

# Financial and Corporate Data

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# Corporate Data

## Corporate History

<b>April</b>	<b>1957</b>	Established as The Nippon Fudosan Bank, Limited (capital: ¥1 billion) in accordance with the Long-Term Credit Bank Law
<b>July</b>	<b>1964</b>	Started foreign exchange business as an authorized foreign exchange bank
<b>September</b>		Listed stock on the Tokyo Stock Exchange
<b>February</b>	<b>1970</b>	Listed stock on the Osaka Securities Exchange
<b>October</b>	<b>1977</b>	Changed name to The Nippon Credit Bank, Ltd.
<b>February</b>	<b>1994</b>	Established The Nippon Credit Trust Bank, Ltd. (currently GMO Aozora Net Bank, Ltd.)
<b>December</b>	<b>1998</b>	Started special public management and terminated listing of stock on the Tokyo Stock Exchange and the Osaka Securities Exchange
<b>September</b>	<b>1999</b>	NCB Servicer Co., Ltd. (currently Aozora Loan Services Co., Ltd.), commenced servicer operations
<b>September</b>	<b>2000</b>	Ended special public management
<b>January</b>	<b>2001</b>	Changed name to Aozora Bank, Ltd.
<b>June</b>	<b>2005</b>	Established a subsidiary, Aozora Asia Pacific Finance Limited, in Hong Kong
<b>July</b>		Established New York Representative Office
<b>April</b>	<b>2006</b>	Converted from 'Long-Term Credit Bank' to an 'Ordinary Bank' Established Aozora Securities Co., Ltd.
<b>November</b>		Listed on the First Section of the Tokyo Stock Exchange
<b>May</b>	<b>2007</b>	Established Shanghai Representative Office
<b>April</b>	<b>2009</b>	Established Internet Branch (currently BANK Branch) and commenced Internet banking services
<b>August</b>	<b>2012</b>	Announced the Comprehensive Recapitalization Plan
<b>March</b>	<b>2013</b>	Launched Aozora Cash Card Plus (Visa debit) Established Aozora Regional Consulting Co., Ltd.
<b>February</b>	<b>2014</b>	Established Aozora Investment Management Co., Ltd.
<b>May</b>		Established Singapore Representative Office
<b>January</b>	<b>2015</b>	Established Aozora Real Estate Investment Advisors Co., Ltd.
<b>June</b>		Full repayment of public funds
<b>December</b>		Established a subsidiary, Aozora Europe Limited, in London
<b>May</b>	<b>2016</b>	Completed conversion to new Kanjo-kei core banking system
<b>May</b>	<b>2017</b>	Moved headquarters Established ABN Advisors Co., Ltd.
<b>April</b>	<b>2018</b>	Established Aozora Corporate Investment Co., Ltd.
<b>July</b>		GMO Aozora Net Bank, Ltd. commenced Internet banking services
<b>October</b>		Completed transfer of trust operations from GMO Aozora Net Bank, Ltd. and started concurrent trust operations
<b>June</b>	<b>2020</b>	Purchased an ownership stake in Orient Commercial Joint Stock Bank, a commercial bank based in Vietnam (making it an equity method affiliate of Aozora)
<b>September</b>		Aozora North America, Inc., the Bank's New York subsidiary, commenced finance operations

## Business Activities (As of July 1, 2021)

- **Deposits**

*Deposits*

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

*Negotiable certificates of deposit*

- **Lending**

*Loans*

Loans on deeds, loans on notes and overdraft

*Discount on promissory notes*

Bankers' acceptances and discounts on commercial bills

- **Securities investment business**

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

- **Domestic exchange**

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

- **Foreign exchange**

Remittance to foreign countries and other foreign currency-related businesses

- **Consignment of bonds**

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

- **Trust operations**

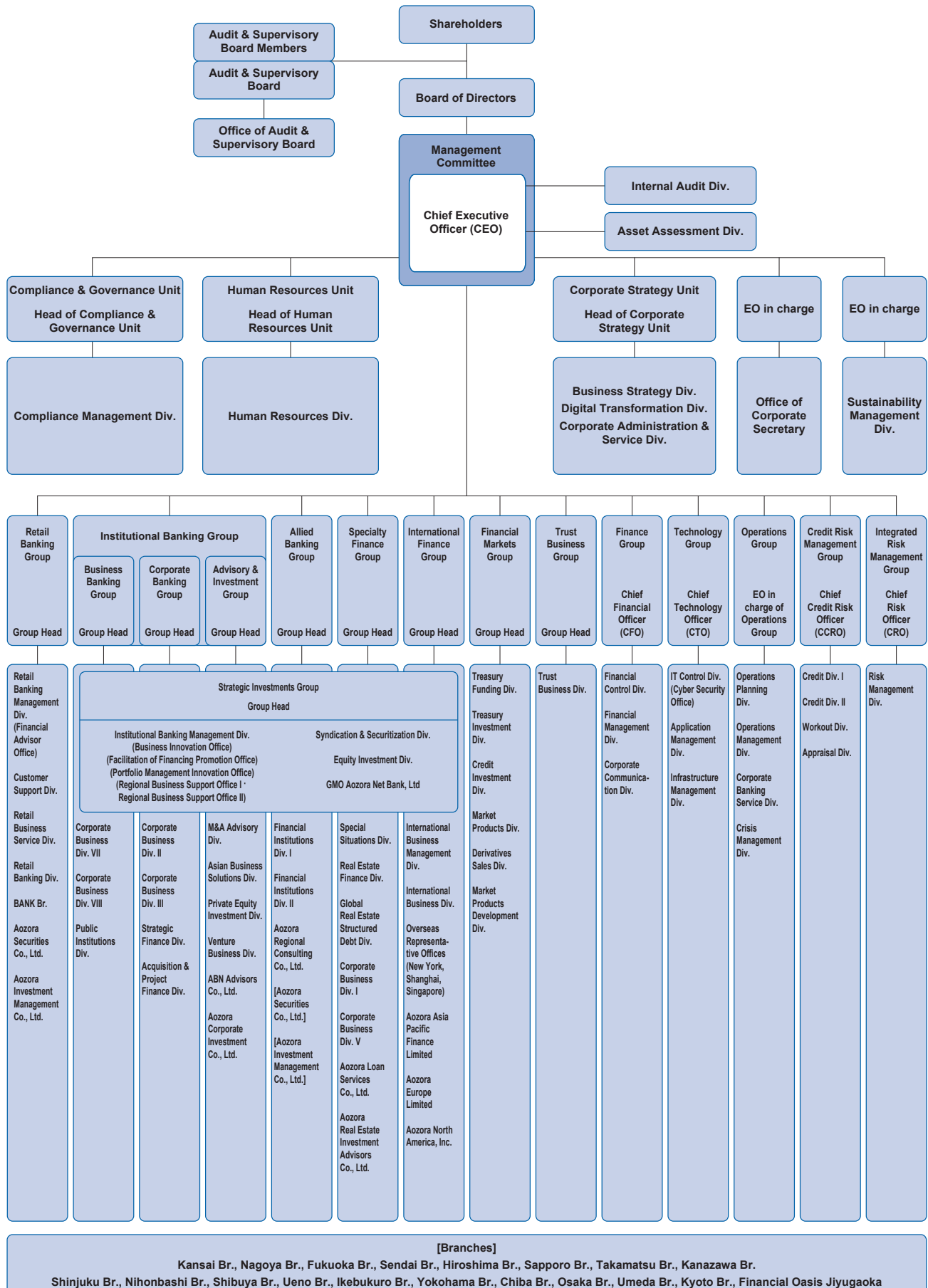
Management of various trust assets including cash, securities, monetary claims and real estate

- **Other services**

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

# Corporate Data

## Organization Chart (As of July 1, 2021)



## Directors, Audit & Supervisory Board Members and Executive Officers (As of July 1, 2021)

### Directors and Audit & Supervisory Board Members

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

\*Serving as Executive Officer concurrently

### Executive Officers

<b>Senior Managing Executive Officers</b>	Akira Sakai Masayoshi Ohara Fumihiko Hirose Takeshi Ito Takashi Kato
<b>Managing Executive Officers</b>	Masaki Onuma Tomoyuki Yamada Kazuhiro Yasuda Tetsuji Okuda
<b>Executive Officers</b>	Jun Shinozaki Akemi Hashimoto Toru Takahashi Hiroki Nakazato Hiroshi Suzuki Shu Takahashi Yukiko Morita Naoko Tanaka Takashi Hagio Jun Nakashima Hiroshi Kaneko

## Staff Profile (As of March 31, 2021)

Number of Employees	Average Age	Average Years of Service	Average Yearly Salary
1,933 (125)	43.3	14.9	8,089 thousand yen

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

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

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

# Corporate Data

## Office Directory (As of July 1, 2021)

### Overseas Network

#### • Representative Offices

##### **New York Representative Office**

*Chief Representative*  
Tomoyuki Yamaoka

*Address*

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

##### **Shanghai Representative Office**

*Chief Representative*  
Shigeru Tanaka

*Address*

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

##### **Representative Office Registered in Singapore**

*Chief Representative*  
Masashi Okuoka

*Address*

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

### Domestic Network

#### • Head Office

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

#### • Branch Offices

##### **Sapporo**

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

##### **Sendai**

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

##### **Shinjuku**

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

##### **Nihonbashi**

2-2-1, Nihonbashi-muromachi,  
Chuo-ku, Tokyo 103-0022  
Tel: 03-3517-7888

##### **Shibuya**

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

##### **Ueno**

2-2-1, Nihonbashi-muromachi,  
Chuo-ku, Tokyo 103-0022  
Tel: 03-5202-6602

##### **Ikebukuro**

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

##### **Chiba**

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

##### **Yokohama**

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

##### **Kanazawa**

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

##### **Nagoya**

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

##### **Kyoto**

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

##### **Kansai**

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

##### **Osaka**

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

##### **Umeda**

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

##### **Hiroshima**

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

##### **Takamatsu**

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

##### **Fukuoka**

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

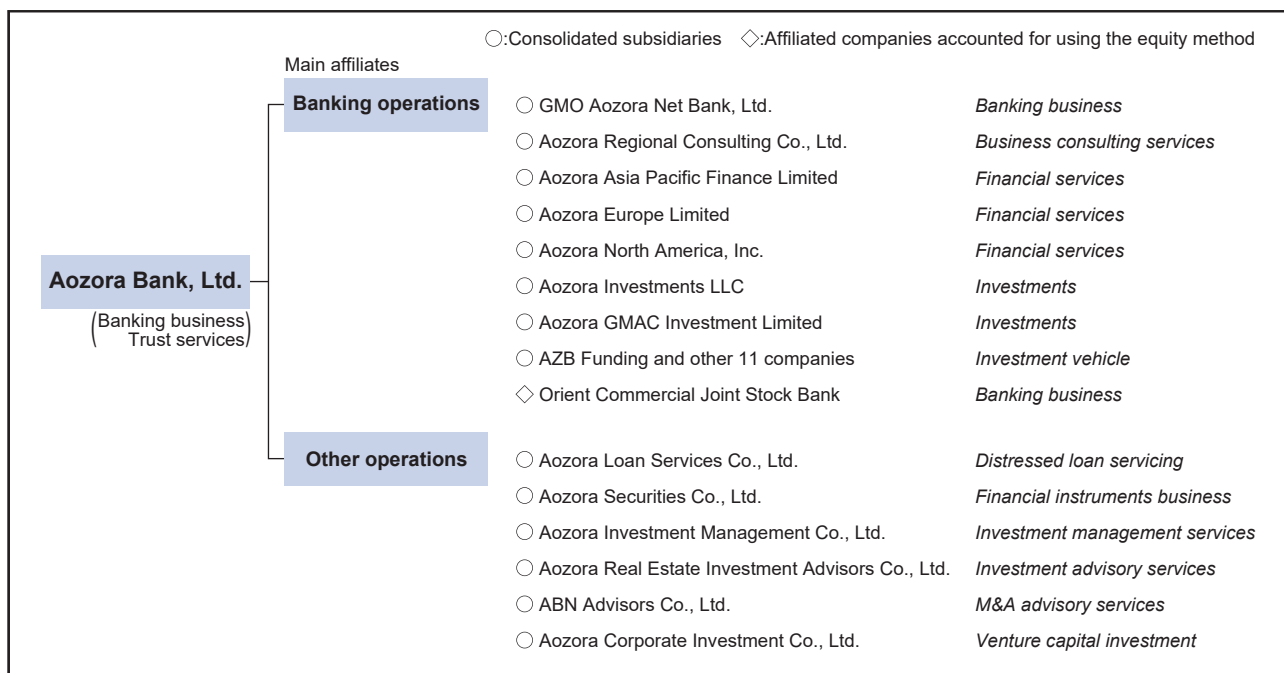
##### **Bank Branch, Bank Blue Branch**

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

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

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

## Business Network (As of March 31, 2021)



(Note) Aozora Bank acquired 15% of common stocks of Orient Commercial Joint Stock Bank, a commercial bank based in Vietnam ('OCB Bank'), effective June 30, 2020. OCB Bank became an affiliated company of Aozora Bank, accounted for by the equity method. On September 1, 2020, Aozora North America, Inc. launched financial services and will manage corporate loan investment activities in North America, which Aozora Bank considers to be a major market focus.

# Corporate Data

## Subsidiaries and Affiliated Companies (As of March 31, 2021)

### Consolidated Subsidiaries

							(%)
Company Name	Location	Business Activities	Established	Capital	Aozora Bank Shareholding	Group Shareholding	
GMO Aozora Net Bank, Ltd.	Shibuya-ku, Tokyo	Banking business	February 28, 1994	15,541 millions of JPY	85.1	—	
Aozora Loan Services Co., Ltd.	Chiyoda-ku, Tokyo	Distressed loan servicing	June 18, 1996	500 millions of JPY	67.6	—	
Aozora Securities Co., Ltd.	Chiyoda-ku, Tokyo	Financial instruments business	January 23, 2006	3,000 millions of JPY	100.0	—	
Aozora Regional Consulting Co., Ltd.	Chiyoda-ku, Tokyo	Business consulting services	March 21, 2013	10 millions of JPY	100.0	—	
Aozora Investment Management Co., Ltd.	Chiyoda-ku, Tokyo	Investment management services	February 4, 2014	450 millions of JPY	100.0	—	
Aozora Real Estate Investment Advisors Co., Ltd.	Chiyoda-ku, Tokyo	Investment advisory services	January 6, 2015	150 millions of JPY	100.0	—	
ABN Advisors Co., Ltd.	Chiyoda-ku, Tokyo	M&A advisory services	May 24, 2017	200 millions of JPY	100.0	—	
Aozora Corporate Investment Co., Ltd.	Chiyoda-ku, Tokyo	Venture capital investment	April 24, 2018	15 millions of JPY	100.0	—	
Aozora Asia Pacific Finance Limited	Hong Kong, Republic of China	Financial services	June 29, 2005	100,000 thousands of USD	100.0	—	
Aozora Europe Limited	London, United Kingdom	Financial services	December 15, 2015	1,000 thousands of GBP	100.0	—	
Aozora North America, Inc.	New York, USA	Financial services	November 21, 2006	411 thousands of USD	100.0	—	
Aozora Investments LLC	Delaware, USA	Investments	November 22, 2006	485,282 thousands of USD	—	100.0	
Aozora GMAC Investment Limited	London, United Kingdom	Investments	November 6, 2006	30,070 thousands of USD	100.0	—	
AZB Funding	Cayman Islands, British West Indies	Investment vehicle	June 1, 2012	0 thousands of USD	—	—	
Other 11 companies							

### Affiliated Companies Accounted for Using the Equity Method

							(%)
Company Name	Location	Business Activities	Established	Capital	Aozora Bank Shareholding	Group Shareholding	
Orient Commercial Joint Stock Bank	Ho Chi Minh City, Vietnam	Banking business	May 10, 1996	12,662 billions of VND	15.0	—	

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

On September 1, 2020, Aozora North America, Inc. launched financial services and will manage corporate loan investment activities in North America, which Aozora Bank considers to be a major market focus.



