DX issues by B Spark, a company that supports customers' DX. In addition, advance efforts are underway for a loan management cloud-based system.

Under the New Mid-term Plan "Aozora 2025," the Bank will aim to expand the menu of services for retail customers, strengthen marketing for its corporate client base, including at Group companies, improve productivity by changing communication methods, and further address work style reform.

| Four Pillars (Methods) | | What to Achieve | |
|---|---|---|---|
| Proper management, accumulation and use of diverse information assets (data) | Open communication | New business/services | Sustainability |
| System improvement | DX talent development | Enhanced productivity | Job satisfaction and work style reforms |

## 1 Proper Management, Accumulation and use of Diverse Information Assets (data)

The Bank will establish processes for properly managing, ensuring the quality of, and sharing the information assets (data) it currently holds, and rearrange its information asset management system to comply with the new customer information management (the "need-to-know" principle) to further improve sales efficiency and the productivity of officers and employees.

In digital marketing for retail customers, improvements have been made to better aggregate, consolidate, and visualize data, and the efficiency of sales operations and operations by executives and employees are improving. In addition, it will work to enhance the quality and depth of data analysis and apply it to our corporate business. The Bank will also make optimal use of each information asset (data) and promote efforts to extract data adapted to its intended purpose and to improve the effectiveness of data usage.

## 2 Open Communication

The Bank will review the internal rules including scope of information sharing and the delegation of authorization following renewal of desktop environment and business chats. The aim is to improve the productivity of all officers and employees by increasing the speed of information sharing through open communication. To further promote work style improvements regardless of location, laptops will be distributed to all employees, we will expand the use of online meeting tools, and prepare meeting places at each branch/office. For strategic system development projects, a task force will be established which spans across groups, construct a firm-wide system to promote them, and strive to improve productivity.

## 3 System Improvement

Aiming to review the overall IT system architecture with a focus on the renewal of the next core banking system in 2026, we have been working since FY2021 to organize the requirements for future business. Based on the requirements, we positioned the core banking system as a non-strategic area to control costs, while we will deem the systems positioned as strategic areas connected with the core banking system and external systems, consolidated and eliminated, as well as reorganization of data.

Recently, we introduced BPM (Business Process Management) and are working to improve productivity through the automation of operations linked to the core banking system. We will continue to expand the types of non-face-to-face reception services to improve customer convenience and reduce the volume of operations and paperwork. In addition, we will conduct strategic IT investments with the aim of developing new services by utilizing data and experienced management.

## 4 DX talent development

Please refer to "Digital Talents Development Program" on page 78.

# GMO Aozora Net Bank Initiatives




## Overview of GMO Aozora Net Bank

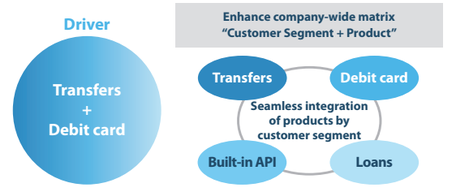
GMO Aozora Net Bank ("GANB") was launched in July 2018 as an Internet bank that leverages the strengths of both the Aozora Group and GMO Internet Group. Under its corporate vision of "All for our customers. Strive to be the No. 1 Tech Bank," GANB aims to establish itself as a progressive bank that defies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

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

## Focus on Attracting Start-ups and Small Businesses + SMEs

GANB has seen a steady increase in its number of corporate accounts by working closely with small businesses and start-ups requiring various kinds of supports at the time of business launches.

To flexibly respond to the specific needs of its corporate customer segments, including SMEs, GANB strives to propose optimal products and services from its distinctive lineup, such as domestic transfer and debit card services which are its major revenue growth drivers, Bank APIs, "Simple Embedded Finance Services," "*Anshin 100,000 yen*" (overdraft protection up to 100,000 yen as an automatic feature for corporate accounts) and "*Anshin Wide*" (a corporate loan up to 10.0 million yen with no submission of financial statements for approval) which was launched in May 2022.



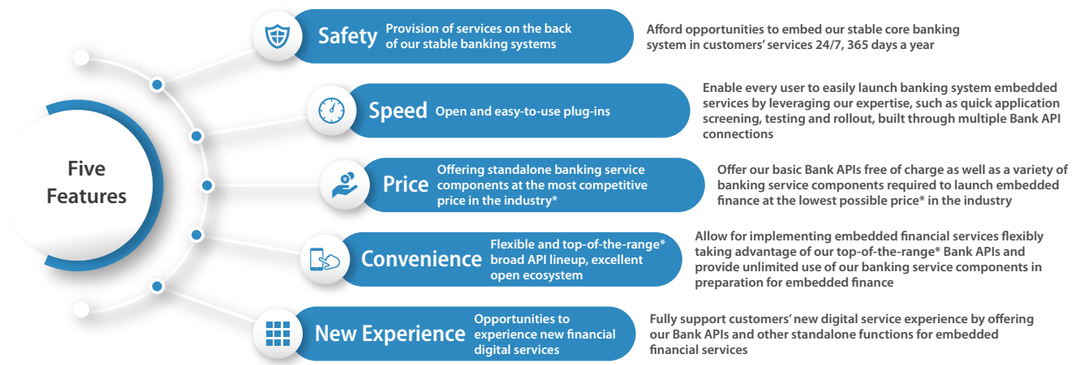

## Initiatives for DX (Expansion of Embedded Finance)

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

Simple Embedded Finance Services contribute to the automation of accounting, payroll, and billing transfer operations and the realization of operational efficiency, and new services that incorporate financial functions provided by FinTech companies are being created at a rapid pace.

As a result of growing market recognition, the cumulative number of contracts for Simple Embedded Finance Services has reached 454 (as of March 31, 2023).

### Features of Simple Embedded Finance Services




*Data compiled by GMO Aozora Net Bank as of the end of March 2023

# Human Resources Strategy

## Aozora Group's HR Strategy

The Aozora Group is a manageably sized entity with approximately 2,400 employees, providing high quality financial services equipped with a high level of expertise and outstanding organizational mobility and flexibility. We believe that these human resources, the source of our value creation, are the human capital of the Aozora Group. In addition to improving sustainable human capital being one of Key Sustainability Issues (Materiality), we have also formulated the following basic policy for human resources strategy.

Under the new Mid-term Plan "Aozora 2025," Aozora Bank plans to focus on Aozora's Strategic Investments Business to resolve the issues confronting customers and regional communities, and aims to transform the Aozora Group's business and corporate culture through digital transformation (DX). We will move ahead on shifting human resources to focus areas as well as continue to invest in human capital by hiring and developing diverse and talented human resources and giving back to employees, in order to maximize their abilities and lead to the sustainable growth of the entire Group.



Hiroshi Kaneko
Executive Officer
Head of Human Resources Unit



Chiharu Hirota
Executive Officer
Deputy Head of Human Resources Unit

## Vision of Human Capital Investment

**Human resource recruitment and appointment**

- 60% new graduates, 40% mid-career hires ratio
- Secure human resources in priority areas, appoint specialized personnel (Aozora's Strategic Investments Business, DX, etc.)
- Secure diverse human resources to strengthen organizational capabilities
- Build competitive compensation packages

**Human resource development and career building**

- Diverse training and education programs
- Experience expansion inside and outside of the Aozora Group
- Staffed by career consultant
- Transfer skills from highly specialized seniors to the next generation
- Self-development and re-skilling support

**Flexible personnel redeployment**

- Strategically transfer personnel to priority and focus areas
- Job Support Program (temporarily assigning applicants to their preferred divisions)
- Optimal allocation of employees by analyzing the skills portfolio

→ **Secure diverse employees**
→ **Enhance employee engagement**
→ **Improve sustainable human capital**
→ **Enhance sustainable corporate value**

**Corporate culture and organizational culture:**
**Workplaces that facilitate taking on challenges, teamwork and open communication**

**Workplace environments**
- Balance of workplace comfort and job satisfaction
- Everyone is able to take on challenges, grow and play an active role

**Organizations**
- Autonomous career development
- Enhanced well-being

**Assessment system**
- Performance-based HR system
- Merit-based personnel evaluation and compensation

**Basic policy for human resources strategy**

**Fair HR system**
We strive to establish a consistent HR system based not on seniority but capabilities and job responsibilities

**Professionalism and skills enhancement**
We encourage employees to improve their professional skill sets

**Diversity and inclusion**
We strive to build a dynamic organization where employees with diverse backgrounds can play important roles

## Investment in Human Capital to Improve Sustainability

The Aozora Group has been working on HR reform since FY2020 under the key phrase of "take on new challenges as one unified team," to enable the appointment of outstanding human resources regardless of age or gender by eliminating barriers between career courses or generations. In FY2021, taking into account the declining birthrate and aging of society, we revised the HR system for those aged 55 and over, expecting them to continue playing active roles while also assuming the important role of sharing experience and expertise with the next generation, and allowing them to choose their working conditions and styles. At the same time, we are striving to improve sustainable human capital by reviewing compensation packages to better reward those who take on challenges or produce results.

As part of work style reform, Aozora's efforts to improve the working environment for employees and enhance their well-being, as described below, have led to a high employee retention rate, and coupled with the proactive recruitment and retention of mid-career hires with diverse knowledge and expertise, the sustainability of human capital has been maintained and has been a driving force for growth while overcoming the difficult times of the past. Through planned recruitment taking into account personnel redeployment to growth areas and generational change, the number of employees has consistently grown over the past 10 years, supporting the growth of the Aozora Group.

In addition to augmenting personnel centered on our focus areas, we have strived to invest in human capital, including two consecutive annual pay-scale increases from FY2022 onward to maintain employee motivation.

Under the new Mid-term Plan, we plan to invest a total of 2.0 billion yen in human capital over the next three years in ways such as increasing the number of employees in focus areas including mid-career specialist human resources, giving back to employees who have achieved results, and providing training programs. We will continue to steadily invest in human capital from a mid- to long-term perspective and provide comfortable workplaces that provide job satisfaction so that talented human resources choose to work there, which we expect will lead to securing sustainable human capital.

**Human Capital Investment History**

**Work style reform/work process reform (2016–2019)**

**● Achieve employee work-life balance as well as sustainable and stable corporate growth**

**2016** (★Pay-scale increase: 0.5%)
- Launched Work Style Reform Promotion Meeting
- Leaving the office before 8 p.m. bank-wide
- Expanded users of Flextime Program

**2017**
- Introduced Work-from-Home Program
- Launched attendance management based on objective attendance data
- Relocated the Head Office (shared desk, distributing mobile PCs)
- Introduced electronic document management system
- Survey on work style reform

**2018**
- Launched Work Style Reform Conference
- Survey on work style reform

**2019** (★Starting salary raised by 20,000 yen)
- Application of new overtime work limit regulations
- Introduced allowance supporting repayment of scholarships
- Survey on work style reform

**HR reform (2020–)**

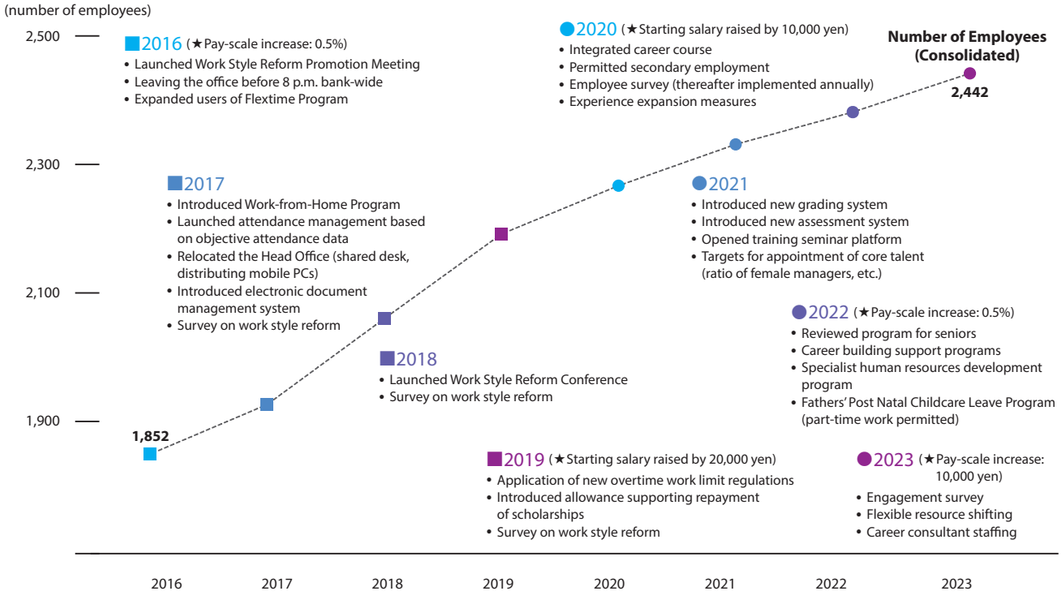
**● Transform into a financial group that facilitates teamwork and encourages employees to take on new challenges**

**2020** (★Starting salary raised by 10,000 yen)
- Integrated career course
- Permitted secondary employment
- Employee survey (thereafter implemented annually)
- Experience expansion measures

**2021**
- Introduced new grading system
- Introduced new assessment system
- Opened training seminar platform
- Targets for appointment of core talent (ratio of female managers, etc.)

**2022** (★Pay-scale increase: 0.5%)
- Reviewed program for seniors
- Career building support programs
- Specialist human resources development program
- Fathers' Post Natal Childcare Leave Program (part-time work permitted)

**2023** (★Pay-scale increase: 10,000 yen)
- Engagement survey
- Flexible resource shifting
- Career consultant staffing



# Human Resources Strategy

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

The Aozora Group strives to retain human resources who can respond to changes in the business environment, take on challenges through teamwork and who have the necessary skills for our focus areas such as Aozora's Strategic Investments Business and DX. Our recruitment strategy is based on both high-potential new grad hires and specialized mid-career hires.

Regarding new grad hires, we have set the industry's highest starting salary to attract outstanding human resources, continue to hire about 50 people every year and have a long-term focus on recruiting mid-career hires who can immediately contribute to each division.

Under the HR reform of FY2020, we abolished "Ippan-shoku (non-professional career category)" and eliminated barriers to work and career paths, and concentrated career courses under the three types of Global Professional, Regional Professional and IT Professional with the objective of strengthening IT competitiveness. In conjunction with reviewing the personnel evaluation program and optimal assignment of human resources, we develop and appoint all people hired as future candidates for key positions or as highly skilled professionals.

As a basic development policy after recruitment, new grads are placed into a three-year foundational education period during which they go through a combination of position-specific training, specialist training programs mentioned below and on-the-job training in the workplace to support them in becoming independent. New grad hires learn business fundamentals and experience multiple operations at three different divisions, in principle, during their first eight years, which enables them to develop a wider perspective and obtain more opportunities in their career path as prospective upper-management candidates. Mid-level employees and managers in their 30s and 40s are placed in positions that enable them to strengthen their management capabilities and expertise in the mid- to long-term and we aim to develop them into value creation drivers who can create new value-added.