# Management Support and Reinvigoration of Regional Economies

The increasing impact of the COVID-19 pandemic has affected SME and other customers. Aozora Bank provides financing support to customers that have been impacted by the COVID-19 pandemic by working with public institutions. In addition, the Bank continues to fully leverage the competencies of the Aozora Group and effectively use a high professional level and abundant know-how in order to respond to SME customers' business succession and business recovery needs in cooperation with regional financial institutions. We intend to contribute to our customers' sustainable growth and development as well as attractive regional construction under difficult circumstances, where the impact of the COVID-19 pandemic is increasing.

To contribute to our customers' management support and invigoration of regional economies, the Bank actively works on the following initiatives:

- ① Support for customers impacted by the COVID-19 pandemic
- ② Solutions for business succession issues
- ③ Promotion of business recovery support
- ④ Solutions for issues of regional financial institutions

## ① Support for customers impacted by the COVID-19 pandemic

Aozora has established a "loan consultation desk" in March 2020 for corporate customers that have been damaged/impacted by the spread of COVID-19, and began offering special-purpose loans in April 2020 to customers affected by the COVID-19 pandemic.

Moreover, to focus on cash management support, we started providing an agency service for customers' payments by utilizing trust functions. For cash management support, Aozora provides optimal solutions to our customers in collaboration with public institutions and private-sector financial institutions.

We intend to continuously support customers affected by the COVID-19 pandemic in their efforts for stabilization of cash management/finances, and business recovery/restructuring.

## ② Solutions for business succession issues

For business succession issues, the Bank placed "Financial Advisor Office", which provides specialized consulting services to respond to SME owners' various business succession and M&A needs.

The Bank continues to provide a one-stop service tailored to the customers' business succession needs with the Management Succession Support Program, "Tasuki", where it collaborates with external specialists in fields including tax and accounting.

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

We continue to fully leverage the competencies of the Aozora Group in order to provide various solutions to customers and support business succession issues throughout Japan in cooperation with regional financial institutions.

## ③ Promotion of business recovery support

We promote support for management improvement and business recovery based on customers' reality by providing the consulting function through utilizing our specialty in tailor-made sales activities. In particular, the Bank supports business recovery of customers including SMEs by providing a loan, DIP finance or subordinated loan to a customer having filed for civil rehabilitation proceedings in the past to repay the rehabilitation loan in lump sum. Aozora intends to continuously contribute to the business recovery of SME customers and invigoration of regional economies through establishing and operating business recovery funds in collaboration with regional financial institutions also in the future.

## ④ Solutions for issues of regional financial institutions

Aozora established a "Regional Finance Partner Bank Task Force" in November 2020 to solve sophisticated and diversified issues of regional financial institutions by fully leveraging the competencies of the Aozora Group. Aozora strives to contribute to regional revitalization and the development of local economies and industries by working closely with regional financial institutions to provide solutions specifically geared to the challenges faced by them and their customers.

# Risk Governance

## Risk Definition

The Group defines “risks” as factors that could cause it to suffer unexpected losses in the course of its operations and

impair its capital position, and classifies and defines those “risks” according to their different risk attributes as follows:

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

## Comprehensive Risk Management

The Board of Directors approves the business operations plan proposed by the Management Committee and determines the risks acceptable to the Group in view of the Bank’s capital and profit targets to be achieved. The Bank’s risk management operations are conducted by the

Management Committee, the Asset and Liability Committee, the Integrated Risk Committee, the Credit Committee and the Investment Committee. The Board of Directors is committed to maintaining appropriate corporate governance and business operations by approving material decisions of subcommittees and receiving regular reports on risk management.

Risk management is the process of controlling risks associated with the Bank's business operations within the Bank's capital, as determined by the Board of Directors. Acknowledging the importance of risk management activities, the Aozora Group has established a basic policy on comprehensive risk management designed to properly identify and control individual and aggregate risks. As the core components of the Group's risk management structure, we have established a number of risk management committees that have been delegated authority by the Board of Directors to implement risk management activities, and any important matters concerning risk management are determined and responses implemented.

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

## Capital Management System

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

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

### <Internal Capital Adequacy and Assessment Process>

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

The Group assesses its internal capital adequacy by periodically monitoring the risk capital and the risk capital usage through a comparison with capital for the year and also by conducting stress tests to estimate the Bank's potential losses, risk and possible capital requirements in the event that economic and market environments, the conditions for assessments of credit risk, market risk, operational risk, etc., undergo stressed conditions. Aozora Bank estimates risk capital for major risks, i.e., credit, market and operational risks, using the following methodologies.

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

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

Our approach to estimating the risk capital for operational risk is based on both an operational risk measurement approach and a loss distribution approach. Among the operational risk measurement approaches, we adopt the Standardized Approach (TSA). Under the loss distribution approach, we estimate the risk capital for operational risk by inferring the frequency and severity of loss events based on actual loss data and scenarios assuming potential risk events. In this approach, we estimate the risk capital with a confidence interval of 99.9% and a one-year holding period.

### <Risk Capital Allocation>

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

# Risk Governance

## Credit Risk Management

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

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

### (1) Credit Risk Management System

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

While all credit transactions, comprising mainly loan transactions, are approved under the authority of the Credit Committee, whose members include the Executive Officers in charge, approval authority for equity investment transactions, comprising mainly stocks and fund investments, resides with the Investment Committee, whose members include the Executive Officers in charge.

The Credit Committee and Investment Committee grant authority partly to the Chief Credit Risk Officer, who, in turn, can delegate the part of the authority.

The Chief Credit Risk Officer re-delegates the authority within a certain range to individuals in credit divisions or business divisions.

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

### (2) Credit Rating System

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

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

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

#### <Obligor Rating>

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

#### <Facility Rating>

Each credit transaction also receives facility ratings, which consider collectability with collateral and/or guarantee, and a tenor of credit facility, so that the Bank is able to assess their risk/return profile and quantify credit risks. We recognize the credit risk mitigation effect of collateral while taking into consideration the level of correlation between deterioration of credit and collateral values. In addition, we assign credit ratings to guarantors to recognize the credit risk mitigation effect.

#### <Expected Loss Grade>

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

#### <Utilization of Credit Ratings>

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

### (3) Quantification of Credit Risk

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

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

(4) Credit Portfolio Management

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

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

## Market Risk Management

Market risk is the risk of incurring losses due to fluctuations in the value of the Group's assets and liabilities caused by market movements. The Bank performs a comprehensive analysis of the market risk affecting all assets, liabilities and off-balance-sheet transactions for its trading and banking businesses. We manage market risk appropriately through the documentation of our handling of products, risk management methods and market price valuation methods.

(1) Procedures for Market Risk Management

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

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

(2) Overview of Market Risk Measurement Methods

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

# Risk Governance

## » Market risk for the entire bank

### 1. The value at Risk (VaR) number at term-end

(100 Millions of Yen)

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

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

(100 Millions of Yen)

	March 2021				
	Interest rate	Equity	Forex	Others	Total
Trading	2	6	1	0	10
Banking	45	46	0	70	88
Total	47	53	2	70	98

### 2. The highest, lowest and average VaR number during the disclosure period

(100 Millions of Yen)

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

(100 Millions of Yen)

	March 2021			
	Average	Maximum	Minimum	as of Mar. 2021
Trading	9	25	6	10
Banking	77	93	58	88

### 3. The stressed Value at Risk (stressed VaR) number at term-end and the highest, lowest and average stressed VaR number during the disclosure period

(100 Millions of Yen)

March 2020			
Average	Maximum	Minimum	as of Mar. 2020
22	39	14	17

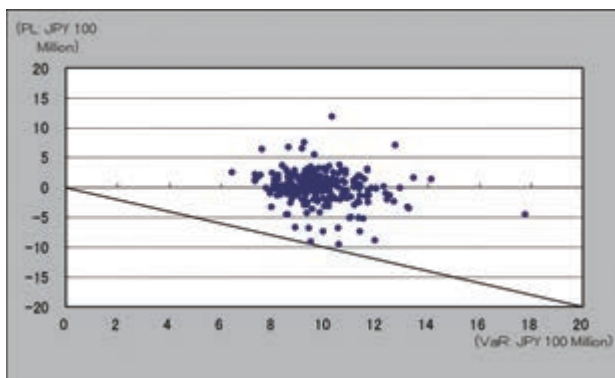
(100 Millions of Yen)

March 2021			
Average	Maximum	Minimum	as of Mar. 2021
15	45	9	15

#### (3) Back Testing

The Bank verifies the reliability of its VaR through back-testing that compares its daily VaR and profits/losses.

The graph represents the results of back testing for trading businesses with internal models over the 245 business days from April 1, 2020 through March 31, 2021. As a result of the back testing, the daily losses did not exceed daily VaR. This result supports the reliability of the Bank's VaR.



#### (4) Stress Testing

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



- (5) Amount of Regulatory Capital for Market Risk  
In the calculation of the capital adequacy ratio as of

March 31, 2020 and March 31, 2021, the regulatory capital for market risk and its breakdown are as follows:

(Millions of Yen)

	March 2020		March 2021	
	Consolidated	Non-Consolidated	Consolidated	Non-Consolidated
Internal Models Approach	13,764	13,764	13,070	13,070
Standardized Approach	1,442	1,423	1,160	1,142
Interest Rate Risk	450	450	487	487
Equity Risk	58	57	134	134
Foreign Exchange Risk	17	0	17	0
Commodities Risk	916	916	519	519
Options Transactions	—	—	—	—
<b>Total</b>	<b>15,206</b>	<b>15,188</b>	<b>14,230</b>	<b>14,212</b>

Note: The calculation methods are as follows:

- Internal Model Approach  
General market risk for the interest rates, foreign exchange (major currencies), equity and CDS trading
- Standardized Approach  
General market risk not applicable to the internal model and specific risk for CDS trading, etc.

- (6) Market Liquidity Risk Management  
Market liquidity risk is the potential for losses caused by the inability to execute market transactions as a result of market turbulence and thin trading, or by the necessity to carry out transactions at extremely unfavorable prices. The Risk Management Division monitors the Bank's position relative to market size to ensure that the position does not become excessive.
- (7) Funding Liquidity Risk Management  
The Financial Management Division centrally monitors the funding liquidity risk of yen- and foreign currency-denominated funds and ensures that the Bank's funding capabilities are sufficient to meet its contractual obligations by holding a sufficient level of securities with high liquidity. The Board of Directors and other management bodies approve the Sources and Uses Plan on a monthly and annual basis. The Financial Management Division reports the liquidity status directly to the Bank's senior management on a daily basis.

## Operational Risk Management

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

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

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

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

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

# Risk Governance

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

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

## (2) Operations Risk Management

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

## (3) System Risk Management

We believe that it is an important management issue to properly manage customer information and confidential information as well as stably operate the information system so that the provision of financial services is not confused due to system troubles such as information system breakdowns or malfunctions, and information leaks due to unauthorized access to our system. In the Bank, in order to properly protect information assets and ensure stable operation of information systems, we have established the following system and are continuously implementing necessary measures.

In the internal regulations (security policy and system risk management policy), we designate the Chief Technology Officer (CTO) as the person in charge of control and management of overall information system security, and assign a data administrator, system administrator, and network administrator for each system, striving for protecting data, managing to prevent unauthorized use, and preventing the emergence of system risks.

As our efforts on enhancing information management, we set access rights to information systems to limit access to information to the minimum necessary. In addition, regarding the use of new external systems and services using the cloud, etc., we assess the security measures, access control and status of monitoring prior to the introduction, and regularly assess after the introduction as well. By regularly conducting trainings such as e-learning, we continuously educate officers and employees on the importance of information management.

For information systems and infrastructure, according to the importance, we take measures such as redundancy of computer equipment/lines, backup device installation, and obtaining a backup. For system implementation, change or migration, we provide adequate verification to prevent incidents, as well as maintain coordinated framework and schedule with sufficient time. In preparation for the event of an incident, we have established the IT-BCP and emergency contact system to promptly report to the business divisions and management, and have carried out trainings on system restoration and emergency contact.

## (4) Other Operational Risk Management

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

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

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

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



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

(5) Crisis Management

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

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

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

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

After the crisis is resolved, the Crisis Management Division reports loss of assets and lessons learned from the crisis response to the Management Committee and the Board of Directors, and instructs each division/office/branch to make necessary revisions to their BCP.

### **Response to the Permanent Discontinuation of Benchmark Interest Rates such as LIBOR**

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

In light of the LIBOR manipulation scandal that surfaced in 2012, the Financial Stability Board (FSB) recommended a transition to the risk-free rate as the benchmark interest rate to improve reliability and transparency in report published in July 2014. In addition, in July 2017, the Chief Executive of the Financial Conduct Authority of the United Kingdom (FCA), which regulates LIBOR, announced that the FCA will no longer compel banks to present rates for the calculation of the LIBOR benchmark after the end of 2021. Furthermore, in March 2021, ICE Benchmark Administration (IBA) has announced that it intends to cease the publication of LIBOR based on the current methodology referencing rates provided by panel banks immediately after end-2021 except for certain US dollar LIBOR settings.

Aozora has established a cross-company project team in order to respond to the discontinuation of LIBOR and the transition to an alternative interest rate benchmark.

Aozora has steadily begun providing detailed explanations to customers, strengthening its internal control, updating its systems, reviewing operational procedures, etc., all while working to prevent any confusion arising from the discontinuation of LIBOR.