Aozora strives to appoint employees to more senior positions through assessment of their abilities and performance, while considering diversity. Employees with diverse backgrounds have the opportunity to play active roles at Aozora, regardless of their status as a mid-career hire or new grads. Attracting superior talent from outside that supports value creation is also one of the major strengths of Aozora's HR strategy.

We began assessing the skill portfolio across Aozora in FY2022 toward hiring and deployment to realize our human resources strategy. By ascertaining the degree of human resource sufficiency in the areas we want to strengthen, we could consider whether positions could be filled by training internal human resources or if they should be recruited from outside. The analysis is useful for considering human resources development initiatives, recruiting, and personnel redeployment in line with business strategies.

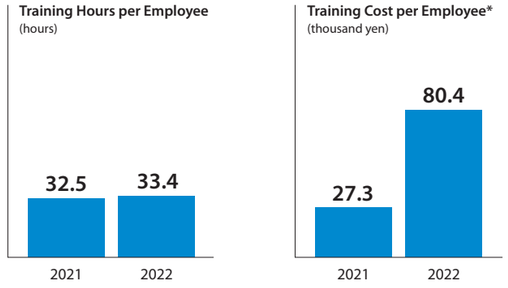
| FY2022 Mid-career hire | | |
|---|---|---|
| Employee ratio | Recruited employee ratio | Manager ratio |
| 40% | 39% | 50% |

| FY2022 Employee turnover rate (voluntary retirement) |
|---|
| 2.5% |

## Aozora's Human Resources Development

A feature of Aozora Bank's human resources development strategy is based on offering of a wide range of training programs that encourage employees to take on new challenges while respecting their diverse career plans and individual initiatives. Examples include Aozora University, which was launched over 10 years ago and offers a wide range of courses open to all employees, the training platform established in FY2021, which enables employees to learn about each division's specialized fields from media such as videos, and the Bank's subsidized self-development support initiative. Our aim is to encourage employees to take greater responsibility for their own growth and development based on their own needs and aspirations.

For training programs, the majority of these lectures are developed in-house; the HR Division sponsors position-specific training for each role and experience level, from new hires to senior employees, and business groups, such as the Corporate Banking Group and Retail Banking Group, have specialized development teams that offer presentations on high-level business topics. Development teams are comprised of employees with coaching and other teaching certifications as well as highly specialized human resources familiar with the business. As for development of human resources for equity investments with a primary focus on engagement as well as DX, we constantly strive to provide practical, high-quality training by utilizing outside instructors with a high level of expertise and a wealth of business experience, and seminars.




*Cost for external instructors and subsidy for self-development

## Human Resources Development Plan

### Aiming to Raise the Job Satisfaction of Each Individual Employee

Provide programs to motivate all Aozora Bank employees to work with an awareness of workplace and worker requirements
HR and workplace work in unity to support every individual employee's career autonomy awareness and to realize career formation

### Aozora Career Building Support Programs

New in FY2022

| Specialized / General | All employees | Junior employees | Mid-level employees | Managers | Senior employees | Others |
|---|---|---|---|---|---|---|
| Specialized | Intensive Development Program for Human Resources in Equity Investments with a Primary Focus on Engagement | Real Estate Appraiser Program | | | | |
| | Digital Talents Development Program | Graduate School Program | | | | |
| | English proficiency enhancement program | Mushashugyo | | | | |
| | Sustainability Master Training | Overseas trainee program | | New GMs Training (management) | Skill Succession Project | |
| | Skill-building Support Program | Job-posting Program | | New GMs Training (internal control) | Job-posting Program | Training for each business group/unit (ACATs, AAaA, AFITs, Credit Group, etc.) |
| | Career Course Conversion Program | Internal short-term trainee program | | Managers Training | Proactive career training | |
| | Aozora University | | Leadership development training | Feedback training | Career ownership training | |
| | Training/Seminar Platform | | Creative thinking training | 360-degree survey | | Career training for Regional Professional |
| | Communication forum | | | New Managers Training | | Aozora Career Support Leave Program |
| | Job Support Program | Junior job rotation | | | | Proactive personnel transfers |
| | Career Building Support Platform | OJT Trainers/Followers Training | | | | Employee engagement survey |
| General | Consultation with a Career Consultant | 1st-3rd year training/ New recruit follow-up training | | | | |

Training, etc. | Programs, systems, etc.

Others: Career building support program for outside job
- Second career support program
- Lifting restrictions on second employment
- Job return program

### Human Resources Development by Highly Specialized Teams

**Retail Banking Group**
**AAaA**
Aozora Academy at Aoyama (also known as "Quattro A")
Consultant for individual customers development

**Corporate Banking Group**
**ACATs**
Aozora Credit Analysis Training school
Highly specialized human resources development for sales and credit training, strategic investment business, etc.

**Specialized human resources development team**

**Financial Institutions Group**
**AFITs**
Aozora Financial Institutions' Training school
Human resource development supporting a network of regional financial institutions and others

# Human Resources Strategy

## Introduction of an Intensive Development Program for Human Resources in Equity Investments with a Primary Focus on Engagement

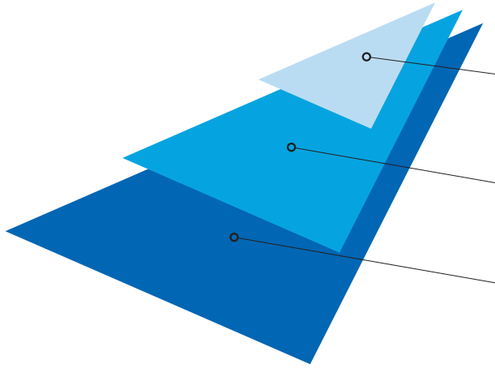
For the Aozora Group to achieve sustainable growth by realizing its business strategy, it is particularly important to have human resources development in the area of Aozora's Strategic Investments Business, which is the focus of the new Mid-term Plan. In the second half of FY2022, in collaboration with a business school we started an intensive development program for human resources in equity investments with a primary focus on engagement. Nearly 60 participants attended a total of 15 lectures and group work sessions given by outside instructors who are active on the front lines of business, with the aim of acquiring the knowledge necessary for equity investments with a primary focus on engagement. We will use this program and its implementation in each business group to develop core talent for Aozora's Strategic Investments Business.

## Digital Talents Development Program

Aozora Bank started the Digital Talents Development Program for all Bank employees from FY2021.

For all employees to take the initiative to engage in DX, we have expanded the training menu for all employees and provided higher-level courses, in which many employees have already worked.

In FY2023, systematic digital talent development will enter its third year, and the development plan is to shift from the acquisition of basic knowledge and skills to implementation in business workplaces.



**Core IT professionals utilization (deployed in business workplaces)**

- Assign core IT professionals to digital marketing operations, streamlining projects through BPR and data maintenance work for data utilization.
- Core human resources to be deployed in business workplaces are planned to be developed by FY2025, centered on data and BPR areas.

**Intensive human resources development program (advanced course)**

- Develop core human resources for areas with strong needs for their skill utilization, such as the data and BPR areas.

**All officers and employees (standard course)**

- Recommend acquiring Japan Statistical Society Certificate and IT passport.
- Continue e-learning (Udemy).

## Support for Diverse Career Building

To develop and maximize each employee's capabilities requires human resources development for multiple workplaces in line with personal career plans and optimal human resource allocation with an eye to the future in addition to skill development through such means as providing various types of training programs.

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

We have voluntary systems to support diverse career plans, such as training programs including the overseas trainee program and internal short-term trainee program in other departments in Japan, Job-posting Program (internal recruitment), Job Support Program (temporarily assigning applicants to their preferred divisions) and Regional Professional Career Training. Employees can effectively combine training and business experience to achieve their career plans. Under the Job Support Program, employees who work at branch offices are also assigned to work in operations at the Head Office and proactively support busy departments, thereby becoming more multi-skilled. This program is designed to create new opportunities for career development by leveraging Aozora's strengths, such as its comfortable working environment and infrastructure. In response to diversifying views on careers among employees, since FY2023 we have assigned a career consultant to the HR Division and established a system that can always respond to workers' career consultations. Through initiatives such as these, we strive to support employees' career formation and to achieve optimal human resource allocation.

We will continue to create an environment for employees to develop their abilities and build their careers, with the aim of being a company of choice for highly talented employees.

Please refer to the Financial and Corporate Data Section for a list of career building support programs.

### Taking Part in the Mushashugyo Program



Ryota Hashimoto
GMO Aozora Net Bank (GANB)
on loan

The Mushashugyo program was introduced in FY2020 to assign volunteer young and mid-level employees to outside companies to foster a venture mindset. Thus far six people have used the program to be assigned to consulting companies or Group companies with a strong venture orientation.

After joining Aozora Bank I worked in retail banking in a branch and at the Head Office for seven years, and have been in charge of marketing planning after being assigned to GANB since April 2021. Just as I felt unsure about my career at the time, I saw an advertisement for the Mushashugyo program, so I applied as I wanted to see how Aozora Bank operated from an outside perspective.

There are many employees at GANB who are well-versed in marketing. By learning the basics of marketing for three months and being given close guidance after that I was able to perform routine duties in a year. The different corporate culture with a management philosophy of "Aim for No. 1" in a venture-oriented company is also stimulating. Thanks to the Mushashugyo program I could fill myself with a venture spirit without having to change jobs.

Upon returning to Aozora Bank, I wish to leverage the marketing skills that I learned at GANB to provide services that please customers, which I believe will contribute to expanding earnings for the Bank.

### Skill Succession Project (Real Estate Investment Skills)



Naomi Okada
Managing Director
Aozora Real Estate Investment Advisors

The Skill Succession Project is an Aozora University program and is conducted in the form of seminars with the aim of leading senior professionals in each business passing on their knowledge and mindset to the next generation, and many employees take part and learn each time.

I encountered the real estate business when I was assigned to the Council for Real Estate Syndication (now the Association for Real Estate Securitization) in 1998 as I had experience in research and analysis while working in the Research Division and marketing departments since joining Aozora Bank.

While on assignment, I worked alongside real estate industry experts and, although I was a bit intimidated, I could speak from a different perspective as I was working in an unfamiliar area. So, I think I was probably able to contribute in some way to the real estate industry in the early days of the REIT market, when investment capital was needed. Actually, I had just come back from childcare leave at the time, and I think I could make it through because of the understanding and cooperation of the company I had been assigned to. When I returned to Aozora Bank, I remained involved in the real estate business and was appointed the president of Aozora Real Estate Investment Advisors when it was established in 2017.

There were some difficulties in creating new business in real estate investment starting from scratch, but I made it my motto to work in a way I was happy with myself, and there was an increase in the number of people involved who understood me, and I tried to shape the new business and provide information from an investor's perspective to those outside of the company. Although I have now handed things over to younger people, I am still involved in investment projects, even now repeatedly exchanging information with a range of people from the real estate industry and investors.

The real estate business I had encountered on assignment turned out to be my calling. I think this is because my strength was a deep knowledge of areas that interested me at the time, and by leveraging these strengths (in my case, finance and real estate), I could become a person with strengths different from others. Young people can also turn their interests into strengths through their work experiences, and I would like them to continue to take on challenges to build a career uniquely their own.

# Human Resources Strategy

## Positive Workplace and High Job Satisfaction

To ensure the sustainability of our human capital and enhance corporate value, we believe that it is important to foster a comfortable working environment by ascertaining employees' thoughts and opinions. It is also necessary to enhance job satisfaction by respecting employees' diverse values, lifestyles and career plans.

We have developed programs that enable flexible work styles, and many employees use the Flextime Program and Work-from-Home/Mobile Work Program, and hybrid work styles that combine work-from-home and coming to work, which have become established as new work styles after the pandemic.

Our efforts from before the COVID-19 pandemic to establish environments that responded to various working styles from the aspect of both programs and infrastructure eventually bore fruit, and in the annual Employee Satisfaction Survey, 80% of respondents in FY2022 said that the Aozora Group offers a comfortable workplace environment, which was about the same percentage of respondents as the previous survey.

Conversely, a continuation of fewer than 60% of respondents selected positive answers regarding job satisfaction, and only 37% felt taking on challenges was recognized, indicating that improving employee job satisfaction and creating an organization where taking on challenges is valued are important issues.

### FY2022 Employee Satisfaction Survey Results

| Comfortable workplace | Job satisfaction | Taking on challenges is praised |
|---|---|---|
| 80% | 58% | 37% |
| Sense of growth | Understanding of policies | Communication |
| 70% | High level | Good |

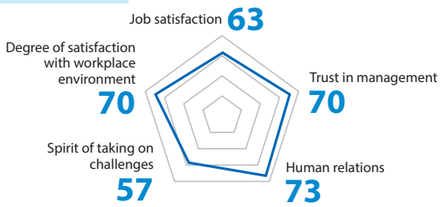
This finding prompted us to install Wevox, a system tool from Atrae, Inc. that can visualize employee engagement such as employee job satisfaction by team throughout Aozora from February 2023. Once a month, employees complete a simple survey, enabling managers to quantitatively ascertain the state of their team in real time and we have established a system for workplace-driven PDCA cycles that enable management to utilize employees' opinions.

Toward our long-term goal of sustainable enhancement of corporate value, we will continue to raise employee job satisfaction through measures to increase extrinsic motivation, such as investment in human capital, as well as intrinsic motivation, such as various measures to improve engagement, and to transform our corporate culture into an organization where all employees can thrive, while identifying what should be protected and what should be changed.

Note: Please refer to the Financial and Corporate Data Section for a list of various specific programs to enhance workplace comfort.

### Employee Engagement Survey Results (March 2023)

Overall score **66**




Note: Produced by Aozora Bank based on the results of the Wevox engagement survey.

# Enhancing Employee Well-being

For employees to be able to fully demonstrate their abilities as human capital within our organization, we believe it is extremely important that every individual should be in a state of well-being, that is, not just physically and mentally healthy, but also socially stable and fulfilled. The Aozora Group has established environments where employees can work in a comfortable working environment for many years and is working to enhance employee well-being.

## Health and Productivity Management Initiatives

The Aozora Group has established a single health insurance organization and formulated a data health promotion plan and works together with the health insurance association to maintain and promote the mental and physical health of our employees to establish work environments where employees can have long careers in a comfortable working environment. In addition to programs that provide financial support for full-scale health checkups and cancer screenings for employees and their families, we also provide detailed follow-up services by an occupational health physician and specialized medical staff based on the results of regular health checkups and stress checkups in the workplace, and are working to prevent mental health and lifestyle-related illness. To improve employees' health literacy, since FY2023 an occupational health physician has been an instructor at new employee training, newly starting health management training where employees learn of the importance of maintaining their physical and mental health. Initiatives such as these have led to us being chosen every year as a Health and Productivity Management Organization.

During the COVID-19 pandemic, we were one of the earliest companies to establish a workplace vaccination system for COVID-19 to protect the health of employees and their families, and together with setting up environments such as work-from-home environments, were able to continue to provide the services needed as financial infrastructure.

With regards to management of employees' working hours, we have reduced the number of people working more than the statutory monthly overtime limit of 45 hours by about 30% compared to the previous year as a result of efforts to manage attendance properly, including detailed guidance in each workplace.

### Treatment at the Head Office Health Management Office (internal medicine/dentist)

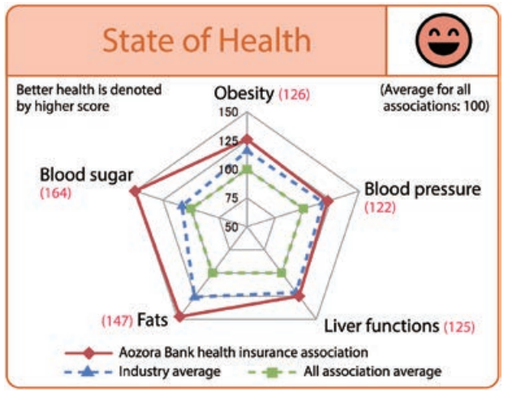
Full-time, specialist medical staff are available for medical treatment and consultations on health, medical care, mental health and other issues.





| Number of full-scale health checkup subsidy support users | Improving health literacy of employees | Workplace vaccination for COVID-19 |
|---|---|---|
| Employees: **1,532**<br>Families: **474**<br>Subsidy amount: Women 71,500 yen (including gynecological options); Men 49,500 yen | **Distribution of health column videos**<br>**Health management training** (for new employees)<br>**Hosting health seminars** | Total: **7,621** people<br>Cumulative vaccinations: **4** times |

Ratio of health insurance association members at risk of lifestyle-related disease




Note: Data is an aggregation only of those who underwent a specific checkup in FY2021
Source: Ministry of Health, Labour and Welfare, "Health Scoring Report for FY2022 (results for FY2021)"

## Initiatives for Employees' Health Issues

The Aozora Group is strengthening initiatives for health and productivity management issues confronting men and women of various ages. In FY2022, an outside instructor gave a seminar titled, "Women's health issues you should know about: Do you have workplace colleagues or subordinates with these concerns?" under a theme of women's health issues such as menopause. The seminar was commended by many employees who took part, covering topics such as approaches that can be immediately implemented from a medical perspective for people with issues, including communication methods when dealing with colleagues and subordinates with health issues, and naturally also for people of various ages who have health issues. We try to create a workplace environment where it is easy for employees to thrive by promoting mutual understanding that men's and women's bodies and mind change with age and can sometimes lead to poor health and that, as a result, this can have an impact on work performance.

## Working to Realize Employees' Financial Wellness

In addition to employee health, we have established a program to realize financial wellness for our employees as we believe it is important to be able to work in a state of financial stability and not have anxieties about their future lifestyle.

First, from the perspective of investment in human capital, we have rewarded employees for their contributions by increasing pay-scale for the past two years and prepared attractive compensation packages with the aim of making a workplace that people choose to support the stability of employees' lifestyles. We have established a corporate pension plan to prepare for life in retirement. In addition, as part of our benefit package, we provide generous financial support for younger employees, including an allowance supporting repayment of scholarships and rent subsidies. For senior employees, we have introduced a new program to provide financial support to take on the challenge of a second career outside of the Group. We have also permitted secondary employment for the purposes of employee skill development and experience expansion, which leads to enhanced financial wellness through diversification and expansion of income sources. By expanding these programs, Aozora Bank is showing its consideration for the financial stability of employees and their families.

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

**Compensation**
- Attractive compensation packages
- Raised pay-scale for two consecutive years
  FY2022 0.5% (first time in six years)
  FY2023 All employees given 10,000 yen raise

**Wealth Building Support**
- Employee stock ownership plan (10% incentive plan)
- Self-support-type individual pension plan (financial assistance 5%-20%)
- Asset accumulation savings

**Welfare Programs**
- Cafeteria-style benefits menu (annual subsidy up to 20,000 yen)
- Allowance supporting repayment of scholarships
- Rent subsidy
- Permission for secondary employment and side jobs
- Childcare and nursing care leave programs
- Second career support program (for those aged 55 and over)
- Full-scale health checkup subsidy support (including gynecological option)
- Additional benefit for high medical expenses (maximum co-payment amount 20,000 yen/month)
- Corporate pension plan

**Contingency Planning**
- Medical leave program (paid leave possible for up to 18 months)
- Medical mutual aid (mutual aid society)
- Group term insurance
- Special condolence money program
- Bereaved scholarship program (mutual aid society)

# Diversity, Equity & Inclusion

To execute management strategies that lead to stable growth involves not only investment in human capital but also the need to bring diverse viewpoints into management and promote business from a diversity of perspectives and free of preconceptions. Against a backdrop of the progression of diversification of values, the Aozora Group strives to further encourage employees to respect diversity and strengthen the sense of unity within the Group in such ways as the unconscious bias program. By respecting the values, lifestyles and career plans of all employees and by supporting flexible work styles, we aim to establish an environment where human resources who have varieties of backgrounds can thrive and consequently enhance diversity, equity and inclusion.

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

Since FY2021, Aozora has been moving forward on initiatives to ensure diversity in the appointment of core talent and other areas, enhancing its human resource development and environmental policies and setting targets for the ratio of women, non-Japanese and mid-career hires in management positions. The ratio of mid-career hires in management is approximately 50%, leading toward ensuring diversity in management decision-making positions.

### 1. Human Resource Development Policies

| Policies | Actions |
|---|---|
| **Hiring and appointing people not just on ability, but emphasizing diversity** | • Continue to employ mid-career hires as well as new graduates<br>• Strengthen recruitment of female key personnel in such ways as holding recruitment seminars for women<br>• Promote appointment of human resources in decision-making positions while considering diversity |
| **Support female employees' career development** | • Promote taking on the challenge of undertaking operations without experience through such means as career building support programs and personnel transfers<br>• Support diverse career formation through such ways as career seminars for women and utilizing career consultants |
| **Create a working environment where all employees can play an active role** | • Focus on investing in human capital, including rewarding employee contributions and providing career advancement opportunities<br>• Maintain comfortable working environments and strive to improve job satisfaction<br>• Improve the percentage of eligible male employees taking childcare leave<br>• Create environments where employees with disabilities can work with peace of mind |

### 2. Goals and Progress

| Categories | Current ratios<br>As of March 31, 2023 | Ratios to be achieved<br>As of March 31, 2028 |
|---|---|---|
| **Female managers** | 13.3% | 20% or higher |
| **Female deputy managers** | 37.3% | 40% or higher |
| **Non-Japanese managers** | 2.8% | Maintain 3% or higher |
| **Mid-career managers** | 49.6% | Maintain 40% or higher |
| **Newly established: Percentage of eligible male employees taking childcare leave** | 91% | 100% or higher |

*Managers are designated as general managers and managers

*Deputy managers are one position below managers

*Non-Japanese managers: including those working in domestic/overseas subsidiaries excluding GMO Aozora Net Bank

*The percentage of eligible male employees taking childcare leave is calculated by (a) the number of male employees who took childcare leave during FY2022, divided by (b) the number of male employees with children born during FY2022. Note that the aforementioned (a) includes employees on childcare leave with children who were born in FY2021 or earlier but who have newly taken childcare leave in FY2022, thus it is possible that the ratio could exceed 100%.

## Creating Opportunities for Female Employees

Aozora has set its own target for the ratio of deputy managers who are candidates for female managerial positions and is striving to expand its core talent pool to promote opportunities for women. We will continue to appoint women to so-called decision-making positions, including as executive officers and are aiming to raise the percentage of female managers from currently being about 13% to about 20% in five years' time, and in the long term, to over 25%.

In FY2020, we conducted HR reform, which abolished the "Ippan-shoku (non-professional career category)" and eliminated career course-based limitations on roles and responsibilities to further enable anybody to pursue their career goals, and this has resulted in multiple examples of women being promoted from the former "Ippan-shoku" into managers.

When it comes to recruiting female employees, we strive to find human resources of high potential or human resources with high expertise who are active outside of Aozora. In terms of development, we are providing career training and short-term traineeships within Aozora to employees who have transferred from "Ippan-shoku" to professional in order to encourage them to take on the challenge of expanding their areas of experience from the perspective of mindset and business skills. As part of our efforts to develop female candidates for management, we are also giving consideration to matters of equity, such as starting a program to dispatch selected people for outside career building training.

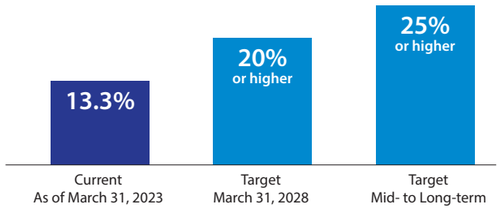
From the aspect of human resource deployment, some female employees who were engaged in back office work as sales assistants have started to work as front sales staff while assisted by supervisors and peers or proactively participating in job support programs in other divisions to promote their own multitasking. We give a careful evaluation of every individual employee's efforts in taking on challenges and assign them to other divisions as a way to broaden their expertise.

In addition, as a result of various measures taken over the years to avoid the risk of female employees retiring due to matters such as childcare or nursing care, the average years of service of female employees has remained above 16 years, a level higher than that of male employees since 2014. We have established programs that enable childcare leave for a maximum of two years, a shortened working hour program available until the child reaches the third grade of elementary school and a system that allows employees to take leave of up to three years for reasons such as a spouse's transfer or infertility treatment.

In terms of a wage gap between men and women, women only earn 66.6% of what men earn, leaving room for improvement. As a result of the career course integration in FY2020, we have been able to achieve equal pay between men and woman on the same career course, rank and salary table, but there are still few female managers, and relatively few female employees who are active in focus areas such as the investment banking business and international business, and many female employees with long years of service in support groups such as back office operations, which is believed to be a reason for the wage gap between men and women. It will take time for the effects of the career course integration to manifest, but we expect the gap in annual salary between men and women will narrow as more women move into management regardless of their former job types.

We will continue to provide opportunities and environments where female employees can play an active role, and become a company where all employees feel comfortable and have job satisfaction, which we believe will help us to secure and retain outstanding human resources even as the working population is expected to decrease.

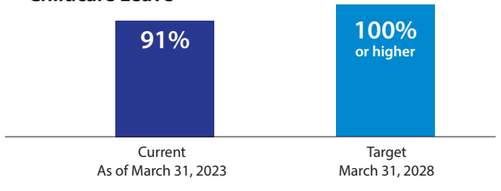
### Percentage of Female Managers




## Introduction of the Fathers' Post Natal Childcare Leave Program to Promote Men Taking Childcare Leave

At the Bank, women have a 100% rate of taking childcare leave. The acquisition rate among men has risen significantly from 58% in FY2021 to 91%. This is a result of having established an original childcare leave program based on laws and regulations and promoting men to use childcare leave in such ways as by making the program known to them and sharing examples of leave being taken, which was in conjunction with the October 2022 revisions to the Act on Childcare Leave, Caregiver Leave, and Other Measures for the Welfare of Workers Caring for Children or Other Family Members. Aozora Bank's original Fathers' Post Natal Childcare Leave Program allows employees to take up to four weeks of paid leave to lower the hurdles for taking leave, and has the features of also allowing leave to be taken in installments and to be able to do some work while on leave. As a result, the number of days taken as childcare leave has increased, and there was also a first-ever example of a male employee taking one year of childcare leave. In the new Mid-term Plan, we have set the target for the percentage of male employees taking childcare leave as a KPI at 100% to promote more men to take the leave.

### Percentage of Eligible Male Employees Taking Childcare Leave




## Establishment of Aozora Ally

The Aozora Group launched Aozora Ally in September 2022 to be close to employees of diverse backgrounds, including those with disabilities or part of the LGBTQ community, toward the entrenchment of diversity, equity and inclusion. The number of supporters of Aozora Ally is increasing, we have received various opinions and proposals and are continuing activities for steady improvement. Through the actions centered on support members, we want to create work environments where all people can be comfortable and lively.

# Creating a Safe Working Environment for Employees with Disabilities

Aozora Bank has employees with disabilities who have important responsibilities across a wide range of operations based on their aptitude, such as handling deposits, lending and remittance operations, document management and IT, as well as playing active roles in a variety of divisions. One of Aozora's Key Priorities is to "respect one's colleagues and support professional growth of all team members." This includes respect for the views of employees with disabilities, and we received the Tokyo Metropolitan Government's "Excellent Company Award for the Employment of People with Disabilities" for our efforts in FY2021.

## Creating a Comfortable Workplace

Many staff members, including Occupational Health Physicians, nurses, public health nurses, mental health & welfare counselors, and corporate-employed job coaches collaborate with employees with disabilities to meet their individual needs. For example, when an employee with vision impairment joined Aozora Bank, we closely communicated with the employee before the start of work to develop accommodations such as introducing reading and text resizing software as well as enhanced vision equipment. Aozora Bank strives to flexibly respond to the individual needs of those with either physical or mental disabilities by creating an environment in which they feel comfortable expressing their views, such as during regularly held communication sessions.

## Initiatives for Employees with Disabilities

We hold small-sized meetings where the CEO and other executive officers engage in direct dialogue with employees with disabilities for an exchange of views and to interact with each other to create a comfortable working environment. Concerns were expressed by some who did not want to disclose having a disability, so special arrangements are made. In addition, we communicate through the entire Aozora organization on the projects that employees with disabilities are working on and their typical thoughts to share new insights and concerns. Among new grad hires there are a growing number of students with a disability who want to work for Aozora because they are attracted by these initiatives.

## Initiatives through Ideas from Employees with Disabilities

At the Town Hall Meeting attended by the employees of the Aozora Group, employees with disabilities came up with the idea of learning sign language for use in the event of a natural disaster. Various departments held sign language classes with employees with disabilities as instructors and Aozora developed its unique Simulated Hearing Impairment Program (to experience being unable to hear).

Employees with disabilities also actively take part in creating flow charts that standardize and visualize the flow of overall operations and work procedures. They are working to create an easy-to-use and safe system for employees in collaboration with other departments.

We want to leverage perspectives that are unique to employees with disabilities, so this page was also made by asking for their opinions and incorporating them.