# Compliance

## **Customer Support Management (Customer feedback and complaints)**

The Bank has determined basic policies and processes on receiving customer feedback, including complaints, and responding to them, keeping records and managing reports/responses. We ensure prompt and attentive responses to customer feedback, including complaints, and precise reporting to the management.

As to customers' inquiries, contacts for advice, requests and complaints that business branches, Call Center and the Customer Service Office receive, the Bank makes the best efforts to properly respond so as to satisfy customers. The management division identifies and analyzes the background or causes of customer complaints. Analysis reports are submitted to the Director in charge of customer protection management and the Customer Protection Committee monthly, the Management Committee quarterly, and the Audit and Compliance Committee and the Board of Directors semiannually.

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

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

Japanese Bankers Association

Contact: JBA Consultation Desk

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

Trust Companies Association of Japan

Contact: Trust Counseling Center

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

## **Insider Trading Prevention**

To prevent insider trading by officers and employees, Aozora Group has defined a procedure to manage insider information learned in the course of duty in its Internal Rules and strictly manages such information. In addition, all officers and employees including those of Group Companies pledge every year to comply with Internal Rules on insider trading prevention.

## Aozora Bank Group Code of Ethics and Conduct

The mission of the Aozora Bank Group (the “Group”) is to “contribute to the development of society through the creation of new value-added financial services” as finance professionals through its vision to “adapt to a rapidly changing world while remaining a trusted, valued and specialized financial service provider”. The Group seeks to achieve sustainable growth and the creation of mid- to long-term corporate value through contributions to the well-being of all of its stakeholders, including customers, shareholders, society-at-large, as well as our own officers and employees.

### Company Code of Conduct

#### 1. The Bank’s Public Mission

The Aozora Bank Group recognizes the public nature of banking operations, including fund settlement and intermediary functions that are indispensable to economic activity. Through its sound business management, the Group seeks to establish an unwavering trust with all of its stakeholders, including customers, shareholders, society-at-large, as well as its own officers and employees.

- The Group recognizes its responsibility in supporting the financial infrastructure that is indispensable for maintaining society. The Group strives to establish a framework to prevent the disruption of crucial business operations even in the event of a disaster or cyber-attack.
- The Aozora Bank Group’s management strives to construct a corporate ethics framework which it aims to establish and promote throughout the organization through a wide variety of initiatives in order to maintain and improve a high level of trust.
- The Group provides proper financial intermediary services, a crucial role of the financial industry, through sound risk taking upon careful assessment of economic, market, investment/lending target, and customer conditions.

#### 2. Providing High-Quality Services that Meet Customers’ Needs

The Aozora Bank Group strives to contribute to the sustainable development of all of its customers by further enhancing its expertise while always taking a customer-oriented perspective on developing and providing products and services with high customer-satisfaction and convenience that meet their needs and interests (Customer-Oriented Business Management).

- As an intermediary in the financial market, the Aozora Bank Group always prioritizes the needs and interests of its customers while properly understanding their financial knowledge, experience, property, purpose, etc. The Group takes a customer-oriented perspective on protecting customer rights and performs its duties with fairness and integrity.
- The Group strives to improve customer convenience through the ongoing development and provision of highly-specialized financial services in response to changes in social and economic conditions as well as the diversification of customer needs. The Group also provides support for initiatives focused on the sustainable growth of society as well as resolving environmental and social issues from a financial perspective.
- When providing financial services to and performing transactions with customers, the Group strives to provide the appropriate level of information to customers according to their financial knowledge, experience and proficiency not only regarding benefits but also from a customer-risk and cost perspective.
- The Group handles customer consultations, opinions, requests, and complaints seriously and responds to them in good faith.
- The Group strives to ensure fair and impartial business management by appropriately managing transactions that may result in conflict of interest so as not to unduly harm the interests of our customers.

## 3. Legal Compliance

The Aozora Bank Group complies with all applicable laws and regulations in its business operations, conducts sensible corporate activities in conformity with social norms and common sense, and strives to completely eliminate unlawful activities such as bribery, illegal political or other donations, the provision of illicit benefits, etc.

- In order to ensure fairness and protect its investors, the Group correctly interprets and strictly complies with relevant laws and regulations, as well as the rules regarding financial instrument transactions. In addition, the Group conducts its operations in accordance with general social norms and ethics with respect to matters not covered by laws and regulations.
- The Group strictly manages insider information obtained by its officers and employees in the course of their duties in order to prevent insider trading.
- The Group has established and complies with a set of internal rules based on applicable laws and regulations and also performs security measures, including systems upgrades, in order to safely manage and prevent the unauthorized access, unauthorized use, leakage, falsification, etc. of private customer information.
- The Group maintains appropriate business relationships with customers and appropriate relationships with civil servants. The Group performs operations so as not to violate laws such as the National Public Service Ethics Act in order to avoid accusations of bribery or breach of trust.
- The Group strives to eliminate any abuse of its superior position as a lender, such as the signing of an unfair tie-in contract in the context of its existing business relationship with a customer, forcing the purchase of goods or services, or the binding of deposits that have not been officially acquired as collateral.

## 4. Communication with Society

The Aozora Bank Group strives to proactively, effectively, and fairly disclose management and other information and ensures proper understanding and trust of its operations through constructive dialogue with its wide-range of stakeholders.

- The Group strives towards the appropriate and timely disclosure of information and operates in order to maintain and improve the soundness, reliability, and transparency of the capital markets with full awareness of our social mission.

## 5. Respect for Human Rights

The Aozora Bank Group understands and respects the dignity and human rights of all people, including its customers, officers, and employees, while striving to eliminate discrimination.

- The Group has developed a corporate culture that respects human rights in the workplace, partially by conducting in-house training on human rights issues for all officers and employees.
- The Group aims to respect human rights in its communications with customers, suppliers, outsourcees, etc., and takes appropriate actions to make improvements as necessary.

## 6. Improving the Working Environment for Officers and Employees

The Aozora Bank Group supports the sustainable growth and respects the diversity of its officers and employees, and strives to create a comfortable working environment free from unfair treatment and discrimination that prioritizes the health and safety of its employees. The Group also maintains fair hiring practices and treatment so that employees have the opportunity to fully demonstrate their abilities through their work.

- The Group strives to create a greater common sense of purpose among its officers and employees in order to develop a workplace where employees support the growth of their colleagues while respecting their diverse life-styles, ways of thinking, and working styles.

- The Group expects its officers and employees to respect one another's gender, personalities, individuality, privacy, and differing values while working to create a workplace free of all types of harassment, including sexual and power harassment.
- The Group values the work-life balance of its officers and employees and strives to support those involved in childbirth, childcare, and nursing care, and work to create an efficient and comfortable workplace where every officer and employee can find motivation in their lives and careers.
- The Group works to maintain and improve the physical and mental health of all its officers and employees as well as their families.

### 7. Responding to Environmental Problems

The Aozora Bank Group is actively committed to developing initiatives to tackle environmental problems. In addition to reducing the environmental impact of its business activities through the efficient use of resources and waste reduction, etc., the Group also supports its customers' efforts to address environmental issues, including climate change, through the provision of financial services.

- The Group strives to reduce its greenhouse gas emissions and power consumption as a business operator while reducing waste through recycling.
- The Group supports its customers' promotion of the transition to a low-carbon/decarbonized society through project finance for renewable energy businesses, such as solar power and wind power generation, and sustainable finance, such as sustainability linked loans.
- The Group established an investment and lending policy that takes environmental and societal issues into consideration. Based on this policy, the Group strives to make improvements through dialogue with customers whose businesses may have a negative impact on the environment and work to reduce environmental and social risks by restricting or prohibiting credit when no improvement can be made.

### 8. Contribution to Society

The Aozora Bank Group participates in Japanese society as a "good corporate citizen" and proactively engages in activities that contribute to its development.

- The Group aims to develop an environment committed to providing opportunities for volunteer activities and other kinds of social participation as well as introducing a social participation support system, all while respecting the self-motivation of its individual officers and employees.

### 9. Preventing Financial Crimes and Relationships with Anti-Social Elements,

The Aozora Bank Group strives to confront anti-social elements that pose a threat to public order and safety while ensuring that the Group categorically blocks any relationship with such elements. In addition, the Group is committed to preventing deposit account-related crimes and improving its countermeasures against money laundering and the financing of terrorism.

- The Group strives to combat money laundering and the financing of terrorism when establishing an ongoing business relationship or performing a large cash transaction by conducting a thorough verification of identifying personal information, such as name and address, as well as specific items required for customer management, such as occupation and purpose of transaction.
- The Group is resolutely committed to the elimination of organizations and groups engaged in anti-social activities, and strives to prevent any and all relationships with them, including transactions. The Group thoroughly rejects any violent or unreasonable demands made by anti-social elements and refuses to perform any action that may serve to provide them with income or funding, such as monetary contributions, membership fees, and subscriptions to informational magazines.

# Policies

- The Group cooperates with the relevant authorities in order to be prepared for preventing financial crimes such as deposit account-related fraud. In addition, we strive to improve our level of security, including in our Internet banking services, in order to ensure the safety of deposits and other transactions which forms the basis of trust in the banking and financial systems.

## Individual Behavior

- The officers and employees of the Aozora Bank Group are committed to the ongoing implementation of "Aozora Action (Action Agenda)":
  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
- The officers and employees of the Aozora Bank Group strive to always prioritize the interests of the Aozora Bank Group and its customers (even if the personal interests of the officers and employees conflict with the interests of customers or the Aozora Bank Group).
- The officers and employees of the Aozora Bank Group are committed to acting ethically and reasonably regarding social and economic matters due to the nature of their profession, and fully understand that the following transactions are prohibited and pledge not to engage in them:
  - Private investment trading of securities for the exclusive purpose of pursuing speculative profits or highly speculative trading such as margin trading and futures trading
  - Pursuing personal profit using information, etc., obtained in the course of performing job duties
  - Private loans between officers or employees and external business partners such as customers and vendors. Private loans between individual officers and employees (excluding small amounts or short-term reimbursement)
- The officers and employees of the Aozora Bank Group do not accept corporate hospitality or gifts beyond socially-acceptable limits.
- The officers and employees of the Aozora Bank Group pay close attention to the management of information obtained in the course of their job duties, and properly manage confidential information that requires protection.
- The officers and employees of the Aozora Bank Group respect the human rights and differing values of individuals inside and outside the company related to corporate activities, and do not discriminate on the basis of race, ethnicity, religion, nationality, social status, gender, age, sexual orientation, or disability, etc.
- Each officer and employee of the Aozora Bank Group are personally committed to proactively and continuously working to maintain and improve their work environment in order to prevent harassment in the workplace.
- The officers and employees of the Aozora Bank Group are expected to comply with any and all laws, regulations, as well as internal rules, and to respond in a timely and appropriate manner, including reporting to supervisors or the corporate headquarters, if they recognize a violation or any action that is suspected of deviating from general social norms, common sense, or ethical standards.

## **Aozora Bank Group Environmental Policy**

### **1. Basic Philosophy**

The world's economies and societies are dependent on the multiple benefits bestowed by nature and the Earth's ecological system. The Aozora Bank Group recognizes that the well-being of the environment is a critical issue facing the entire globe. The Aozora Bank Group intends to actively contribute to the sustainable development of society by assisting its customers' efforts regarding environmental issues, such as climate change, by providing financial services and reducing the environmental impact of its business activities.

### **2. Role of Environmental Policy**

The Aozora Bank Group recognizes its environmental initiatives as a set of important business challenges. The "Aozora Bank Group Environmental Policy" outlines the Bank's environmental initiatives based on the Bank's "Code of Conduct and Ethics Regulation", in accordance with its management philosophy.

### **3. Aozora Bank Group Environmental Policy**

- 1) Provide assistance to the Bank's customers in addressing environmental issues, including the transition to a low-carbon/decarbonized society, by providing products and services that are able to contribute to the solutions for these issues.
- 2) Recognize environmental risks while striving to make improvements through dialogue with customers whose businesses may have a negative impact on the environment and work to reduce environmental risks by restricting or prohibiting credit when no improvement can be made.
- 3) Conduct resource/energy conservation and waste-reduction initiatives as part of the Bank's regular operations.
- 4) Comply with environment-related laws and regulations.
- 5) Distribute environmental information within as well as outside the Bank and promote environmental conservation activities.

# Policies

## Aozora Bank Group Human Rights Policy

### 1. Basic Philosophy

The Aozora Bank Group intends to fulfill its responsibility in eliminating any business activities from its Group operations that are in opposition to the protection and promotion of human rights as well any exploitative practices including slavery, forced labor, human trafficking, child abuse, etc., and is dedicated to complying with applicable local laws and regulations in the regions in which it conducts business.

### 2. Role of Human Rights Policy

The Aozora Bank Group recognizes that its business activities are likely to have a direct impact on the issue of human rights. The “Aozora Bank Group Human Rights Policy” outlines the Bank’s initiatives for upholding the sanctity of human rights based on the Bank’s “Code of Conduct and Ethics Regulation”, in accordance with its management philosophy.

### 3. Aozora Bank Group Human Rights Policy

- 1) Aozora provides its officers and employees with a workplace free from human rights abuses including discrimination or harassment based on race, ethnicity, religion, nationality, social status, gender, age, sexual orientation, or disability, etc.
- 2) Aozora strives to raise its officers and employee’s awareness of human rights issues by providing training sessions regarding diversity, people with disabilities, LGBTQ+ issues, workplace harassment, etc.
- 3) Furthermore, Aozora has a vested interest in any negative impact on human rights caused by the corporate activities of its customers and suppliers/contractors (supply chain), and in the event that their activities are in conflict with established laws and regulations, the Bank will take necessary countermeasures.



## Investment and Lending Policies regarding Environmental & Societal Issues

Starting with U.N. organizations, it is becoming a global trend for corporations to have a fundamental role in developing environmental measures, protecting human rights, eliminating unfair labor practices and preventing corruption.

Climate change has become a key environmental issue, and there is an ever-growing international movement to position measures to slow or stop global warming as opportunities for growth. Furthermore, the need to address social issues such as improving the basic living infrastructure, enhancing the quality of education & medical services, and protecting the vulnerable is increasing more than ever.

With a view to resolving such environmental & social issues, it is becoming important for financial institutions and financial capital markets to perform their operations appropriately. The Aozora Bank Group (the “Group”) has established this “Investment and Lending Policies regarding Environmental & Societal Issues” as part of its aim to make investments and loans that contribute to the sustainable development of society and achieve sustainable growth for our customers.

### 1. Basic approach

The Aozora Bank Group will proactively develop various financing initiatives to support its customers’ efforts to address environmental and social issues as well as new products and services.