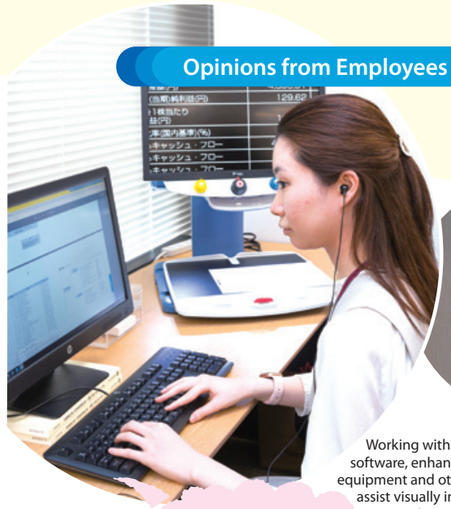
A sign language class at the Town Hall Meeting


Creating a flow chart

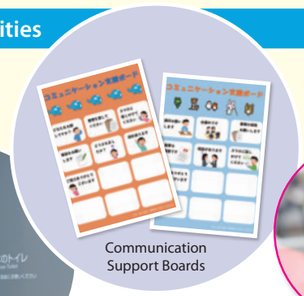

Simulated Hearing Impairment Program


Working with the support of colleagues

## Opinions from Employees with Disabilities


Working with text-to-speech software, enhanced vision equipment and other devices to assist visually impaired employees in their work


Barrier-free bathrooms


Communication Support Boards



Aozora Ear Mark



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

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

When I joined the Bank, my office introduced reading and text resizing software as well as enhanced vision equipment. I still sometimes struggle to see certain things, so I will occasionally seek advice from the Bank.

In addition to electronic memo pad, and UD Talk® app as communication tool, I think the creation of "Aozora Ear Mark" and "Communication Support Boards," which are based on the ideas of employees with disabilities, is something that can only be experienced at the Bank.

I've been involved in the sign language lesson project, including sessions at the Town Hall Meeting, since my first year of work, and I could get job satisfaction not just from work.

An article I wrote was posted on Aozora's intranet. I'm happy because it was an opportunity to raise awareness of disabilities and hopefully everyone learned more from my article.

My division has senior co-workers with disabilities. I only came to know after they disclosed their conditions to me as they perform just as well as people without disabilities. This was a big surprise to me after joining the Bank. One of the good things about working at Aozora Bank is that everyone can work together regardless of their health status.

It's difficult for me to reach documents placed up high or to carry heavy objects, but someone always helps if I ask, so I can work in comfort without any difficulties.

The process of visualizing the workflow while listening to many employees' opinions was really challenging, but it was a good experience as I could re-realize what it was like to work with various people.

Note: There are discussions about how to express the word "disabilities," including whether it should be written in *kanji* or *hiragana* characters. At Aozora, we express the term in a mixture of *kanji* and *hiragana* with an awareness of eliminating barriers on the social side and while showing consideration for the feelings of the people to whom the term applies.

## Initiatives to Support Employment

Aozora gave a presentation at the Vocational Rehabilitation Workshop held by the Japan Organization for Employment of the Elderly, Persons with Disabilities and Job Seekers to introduce to the wider public our initiatives on the work styles of employees with disabilities. We also sent an instructor to the Skill Improvement Project for Cooperation with the Employment Support Project held by the Tokyo Metropolitan Government's Bureau of Social Welfare and Public Health. In addition, we have programs in place at psychiatric day care and labor transition support offices as a means to support preparing for the stable employment of people with disabilities who are seeking a job.

Collaborating with outside organizations allows us to learn about their support for people with disabilities. We will continue striving to create workplace environments that are ever more comfortable for them.

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Support Structure for Value Creation

# Corporate Governance

## Corporate Governance Philosophy

The objective of establishing Aozora's corporate governance policy is to ensure management discipline and to create a framework of checks and balances in order to continue reflecting our management philosophy in the execution of our daily business operations. For this purpose, 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 an important management initiative.

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

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

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

## Aozora Bank's Corporate Governance Structure

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

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

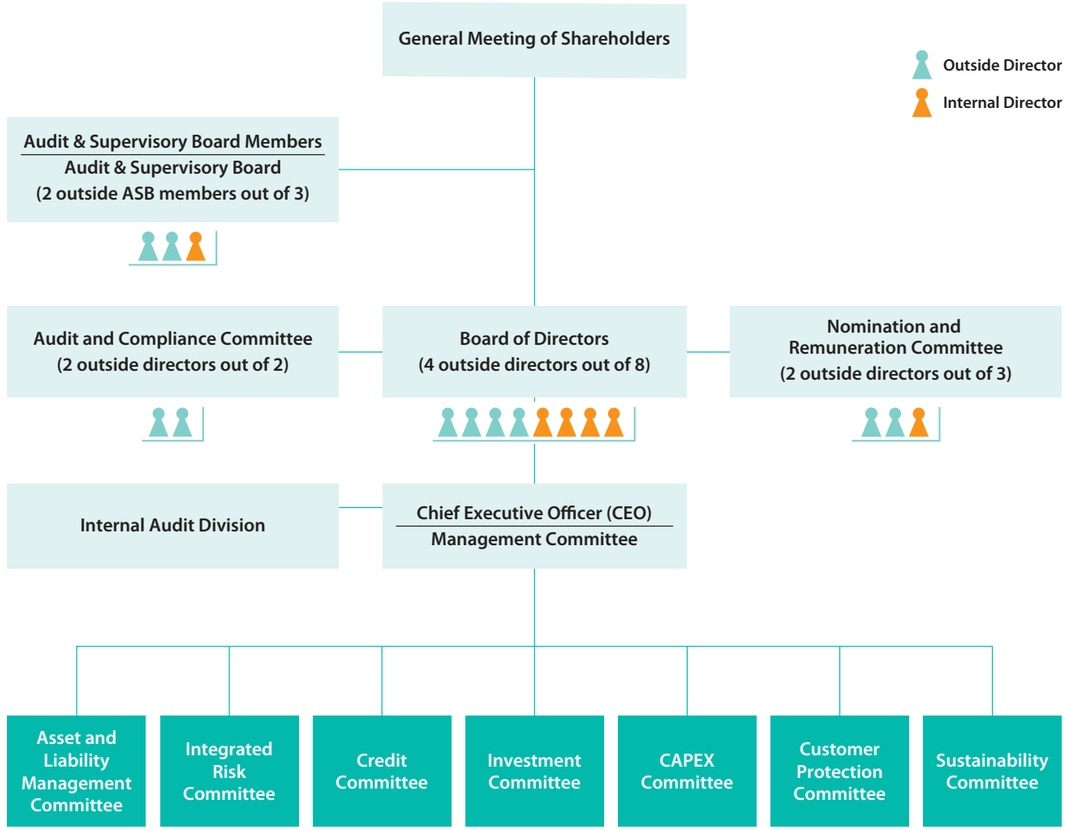
<Audit & Supervisory Board>
The Bank operates under the Audit & Supervisory Board (ASB) system. The ASB performs business and accounting audits regarding the execution of duties by directors and executive officers in accordance with relevant laws and regulations. ASB meetings are held with all ASB members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

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

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

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

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

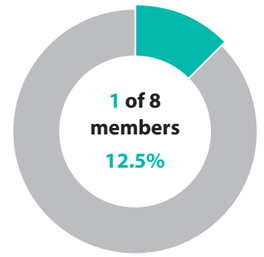



(As of July 1, 2023)

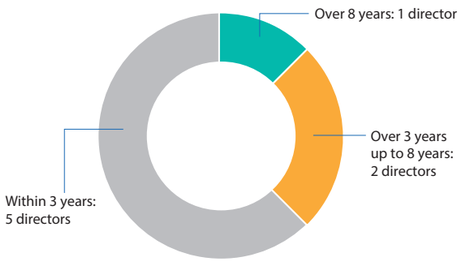
**Ratio of Outside Directors**




**Ratio of Female Directors**




**Directors' Length of Tenure**



# Corporate Governance

## Board of Directors, Audit & Supervisory Board Members

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

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

### Outside Director (4 members)



| | |
|---|---|
| Job title: | Outside Director (Independent) |
| Name: | Ippei Murakami |
| Length of tenure: | 9 years |
| Board meeting attendance: | 100% |
| Aozora shares owned: | 9,958 |

**Reason for appointment and expected role**

Mr. Ippei Murakami has served as President and Representative Director of Nisshin Seifun Group Inc. and Chair of the Board of Trustees of Kwansei Gakuin and he has a wealth of experience, credentials and deep insight as a member of senior management of a corporate institution and an educational institution, as well as extensive knowledge of corporate finance and accounting. He has appropriately supervised the management of the Bank as an Outside Director since June 2014.

The Bank has high regard for his experience and capabilities and expects him to provide overall oversight and advice on the execution of duties by executive officers, from an objective perspective, toward the enhancement of the Bank's corporate value over the medium- to long-term. The Bank has therefore continued his appointment as Outside Director.



| | |
|---|---|
| Job title: | Outside Director (Independent) |
| Name: | Sakie Tachibana Fukushima |
| Length of tenure: | 1 year |
| Board meeting attendance: | 100%* |
| Aozora shares owned: | 340 |

**Reason for appointment and expected role**

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

The Bank has high regard for her experience and capabilities and expects her to provide overall oversight and advice on the execution of duties by executive officers, from an objective perspective, toward the enhancement of the Bank's corporate value over the medium- to long-term. The Bank has therefore continued her appointment as Outside Director.

*For the Board of Directors meetings held in the fiscal year ended March 31, 2023, after her appointment as Director.



| | |
|---|---|
| Job title: | Outside Director (Independent) |
| Name: | Hideyuki Takahashi |
| Length of tenure: | — |
| Board meeting attendance: | — |
| Aozora shares owned: | — |

**Reason for appointment and expected role**

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

The Bank has high regard for his experience and capabilities and expects him to provide overall oversight and advice on the execution of duties by executive officers, from an objective perspective, toward the enhancement of the Bank's corporate value over the medium- to long-term. The Bank has therefore appointed him as Outside Director.



| | |
|---|---|
| Job title: | Outside Director (Independent) |
| Name: | Hideaki Saito |
| Length of tenure: | — |
| Board meeting attendance: | — |
| Aozora shares owned: | — |

**Reason for appointment and expected role**

Mr. Hideaki Saito has served as President and CEO of AXA Direct Life Insurance Co., Ltd., President and CEO of Japan Systems Co., Ltd. and Partner of consulting firms and he has a wealth of experience, credentials and deep insight as a member of senior management of corporate institutions and as a strategic consultant, as well as extensive knowledge of DX/IT.

The Bank has high regard for his experience and capabilities and expects him to provide overall oversight and advice on the execution of duties by executive officers, from an objective perspective, toward the enhancement of the Bank's corporate value over the medium- to long-term.

### Outside Audit & Supervisory Board Member (2 members)



| | |
|---|---|
| Job title: | ASB Member (Independent) |
| Name: | Toraki Inoue |
| Length of tenure: | 7 years |
| Board meeting attendance: | 100% |
| ASB meeting attendance: | 100% |
| Aozora shares owned: | — |

**Reason for appointment**

Mr. Toraki Inoue was formerly a Worldwide Partner at Arthur Andersen and is qualified for the responsibilities as an Outside Audit & 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.



| | |
|---|---|
| Job title: | ASB Member (Independent) |
| Name: | Junichi Maeda |
| Length of tenure: | — |
| Board meeting attendance: | — |
| ASB meeting attendance: | — |
| Aozora shares owned: | — |

**Reason for appointment**

Mr. Junichi Maeda is qualified for the responsibilities as an Outside Audit & 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.

### Internal Director (4 members)



| | |
|---|---|
| Job title: | Representative Director and President<br>Chief Executive Officer (CEO) |
| Name: | Kei Tanikawa |
| Length of tenure: | 5 years |
| Board meeting attendance: | 100% |
| Aozora shares owned: | 20,123 |

**Reason for appointment**

Mr. Kei Tanikawa has been engaged in a broad range of banking businesses such as corporate banking and financial institutions and has made a considerable contribution to the corporate management as an Executive Officer (since July 2012), with responsibility for multiple groups/divisions. He has led all of the Aozora Group as Representative Director, President and Chief Executive Officer (since June 2020), after serving as Representative Director, Deputy President (since June 2018) and has a thorough knowledge of the Group's overall business operations. He has deep insight in financial businesses as well as extensive experience and sound judgment.



| | |
|---|---|
| Job title: | Representative Director and Deputy President |
| Name: | Koji Yamakoshi |
| Length of tenure: | 3 years |
| Board meeting attendance: | 100% |
| Aozora shares owned: | 5,014 |

**Reason for appointment**

Mr. Koji Yamakoshi has been engaged in a broad range of banking businesses such as specialty finance and has made a considerable contribution to the corporate management as an Executive Officer (since July 2012) and subsequently Head of the Specialty Finance Group and Head of the Corporate Banking Group. He has been responsible for a wide range of business operations and involved in the overall management of the Group as Representative Director and Deputy President (since June 2021), and he has a thorough knowledge of the Group's overall business operations. He has deep insight in financial businesses as well as extensive experience and sound judgment.



| | |
|---|---|
| Job title: | Representative Director and Deputy President |
| Name: | Hideto Oomi |
| Length of tenure: | 2 years |
| Board meeting attendance: | 100% |
| Aozora shares owned: | 9,718 |

**Reason for appointment**

Mr. Hideto Oomi has been engaged in a broad range of banking businesses such as corporate banking and corporate strategy and has made a considerable contribution to the corporate management as an Executive Officer (since July 2016), supervising multiple groups/divisions. He has been involved in the overall management as a Representative Director and Deputy President (since June 2021), has also led institutional banking business activities as Head of the Institutional Business Promotion Group, and has a thorough knowledge of the Aozora Group's overall business operations. He has deep insight in financial businesses as well as extensive experience and sound judgment.



| | |
|---|---|
| Job title: | Director and Senior Managing Executive Officer |
| Name: | Masayoshi Ohara |
| Length of tenure: | — |
| Board meeting attendance: | — |
| Aozora shares owned: | 2,183 |

**Reason for appointment**

Mr. Masayoshi Ohara has been engaged in a broad range of banking businesses such as the markets business and has made a considerable contribution to the corporate management as an Executive Officer and Head of the Financial Markets Group (since July 2014) and subsequently CRO and CCRO. He has deep insight in financial businesses as well as extensive experience and sound judgment.

### Standing ASB Member (1 member)



| | |
|---|---|
| Job title: | Standing ASB Member |
| Name: | Satoshi Hashiguchi |
| Length of tenure: | 5 years |
| Board meeting attendance: | 100% |
| ASB meeting attendance: | 100% |
| Aozora shares owned: | 1,964 |

**Reason for appointment**

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

Note:
- Length of tenure refers to service as of June 22, 2023
- Board meeting and ASB meeting attendance refers to meetings held during FY2022
- Number of Aozora shares owned as of March 31, 2023

# Corporate Governance

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

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

| | | | Committee members | | Expertise of Directors and Audit & Supervisory Board Members | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Nomination and Remuneration Committee | Audit and Compliance Committee | Corporate management | Banking and finance | Financial accounting | Legal, compliance/ risk management | Global affairs | IT/DX | Sustainability |
| Directors | Internal | Kei Tanikawa | ○ | | ○ | ○ | | ○ | | | |
| | | Koji Yamakoshi | | | ○ | ○ | | ○ | ○ | | |
| | | Hideto Oomi | | | ○ | ○ | | | ○ | ○ | |
| | | Masayoshi Ohara | | | | ○ | | ○ | | | ○ |
| | Outside | Ippei Murakami Independent | | ○ Committee Chair | ○ | | ○ | ○ | | | |
| | | Sakie Tachibana Fukushima Independent | ○ Committee Chair | | ○ | | | | ○ | | ○ |
| | | Hideyuki Takahashi Independent | | ○ | ○ | ○ | ○ | ○ | | ○ | |
| | | Hideaki Saito Independent | ○ | | ○ | ○ | | | ○ | ○ | |
| ASB Members | Standing | Satoshi Hashiguchi | | Observer | | ○ | | ○ | ○ | | |
| | Outside | Toraki Inoue Independent | | Observer | ○ | | ○ | ○ | ○ | | |
| | | Junichi Maeda Independent | | Observer | ○ | ○ | | ○ | | | |

## Composition of the Board of Directors

1. The Board of Directors shall not have more than 12 Directors, which is the maximum number of Directors stipulated in the Articles of Incorporation.
2. Nomination of Director candidates shall be based on the "Basic Policy for Nominating Directors and Audit & Supervisory Board Member Candidates, and Appointing and Dismissing Senior Management Including the CEO."
3. The composition of the Board of Directors shall take into consideration diversity and mix of experience, with a wealth of knowledge and expertise in areas including banking and finance, financial accounting, risk management, legal and compliance, and so forth, in addition to deep insight of the Aozora Group's business.
4. The Board of Directors shall be comprised of internal directors who possess extensive knowledge and experience in business execution and outside directors who supervise management from an objective standpoint. Judgement of outside director's independence shall be made based on the "Independence Criteria for Outside Directors and Outside Audit & Supervisory Board Members" and the percentage of independent outside directors, in principle, shall be a half or more.

## Analysis and Evaluation of Board Effectiveness

The Bank works to further enhance the effectiveness of its Board of Directors through a continuous process (PDCA cycle) of analyzing and evaluating Board effectiveness each fiscal year as well as considering and providing solutions to new and existing issues.

In light of its fiduciary duties and accountability to the Bank's shareholders, the Board of Directors continues to perform self-evaluations of its effectiveness, based on a questionnaire of all members of the board present during the target period, with the aim of promoting sustainable growth and enhancing the Bank's corporate value over the medium- to long-term based on the assessment of and views on its management and oversight functions that leverage directors' and Audit & Supervisory Board members' knowledge, experience and capabilities. The results of these self-evaluations are shared after thorough Board discussions.

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

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

Outside directors' meetings were convened twice throughout FY2022 to allow for the discussion and exchange of views on multiple topics, including Aozora's executive structure, key business issues in light of the rapidly changing business environment, and the operation of the Board of Directors, from an independent outside director's perspective. The Board of Directors conducted a review of the previous Mid-term Plan and received progress reports mainly on Aozora's Strategic Investments Business, as well as Aozora's Platform Business. Following this, topics discussed at the Board of Directors meeting were incorporated into the Bank's management, and substantive discussions regarding the development of the new Mid-term Plan (FY2023–2025) took place over the course of several sessions, and through multiple discussions on the key themes, the plan was formulated. The Board of Directors also discussed and considered a clearer description of the composition of the Board of Directors and the independence criteria for outside directors, including the CEO's succession plan and the tenure of the outside directors. Furthermore, the Board approved candidates for independent outside director and outside Audit & Supervisory Board member that the Nomination and Remuneration Committee recommended after discussions.

In FY2022, the Board assessed that its roles and responsibilities continued to be properly fulfilled under the aforementioned framework through constructive discussions and an exchange of ideas on important issues, including business strategy, as well as the highly effective oversight and monitoring of management executives. The Board also assessed that overall Board management was proper and effective.

The Board of Directors for FY2023 will strive to make the Board's roles and responsibilities more effective and proper by engaging in management issues based on the self-evaluation and conducting a PDCA cycle while utilizing committees under the Board as well as the outside directors' meeting.

# Corporate Governance

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

| Name of Committee | Chaired by | Members | Meetings held in FY2022 |
|---|---|---|---|
| Board of Directors | President | Directors, ASB Members | 15 |
| Audit & Supervisory Board (ASB) | Standing ASB Member | ASB Members | 14 |
| Nomination and Remuneration Committee | Outside Director | Directors (Outside Directors comprise majority) | 7 |
| Audit and Compliance Committee | Outside Director | Outside Directors | 6 |

Specific matters discussed in the Board of Directors meetings in FY2022 were as follows.

- Confirm progress of the previous Mid-term Plan
- Discuss formulation of the next Mid-term Plan
- Sustainability initiatives
- ALM securities portfolio management status and response policy
- Nomination of independent outside director and Audit & Supervisory Board member candidates
- Set maximum tenure period for outside directors and outside Audit & Supervisory Board members
- Integrated risk report, compliance program, Annual Internal Audit Plan
- Financial report, earnings forecast announcement, dividends
- Others

Specific matters discussed in the Nomination and Remuneration Committee meetings in FY2022 were as follows.

- Compensation plan for sustainable growth and compensation amount
- Nomination of director and executive officer candidates
- Set maximum tenure period for outside directors and outside Audit & Supervisory Board members
- CEO successor plan
- Others

Specific matters discussed in the Audit and Compliance Committee meetings in FY2022 were as follows.

- Status of internal audit
- Matters regarding integrated risk management
- Status of progress of compliance program
- Status of asset assessment
- Others



| Name of Committee | Chaired by | Members | Meetings held in FY2022 | Purpose |
|---|---|---|---|---|
| Management Committee | CEO | Executive Officers appointed by the Board of Directors | 57 | Determine important matters related to daily business operations |
| Asset and Liability Management Committee | CFO | President, Executive Officers in charge | 21 | Deliberate on and determine important matters regarding asset and liability management, including plans for the sources and uses of funds |
| Integrated Risk Committee | CRO | President, Executive Officers in charge | 11 | Deliberate on establishing risk management policies, monitoring the risk management framework, maintaining proper internal governance and launching new businesses/products |
| Credit Committee | CCRO | President, Executive Officers in charge | 69 | Establish a credit risk asset portfolio aligned with management policies through approval of individual credit transactions |
| Investment Committee | CCRO | President, Executive Officers in charge | 46 | Approve individual investment transactions, establish appropriate investment policies, ensure accurate understanding of the Bank's overall investment risk, build and maintain a secure and profitable portfolio |
| CAPEX Committee (approval and management of IT-related proposals) | CTO | President, Executive Officers in charge | 13 | Approve and monitor IT projects required to realize business plans and strategies |
| CAPEX Committee (approval and management of facilities-related proposals) | Head of Corporate Strategy Unit | President, Executive Officers in charge | 9 | Approve and monitor facilities-related proposals required to realize business plans and strategies |
| Customer Protection Committee | Head of Compliance and Governance Unit | Executive Officers in charge | 18 | Establish and improve the customer protection framework in five areas: customer explanation management, customer support management, customer information management, outsourcing management and conflict of interest management |
| Sustainability Committee | CEO | Executive Officers in charge | 9 | Deliberate on and determine basic matters of sustainability promotion as well as important matters regarding sustainability promotion in the Bank's business and initiatives as a business entity |

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

**<Basic Guidelines for Nominating Director Candidates>**
Candidates should:

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

The composition of the Board of Directors shall take into consideration diversity and mix of experience, with a wealth of knowledge and expertise in areas including banking and finance, financial accounting, risk management, legal and compliance and so forth in addition to deep insight of the Aozora Group's business.

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

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

**<Reappointment of Directors and Audit & Supervisory Board Members>**
For reappointment of Directors and Audit & Supervisory Board members, the above basic guidelines, performance of his/her duties and contribution to the Bank's management during his/her term of office shall be considered each year.

The maximum term of office of each official corporate title of full-time director shall be determined by the internal regulations of the Management Committee.

The maximum term of office of outside directors shall be 10 terms or 10 years.

The maximum term of office of outside Audit & Supervisory Board members shall be three terms or 12 years.

# Corporate Governance

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

(1) Basic Guidelines for Appointing Senior Management

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

(2) Basic Guidelines for Dismissing Senior Management

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

**<Basic Guidelines for Appointing and Dismissing the CEO>**

(1) Basic Guidelines for Appointing the CEO

In addition to the Basic Guidelines for Appointing Senior Management:

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

(2) Basic Guidelines for Dismissing the CEO

In addition to the Basic Guidelines for Dismissing Senior Management:

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

**<Formulation of CEO Succession Plan>**

We have formulated a succession plan that incorporates the items below, with the aim of securing CEO successors who can contribute to the sustainable enhancement of the Bank's corporate value for smooth business succession in the future.

1. Overall policy including a roadmap
2. Capability requirements for CEO in light of strategic directions and environmental changes
3. Candidate selection and training plans

## Procedure for Nominating Director Candidates and Other Senior Management Candidates

**<Procedure for Nominating Director Candidates, and Appointing and Dismissing Senior Management Including the CEO>**

The Nomination and Remuneration Committee, of which the majority comprises outside directors, deliberates on the nomination of director candidates as well as the appointment and dismissal of the CEO and other senior management, and makes recommendations to the Board of Directors.

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

In cases where the CEO or other senior management falls under any of the above basic guidelines for dismissal, in principle, the Board of Directors will determine whether or not to dismiss them in accordance with the recommendations of the Nomination and Remuneration Committee.

**<Procedure for Nominating Audit & Supervisory Board Members>**

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

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

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

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

1. (1) A person who currently is, or has been during the last 10 years prior to his/her taking office, an executive (executive director, executive officer, or other employee) of the Bank or its subsidiaries.
   (2) A person who had served as a director, accounting advisor and/or Audit & Supervisory Board member (excluding a person who served as an executive) of the Bank or its subsidiaries at some time during the 10 years prior to his/her taking office, had also served as an executive of the Bank or its subsidiaries in the 10 years prior to his/her taking office as such director, accounting advisor and/or Audit & Supervisory Board member.

2. A person who is a major business partner (2% or more of consolidated net revenue of the Bank or consolidated net sales of the said major business partner) of the Bank or its subsidiaries or an executive of said major business partner.

3. A consultant, accounting expert and/or legal expert, who has received large amounts of money or other assets (more than an average of 10.0 million yen per year over the last three years) from the Bank or its subsidiaries in addition to any directors' remuneration, and/or a person who belongs to a consulting firm, accounting firm and/or legal firm, etc. which has received large amounts of money or other assets (2% or more of consolidated sales revenue of the said firm) from the Bank or its subsidiaries.

4. A person who has been any of the following (1) to (3) during the last 10 years prior to his/her taking office.
   (1) A person who has been an executive and/or non-executive director of the parent company of the Bank
   (2) An Audit & Supervisory Board member of the parent company of the Bank (limited to cases when the outside Audit & Supervisory Board member shall be designated as independent)
   (3) A person who has been an executive of fellow subsidiaries of the Bank.

5. A person who has "recently" fallen under any of 1 through 4 above ("recently" means a time deemed to be substantively the same as the present. For example, a person is not independent if that person was a major business partner at the time when a proposal to the General Meeting of Shareholders regarding his/her appointment was decided.).

6. A close relative (a spouse or family member within the second degree of kinship, excluding those who are not an "important person") falls under any of 1 through 5 above ("important person" means, for example, an executive officer/manager-level employee of a company, and in the case of 3 above, a holder of professional qualification such as a Certified Public Accountant and Attorney-at-Law).
   In the case of 1 above, those who fall under each item at present.

## Basic Guidelines regarding the Directors' Remuneration System

**<Basic Guidelines for Determining Remuneration for Directors, etc.>**

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

1. Remuneration framework in line with the Bank's vision
   The Bank aims to build a remuneration framework that 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 aligned with the interests of shareholders and other stakeholders
   The Bank has adopted a remuneration framework that is consistent with the values of its shareholders and other stakeholders.
4. Effective governance in remuneration decisions
   The Bank ensures that remuneration decisions are made with full independence and transparency as well as freedom from specific influence.

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

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

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

Chairperson of the Committee: Sakie Tachibana Fukushima, Outside Director
Member: Hideaki Saito, Outside Director
Member: Kei Tanikawa, Representative Director and President

The Nomination and Remuneration Committee members in charge of determining the amount of each directors' remuneration for FY2022 were as follows:

Chairperson of the Committee: Tomonori Ito, Outside Director
Member: Sakie Tachibana Fukushima, Outside Director
Member: Kei Tanikawa, Representative Director and President

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

### Base Remuneration (Fixed Remuneration)

Base remuneration, which comprises a fixed amount that varies by type of position (full-time or part-time), job title, and responsibilities, is paid on a monthly basis during the tenure of each director.

Data from an outside specialized agency is used to determine whether the level of base remuneration is appropriate.

For President and Deputy President, base remuneration is determined within a range of remuneration predetermined by the type of position while taking into consideration factors including the levels of their responsibilities and experience.

### Bonus (Performance-based Remuneration)

Bonuses (performance-based remuneration) are initially set at the equivalent of 40% of the base remuneration amount (the "Base Bonus Amount") and the Nomination and Remuneration Committee determines the exact amount of bonus for each full-time director by applying a rate within a predetermined range of 0% to 250% of the Base Bonus Amount while considering the key performance indicators of the fiscal year as

# Corporate Governance

shown below. Bonuses are paid within a specific period following the end of each fiscal year. Specifically, the rate and bonus amount for each director are determined primarily based on the following key performance indicators, and also in consideration of the Bank's overall performance for the relevant fiscal year.

- Achievement rates of business profit and net earnings
- Statuses of the achievement of key performance indicators (KPIs), such as ROE, capital adequacy ratio, business-related profit (Business profit + Gains/losses on stock transactions) per employee, and business-related profit RORA ((Business profit + Gains/losses on stock transactions)/Risk-weighted assets)
- Assessment of undue risk-taking and occurrence of serious compliance violations
- Implementation and introduction of initiatives and strategies from a mid- to long-term perspective, including the launch of new businesses
- Progress and achievement of sustainability initiative targets announced by the Bank

Among the aforementioned performance indicators, achievement rates of business profit and net earnings are the basic indicators for the Bank's business results. Statuses of achievement of ROE, capital adequacy ratio, business-related profit per employee and business-related profit RORA as KPIs are key indicators for the targets in the Bank's Mid-term Plan. The achievement rates of these indicators, therefore, are taken into account as quantitative evaluation criteria for determining bonus amounts. In order to encourage not only short-term business results but also mid- to long-term initiatives, the Bank also fully considers crucial qualitative evaluation criteria for determining bonus amounts, such as the assessment of undue risk-taking and occurrence of serious compliance violations, and the implementation/introduction of initiatives and strategies from a mid- to long-term perspective, including the launch of new businesses, as well as the progress and achievement of sustainability initiative targets announced by the Bank.