The Aozora Bank Group recognizes environmental and social risks and strives to make improvements through dialogue with customers whose businesses may have a negative impact on the environment and work to reduce environmental and social risks by restricting or prohibiting credit when no improvement can be made.

### 2. Framework to promote investments and loans in consideration of the environment & society

The Aozora Bank Group’s approach to investments & loans in consideration of the environment & society is reflected in the Group’s business management plan, and the Group promotes investment & loan business operations that take environmental and social issues into consideration. The Group also reviews its policies as needed in accordance with the current business environment, societal demands, and changes in business activities, etc.

The Aozora Bank Group has established operational frameworks for business, risk management, and disclosure so that our investment and loan business operations as a financial institution can be performed appropriately.

Individual credit transactions are submitted for approval to the Credit Committee after assessing their profitability relative to risk and customers’ creditworthiness once the Aozora Bank Group ensures they comply with environmental and societal standards.

The Aozora Bank Group conducts risk management analysis on customers that are exposed to climate change risk (physical and transition risks) as well as other environmental and social issues, in addition to investigations into SDGs/ESG financing trends, etc.

The Aozora Bank Group promotes enhanced information disclosure regarding its concentration of carbon-related assets, etc., as recommended in the TCFD (Task Force on Climate-related Financial Disclosures) framework.

### 3. Specific activities

#### (1) Promotion of investments & loans that support initiatives to address environmental & social issues

In order to “actively contribute to the sustainable growth of society”, as described in Aozora’s Key Priorities under its Management Philosophy, the Group’s SDGs/ESG initiatives in its Mid-term Plan position “environmental protection”, “promoting innovation”, and “facilitating life satisfaction” as key issues.

The Aozora Bank Group closely examines whether its customers’ initiatives meet social demands, could be effective in resolving environmental and/or social issues, are in line with the Group’s risk appetite, etc., and proactively makes investments and loans that support customer initiatives that contribute to these key issues. The Aozora Bank Group also works to develop new products and services.

The Aozora Bank Group categorizes its financing initiatives according to a set of criteria that determines whether an initiative is designed to address environmental or social issues, as well as whether the use of proceeds is specified or unspecified, as seen in the examples below. For financing where the purpose is specified, the Aozora Bank Group verifies the customer’s efforts to quantify and disclosure performance, and for financing where the purpose is unspecified, the Aozora Bank Group verifies whether the customer’s strategy and governance initiatives are consistent with its goal to address environmental & social issues.

[Environmental/specified fund usage] Project finance for renewable energy:

Project finance for renewable energy business, etc., including solar and wind power

# Policies

[Environmental/specified fund usage] Financing for green buildings:

Financing for buildings designed with special consideration towards enhancing environmental performance.

[Environmental/specified & unspecified fund usage] Financing for environmental innovations:

Financing for initiatives that aim to reduce environmental load, including the development, implementation, and dissemination of innovative and transition technology, etc., in order to substantially reduce greenhouse gas emissions.

[Society/specified & unspecified fund usage] Financing for initiatives to address social issues:

Financing (including social bonds) for initiatives (including social projects) that aim to address social issues, such as regional revitalization, urban renewal, child-care support, measures to benefit senior citizens, health, and employment.

[Environmental & Societal/unspecified fund usage] Sustainability-linked loans/bonds:

Loans & bonds whose stated purpose is consistent with the borrower's sustainability strategy and whose lending conditions can be changed based on the achievement thereof.

[Environment/specified & unspecified fund usage] Transition Finance:

Financing to help existing carbon-intensive businesses or companies with a high environmental load transition into low-carbon or decarbonized organizations.

(2) Initiatives regarding sectors that may have a negative impact on the environment or society

For any issue that may have a negative impact on the environment or society, the Aozora Bank Group categorizes it as "cross-sectoral" or "sector-specific", identifies risks that should be recognized as well as the status of its customers' implementation of initiatives aimed at reducing said risks, and ensures it complies with environmental and societal standards.

## ① [Cross-sectoral] **Businesses, etc., deemed illegal**

The Aozora Bank Group will not provide any investment or loan to any entity involved in the following material risks to or negative impact on the environment or society:

- Customers engaging in activities deemed illegal or against public order and morals, customers that indirectly assist such activities, or anti-social elements
- Customers that are associated with businesses that are involved in child labor or forced labor.

## ② [Specific Sector] **Coal-fired Power Generation**

Coal-fired power generation emits more greenhouse gases than other power generation measures, and as such, it draws concerns regarding climate change and air pollution. There are also fears that it may disrupt the smooth transition to a decarbonized society, one of the main goals of the Paris Agreement.

The Aozora Bank 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.

## ③ [Specific Sector] **Coal Mining**

The Aozora Bank Group recognizes the need to consider the impact of hazardous waste discharged from coal mines on local ecosystems.

Also, new development of a coal mine in order to supply coal fuel to power-generation businesses may lead to a future increase in greenhouse gas emissions.

When considering making investments or loans for the development of a new coal mine, the Aozora Bank Group will verify the customer's consideration of environmental & social issues.

The Aozora Bank Group will not make any investment or loan for mountaintop removal (MTR) coal mining which has a substantial impact on the environment.

④ **[Specific Sector] Oil & Gas**

While oil and gas are indispensable sources of energy for society, the Aozora Bank Group needs to carefully consider its impact on climate change via greenhouse gas emissions.

Regarding oil sands, shale oil & gas, oil & gas pipelines, and development in the Arctic Circle (the area 66°33' north of the equator), the Aozora Bank Group needs to consider soil and water contamination as well as the impact on local ecosystems and indigenous peoples.

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 Bank Group will verify the customer's consideration of environmental & social issues.

⑤ **[Specific Sector] Large-scale Hydroelectric Power Generation**

While hydroelectric power generation contributes to the clean energy supply, the Aozora Bank Group needs to take into account the impact of dam construction on regional ecosystems and local residents' living environment.

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 30,000KW or above), the Aozora Bank Group will verify the customer's consideration of environmental & social issues.

⑥ **[Specific Sector] Deforestation**

Forests are important for the protecting biodiversity and also play an important role in mitigating climate change through their natural ability to capture and store carbon dioxide.

Unregulated and large-scale deforestation will cause substantial negative impact on the environment.

When considering making investments or loans for businesses involved in deforestation, the Aozora Bank Group will verify the customer's consideration of environmental & social issues.

⑦ **[Specific Sector] Palm Oil**

Human rights issues may arise in the production and processing of palm oil, such as infringement on indigenous peoples' rights, child labor, and environmental issues including deforestation, the burning of natural forests, and loss of biodiversity. When considering making investments or loans for businesses associated with palm oil, the Aozora Bank Group will verify the customer's consideration of environmental & social issues, including whether they have obtained RSPO (Roundtable on Sustainable Palm Oil) certification.

⑧ **[Specific Sector] Tobacco Manufacturing**

Smoking tobacco may cause health issues such as lung cancer and impaired respiratory function.

Moreover, the Aozora Bank Group must consider relevant human rights issues, such as abolishing child & forced labor, regarding the cultivation tobacco plants.

When considering making investments or loans related to tobacco manufacturing, the Aozora Bank Group will verify the customer's consideration of environmental & social issues, including health hazards as well as child & forced labor.

⑨ **[Specific Sector] Inhumane weapons**

Cluster munitions, which are a form of air-dropped explosive weapons that release smaller submunitions over a wide area, and their undetonated submunitions have caused substantial damage to civilians. The international community, as well as Japan, has recognized cluster munitions as inhumane weapons and ratified the "Convention on Cluster Munitions". Similar to cluster munitions, nuclear, biological, and chemical weapons, as well as antipersonnel land mines, that have been manufactured to be used for military purposes have a non-discriminatory and substantial impact on civilians and are recognized within the international community as an important humanitarian concern.

The Aozora Bank Group will not make any investment or loan related to the manufacturing of inhumane weapons such as cluster munitions.

# Policies

## ⑩ [Specific Sectors] Nuclear Power

Fears that nuclear power-related technologies, equipment, and nuclear materials may be diverted for military use as well as concerns arising from the impact of a potential nuclear incident on the environment or society are wide-spread and have a long history.

When considering making investments or loans for nuclear power-related businesses, the Aozora Bank Group will verify the customer's consideration of and stance on addressing environmental & social issues.

## ⑪ [Specific Sectors] Plastics

While plastics contribute to the reduction of food loss, etc., the effective usage rate of recycled and reused plastic materials is low compared to other materials such as metal, and there are concerns about environmental contamination caused by plastic waste flowing into the ocean as a result of inadequate processing.

When considering making investments or loans for plastic-related businesses, the Aozora Bank Group will verify the customer's consideration of and stance on addressing environmental & social issues.

## ⑫ [Specific Sectors] Ships

While ships emit less CO<sub>2</sub> per unit of transportation compared to other means of transportation, they still cause other environmental issues, including the emission of sulfur oxides, greenhouse gases, ballast water, ocean plastic waste, and oil spills.

When considering making investments or loans for ship-related businesses, the Aozora Bank Group will verify the customer's consideration of and stance on addressing environmental & social issues.

## ⑬ [Specific Sectors] Mines

The Aozora Bank Group must consider the impact of the development of mines, such as the effect of deforestation and hazardous waste on local ecosystems, the forced displacement of inhabitants, child & forced labor, and corruption in politically unstable regions.

When considering making investments or loans for mine-related businesses, the Aozora Bank Group will verify the customer's consideration of and stance on addressing environmental & social issues.

## Aozora Bank Group Basic Policy on the Elimination of Anti-Social Elements

The Aozora Bank Group (the Group) has introduced the following initiatives in order to confront anti-social elements that pose a threat to public order and safety while ensuring that the Group categorically blocks any relationship with such elements.

(1) Institutional response

The Group has produced an institutional response to anti-social elements, starting with management, through the clear statements found in its ethical behavior criteria and internal rules. The Group also ensures the safety of its employees from anti-social elements.

(2) Cooperation with external specialized organizations

The Group always strives to establish and maintain close cooperative relationships with external specialist organizations, including law enforcement agencies, the Tokyo Center for Removal of Criminal Organizations, and attorneys.

(3) Blocking all relationships (including transactions)

The Group strives to prevent any and all relationships with anti-social elements, including transactions.

The Group refuses to perform any action that may serve to provide income/funding for anti-social elements, including but not limited to backdoor deals, monetary contributions/membership fees, and subscribing to informational magazines.

(4) Civil and criminal legal response in case of an emergency

The Group thoroughly rejects any unreasonable demands made by anti-social elements and takes the necessary civil and criminal legal actions in response.

# Policies

## Aozora Bank Group Basic Policy on Anti-Money Laundering

The Aozora Bank Group is aware that preventing money laundering and combating the financing of terrorism are two of the most important issues facing the global financial system. The Bank has established a framework to comply with domestic and international laws, regulations, and rules while also making an on-going effort to further strengthen its preventive measures against money laundering and the financing of terrorism (hereafter “anti-money laundering”).

(1) Organizational structure

The Aozora Bank Group has developed internal regulations and an organizational structure, which includes the establishment of an Anti-Money Laundering Centralized Management Division, in order to properly implement the following management measures/initiatives while conducting an on-going review to ensure their effectiveness.

(2) Customer management policy

The Aozora Bank Group takes a risk-based approach to customer verification at the time of transaction by conducting preventative measures based on customer characteristics, type of transaction, county/region, and products/services. The Aozora Bank Group also utilizes the results of its periodic monitoring and analysis (including profiling) of customer transactions in order to conduct a review of its preventative measures.

(3) Management policy for correspondent counterparties

The Aozora Bank Group collects information and performs appropriate evaluations regarding its correspondent counterparties and takes appropriate measures based on their risk-profiles.

(4) Employee training policy

The Aozora Bank Group provides timely and on-going financial crime prevention training for its employees that consists of knowledge acquisition as well as learning methods for the proper management of customers, such as verification at the time of transaction and the creation of transaction records.

(5) Internal audit policy

The Aozora Bank Group regularly conducts internal audits regarding anti-money laundering and works to further improve its anti-money laundering framework and policies based on the results of these audits.

(6) Reporting of suspicious transactions

The Aozora Bank Group has developed a system for conducting daily monitoring of its customers' transactions, including new account openings, and ensuring the proper handling as well as immediate reporting to the relevant authorities of any suspicious customers or transactions detected as a result of said monitoring.

## Aozora Bank Group Basic Policy on Anti-bribery

Based on its mission “to contribute to the development of society through the creation of new value-added financial services”, the Aozora Bank Group (the “Group”) aims to “adapt to a rapidly changing world while remaining a trusted, valued and specialized financial service provider”. The Group believes that in order for a company to fulfill its social responsibility while promoting sustainable growth, it is necessary to earn the trust of its customers and society through high ethical standards. The Group shall observe all applicable laws and regulations in the countries/regions where it conducts business and strive to eliminate any misconduct, including bribery and corruption.

The Group takes the following actions towards the prevention of bribery:

- (1) Prohibition of bribery of public officials, etc.  
The Group prohibits all officers and employees from giving, offering, or promising improper corporate hospitality, gifts, or other benefits, either directly or indirectly, to public officials, etc. in any country in association with their duties.
- (2) Prohibition of offering excessive corporate hospitality and gifts  
The Group prohibits all officers and employees from giving or receiving excessive corporate hospitality, gifts, or other benefits beyond socially-acceptable limits, even if permissible under applicable laws and regulations.
- (3) Implementing risk assessment on bribery  
The Group conducts on-going risk assessment regarding bribery and revises its anti-bribery initiatives based on the results.
- (4) Preparation and retention of records  
The Group promptly and accurately prepares records regarding the giving and receiving of corporate hospitality and gifts.
- (5) Training  
The Group provides on-going anti-bribery training to all officers and employees.
- (6) Whistle-blower system  
The violation of any laws, regulations, or internal rules pertaining to bribery is subject to reporting under the whistle-blower system. The system is designed to protect employees that make reports in good faith from retaliation by prohibiting adverse dispositions.
- (7) Disciplinary procedures  
The violation of any laws, regulations, or internal rules pertaining to bribery is subject to disciplinary action, including dismissal.
- (8) Monitoring  
The Group performs on-going, risk-based monitoring, including internal audits, concerning the operation of the anti-bribery system.

## Aozora Bank Group Tax Compliance Policy

### 1. Basic Philosophy

The Aozora Bank Group is committed to complying with the tax laws of all countries where it conducts businesses and enhancing tax compliance in recognition of its responsibility to fulfill tax liabilities as one of its corporate social responsibilities.

### 2. Role of Tax Compliance Policy

The “Aozora Bank Group Tax Compliance Policy” outlines the Bank’s tax initiatives based on the Bank’s “Code of Ethics and Conduct”, in accordance with its management philosophy.

### 3. Aozora Bank Group Tax Compliance Policy

#### 1) Legal Compliance

The Aozora Bank Group will comply with laws of each jurisdiction, tax treaties, as well as the tax-related standards published by international organizations such as the OECD Transfer Pricing Guidelines and the BEPS Action Plan, while also properly completing all statutory procedures, including the filling of tax returns and tax payments.

#### 2) Tax Planning

The Aozora Bank Group recognizes the importance of tax compliance and making tax payments as appropriate, and will not engage in any business activities where the sole aim is to achieve tax avoidance or develop tax avoidance structures outside of normal business operations. The Bank also seeks to appropriately manage tax costs by eliminating double taxation as well as by utilizing incentives, reliefs and exemptions in order to improve corporate value.

#### 3) Relationship with Tax Authorities

The Aozora Bank Group strives to establish good relationships with tax authorities by disclosing all relevant information in a timely and appropriate manner. The Bank also endeavors to settle disagreements with tax authorities regarding tax-related issues, if applicable, through discussions of the most appropriate interpretations of available decrees, precedent cases, etc.

#### 4) Tax Risk Management

The Aozora Bank Group aims to resolve various tax issues appropriately by obtaining the opinion of external tax advisors and/or seeking advices for rulings from the tax authorities in advance which have jurisdiction where the Bank’s Finance Group manages its tax compliance framework. The Bank also strengthens its tax governance through the increase of tax literacy among executives and regular employees through internal education and training about taxes.



## ”Basic Policy on Customer-Oriented Business Management” in the Aozora Bank Group

With the management philosophy of “contributing to the development of society through the creation of new value-added financial services” as well as “adapting to a rapidly changing world while remaining a trusted, valued and specialized financial service provider”, the Aozora Bank Group has autonomously taken the customer-oriented business attitude with the aim of growing into a new distinctive Partner Bank within Japan, offering its customers with high-quality financial products and services based on ideas drawn from our experienced staff members.

The Bank Group and its staff are committed to contributing to the sustainable growth and development of society and economy by carrying out our business in a fair and sincere manner, while maintaining the customer-oriented business attitude recognizing the importance of “helping our customers through specialized financial services that take into consideration of not only asset management needs but also wealth transfer needs and business succession needs in pursuit of the best interests of the customers”.

### 1. Formulation and disclosure of basic policy regarding customer-oriented business management

- Recognizing the importance of instilling and establishing our customer-oriented business management further in the Bank Group, we will strengthen our efforts to realize it while the Management Committee, where we decide important matters in daily business execution, will report and hold discussions on the status of activities according to the basic policy. In addition, we will disclose the status of those efforts every six months.
- The Bank Group is engaged in activities to realize customer-oriented business management aiming to offer sophisticated financial products and services that truly benefit our customers’ asset formation. We will thus review the basic policy on a regular basis for better business management.

### 2. Pursuit of the best interests of customers

- The Bank works on the following activities to pursue the best interests of its customers by carrying out business in a fair and sincere manner while maintaining its high-level expertise and advanced professional ethics.
  - We formulated the "Code of Ethics and Conduct" that stipulates the basic policy of the Bank Group’s Corporate Code of Conduct as well as Principles of Conduct for Officers and Employees. We carry out in-house training to instill the policy, and officers and employees are obliged to submit a "Written Confirmation/Pledge" to ensure compliance.
  - We established the "Sales Qualification System" for the sale of financial products, and strive to maintain a high level of expertise by conducting qualification renewal tests every year.
- In order to confirm the realization status of the “best interests of the customers”, the Bank will carry out a “Customer Satisfaction Survey” on a regular basis and will announce the results in the “status of activities” as a result index.
- The Bank believes that having many customers deal with us and satisfying the customers by increasing the balance of assets entrusted by them will lead to our growth. We will thus provide financial products and services suitable for its customers.
- The Bank will not make proposals that do not match the customers’ wishes, or will not make proposals by reviewing products in a short period of time that will not suit the interests of the customers.
- In order to instill the “corporate culture” that aims for the “best interests of customers”, the Bank holds discussions at office managers’ meetings held every half year and strives to instill it through various training and study sessions at all business offices.
- The Bank will constantly verify and evaluate the results and progress of the above activities, and will announce some of the results in the “status of activities”.

### 3. Appropriate management system for conflict of interest

- To accurately understand the possibility of conflict of interest with customers in transactions and the possibility of conflict of interest when developing and launching products, the Bank set up the Conflicts of Interest Management Control Division, which is independent of the Business Divisions, where we determine and identify whether transactions in which conflict of interest may exist do not unreasonably damage interests of customers, and strive to manage the transactions appropriately to prevent conflict of interest.
- When proposing financial products and services, the Bank will not select products by considering fees paid by the company that provides the product or will not prioritize products of our Group companies, but always will make proposals from the customer’s point of view.

### 4. Fees to be borne by customers

- The Bank will consider fees charged for services to customers as a piece of important information to make their decision on transactions. We will thus strive to ensure transparency as well as provide easy-to-understand explanations, including presenting comparisons with similar products and alternative products.
- Regarding the details of fees and other costs, when proposing products and services, the Bank will ask customers to verify the documents delivered prior to the conclusion of the contract or the prospectus, and after the transaction, verify the reports and others.
- The Bank will explain in an easy-to-understand manners using materials such as “Aozora Fund Line-up” so that customers can select products that meet their needs. In addition, for the contents of the materials to be used, we will announce them in the “status of activities”.

## 5. Providing important information in an easy-to-understand manner

- The Bank will explain important information about financial products and services in an easy-to-understand manner in order to propose those suitable for customers. The major "important information" we provide is as follows.
    - Risks, returns, and transaction conditions of the products and services we propose
    - Attributes of potential customers for sale of the products
    - Reasons for selecting the products and services we propose
    - Fees received as compensation for services to customers as well as fees received from third parties (Even in the same products, if the fee varies depending on the quantity, currency, course, etc., that information will be included.)
  - When providing important information, the Bank will explain in an easy-to-understand manner using sales materials, legal documents, and materials presenting easy comparison for each product (such as "Aozora Fund Line-up" for investment trusts).
  - The Bank will constantly verify and evaluate our activities to provide important information in an easy-to-understand manner, and will announce the results in the "status of activities". We plan to prepare the "Important Information Sheet" within this fiscal year intended to provide explanations to our customers.
- ※ Regarding Principle 5 (Note 2) of the "Principles for Customer-Oriented Business Conduct" published by the Financial Services Agency (FSA), the Bank does not implement it as we discontinued the sales of foreign currency denominated single premium policies aimed at asset formation, in March 2021.

## 6. Providing services suitable for customers

### <Providing comprehensive consulting>

- For providing courteous and specialized consulting, the Bank will develop highly skilled sales personnel through training as well as acquisition of financial planner qualifications, and will offer financial products and continued services that are truly beneficial to its customers' asset formation.
- By assigning experienced financial planners to each branch and utilizing a dedicated team consisting of certified tax accountants, the Bank will provide extensive consulting services in consideration of not only customers' asset management needs but also wealth transfer needs and business succession needs.

### <Providing financial products>

- After accurately recognizing the customers' needs and understanding the customers' financial knowledge, investment experience, transaction purpose, asset status, risk tolerance, life plan, etc., the Bank will carefully consider the target asset amount and appropriate asset ratio, and select and propose the product suitable for each and every customer from the diverse product line-up.
  - The Bank created various information materials to provide basic knowledge about financial transactions according to the customers' financial knowledge, investment experience, etc. Some of the material such as the "Basic knowledge of asset management" is available on the Bank's website.
  - The Bank will coordinate with a wide range of domestic and international asset management companies and insurance companies, and based on the attributes of our customers, we will improve our product line-up by introducing financial products and services and reviewing their handling. In addition, in order to understand customers' diverse needs, we will conduct regular surveys to customers, and make good use of the results to improve our product line-up, and at the same time, when the Bank Group develops financial products, we will work as a unified group to enhance the product line-up, such as by developing products based on the attributes and needs of customers.
  - When introducing new financial products and services, the Business Divisions validate whether they are suitable for our customers, and the related business group investigates, analyzes and examines various issues and problems such as product risks and provision systems for customers. Then, the Integrated Risk Committee, the Customer Protection Committee, etc. have discussions as necessary and finally the Group Head decides the introduction.
  - When introducing a new financial product, the Bank will announce the reason for selection on the Bank's website.
  - In preparation for introducing complicated or high-risk financial products to customers or providing information for those with little experience in asset management, the Bank will create solicitation rules such as suitability judgment and solicitation start criteria, and we will thus provide services more carefully. Regarding the sale of investment products, we will monitor whether confirmation of the customer's intension and explanation to the customer were properly performed, and will provide instructions and training to sales personnel in order to improve and enhance the skills of explanation to customers.
- ※ Regarding Principle 6 (Note 2) of the "Principles for Customer-Oriented Business Conduct" published by the Financial Services Agency (FSA), the Bank does not implement it as we discontinued the sales of foreign currency denominated single premium policies aimed at asset formation, in March 2021. In addition, for (Note 3) in the said Principle 6, it is not applicable to the Bank because we are not a financial business operator involved in the establishment of financial products.

**<Detailed follow-up services>**

- The Bank will make proposals while giving due consideration to the customer's life stage and life plan, and after the sale of financial products and services as well, we will regularly provide information such as the status of customer's owned products and market trends, and also provide information from a long-term perspective in response to changes in the customer's life stage. Through those efforts, we will contribute to the asset formation of our customers for a long time.
- For customers who own investment products, the Bank will strive to provide timely and appropriate information when the market conditions are uncertain, and especially when there is a significant impact on the products owned by customers due to sudden changes in the market, we will promptly inform customers of accurate information and give advice on market prospects, etc. We will thus contribute to our customers' asset management decisions paying attention to provide detailed follow-up services. In addition, even in normal times, we will conduct follow-up activities at least once a year for customers who own investment products, and will explain the investment status, merchantability, market conditions, contract details, etc.
- Based on the opinions received from customers through follow-up services, the Bank will review whether the products and services we proposed to our customers are suitable for them, in a bid to make better proposals.
- The Bank will constantly verify and evaluate the results and progress of the above activities, and will announce the results in the "status of activities".

**<Responding to Customer Feedback>**

- The Bank will take the customer feedback received in the branches and call center seriously and make good use of their feedback for service improvement and product design. In addition, we will regularly conduct customer satisfaction surveys to understand the diverse needs of our customers.

**<Maintenance of branches and infrastructure>**

- By combining branches and smartphone application-enabled banking services, the Bank will strive to provide customers with the same services anytime, anywhere.
- At branch locations, the Bank will strive to conduct business management with the highest priority on the health and safety of its customers, in addition to providing services that allow customers to consult in a bright and relaxed atmosphere.

**7. Consultant training policy and appropriate motivational framework**

- To appropriately evaluate the customer-oriented sales attitude with highly specialized and courteous consulting services, the Bank built the performance evaluation system from the viewpoint of aiming to expand assets under custody in the performance evaluation of offices and also the personnel evaluation of sales personnel, and we abolished personnel evaluation based on the amount of revenue.
- To instill the customer-oriented sales management, the Bank will develop professional sales personnel with advanced skills by formulating the "Specialized Retail Training Program" that fully considers enhancement of consulting skills and improvement of compliance awareness.
- Regarding the framework for consultant training and appropriate motivation, such as training implementation and its understanding level, performance evaluation system, the Bank will regularly check, verify and evaluate the results and progress status. For the implementation status of training, we will announce the results in the "status of activities".
- The Bank introduced the "skill chart" to visualize the strengths and weaknesses of respective sales personnel's skills (response manners to customers, product knowledge, communication, legal compliance status, etc.), and the business group and business office work together on human resource development for sales personnel.
- For realizing highly specialized consulting services, the Bank encourages the acquisition of financial planner qualifications for all sales personnel, and will announce the holding status of qualifications.

# Consolidated Business Results

## Consolidated Financial Highlights [Five-Year Summary]

Years Ended March 31

(Millions of Yen)

	2021	2020	2019	2018	2017
Ordinary income	155,755	184,406	160,136	148,819	134,704
Trust fees	386	462	372	426	411
Ordinary profit	38,982	43,330	47,796	57,984	51,764
Net income attributable to owners of the parent	28,972	28,142	36,130	43,064	43,849
Comprehensive income (loss)	79,781	(6,437)	30,923	38,609	35,270
Share capital	100,000	100,000	100,000	100,000	100,000
Total equity	490,006	424,758	448,710	437,234	420,345
Total assets	5,916,866	5,299,815	5,255,048	4,912,792	4,586,007
Debentures and Bonds payable	198,365	259,935	283,946	257,563	246,269
Deposits (Note 1)	4,012,506	3,396,899	3,230,731	2,970,938	2,853,102
Loans and bills discounted	2,948,808	2,954,122	2,779,894	2,611,278	2,521,874
Securities	1,393,357	1,073,670	1,240,838	1,139,803	937,949
Net assets per share (yen) (Note 2)	4,233.53	3,659.84	3,844.08	3,735.00	3,586.16
Basic net income per share (yen) (Note 2)	248.27	241.18	309.67	369.16	375.93
Diluted net income per share (yen) (Note 2)	247.90	240.92	309.42	368.89	375.70
Consolidated capital adequacy ratio (domestic standard) (%)	11.03	10.29	10.27	10.39	10.75
Net cash provided by (used in) operating activities	728,732	(286,284)	147,285	227,599	33,243
Net cash provided by (used in) investing activities	(223,529)	121,823	(55,862)	(211,578)	(28,244)
Net cash provided by (used in) financing activities	(14,882)	(17,871)	(19,710)	(21,990)	(20,705)
Cash and cash equivalents, end of year	847,732	357,411	539,743	468,031	474,001
Trust assets (Note 3)	730,209	835,481	797,320	760,074	672,076

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

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

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

# Consolidated Financial Review

## 1. Consolidated and Equity-Method Companies

(Number of Companies)

Years Ended March 31	2021	2020	Change
Consolidated subsidiaries	25	25	0
Subsidiaries and affiliated companies accounted for using the equity method	1	0	1

The consolidated financial statements include the accounts of the Bank, its significant subsidiaries and affiliated companies.

The numbers of consolidated subsidiaries were 25 as of March 31, 2021 and 2020, respectively. There was no change in the scope of consolidation as subsidiaries from March 31, 2020.

The numbers of subsidiaries and affiliated companies accounted for using the equity method were 1 and none as of March 31, 2021 and 2020, respectively.