The above indicators have been updated in conjunction with the new Mid-term Plan started in FY2023. The indicators used to determine performance-based remuneration for FY2022 are stated below.

- Achievement rates of business profit and net earnings
- Statuses of the achievement of KPIs, such as over-head ratio (OHR), ROA and ROE
- Status of achievement of the capital adequacy ratio
- Assessment of undue risk-taking and occurrence of serious compliance violations
- Implementation and introduction of initiatives and strategies from a mid- to long-term perspective, including the launch of new businesses
- Progress and achievement of sustainability initiative targets announced by the Bank

The targets and results of the indicators used to determine performance-based remuneration for FY2022 are stated below. Based on these results, bonuses (performance-based remuneration) were not paid to the positions of Representative Director and President as well as Representative Director and Deputy President.

| | FY2022 announced forecast*2 | FY2022 results |
|---|---|---|
| **Business profit** | 46.0 billion yen (4.5 billion yen) | 2.5 billion yen |
| **Net earnings*1** | 36.0 billion yen (10.0 billion yen) | 8.7 billion yen |

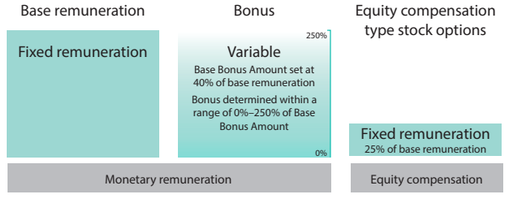
| | Mid-term Plan targets*4 | FY2022 results |
|---|---|---|
| **OHR** | Below 55% | 99.6% |
| **ROA*3** | 1% | 0.04% |
| **ROE** | 8% or higher | 1.9% |
| **Capital adequacy ratio** | Minimum 9% | 9.43% |

*1 Profit attributable to owners of parent
*2 Original earnings forecast announced at the beginning of FY2022. Figures in parentheses represent the revised forecast (as announced in our news release "Aozora Announces Revision to FY2022 Full-Year Earnings Forecast" dated January 27, 2023).
*3 Business profit ROA including gains/losses on equity method investments
*4 Mid-term Plan "Aozora 2022" (FY2020–22)

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

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

### Full-time Director Remuneration Framework




**<Reasons for the Board of Directors' Judgment that Remuneration for Individual Directors in FY2022 was in Accordance with the Above Policy>**

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

**<Policy on Determination of the Amount and Calculation Method of Remuneration for ASB Members>**

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

### Base Remuneration (Fixed Remuneration)

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

**<Remuneration of Directors and ASB Members (April 1, 2022 to March 31, 2023)>**

(million yen)

| Category | Number (number of individuals) | Remuneration in total | Fixed remuneration | Performance-based remuneration (bonus) | Non-monetary remuneration (stock options) |
|---|---|---|---|---|---|
| **Directors (excl. outside directors)** | 4 | 236 | 182 | 7 | 46 |
| **ASB member (excl. outside ASB members)** | 1 | 29 | 29 | — | — |
| **Outside directors** | 5 | 56 | 56 | — | — |
| **Outside ASB members** | 2 | 24 | 24 | — | — |

Notes:
1. The number and remuneration in the above table include those for one director who retired at the close of the 89th General Meeting of Shareholders on June 22, 2022.
2. No director or ASB member received a total remuneration of 100.0 million yen or more.

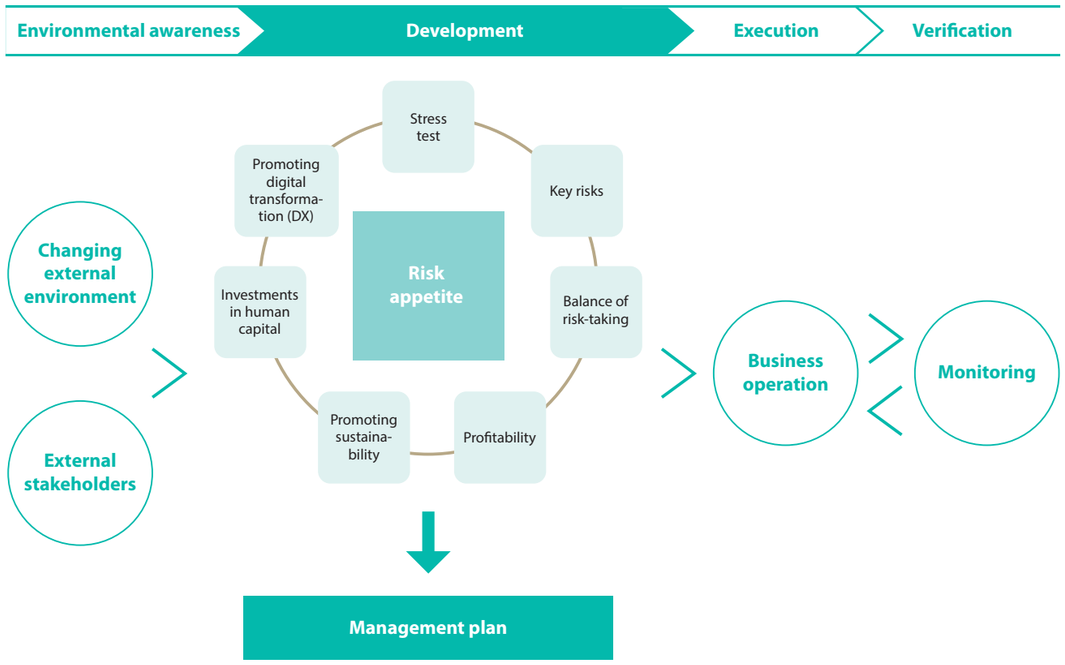
Support Structure for Value Creation

# Corporate Governance

## Risk Appetite Framework

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

Specifically, the Group has developed the Mid-term Plan and annual business plans by comprehensively reviewing stress test results and other factors, while recognizing the expectations of its stakeholders, including shareholders and customers, as well as changes in the external and internal environment, and then determined its profitability, balance of risk-taking and resource allocation. The Bank's business operations based on its management plan are executed under the guidance of the Management Committee and sub-committees. These committees monitor business operations as well as review progress against the plan and the operating environment, which are also taken into account in subsequent business operations.




## Internal Audit Management

**<Role and Function>**

The Internal Audit Division (IAD) operates independently from all business groups and supporting units. To help realize the Aozora Mission to "contribute to the development of society through the creation of new value-added financial services," the IAD objectively examines and evaluates whether the Group's internal controls are functioning properly and effectively, and offers constructive and practical recommendations for business improvement. As of March 31, 2023, 28 employees were directly engaged in internal audits.

Internal audits are conducted in line with audit plans, which are formulated according to the Annual Internal Audit Plan approved by the Management Committee and the Board of Directors each fiscal year. When formulating the audit plan, the IAD carries out risk assessments based on the type and degree of inherent risk within business groups, supporting units and group companies as well as the status of internal controls, and determines factors such as the frequency, complexity, and deployable resources of audits.

The IAD also performs cross-sectional target audits for each business process and system audits according to the importance of risk management, as well as J-SOX audits that examine the effectiveness of internal controls related to financial reporting. In FY2022, the IAD conducted a total of 79 internal audits, which were comprised of 20 audits for business groups and supporting units, 21 cross-sectional target audits, four system audits, and 34 J-SOX audits. The IAD also carried out three follow-up audits on audit findings.

**<Positioning of the IAD within the Organization>**

The IAD reports directly to the Chief Executive Officer (CEO) and shares the status of the Group's internal controls with the CEO mainly through periodic reporting. The IAD also provides an independent evaluation of internal controls by presenting individual audit results to the Management Committee monthly and a summary of the audits directly to the Audit and Compliance Committee and the Board of Directors semi-annually.

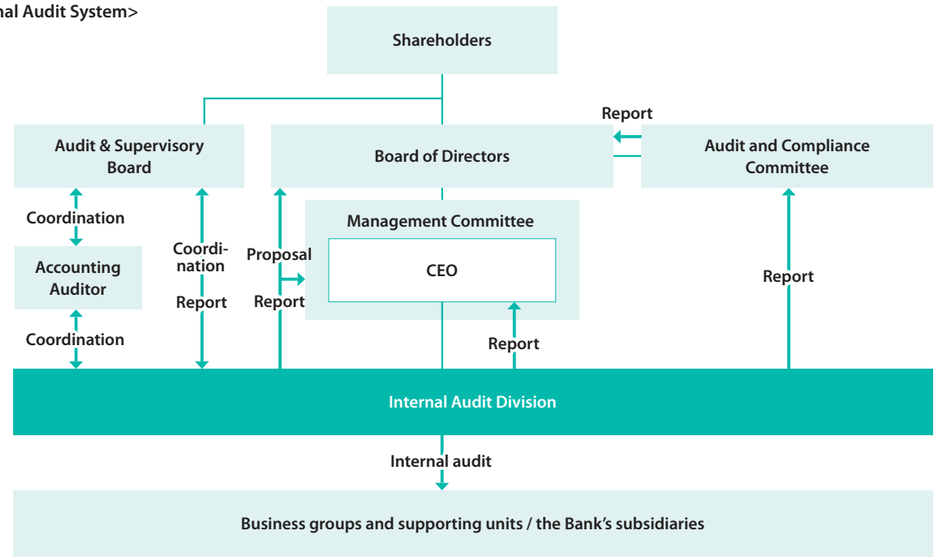
In order to better fulfill its audit mission, the IAD cooperates with the Audit & Supervisory Board and its members by directly exchanging information and opinions, including sharing the aforementioned audit reports and audit schedules. Furthermore, the IAD strives to work closely with Audit & Supervisory Board members and the accounting auditor by holding periodic group audit meetings where they exchange information and opinions.

**<Efforts to Improve Audit Quality and Effectiveness>**

The Bank's internal audits are conducted on a risk basis in accordance with the international standards of the Institute of Internal Auditors (IIA). In addition to an internal quality assessment conducted annually, the IAD periodically undergoes an external quality assessment by a third-party organization in order to further improve the Bank's internal audits. In FY2022, the IAD received an internal audit quality assessment by an external organization and reflected the findings in the formulation of the new Mid-term Internal Audit Plan, and also enhanced the dual role assignment system between Aozora Bank and the audit divisions of group companies in order to strengthen group governance.

In order to improve the effectiveness of its internal audits, the IAD conducts ongoing internal and external recruitment of auditors with a high level of expertise. In addition, the IAD supports and encourages its audit members to obtain professional certifications, such as Certified Internal Auditor (CIA) and Certified Information System Auditor (CISA).

**<Internal Audit System>**



# Risk Governance

## Basic Policy on Risk Management



Masayoshi Ohara
Director and Senior Managing Executive Officer
Chief Risk Officer (CRO)



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



Kosuke Takai
Executive Officer
Deputy Chief Credit Risk Officer

The Aozora Group works on challenge areas that require focus in order to maximize economic and social value, and contributes to the development of society through the creation of new value-added financial services. To this end, we recognize risk management activities as extremely critical and position them as a foundation for our Group-wide value creation process.

Based on our corporate principles, we conduct sound risk-taking, which will lead to improved capital efficiency and future growth. This takes place, within the scope set by the Board of Directors in order to enhance corporate value by balancing value creation with financial soundness. At the same time, we also are recognizing the diverse risks associated with changes in the macroeconomic environment and the execution of our business operations as well as taking into consideration risks which may arise from new business. We also strive for a higher level of risk management through the establishment of a framework designed to properly identify and control individual and aggregate risks and appropriate and disciplined management based on internal rules established by risk type.

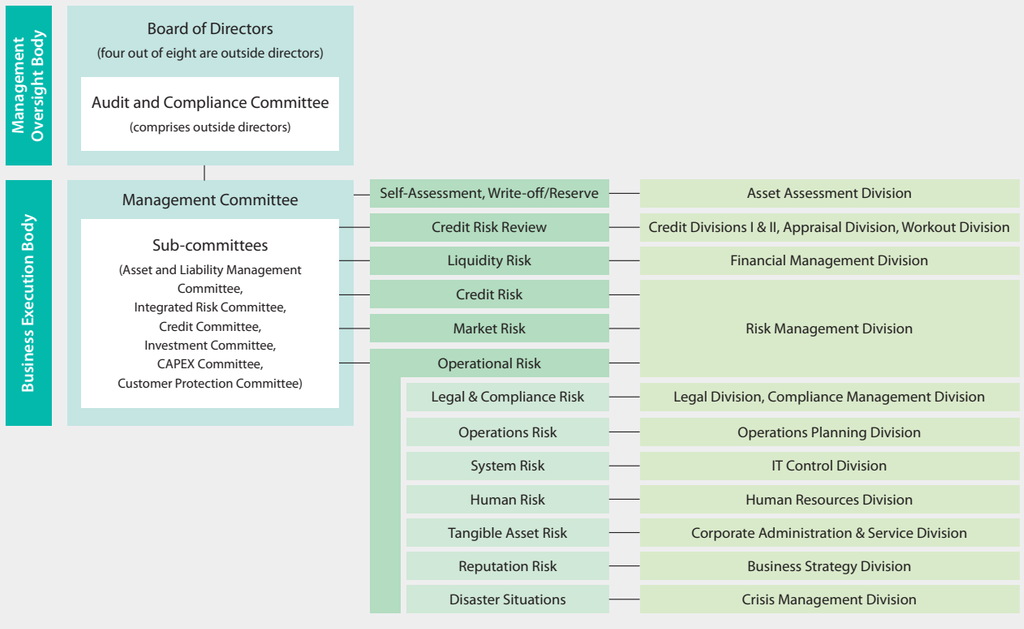
## Risk Governance Structure

The Aozora Group's risk governance structure is organized into two major groups. The first is the Board of Directors and the Audit and Compliance Committee which is comprised of outside directors. The second major group is the Management Committee, which is comprised of Aozora's executive officers, and sub-committees to which it delegates authority.

In the normal course of business, the Management Committee and sub-committees analyze and take into consideration risks arising from the origination of loans and investments and the delivery of services to customers as well as relevant business operations from a broad perspective. In addition, monitoring and reporting on the status of risks are conducted regularly or as needed by each risk management department to the Management Committee and sub-committees, which leads to our flexible and timely responses.

The status of risks is also regularly reported to the Board of Directors and the Audit and Compliance Committee where the appropriateness and effectiveness of risk management are discussed mainly by outside directors in order to ensure the effectiveness of risk governance.