The Bank acquired 15% of common stocks of Orient Commercial Joint Stock Bank ('OCB Bank'), effective June 30, 2020. OCB Bank became an affiliated company of the Bank, accounted for by the equity method.

## 2. Analysis of Business Results

### (1) Income

(Millions of Yen)

Years Ended March 31	2021	2020	Change
<b>Total income</b>	<b>¥155,755</b>	<b>¥184,406</b>	<b>¥(28,651)</b>
Interest income	67,807	95,409	(27,602)
Interest on loans and discounts	45,600	61,435	(15,835)
Interest and dividends on securities	21,234	31,409	(10,175)
Interest on due from banks	29	839	(810)
Other interest income	943	1,724	(781)
Fees and commissions (including trust fees)	14,938	14,631	307
Gains on trading account transactions	32,723	26,505	6,218
Other ordinary income	35,495	31,175	4,319
Gains on sales of bonds and other securities	18,357	19,677	(1,319)
Gains on derivatives	182	—	182
Other	16,955	11,498	5,457
Other income	4,790	16,685	(11,894)
Gains on sales of stocks and other securities	2,400	13,408	(11,007)
Gains on investments in money held in trust	513	644	(130)
Equity in earnings of associates	1,111	—	1,111
Recoveries of written-off receivables	240	501	(260)
Reversal of provision for credit losses on off-balance-sheet instruments	—	296	(296)
Gains on disposal of fixed assets	—	0	(0)
Other	524	1,834	(1,310)

- Total income was ¥155.7 billion, a decrease of ¥28.6 billion year on year
- Interest income was ¥67.8 billion, a decrease of ¥27.6 billion year on year
- Income from fees and commissions were ¥14.9 billion, an increase of ¥0.3 billion year on year
  - Loan-related fees were strong, mainly due to a higher level of LBO finance activity
- Gains on trading account transactions were ¥32.7 billion, an increase of ¥6.2 billion year on year
  - The Bank has seen an encouraging level of recovery in both revenue from its trading business and the sale of derivative-related products
- Other ordinary income was ¥35.4 billion, an increase of ¥4.3 billion year on year
  - The Bank rebalanced its U.S. government bond, mortgage bond, and foreign currency ETF positions in order to secure future income

# Consolidated Financial Review

## (2) Expenses

(Millions of Yen)

Years Ended March 31	2021	2020	Change
<b>Total expenses</b>	<b>¥116,778</b>	<b>¥141,081</b>	<b>¥(24,302)</b>
Interest expenses	17,717	46,619	(28,901)
Interest on deposits	5,655	7,285	(1,630)
Interest on debentures and bonds payable	2,285	2,804	(518)
Interest on borrowings and rediscounts	1,779	1,711	67
Other interest expenses	7,997	34,817	(26,820)
Fees and commissions expenses	2,457	1,975	481
Losses on trading account transactions	19,322	8,431	10,890
Other ordinary expenses	14,920	14,983	(63)
Amortization of bond issuance costs	191	244	(53)
Losses on foreign exchange transactions	477	3,263	(2,786)
Losses on sales of bonds and other securities	9,340	4,586	4,754
Losses on redemption of bonds and other securities	794	292	502
Losses on devaluation of bonds and other securities	68	209	(140)
Losses on derivatives	—	3,158	(3,158)
Other	4,048	3,229	819
General and administrative expenses	56,128	53,681	2,447
Other expenses	6,231	15,389	(9,157)
Losses on sales of stocks and other securities	—	0	(0)
Losses on devaluation of stocks and other securities	25	1,744	(1,719)
Write-off of loans	174	1,089	(914)
Provision of allowance for loan losses	767	10,729	(9,962)
Provision of allowance for credit losses on off-balance-sheet instruments	49	—	49
Losses on disposition of loans	3,596	721	2,874
Losses on disposal of fixed assets	4	4	0
Other	1,613	1,099	513

- Total expenses were ¥116.7 billion, a decrease of ¥24.3 billion year on year
- Interest expenses were ¥17.7 billion, a decrease of ¥28.9 billion year on year
  - The change was mainly due to a continued lower cost of funding as a result of a lower U.S. dollar-yen basis swap spreads as well as lower U.S. dollar interest rates
- General and administrative expenses were ¥56.1 billion, an increase of ¥2.4 billion year on year
  - The change was mainly due to expenses associated with the commencement of operations at Aozora's New York-based U.S. subsidiary and other system-related investments

## (3) Net Income

(Millions of Yen)

Years Ended March 31	2021	2020	Change
<b>Income before income taxes</b>	<b>¥38,977</b>	<b>¥43,325</b>	<b>¥(4,348)</b>
<b>Income taxes</b>	<b>12,230</b>	<b>17,743</b>	<b>(5,512)</b>
Current	13,680	19,843	(6,163)
Deferred	(1,449)	(2,099)	650
<b>Net income</b>	<b>26,746</b>	<b>25,582</b>	<b>1,164</b>
<b>Net loss attributable to non-controlling interests</b>	<b>(2,226)</b>	<b>(2,560)</b>	<b>333</b>
<b>Net income attributable to owners of the parent</b>	<b>¥28,972</b>	<b>¥28,142</b>	<b>¥830</b>

- Income before income taxes was ¥38.9 billion, a decrease of ¥4.3 billion year on year
- Consolidated net income attributable to owners of the parent was ¥28.9 billion, an increase of ¥0.8 billion
- Net income per share was ¥248.27



### 3. Analysis of Financial Condition

#### (1) Loans and Bills Discounted

(Millions of Yen)

	2021	2020	Change
<b>Total loans</b>	<b>¥2,948,808</b>	<b>¥2,954,122</b>	<b>¥(5,314)</b>
Domestic loans	1,934,572	1,869,070	65,502
Overseas loans	1,014,235	1,085,051	(70,816)
<b>Ratio of overseas loans</b>	<b>34.4%</b>	<b>36.7%</b>	<b>(2.3%)</b>

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

(Millions of Yen)

Years Ended March 31	2021	2020
<b>Domestic offices (excluding Japan offshore market accounts)</b>	<b>¥2,329,336</b>	<b>¥2,272,039</b>
Manufacturing	212,283	240,906
Agriculture, forestry and fisheries	4,501	4,628
Mining, quarry and gravel extraction	—	—
Construction	12,228	10,212
Electricity, gas, heat supply and water	49,788	47,275
Information and communications	113,121	77,707
Transport and postal service	35,778	35,565
Wholesale and retail trade	71,899	68,384
Finance and insurance	363,597	412,053
Real estate	626,079	625,814
Leasing	75,701	32,652
Various services	186,045	213,015
Local government	21,115	7,146
Others	557,195	496,675
<b>Overseas offices (including Japan offshore market accounts)</b>	<b>619,471</b>	<b>682,082</b>
Government	—	—
Financial institutions	—	—
Others	619,471	682,082
<b>Total</b>	<b>¥2,948,808</b>	<b>¥2,954,122</b>

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

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

#### Risk-Monitored Loans (Consolidated)

(Millions of Yen)

Years Ended March 31	2021	2020	Change
<b>Loan balance</b>	<b>¥2,948,808</b>	<b>¥2,954,122</b>	<b>¥(5,314)</b>
<b>Risk-monitored loans</b>	<b>27,354</b>	<b>28,359</b>	<b>(1,004)</b>
Loans to bankrupt borrowers	2,120	4,460	(2,340)
Past due loans	20,787	21,614	(826)
Loans overdue for three months or more	1,577	—	1,577
Restructured loans	2,869	2,284	585
<b>Ratio to loan balance</b>	<b>0.9%</b>	<b>1.0%</b>	<b>(0.1%)</b>

- Loans were ¥2,948.8 billion, a decrease of ¥5.3 billion from March 31, 2020
- Domestic loans increased by ¥65.5 billion
  - LBO loan and project finance balances increased compared to March 31, 2020 while lending margins increased by 3 bps
- Overseas loans were ¥1,014.2 billion, a decrease of ¥70.8 billion from March 31, 2020 (a decrease of \$809 million)
- Risk-monitored loans on a consolidated basis were ¥27.3 billion, a decrease of ¥1.0 billion from March 31, 2020
  - The ratio to loan balance decreased to 0.9%

# Consolidated Financial Review

## (2) Securities

(Millions of Yen)

Years Ended March 31	2021	2020	Change
<b>Japanese debt securities</b>	<b>¥300,750</b>	<b>¥98,154</b>	<b>¥202,596</b>
Japanese national government bonds	37,775	—	37,775
Japanese local government bonds	145,136	37,859	107,277
Japanese short-term corporate bonds	29,998	—	29,998
Japanese corporate bonds	87,841	60,294	27,546
<b>Japanese stocks</b>	<b>27,416</b>	<b>16,755</b>	<b>10,660</b>
<b>Other securities</b>	<b>1,065,190</b>	<b>958,760</b>	<b>106,429</b>
Foreign securities	927,540	820,172	107,368
Others	137,650	138,588	(938)
<b>Total</b>	<b>¥1,393,357</b>	<b>¥1,073,670</b>	<b>¥319,686</b>

- Securities were ¥1,393.3 billion, an increase of ¥319.6 billion compared to March 31, 2020
- Total unrealized gains were a net gain of ¥43.4 billion, an improvement of ¥62.1 billion from March 31, 2020

## (3) Deposits, debentures and bonds payable

(Millions of Yen)

Years Ended March 31	2021	2020	Change
<b>Deposits</b>	<b>¥4,012,506</b>	<b>¥3,396,899</b>	<b>¥615,607</b>
Time deposits	2,406,650	2,464,899	(58,248)
Liquid deposits	1,484,554	828,836	655,718
Other	121,301	103,164	18,137
<b>Debentures</b>	<b>¥—</b>	<b>¥44,660</b>	<b>¥(44,660)</b>
<b>Bonds payable</b>	<b>¥198,365</b>	<b>¥215,275</b>	<b>¥(16,909)</b>

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

- Total core funding (deposits, debentures and bonds payable) was ¥4,210.8 billion, an increase of ¥554.0 billion from March 31, 2020
  - BANK™, our retail banking smartphone app, was an important driver behind the further expansion of our retail customer base, and new account openings are continuing to steadily increase
  - The Bank issued its first 'Green Bond' (domestic U.S. dollar-denominated senior unsecured bonds totaling \$135 million) in March, 2021

## (4) Equity

- Equity was ¥490.0 billion, an increase of ¥65.2 billion from March 31, 2020
  - The valuation difference on other securities improved by ¥51.5 billion from March 31, 2020
- Net assets per common share were ¥4,233.53



# Consolidated Financial Statements

## Consolidated Balance Sheet

Aozora Bank, Ltd. and Consolidated Subsidiaries  
March 31, 2021

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2021
<b>Assets</b>			
Cash and cash equivalents (Notes 3 and 27)	¥847,732	¥357,411	\$7,656,546
Due from banks (Note 27)	102,376	106,863	924,647
Call loans and bills bought (Note 27)	41,000	—	370,303
Securities purchased under resale agreements (Note 27)	—	71,011	—
Monetary claims bought (Note 27)	74,506	66,778	672,924
Trading account assets (Notes 4, 12, 27 and 28)	154,616	259,378	1,396,467
Money held in trust (Notes 6 and 27)	33,521	27,213	302,763
Securities (Notes 5, 12 and 27)	1,393,357	1,073,670	12,584,517
Loans and bills discounted (Notes 7, 12 and 27)	2,948,808	2,954,122	26,633,022
Foreign exchange (Notes 8 and 12)	58,154	67,168	525,241
Other assets (Notes 12, 16 and 27)	232,409	276,592	2,099,078
Tangible fixed assets (Note 9)	23,311	23,698	210,545
Intangible fixed assets (Note 9)	20,133	19,210	181,838
Retirement benefit asset (Note 17)	5,740	2,507	51,845
Deferred tax assets (Note 25)	16,984	26,960	153,398
Customers' liabilities for acceptances and guarantees (Note 10)	15,773	21,426	142,459
Allowance for loan losses (Note 11)	(50,886)	(53,799)	(459,592)
Allowance for investment losses	(674)	(399)	(6,094)
<b>Total</b>	<b>¥5,916,866</b>	<b>¥5,299,815</b>	<b>\$53,439,907</b>

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2021
<b>Liabilities and Equity</b>			
<b>Liabilities:</b>			
Deposits (Notes 13 and 27)	¥4,012,506	¥3,396,899	\$36,240,127
Debentures (Notes 14 and 27)	—	44,660	—
Call money and bills sold (Note 27)	15,536	38,728	140,318
Securities sold under repurchase agreements (Notes 12 and 27)	56,750	27,758	512,563
Cash collateral received for securities lent (Notes 12 and 27)	431,673	281,325	3,898,789
Trading account liabilities (Notes 4, 27 and 28)	140,451	211,223	1,268,525
Borrowed money (Notes 12, 15 and 27)	349,767	427,610	3,159,031
Bonds payable (Notes 14 and 27)	198,365	215,275	1,791,598
Other liabilities (Notes 16 and 27)	194,120	198,834	1,753,252
Retirement benefit liability (Note 17)	10,844	10,348	97,941
Provision for retirement benefits for directors (and other officers)	4	3	37
Provision for credit losses on off-balance-sheet instruments	612	562	5,532
Provision for contingent loss	421	364	3,807
Reserves under special laws	8	8	74
Deferred tax liabilities (Note 25)	24	25	217
Acceptances and guarantees (Note 10)	15,773	21,426	142,459
<b>Total liabilities</b>	<b>5,426,859</b>	<b>4,875,056</b>	<b>49,014,270</b>
<b>Equity:</b>			
Shareholders' equity:			
Share capital (Note 18)	100,000	100,000	903,179
Capital surplus (Note 18)	87,412	87,388	789,487
Retained earnings (Notes 18 and 33)	283,464	269,545	2,560,192
Treasury stock—at cost (Note 18)	(3,260)	(3,297)	(29,448)
Total	467,615	453,635	4,223,410
Accumulated other comprehensive income (loss):			
Valuation difference on available-for-sale securities	27,196	(24,340)	245,634
Deferred gains or losses on hedges	(750)	229	(6,776)
Foreign currency translation adjustment	(971)	(806)	(8,773)
Remeasurements of defined benefit plans (Note 17)	974	(1,669)	8,802
Total	26,449	(26,587)	238,887
Share acquisition rights (Notes 18 and 19)	482	444	4,353
Non-controlling interests	(4,541)	(2,734)	(41,013)
<b>Total equity</b>	<b>490,006</b>	<b>424,758</b>	<b>4,425,637</b>
<b>Total</b>	<b>¥5,916,866</b>	<b>¥5,299,815</b>	<b>\$53,439,907</b>

See the accompanying notes to consolidated financial statements.

# Consolidated Financial Statements

## Consolidated Statement of Income

Aozora Bank, Ltd. and Consolidated Subsidiaries  
Year Ended March 31, 2021

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2021
<b>Income:</b>			
Interest income:			
Interest on loans and discounts	¥45,600	¥61,435	\$411,851
Interest and dividends on securities	21,234	31,409	191,784
Interest on due from banks	29	839	263
Other interest income	943	1,724	8,522
Trust fees	386	462	3,491
Fees and commissions income	14,552	14,168	131,432
Gains on trading account transactions	32,723	26,505	295,556
Other ordinary income (Note 20)	35,495	31,175	320,585
Other income (Note 21)	4,790	16,685	43,269
<b>Total income</b>	<b>155,755</b>	<b>184,406</b>	<b>1,406,753</b>
<b>Expenses:</b>			
Interest expenses:			
Interest on deposits	5,655	7,285	51,076
Interest on debentures and bonds payable	2,285	2,804	20,646
Interest on borrowings and rediscounts	1,779	1,711	16,069
Other interest expenses	7,997	34,817	72,233
Fees and commissions expenses	2,457	1,975	22,193
Losses on trading account transactions	19,322	8,431	174,520
Other ordinary expenses (Note 22)	14,920	14,983	134,760
General and administrative expenses (Note 23)	56,128	53,681	506,939
Other expenses (Note 24)	6,231	15,389	56,282
<b>Total expenses</b>	<b>116,778</b>	<b>141,081</b>	<b>1,054,718</b>
<b>Income before income taxes</b>	<b>38,977</b>	<b>43,325</b>	<b>352,035</b>
<b>Income taxes (Note 25):</b>			
Current	13,680	19,843	123,555
Deferred	(1,449)	(2,099)	(13,090)
<b>Total income taxes</b>	<b>12,230</b>	<b>17,743</b>	<b>110,465</b>
<b>Net income</b>	<b>26,746</b>	<b>25,582</b>	<b>241,570</b>
<b>Net loss attributable to non-controlling interests</b>	<b>(2,226)</b>	<b>(2,560)</b>	<b>(20,106)</b>
<b>Net income attributable to owners of the parent</b>	<b>¥28,972</b>	<b>¥28,142</b>	<b>\$261,676</b>

	Yen		U.S. Dollars (Note 1)
	2021	2020	2021
<b>Per share information:</b>			
Basic net income per share of common stock (Note 30)	¥248.27	¥241.18	\$2.24
Diluted net income per share of common stock (Note 30)	247.90	240.92	2.24
Cash dividends applicable to the year:			
Common stock	124.00	156.00	1.12

See the accompanying notes to consolidated financial statements.

## Consolidated Statement of Comprehensive Income

Aozora Bank, Ltd. and Consolidated Subsidiaries  
Year Ended March 31, 2021

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2021
<b>Net income</b>	<b>¥26,746</b>	<b>¥25,582</b>	<b>\$241,570</b>
<b>Other comprehensive income (loss) (Note 29):</b>			
Valuation difference on available-for-sale securities	51,535	(47,842)	465,460
Deferred gains or losses on hedges	(980)	17,341	(8,851)
Foreign currency translation adjustment	207	(515)	1,878
Remeasurements of defined benefit plans	2,644	(1,002)	23,884
Share of other comprehensive income (loss) in associates	(372)	—	(3,368)
<b>Total other comprehensive income (loss)</b>	<b>53,035</b>	<b>(32,019)</b>	<b>479,003</b>
<b>Comprehensive income (loss) (Note 29)</b>	<b>¥79,781</b>	<b>¥(6,437)</b>	<b>\$720,573</b>
<b>Comprehensive income (loss) attributable to:</b>			
Owners of the parent	¥82,009	¥(3,876)	\$740,694
Non-controlling interests	(2,227)	(2,560)	(20,121)

See the accompanying notes to consolidated financial statements.

## Consolidated Statement of Changes in Equity

Aozora Bank, Ltd. and Consolidated Subsidiaries  
Year Ended March 31, 2021

	Millions of Yen												
	Shareholders' equity					Accumulated other comprehensive income (loss)					Share acquisition rights	Non-controlling interests	Total equity
	Share capital	Capital surplus	Retained earnings	Treasury stock—at cost	Total	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total			
Balance, April 1, 2019	¥100,000	¥87,377	¥259,021	¥(3,312)	¥443,087	¥23,501	¥(17,111)	¥(291)	¥(667)	¥5,431	¥357	¥(166)	¥448,710
Net income attributable to owners of the parent			28,142		28,142								28,142
Cash dividends paid			(17,618)		(17,618)								(17,618)
Purchase of treasury stock (Note 18)				(0)	(0)								(0)
Disposal of treasury stock (Note 18)		10		14	24								24
Net changes in items during the year						(47,842)	17,341	(515)	(1,002)	(32,018)	86	(2,567)	(34,499)
Balance, March 31, 2020	¥100,000	¥87,388	¥269,545	¥(3,297)	¥453,635	¥(24,340)	¥229	¥(806)	¥(1,669)	¥(26,587)	¥444	¥(2,734)	¥424,758
Net income attributable to owners of the parent			28,972		28,972								28,972
Cash dividends paid			(15,053)		(15,053)								(15,053)
Purchase of treasury stock (Note 18)				(0)	(0)								(0)
Disposal of treasury stock (Note 18)		23		37	60								60
Net changes in items during the year						51,537	(980)	(164)	2,644	53,036	37	(1,807)	51,267
Balance, March 31, 2021	¥100,000	¥87,412	¥283,464	¥(3,260)	¥467,615	¥27,196	¥(750)	¥(971)	¥974	¥26,449	¥482	¥(4,541)	¥490,006

	Thousands of U.S. Dollars (Note 1)												
	Shareholders' equity					Accumulated other comprehensive income (loss)					Share acquisition rights	Non-controlling interests	Total equity
	Share capital	Capital surplus	Retained earnings	Treasury stock—at cost	Total	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total			
Balance, March 31, 2020	\$903,179	\$789,272	\$2,434,475	\$ (29,783)	\$4,097,143	\$ (219,841)	\$2,076	\$ (7,283)	\$ (15,082)	\$ (240,130)	\$4,013	\$ (24,692)	\$3,836,334
Net income attributable to owners of the parent			261,676		261,676								261,676
Cash dividends paid			(135,959)		(135,959)								(135,959)
Purchase of treasury stock (Note 18)				(0)	(0)								(0)
Disposal of treasury stock (Note 18)		215		335	550								550
Net changes in items during the year						465,475	(8,852)	(1,490)	23,884	479,017	340	(16,321)	463,036
Balance, March 31, 2021	\$903,179	\$789,487	\$2,560,192	\$ (29,448)	\$4,223,410	\$245,634	\$ (6,776)	\$ (8,773)	\$8,802	\$238,887	\$4,353	\$ (41,013)	\$4,425,637

See the accompanying notes to consolidated financial statements.

# Consolidated Financial Statements

## Consolidated Statement of Cash Flows

Aozora Bank, Ltd. and Consolidated Subsidiaries  
Year Ended March 31, 2021

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2021
<b>Cash flows from operating activities:</b>			
Income before income taxes	¥38,977	¥43,325	\$352,035
Adjustments for:			
Depreciation and amortization	5,827	5,407	52,628
Equity in losses (earnings) of associates	(1,111)	—	(10,038)
Increase (decrease) in allowance for loan losses	(2,933)	8,809	(26,495)
Increase (decrease) in allowance for investment losses	275	(401)	2,486
Decrease (increase) in retirement benefit asset	441	(396)	3,991
Increase (decrease) in retirement benefit liability	632	678	5,711
Increase (decrease) in provision for retirement benefits for directors (and other officers)	0	0	7
Increase (decrease) in provision for credit losses on off-balance-sheet instruments	49	(297)	451
Interest income (accrual basis)	(67,807)	(95,409)	(612,421)
Interest expenses (accrual basis)	17,717	46,619	160,023
Loss (gain) on securities	(10,529)	(26,252)	(95,100)
Loss (gain) on money held in trust	(513)	(644)	(4,641)
Foreign exchange losses (gains)	(36,174)	35,036	(326,720)
Loss (gain) on disposal of fixed assets	4	4	45
Net decrease (increase) in trading account assets	104,761	(59,449)	946,183
Net increase (decrease) in trading account liabilities	(70,772)	33,459	(639,206)
Net decrease (increase) in loans and bills discounted	18,850	(189,434)	170,258
Net increase (decrease) in deposits	615,607	166,168	5,560,037
Net increase (decrease) in debentures	(44,660)	(6,700)	(403,360)
Net increase (decrease) in borrowed money (excluding subordinated borrowings)	(77,842)	107,051	(703,061)
Net decrease (increase) in due from banks (excluding due from the Bank of Japan)	5,159	(28,290)	46,597
Net decrease (increase) in call loans and bills bought and others	22,283	(86,668)	201,259
Net increase (decrease) in call money and bills sold and others	5,800	(34,895)	52,387
Net increase (decrease) in cash collateral received for securities lent	150,347	(169,534)	1,357,912
Net decrease (increase) in foreign exchange—assets	8,094	(17,909)	73,104
Increase (decrease) in straight bonds—issuance and redemption	(16,909)	(17,310)	(152,725)
Interest and dividends received (cash basis)	69,772	97,822	630,168
Interest paid (cash basis)	(19,164)	(48,632)	(173,087)
Other, net	36,225	(36,989)	327,185
Subtotal	752,410	(274,831)	6,795,613
Income taxes paid	(23,677)	(11,453)	(213,852)
Net cash provided by (used in) operating activities	728,732	(286,284)	6,581,761
<b>Cash flows from investing activities:</b>			
Purchase of securities	(1,154,429)	(791,665)	(10,426,569)
Proceeds from sales of securities	783,026	807,033	7,072,129
Proceeds from redemption of securities	160,234	102,804	1,447,205
Increase in money held in trust	(111,959)	(180,284)	(1,011,195)
Decrease in money held in trust	106,194	188,896	959,130
Purchase of tangible fixed assets	(1,596)	(667)	(14,417)
Purchase of intangible fixed assets	(4,842)	(4,291)	(43,735)
Proceeds from sales of tangible fixed assets	0	0	2
Settlement of asset retirement obligations	(157)	—	(1,422)
Net cash provided by (used in) investing activities	(223,529)	121,823	(2,018,872)
<b>Cash flows from financing activities:</b>			
Repayments of lease obligations	(249)	(244)	(2,253)
Proceeds from stock issuance to non-controlling interests	427	—	3,859
Cash dividends paid	(15,053)	(17,618)	(135,959)
Cash dividends paid to non-controlling interests	(6)	(7)	(59)
Purchase of treasury stock	(0)	(0)	(0)
Proceeds from sales of treasury stock	0	0	0
Net cash used in financing activities	(14,882)	(17,871)	(134,412)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>490,320</b>	<b>(182,331)</b>	<b>4,428,477</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>357,411</b>	<b>539,743</b>	<b>3,228,069</b>
<b>Cash and cash equivalents, end of year (Note 3)</b>	<b>¥847,732</b>	<b>¥357,411</b>	<b>\$7,656,546</b>

See the accompanying notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

Aozora Bank, Ltd. and Consolidated Subsidiaries  
Year Ended March 31, 2021

## 1. Basis of Presentation of Consolidated Financial Statements

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

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

## 2. Summary of Significant Accounting Policies

### (1) Use of Estimates

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

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

### (2) Consolidation

The consolidated financial statements include the accounts of the Bank, its significant subsidiaries and affiliated companies. The number of consolidated subsidiaries was 25 as of March 31, 2021 and 2020, respectively. The number of subsidiaries and affiliated companies accounted for using the equity method was 1 as of March 31, 2021 and none as of March 31, 2020.

The Bank acquired 15% of common stocks of Orient Commercial Joint Stock Bank ('OCB Bank') effective June 30, 2020. OCB Bank became an affiliated company of the Bank, accounted for by the equity method.

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

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

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Bank is incorporated and operates. Japanese yen figures of less than one million yen are truncated, except for per share data. As a result, the totals do not necessarily equal the sum of the individual amounts. The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at the rate of ¥110.72 to \$1.00, the rate of exchange at March 31, 2021. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

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

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

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

Goodwill is amortized over an appropriate period not to exceed 20 years under the straight-line method. Immaterial goodwill is expensed as incurred. A bargain purchase gain is charged to operations on the acquisition date after reassessing the procedures to allocate the acquisition price and ensure that an acquirer has correctly identified all of the assets acquired and all of the liabilities assumed with a review of such procedures used.

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



# Consolidated Financial Statements

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

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

### (3) Cash and Cash Equivalents

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

### (4) Trading Account Assets/Liabilities

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

Profits and losses on transactions for trading purposes are shown as 'Gains on trading account transactions' and 'Losses on trading account transactions,' as appropriate, on a trade-date basis.

### (5) Securities

All securities are classified and accounted for, depending on management's intent, as follows:

- 1) Trading securities which are held for the purpose of earning capital gains in the near term (other than securities booked in trading accounts) are reported at fair value, and the related unrealized gains and losses are recognized in the consolidated statement of income.
- 2) Held-to-maturity debt securities which are expected to be held to maturity with the positive intent and ability to hold them to maturity are reported at amortized cost.
- 3) Available-for-sale securities are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported within accumulated other comprehensive income as a separate component of equity. The cost of sale of these securities is determined mainly by the moving-average method.

The measurement at cost or amortized cost of available-for-sale securities is prohibited, unless the fair value cannot be reliably determined under 'Accounting Standard for Financial Instruments' (ASBJ Statement No. 10).

Non-marketable equity securities are generally regarded as

securities whose fair value cannot be reliably determined and are measured at cost. However, certain non-marketable debt securities, such as privately placed corporate bonds and certain asset-backed securities, are measured at fair value. The cost of non-marketable available-for-sale securities stated at cost is determined by the moving-average method.

For other-than-temporary declines in fair value, the cost of securities is reduced to fair value and the impairment losses are recognized by a charge to operations.

The Group records its interests in investment limited partnerships, associations under the Civil Code of Japan, and *Tokumei Kumiai* arrangements, based on its proportionate share of the net assets in such entities, and recognizes its share of profits or losses in a manner similar to the equity method of accounting. The Group records such interests in 'Securities.'

Securities included in money held in trust on behalf of the Group are accounted for in the same manner as the securities mentioned above.