Risk Governance Structure




## Key Risks

The Aozora Group recognizes the following items in its FY2023 business operations as its most significant risks. We discuss our risk appetite and business planning based on key risks, and also strive for a higher level of risk management.

| Key Risks | Countermeasures |
|---|---|
| Deterioration in credit quality | Despite growing uncertainty about the future, including the risk of economic recession due to the impact of interest rate increases by central banks in multiple countries and geopolitical tensions, we will adhere to our lending and investment management policies and guidelines, carefully analyze the business risks of our borrowers, and selectively undertake high-quality projects to build a well-diversified, high-quality portfolio. We will also analyze existing transactions in a timely manner and conduct timely analysis to identify warning signs and conduct proactive credit management. |
| Decrease in value of held securities due to financial market volatility | In an environment where the outlook is uncertain, we aim to build a securities portfolio with high liquidity and implement flexible risk control while taking into account the correlation among interest rates, equities, and credit. In addition, we have developed a framework that allows for an early and appropriate response by establishing various points to check regarding risk levels and losses. |
| Instability of funding due to turmoil and increased volatility in the financial market | With regard to cash flow in yen and foreign currency, we take every possible measure to secure necessary fundings to cover a range of settlements by holding adequate securities and other assets with high liquidity. In addition, we regularly perform a simulation of funding pressures as a means to test the adequacy of funds on hand to maintain our asset size and also conduct exercises aimed to test our procedures for securing funds. |
| Outbreak of wide-scale disasters, cyberattacks, system failures and other crises | To prevent any significant impact from natural disasters, cyberattacks, serious system failures, terrorism, armed attacks, pandemics and other threats on the Aozora Group's operations, we strive to ensure operational resilience mainly by formulating business continuity plans (BCP), exercising a set of drills at regular intervals and developing backup sites. Our cybersecurity initiatives include the evolution of multi-layered technical defense measures, enhancement of detection capabilities and recovery drills involving both business groups and IT groups. |
| Delays in Aozora's structural/business transformation | Please refer to the sections titled "New Mid-term Plan 'Aozora 2025' (FY2023-25)" (page 10-15) and "Sustainability Promotion" (page 60-63) in this Integrated Report. |
| Inadequate response to financial crimes, occurrence of internal fraud and information leaks | We intend to develop an anti-money laundering management system and ensure the ongoing effectiveness of our response to the targets of economic sanctions as well as promote the further enhancement of these system based on the revised Anti-Money Laundering Guidelines and the revised Foreign Exchange Inspection Guidelines. As part of our annual compliance program, we develop plans for and check the status of our training programs, monitoring, dissemination of laws, regulations, and internal rules as well as other activities. In addition, Aozora works to further instill its Code of Ethics and Conduct by delivering regular messages from top management as well as receiving written pledges from all officers and employees.<br>We also continue to promote awareness of insider trading prevention and information management among officers and employees mainly through alerts, trainings, and e-learning. |
| Sustainability of human resources | Any shortage and departure of employees who are capable of responding properly to the changing business environment or have skill sets required for our focus areas of business, including Aozora's Strategic Investments Business, could pose a risk to the Aozora Group's sustainable growth that can be achieved through the implementation of business operations and strategies.<br>For our human resources strategy concerning the Bank's human resource system and human resource development, please refer to the sections titled "New Mid-term Plan 'Aozora 2025' (FY2023-25)" (page 10-15) and "Human Resources Strategy" (page 74-81) in this Integrated Report. |

# Compliance

## Compliance Structure

The Bank has the Compliance Management Division as the supervising division for compliance, and a Legal Division that appropriately manages legal risk in its diversified business. These divisions develop internal rules regarding compliance risk and legal risk management. As a specific action plan to realize our compliance framework, the Compliance Management Division develops annual compliance programs that are designed to deepen compliance awareness among the Aozora Group's officers and employees, in addition to periodically conducting seminars and e-learning to maintain and improve compliance awareness. Progress and achievement status are reported to the Audit and Compliance Committee and the Board of Directors on a semi-annual basis. Aozora has established a "Code of Ethics and Conduct" (refer to the Financial and Corporate Data Section) that every officer and employee must remain in compliance with. All officers and employees of the Aozora Group, including group companies, pledge on an annual basis that they understand and comply with the Code of Ethics and Conduct. Social norms, common sense, and the expectations for financial institutions are constantly changing due to factors such as the expansion of digitalization in society and hybrid work styles that took hold during the COVID-19 pandemic. Aozora continues its effort to develop new products and services in order to realize sustainable growth in the Group's business. If the Aozora Group fails to properly respond to changes in the external environment and business conditions, its business operations and transactions may be deemed to be in violation of laws and regulations, social norms, business practices and market conventions, or regarded as corporate activities lacking common sense, including from the perspective of customers, which could damage the Group's corporate value. To avoid any damage to our corporate value, the Aozora Group will continue to comply with all laws and regulations applicable to our business operations, conduct sensible corporate activities based on social norms and common sense, and strive to further improve our compliance/risk management framework to respond to a wide range of changes in the environment.



Hiroshi Suzuki
Executive Officer
Head of Compliance & Governance Unit

## Elimination of Anti-social Elements

The Aozora Group clearly states in the "Basic Policy on the Elimination of Anti-Social Elements" (refer to the Financial and Corporate Data Section) that the Group steadfastly confronts any anti-social elements that pose a threat to public order and safety while ensuring that it categorically blocks any relationship with such elements. Aozora has established and maintains close cooperative relationships with outside specialized agencies, including law enforcement agencies, Anti-Organized Crime Campaign Center of Tokyo, and attorneys. In addition, we refuse to perform any action that may serve to provide income/funding for anti-social elements, including but not limited to backdoor transactions, monetary contributions/membership fees, and subscribing to informational magazines.

## Anti-money Laundering Initiatives

The Aozora Group is aware that preventing financial crimes, including money laundering, financing of terrorism and proliferation financing, and responding to economic sanctions under the Foreign Exchange and Foreign Trade Act ("Anti-Money Laundering Measures") are important issues facing the global financial system. We have established a framework to comply with domestic and international laws, regulations and rules, while also making an on-going effort to further strengthen our Anti-Money Laundering Measures. For example, Aozora has developed internal policies and an organizational structure, which includes the establishment of a Financial Crime Management Office as a department overseeing anti-money laundering issues, while conducting a review as needed to ensure their effectiveness. We also provide training for officers and employees regarding the prevention of financial crimes and the response to economic sanctions under the Foreign Exchange and Foreign Trade Act. In addition, we ensure that we verify the identity of customers and the purpose of their transaction at the time of account opening, which is followed by the ongoing monitoring of our customer transactions. Additionally, we have developed an internal structure that allows for immediate reporting to the relevant authorities regarding any suspicious transactions detected by our daily monitoring processes.

## Anti-bribery Initiatives

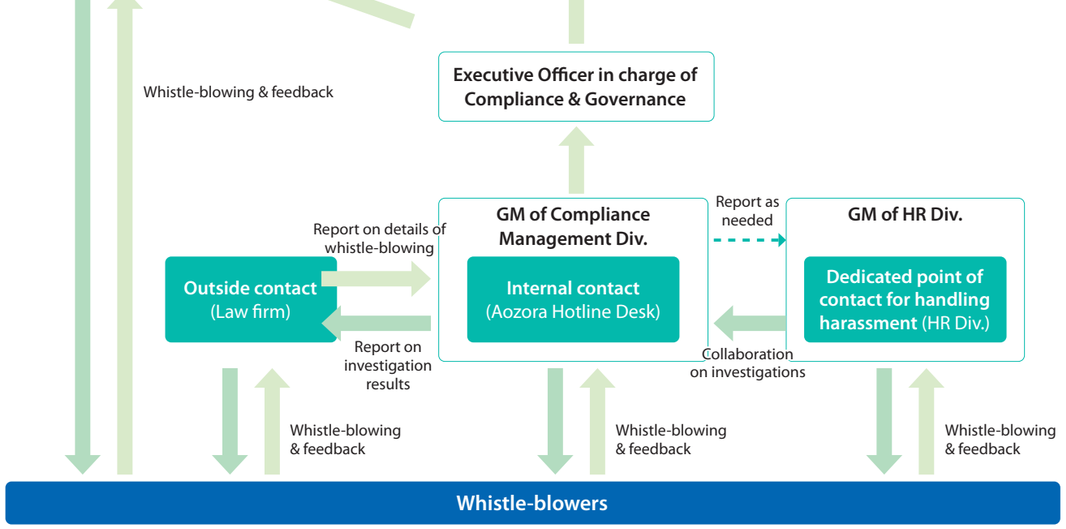
The Aozora Group has announced the "Basic Policy on Anti-bribery" (refer to the Financial and Corporate Data Section), which prohibits all of Aozora's officers and employees from giving, offering or promising improper corporate hospitality, gifts and other benefits to public officials, etc. in any country as well as from giving or receiving excessive corporate hospitality, gifts or other benefits beyond socially-acceptable limits. In addition, we continue to provide opportunities for all officers and employees to learn more about our anti-bribery policy.

## Whistle-blower Program

By exercising the Aozora Group's self-monitoring function, the Bank works to ensure early detection and correction of legal violations and misconduct to prevent the occurrence of any scandal. To this end, in addition to the job-related reporting line, we have established a whistle-blower program called "Aozora Hotline Program"* in order to foster a clean, open, and fair corporate culture within the Aozora Group. The Aozora Hotline Desk inside the Compliance Management Division and the HR Division's dedicated point of contact for harassment serves as the internal contact for whistle-blowers, while an outside law firm acts as the outside contact. It is also possible to make reports to our Standing Audit & Supervisory Board member. This program is available to all officers and employees working for the Bank or its group companies (including rehired retirees, contract employees, part-timers, and temporary staff) as well as to all officers and employees within one year of retirement. The Bank strives to create an easy-to-use environment regarding the whistle-blower program. It allows for anonymous reporting. In addition, all officers and employees are provided with a small-sized card that includes the dedicated e-mail address and telephone number of the contact point and instructions on how to make a report, as well as a special postal envelope addressed to the contact point outside the Bank. The identity of a whistle-blower is kept strictly confidential, and any information that is related to the whistle-blower's complaint or could identify the whistle-blower is tightly controlled. Those who divulge such secrets are subject to disciplinary action and other strict measures in accordance with the Human Resources Manual. Whistle-blowers do not receive any unfavorable treatment for making a report. If any violation of the law or misconduct is confirmed as a result of whistle-blower investigations, the Bank will promptly take corrective and preventive measures. All officers and employees are obligated to cooperate with investigations. In FY2022, there were no whistle-blower cases that had a significant impact on the management of the Aozora Group.

*For the number of reports received, please refer to "Non-financial Information Index: Compliance" on page 110.

## Whistle-blower Reporting and Processing System




For information on insider trading prevention, customer protection management, and tax compliance, please refer to the Financial and Corporate Data Section.

# Cybersecurity

## Cybersecurity Initiatives

### Environmental Awareness and Risk Awareness

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

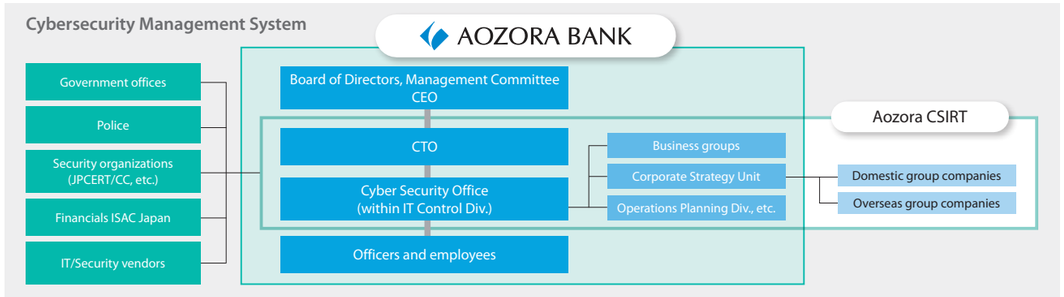



### Cybersecurity Management

Aozora has a security policy, a systems risk management policy and cybersecurity management with the active engagement of senior management based on a risk appetite framework approved by the Board of Directors. The Chief Technology Officer (CTO) has responsibility for cybersecurity, regularly reports to the Board of Directors and management meetings regarding the status and evaluation of risks as well as the progress of risk reduction plans, and receives appropriate direction. In addition, we periodically conduct cybersecurity drills including management to ensure effective and immediate response to major incidents.

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

Aozora has established a framework in which the IT Control Division headed by the CTO is designated as the control division for overall system risks, and the Cyber Security Office established within the IT Control Division is designated as the cybersecurity department. The Cyber Security Office is staffed with specially trained personnel and manages systems development, monitoring and emergency responses. Aozora has also established a Computer Security Incident Response Team (CSIRT), which spans across Aozora Bank's related divisions and Group companies with the CTO as the chairperson and the IT Control Division's Cyber Security Office as the supervising department. By sharing risks inherent in the Bank and other companies' cybersecurity incidents within the Aozora Group and conducting ongoing cybersecurity training, we can prepare more effective emergency responses for the entire Aozora Group.




### Ongoing Enhancement of Security

Aozora Bank has implemented multi-layered technical countermeasures, including entrance measures that prevent unauthorized network intrusion, internal measures such as a detection system that presumes internal network attacks, and exit measures to prevent the leakage of information. The effectiveness of those measures is verified by penetration testing and other security assessments conducted by external experts. In addition, we continue working to raise security awareness mainly by conducting e-learning education for all officers and employees, online seminar-style training based on employees' job duties and targeted email training. We are committed to strengthening the cyber-resilience of the entire Aozora Group in order to respond flexibly in the event of an incident by conducting system recovery training that presumes damage from ransomware attacks.

When system vulnerability information is released or an incident that has a significant effect on society occurs at other companies, we promptly investigate its impact on Aozora, incorporate the details into our plan as appropriate, and report findings to management. In addition, we also conduct cybersecurity exercises which include members of our management team.

We plan to undergo periodic third-party evaluations of the maturity of our management system to confirm its appropriateness, and take necessary actions.

In addition to prompt reporting to the FSA and police in the event of an incident, we cooperate with government offices and related organizations, such as Financials ISAC Japan, JPCERT/CC (Japan Computer Emergency Response Team Coordination Center) and JC3, while proactively transmitting and sharing incident information in order to improve the security of Aozora Bank as well as society as a whole.

# Operations (Administration)

## Operations System Supporting Value Creation

Our Operations Group provides administrative support for Aozora's value creation initiatives, including retail, corporate and market operations. During the COVID-19 pandemic we were able to execute duties without delay, including important operations such as settlement, due to a split work-place system and the advance of paper-free operations. We are working to further expand dual operations between branches in the Tokyo metropolitan area and Kansai for the purpose of key business continuity in the event of a wide-area disaster in the Tokyo metropolitan area. In addition, we strive to improve the effectiveness of our crisis management system through drills held every year covering a range of potential scenarios.

Our work covers a wide area from new business initiatives, measures to improve customer convenience and responding to legal systems. We have also introduced the Aozora Flowchart to respond flexibly to the wide scope of operations, promote employees visualizing their own work flow and always review administrative flow. We also have workplace-driven initiatives such as EUC tools and RPA development to advance streamlining and efficiency.

We have also recommended that employees take on challenges with new work while leveraging their experience to broaden the scope of their work. One example is our Job Support Program. During busy periods, employees can provide support across departments and divisions to promote their multi-skilling and job sharing and at the same time, personnel exchanges enliven communication and help maintain cooperative relationships during daily operations. We will continue to build new operation styles, maximizing use of human resources.





Operations at Head Office


Business continuity drill


Operations at the Fuchu Annex

**Column**

### Launch of the Business Analyst Team

Within the Operations Group, a Business Analyst Team was formed in FY2023 to establish an administrative work leveling and job sharing system, streamline operations and promote inter-group, cross-sectional human resource development and energization, mindset reform and more.

The team will use surveys and other means to collect information on issues that employees have been unable to resolve, investigate operational execution and strive to visualize work styles to conduct efficient work flow and operational standardization in Operations, aiming for solutions. In addition, we will move ahead on human resource development and energization, change in consciousness through establishment of a manual utilizing the Aozora Flowchart and holding study groups and exchanges to improve skills and foster a business mindset.



# Non-financial Information Index

## Environmental Data (bank offices located in Japan)

| Category | | FY2020 | FY2021 | FY2022 (preliminary) |
|---|---|---|---|---|
| Greenhouse gas emissions (t-$CO_2$) | | | | |
| | Scope 1 (direct energy consumption) | 114 | 110 | 106 |
| | Scope 2 (indirect energy consumption) *1 | 6,243 | 4,884 | 4,267 |
| | Scope 3 (1. Purchased goods and services) *2 | 92 | 85 | 83 |
| | (2. Capital goods) *3 | 4,893 | 6,508 | 2,191 |
| | (3. Fuel- and energy-related activities) *4 | 1,121 | 1,122 | 1,084 |
| | (5. Waste generated in operations) *5 | 25 | 25 | 26 |
| | (6. Business travel) *6 | 64 | 64 | 135 |
| | (7. Employee commuting) *7 | – | 295 | 379 |
| | (15. Investment portfolio) | Please refer to P69 | | |
| Direct energy consumption | | | | |
| | City gas (thousand m³) | 20 | 19 | 13 |
| | Heavy oil / Kerosene (kl) | 5 | 5 | 6 |
| | Gasoline / Light oil (kl) | 24 | 23 | 26 |
| Indirect energy consumption *8 | | | | |
| | Electricity (thousand kWh) | 13,052 | 12,794 | 12,160 |
| | Percentage of renewable energy-driven electricity | 0% | 21% | 23% |
| | Vapor (GJ) | 50 | 0 | 0 |
| | Hot water (GJ) | 1,515 | 1,499 | 1,281 |
| | Cold water (GJ) | 5,481 | 6,112 | 6,469 |
| Wastes *9 | | | | |
| | Amount (t) | 168 | 173 | 160 |
| | Recycled amount (t) | 123 | 123 | 110 |
| | Recycling ratio (%) | 73% | 71% | 68% |
| Amount of printing paper purchased (t) | | 50 | 47 | 45 |

*1 Measurement including overseas bank offices and major group companies (consolidated subsidiaries including overseas subsidiaries)
*2 Calculated by multiplying the amount of printing paper and other paper purchased by the unit of output from the Ministry of the Environment's emissions unit database
*3 Calculated by multiplying the amount of capital investment by the unit of output from the Ministry of the Environment's emissions unit database
*4 Calculated by multiplying electricity and vapor usage by the unit of output from the Ministry of the Environment's emissions unit database
*5 Calculated by multiplying wastes by the unit of output from the Ministry of the Environment's emissions unit database
*6 Calculated by multiplying the unit of output from the Ministry of the Environment's emissions unit database based on the length of the business travel and public transportation costs
*7 Calculated (starting from FY2021) by multiplying the unit of output from the Ministry of the Environment's emissions unit database based on commuting expenses (train and bus)
*8 Measurement including overseas bank offices and major group companies (consolidated subsidiaries including overseas subsidiaries)
*9 Excluding general industrial wastes in branch offices
*10 There are no activities applicable to Category 4 and 8 to 14 of Scope 3 due to the nature of the business.

## Social Data

### Employee data (non-consolidated)

| Category | | FY2018 | FY2019 | FY2020 | FY2021 | FY2022 |
|---|---|---|---|---|---|---|
| No. of employees | | 1,878 | 1,928 | 1,933 | 1,966 | 1,980 |
| | Male | 982 | 1,024 | 1,034 | 1,056 | 1,068 |
| | | 52% | 53% | 53% | 54% | 54% |
| | Female | 896 | 904 | 899 | 910 | 912 |
| | | 48% | 47% | 47% | 46% | 46% |
| Temporary employees | | 177 | 142 | 125 | 117 | 127 |
| Locally hired overseas staff *1 | | 30 | 31 | 39 | 43 | 38 |
| Employee composition | New grad | 59% | 58% | 58% | 59% | 60% |
| | Mid-career hires | 41% | 42% | 42% | 41% | 40% |
| Average age | | 42.8 | 43.1 | 43.3 | 43.4 | 43.8 |
| | Male | 44.1 | 44.1 | 44.0 | 43.9 | 44.3 |
| | Female | 41.4 | 41.9 | 42.5 | 42.8 | 43.2 |
| Average length of tenure (year) | | 14.5 | 14.6 | 14.9 | 15.1 | 15.7 |
| | Male | 14.6 | 14.5 | 14.5 | 14.6 | 15.2 |
| | Female | 14.4 | 14.8 | 15.4 | 15.8 | 16.4 |
| Average annual salary (1,000 yen) | | 8,037 | 7,930 | 8,089 | 8,232 | 8,696 |
| Annual salary gap (male =100%) *2 | | – | – | – | – | 66.6% |
| | Regular employees | – | – | – | – | 66.1% |
| | Non-regular employees | – | – | – | – | 53.4% |
| No. of new grads | | 62 | 61 | 64 | 70 | 51 |
| | Male | 25 | 39 | 45 | 41 | 27 |
| | | 40% | 64% | 70% | 59% | 53% |
| | Female | 37 | 22 | 19 | 29 | 24 |
| | | 60% | 36% | 30% | 41% | 47% |
| No. of mid-career hires | | 81 | 63 | 46 | 37 | 33 |
| | Male | 47 | 45 | 32 | 26 | 24 |
| | | 58% | 71% | 70% | 70% | 73% |
| | Female | 34 | 18 | 14 | 11 | 9 |
| | | 42% | 29% | 30% | 30% | 27% |
| Male/female ratio (new grads and mid-career) | Male | 50% | 68% | 70% | 63% | 61% |
| | Female | 50% | 32% | 30% | 37% | 39% |
| New grad/ mid-career ratio | New grad hires | 43% | 49% | 58% | 65% | 61% |
| | Mid-career hires | 57% | 51% | 42% | 35% | 39% |
| Retention of new grads 3 years after employment | | 94% | 87% | 87% | 95% | 97% |
| No. of retirees (non-mandatory employment) | | 50 | 53 | 47 | 47 | 49 |
| | | 2.7% | 2.8% | 2.4% | 2.4% | 2.5% |
| Female managers ratio *3 | | 11.6% | 12.0% | 11.8% | 12.5% | 13.3% |
| Non-Japanese managers ratio *1 | | 2.6% | 2.4% | 2.9% | 2.9% | 2.8% |
| Mid-career managers ratio | | 37.9% | 39.9% | 42.5% | 43.7% | 49.6% |
| Employees' monthly average overtime hours *4 | | 8.3 | 8.9 | 10.3 | 11.8 | 11.3 |
| Days of paid leave used (annual average) | | 15.5 | 15.6 | 13.3 | 14.4 | 15.2 |
| Employees with disabilities (as of June when submitting a report to authorities) | No. of employees | 22 | 25 | 29 | 33 | 35 |
| | Employment ratio | 1.8% | 2.0% | 2.2% | 2.4% | 2.5% |
| No. of child leave users *5 | | 65 | 41 | 61 | 55 | 60 |
| | Male | 15 | 14 | 24 | 22 | 33 |
| | | 58% | 47% | 65% | 58% | 91% |
| | Female | 50 | 27 | 37 | 33 | 27 |
| | | 100% | 100% | 100% | 100% | 108% |
| Female reinstatement ratio after child leave | | 91% | 100% | 100% | 100% | 100% |
| No. of unpaid nursing leave users | | 0 | 0 | 1 | 1 | 1 |
| No. of paid nursing leave users | | 16 | 15 | 19 | 19 | 23 |
| No. of employees suffering work-related accidents | | 7 | 14 | 6 | 3 | 11 |
| No. of applicants for secondary employment *6 | | – | – | 16 | 31 | 37 |
| Work-from-home user ratio *7 | | 2% | 32% | 62% | 60% | 49% |
| Training hours per employee *8 | | – | – | 30.8 | 32.5 | 33.4 |
| Total of training hours *8 | | – | – | 59,533 | 63,951 | 66,135 |
| Total of training participants *8 | | – | – | 5,184 | 11,393 | 19,201 |
| Training cost per employee (1,000 yen) *9 | | 37.4 | 35.9 | 26.3 | 27.3 | 80.4 |

*1 Data of employees of domestic and overseas group companies, excluding GMO Aozora Net Bank
*2 Number of employees includes those seconded from other companies to the Bank, but does not include those seconded from the Bank to other companies.
Calculated using the below method based on the stipulations of the Act on the Promotion of Women's Active Engagement in Professional Life
Male and female wage differences = Female average annual wage ÷ male average annual wage, average annual wage = total wages ÷ number of employees
The number of overseas local employees and the number of employees who took a leave of absence for more than six months during the fiscal year under review and the amount of wages are deducted from the above number of employees and annual wages and gross wages.
Please refer to page 83 for the main factors behind the difference in male and female wages.
*3 Managers refer to the total of general managers and group mangers
*4 Non-statutory overtime hours of employees except those in supervisory or managerial positions
*5 Child leave ratio = number of employees who used child leave during the fiscal year under review (a) ÷ number of employees whose children were born during the fiscal year under review (b) rounded down to one decimal point
Since (a) above includes employees whose children were born before the fiscal year in question but who took new child leave in the fiscal year in question, the take-up rate may exceed 100%.
*6 Application for concurrent secondary employment registration started in FY2020
*7 The work-from-home program started in FY2017. The percentage of users is calculated in March each fiscal year.
*8 Data has been compiled since FY2020.
*9 Includes cost for external instructors and usage costs for self-development support system

# Non-financial Information Index

### Status of female employees

| | July 2019 | July 2020 | July 2021 | July 2022 | July 2023 |
|---|---|---|---|---|---|
| 1. Executive officers | 2 | 2 | 4 | 5 | 5 |
| | 9.1% | 9.1% | 16.7% | 18.5% | 22.7% |
| | **March 2019** | **March 2020** | **March 2021** | **March 2022** | **March 2023** |
| 2. General managers | 10 | 11 | 11 | 11 | 10 |
| | 11.4% | 11.3% | 11.5% | 9.6% | 9.4% |
| 3. Group managers | 60 | 64 | 64 | 71 | 71 |
| | 11.7% | 12.1% | 11.8% | 13.2% | 14.1% |
| 4. Total of (2+3) | 70 | 75 | 75 | 82 | 81 |
| | 11.6% | 12.0% | 11.8% | 12.5% | 13.3% |
| 5. Deputy managers | 98 | 105 | 107 | 123 | 115 |
| | 32.9% | 33.3% | 33.5% | 37.1% | 37.3% |
| 6. Female managers | 896 | 904 | 899 | 910 | 912 |
| | 47.7% | 47.0% | 46.5% | 46.3% | 46.1% |

### Social contribution

| Category | FY2018 | FY2019 | FY2020 | FY2021 | FY2022 |
|---|---|---|---|---|---|
| CSR expenses (million yen) *1 | 15 | – | 35 | 35 | 23 |
| No. of participants in volunteer activities *2 | – | – | – | 248 | 175 |
| No. of participants in Basic Banking Seminar (in Sophia University) *3 | 389 | 382 | 382 | 367 | 328 |

*1 Includes monetary equivalent of donated stockpiles, which started to be calculated in FY2018
*2 Started to be calculated in FY2021
*3 Aozora-sponsored seminars for Sophia University. The Bank's officers and employees offer seminars (14 sessions) every fiscal year.

## Governance

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

| Category | | FY2018 | FY2019 | FY2020 | FY2021 | FY2022 |
|---|---|---|---|---|---|---|
| Composition of the directors and the Board of Directors meeting | | | | | | |
| | No. of persons | 8 | 8 | 8 | 8 | 8 |
| | No. of outside directors | 4 | 4 | 4 | 4 | 4 |
| | No. of female directors | 0 | 1 | 1 | 1 | 2 |
| | No. of Board of Directors meetings held | 15 | 14 | 15 | 15 | 15 |
| | Average attendance ratio of the Board of Directors meeting (%) | 97% | 100% | 100% | 100% | 100% |
| Nomination and Remuneration Committee | | | | | | |
| | No. of Nomination and Remuneration Committee meetings held | 6 | 7 | 7 | 6 | 7 |
| | Average attendance ratio of the Nomination and Remuneration Committee (%) | 94% | 100% | 100% | 100% | 100% |
| Audit and Compliance Committee | | | | | | |
| | No. of Audit and Compliance Committee meetings held | 7 | 7 | 6 | 6 | 6 |
| | Average attendance ratio of the Audit & Compliance Committee (%) | 100% | 100% | 100% | 100% | 100% |

### Compliance

| Category | | FY2018 | FY2019 | FY2020 | FY2021 | FY2022 |
|---|---|---|---|---|---|---|
| No. of cases opened by the Aozora Hotline (whistle-blowing system) | | | | | | |
| | Total | 6 | 13 | 7 | 10 | 13 |
| | Internal contact point | 6 | 7 | 4 | 4 | 7 |
| | External contact point* | – | 6 | 3 | 6 | 6 |
| No. of compliance incidents | | | | | | |
| | Cease and desist notice by relevant government ministries and agencies | 0 | 0 | 0 | 0 | 0 |
| | Suspension of operation/business due to misconduct | 0 | 0 | 0 | 0 | 0 |
| | Criminal accusation due to an incident or an accident violating a law | 0 | 0 | 0 | 0 | 0 |

*An external contact point was established in FY2019.

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

For material requests or inquiries, please contact the customer service at each branch or call the Aozora Home Call center at 0120-250-399. (Aozora Home Call is available Mon-Fri from 9:00AM to 7:00PM and weekends and holidays from 9:00AM to 5:00PM *Not available from December 31 to January 3.)

Please also visit our website at https://www.aozorabank.co.jp/english

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AOZORA

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