### (6) Derivatives and Hedging Activities

Derivative financial instruments (other than derivatives booked in trading accounts) are classified and accounted for as follows:

- 1) All derivatives other than those used for hedging purposes are recognized as either assets or liabilities and measured at fair value, with gains or losses recognized currently in the consolidated statement of income.
- 2) Derivatives used for hedging purposes, if they meet certain hedging criteria, including high correlation of fair value movement and effectiveness between the hedging instruments and the hedged items and the assessment of its effectiveness, are recognized as either assets or liabilities and measured at fair value. Valuation gains or losses on derivatives used for hedging purposes are primarily deferred over the terms of the hedged items within accumulated other comprehensive income as a component of equity and are charged to operations when the gains and losses on the hedged items are recognized.

#### (a) Hedges of Interest Rate Risk

The Bank applies deferral hedge accounting to hedges of interest rate risk associated with financial assets and liabilities, principally by portfolio hedging, in accordance with 'Accounting and Auditing Treatments on the Application of Accounting Standards for Financial Instruments in the Banking Industry' (the Japanese Institute of Certified Public Accountants ('JICPA') Industry Committee Practical Guideline No.24, October 8, 2020), or partly by individual hedging.

Under the JICPA Industry Committee Practical Guideline No.24, portfolio hedges to offset changes in fair value of fixed-rate instruments (such as loans or deposits) ('fair value hedges') are applied by grouping hedging instruments and hedged items by their maturities. The assessment of hedge effectiveness is generally based on the consideration of interest rate indices affecting the respective fair values of the group of hedging instruments and hedged items.

With regard to an individual hedge to offset changes in fair value of fixed-rate instruments, since principal conditions underlying in bonds payable as hedged items and interest rate swaps as hedging instruments are substantially on the same terms, the hedge is deemed highly effective.

#### **(b) Hedges of Foreign Currency Risk**

The Bank applies deferral hedge accounting to hedges of foreign currency risk associated with foreign currency-denominated financial assets and liabilities in accordance with 'Accounting and Auditing Treatments for Foreign Currency Transactions in the Banking Industry' (the JICPA Industry Committee Practical Guideline No. 25, October 8, 2020).

In accordance with the JICPA Industry Committee Practical Guideline No. 25, the Bank designates certain currency swaps and foreign exchange swaps for the purpose of funding foreign currencies as hedges for the exposure to changes in foreign exchange rates associated with foreign currency-denominated assets or liabilities when the foreign currency positions on the hedged assets or liabilities are expected to exceed the corresponding foreign currency positions on the hedging instruments. Hedge effectiveness is reviewed by comparing the total currency position of the hedged items with that of the hedging instruments by currency.

For hedging the foreign currency exposure of foreign currency-denominated available-for-sale securities (other than debt securities), which were designated in advance, fair value hedge accounting is adopted on a portfolio basis when the cost of the hedged securities is covered with offsetting liabilities denominated in the same foreign currency as the hedged securities.

#### **(c) Hedges of Stock Price Risk**

The Bank designates available-for-sale securities (stock, etc.) as hedged items and total return swaps as hedging instruments and applies individual deferral hedge accounting.

The assessment of hedge effectiveness is generally based on the comparison of changes in fair value of the hedged item and hedging instruments.

#### **(d) Intercompany and Intracompany Derivative Transactions**

For intercompany and intracompany derivative transactions for hedging purposes ('Internal derivatives'), including currency and interest rate swaps, the Bank currently charges gains and losses on internal derivatives to operations or defers them within accumulated other comprehensive income as a component of equity without elimination in accordance with the JICPA Industry Committee Practical Guidelines No. 24 and No. 25. These reports permit a bank to retain the gains and losses on internal derivatives in its consolidated financial statements without elimination if the bank establishes and follows strict hedging criteria by entering into mirror-image offsetting transactions with external third parties within three business days after the designation of internal derivatives as hedging instruments.

#### **(7) Tangible Fixed Assets and Intangible Fixed Assets**

Tangible fixed assets and intangible fixed assets are stated at cost.

Depreciation of tangible fixed assets of the Group is computed primarily by the declining-balance method at rates based on the estimated useful lives of the assets, while the straight-line method is applied to buildings, including structures and equipment attached to buildings, of the Bank. The ranges of useful lives are principally from 15 years to 50 years for buildings and from 5 years to 15 years for other tangible fixed assets.

Amortization of intangible fixed assets of the Group is computed by the straight-line method over the estimated useful lives of the assets. Costs of software developed or obtained for internal use are amortized over the estimated useful lives of the software (principally from 5 years to 11 years).

Lease assets under finance lease transactions, in which substantial ownership is not deemed to be transferred, are depreciated by the straight-line method over the lease term. The salvage value is zero or the guaranteed amounts if specified in the lease contracts.

#### **(8) Long-Lived Assets**

The Group reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or asset group or the net selling price at disposition.

#### **(9) Deferred Charges**

Corporate bond issuance expenses are deferred and amortized by the straight-line method over the terms of the corporate bonds.

#### **(10) Write-Off of Loans and Allowance for Loan Losses**

Loans to borrowers who are assessed as 'Bankrupt' (in the process of legal proceedings for bankruptcy, special liquidation, etc.) or 'De facto bankrupt' (in serious financial difficulties and are not deemed to be capable of restructuring) under the Bank's self-assessment guidelines are written off to the amounts expected to be collected through the disposal of collateral or execution of guarantees, etc. The amounts deemed to be uncollectible and written off were ¥19,107 million (\$172,578 thousand) and ¥18,994 million at March 31, 2021 and 2020, respectively.

# Consolidated Financial Statements

For loans to borrowers who are assessed as 'In danger of bankruptcy' (not yet bankrupt but are in financial difficulty and are highly likely to go bankrupt in the foreseeable future), a specific allowance is provided for the loan losses at an amount considered to be necessary based on an overall solvency assessment of the borrowers and expected collectible amounts through the disposal of collateral or execution of guarantees, etc. For loans whose future cash flows of principal and interest are reasonably estimated, the difference between the discounted cash flows and the carrying amount is accounted for as an allowance for loan losses (the 'DCF method').

For other loans, the Bank provides the expected loan loss for the average remaining period of loans (almost three years respectively), after classifying the loans into three groups of corporate loans in North America/Europe, Asia and other loans, based on the characteristics of risk. The expected loan loss is determined based on the average rates of loan loss experience or bankruptcy, over a certain period of time in the past, responding to the average remaining period with certain adjustments, such as future prospects by considering the latest trend of loan loss experience. However, for borrowers with a large credit exposure, categorized as 'Need attention,' under the internal credit rating system, the loan loss amount estimated by the DCF method is reflected as an addition to the allowance for loan losses determined based on the estimated loan loss ratio, if necessary. For some borrowers, other than above, with a large credit exposure over a certain amount, an allowance is provided in addition to an amount determined based on an expected loan loss rate, according to the above method.

The allowance for loans to restructuring countries is provided for the amount of expected losses based on an assessment of political and economic conditions in their respective countries.

All loans are monitored in accordance with the internal self-assessment standard and other guidance on an ongoing basis. The operating divisions or branches review the internal credit ratings of borrowers ('Borrower Ratings') which also determines the borrower categories. The internal credit ratings are then approved by the divisions in charge of credit. The division in charge of asset assessment, which is independent of the operating divisions or branches and the divisions in charge of credit, reviews the appropriateness of the internal credit ratings on a sample basis.

Based on the borrower categories as of year-end determined by the aforementioned process, the operating divisions or branches initially determine write-offs and the allowance for loan losses, and the division in charge of asset assessment verifies and determines the final amounts.

With regard to the allowance for loan losses of consolidated subsidiaries, a general allowance is determined for the amount of estimated loan losses using historical loan loss data over a defined period in the past. For loans to 'In danger of bankruptcy' borrowers and 'De facto bankrupt' and 'Bankrupt' borrowers, a specific allowance is provided or the uncollectible amount is written off based on an assessment of collectability of individual loans.

The independent internal audit divisions periodically audit the appropriateness of the write-offs and allowances based on the self-assessment on a regular basis.

## (11) Allowance for Investment Losses

Allowance for investment losses is provided for estimated losses on certain investments based on an assessment of the issuers' financial condition and uncertainty about future recoverability of the decline in realizable values of the investments.

## (12) Asset Retirement Obligations

Asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the normal operation of a tangible fixed asset and is associated with the retirement of such a tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

## (13) Provision for Retirement Benefits for Directors (and Other Officers)

Provision for retirement benefits for directors (and other officers) is provided at the amount that would be required if directors and Audit & Supervisory Board members of some consolidated subsidiaries retired at the consolidated balance sheet date.

## (14) Provision for Credit Losses on Off-Balance-Sheet Instruments

Provision for credit losses on off-balance-sheet instruments is provided for credit losses on commitments to extend loans and other off-balance-sheet financial instruments based on an estimated loss ratio or individually estimated loss amount determined by the same methodology used in determining the amount of allowance for loan losses.

## (15) Provision for Contingent Loss

Provision for contingent loss is maintained for possible losses from contingencies, which are not covered by other reserves.



**(16) Reserves under Special Laws**

Reserves under special laws are reserves for financial products' transaction liabilities which are provided for compensation for losses from securities brokering in consolidated domestic subsidiaries in accordance with the Financial Instruments and Exchange Act, Article 46-5 and the Cabinet Office Ordinance on Financial Instruments Business, Article 175.

**(17) Retirement and Pension Plans**

The Group accounts for retirement benefit liabilities (assets) based on the defined retirement benefit obligations and plan assets at the consolidated balance sheet date. The defined retirement benefit obligations are calculated based on the benefit formula attribution of the expected benefit over the service period of employees. Prior-service cost is amortized using the straight-line method over a period (nine years) within the employees' average remaining service period at incurrence. Net actuarial gain and loss are amortized using the straight-line method over a period (five years) within the employees' average remaining service period commencing from the next fiscal year after incurrence.

Some consolidated subsidiaries adopt a simplified method based on the defined retirement benefit obligations for each retirement plan that would be required if all employees retired voluntarily at the consolidated balance sheet date.

**(18) Lease Transactions**

All finance lease transactions are capitalized to recognize lease assets and lease obligations on the consolidated balance sheet.

All other leases are accounted for as operating leases.

**(19) Income Taxes**

Deferred income taxes are recorded to reflect expected future consequences of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. These deferred taxes are measured by applying currently enacted tax rates to the temporary differences. The Bank assesses the realizability of deferred tax assets based on consideration of the available evidence, including future taxable income, future reversals of existing temporary differences, and tax-planning strategies. The Bank reduces the carrying amount of a deferred tax asset to the extent that it is not probable that sufficient taxable income will be available to allow the benefit of part or all of that deferred tax asset to be realized. Such reduction may be reversed to the extent that it becomes probable that sufficient taxable income will be available and warrant the realization of tax benefits.

**(20) Foreign Currency Items**

Assets and liabilities denominated in foreign currencies held by the Bank are translated into Japanese yen at the exchange rates prevailing at the consolidated balance sheet date except for investments in equity securities of unconsolidated subsidiaries or affiliated companies, which are translated at historical rates.

Assets and liabilities denominated in foreign currencies which are held by consolidated subsidiaries are translated into Japanese yen at the exchange rates as of their respective balance sheet dates, while equity accounts are translated at historical rates. Differences arising from such translations are shown as 'Foreign currency translation adjustment' within accumulated other comprehensive income as a separate component of equity.

Revenue and expense accounts of consolidated foreign subsidiaries are translated into Japanese yen at the average exchange rate. Differences arising from such translation are included in 'Non-controlling interests' or 'Foreign currency translation adjustment' as a separate component of equity in the consolidated balance sheet.

**(21) Per Share Information**

Basic net income (loss) per share is computed by dividing net income (loss) attributable to common stockholders by the weighted-average number of shares of common stock outstanding for the period, retroactively adjusted for stock splits or reverse stock splits.

Diluted net income per share reflects the potential dilution that would occur if dilutive options and warrants were exercised or the securities were converted into common stock, also retroactively adjusted for stock splits or reverse stock splits. Diluted net income per share of common stock assumes full conversion of the preferred stock at the beginning of the year (or at the time of issuance) with an applicable adjustment for related dividends to preferred stock, unless the preferred stock has an antidilutive effect.

Net assets per share of common stock are computed by dividing net assets attributable to common stockholders by the number of shares of common stock outstanding at the end of the fiscal year.

Cash dividends per share presented in the accompanying consolidated statement of income are dividends applicable to the respective years including dividends to be paid after the end of the fiscal years.

**(22) Accounting Pronouncements**

1)'Accounting Standards for Fair Value Measurement' (ASBJ Statement No.30, issued on July 4, 2019), 'Accounting Standard for Financial Instruments' (ASBJ Statement No.10, issued on July 4, 2019), 'Guidance on Accounting Standards for Fair Value Measurement' (ASBJ Statement No.31, issued on July 4, 2019), 'Guidance on Disclosure of Fair Value of Financial Instruments' (ASBJ Statement No.19, issued on March 31, 2020)

**(a) Summaries**

This standard is provided as a comprehensive standard for fair value measurement and disclosure of financial instruments.

- Fair value is defined as 'exit price.'
- How to use inputs for measuring fair value is defined.
- Depending on inputs, fair value is classified in Level 1, 2 and 3. The extent of disclosure varies according to the input level.

# Consolidated Financial Statements

## (b) Effective date

The Bank plans to apply the standards and guidances from the beginning of the fiscal year starting on April 1, 2021.

## (c) Impact when applied

Its impact is immaterial.

2)'Accounting Standard for Revenue Recognition' (ASBJ Statement No.29, March 31, 2020), 'Implementation Guidance on Revenue Recognition' (ASBJ Guidance on Corporate Accounting Standard No.30, March 26, 2021)

## (a) Summaries

This is a comprehensive standard for revenue recognition. Revenue is to be recognized on five steps.

Step1 : Identify the contract(s) with a customer

Step2 : Identify the performance obligations in the contract

Step3 : Determine the transaction price

Step4 : Allocate the transaction price to the performance obligations in the contract

Step5 : Recognize revenue when (or as) the entity satisfies a performance obligation

## (b) Effective date

The Bank plans to apply the standard and guidance from the beginning of the fiscal year starting on April 1, 2021.

## (c) Impact when applied

Its impact is immaterial.

## (23) Changes in Presentation

(Application of 'Accounting Standard for Disclosure of Accounting Estimate')

'Accounting Standard for Disclosure of Accounting Estimates' (ASBJ Statement No.31, issued on March 31, 2020) is applied for the end of the current fiscal year and notes on significant accounting estimates in the consolidated financial statements is described.

However, in accordance with the transitional treatment stipulated in the proviso of paragraph 11 of the relevant accounting standard, the content related to the previous fiscal year is not described in the notes.

## (24) Significant Accounting Estimates

Among items recorded in the consolidated financial statements for the year ended March 31, 2021 with accounting estimates, items significantly affect the consolidated financial statements for the year ending March 31, 2022 are described below:

### 1) Allowance for loan losses

The loan portfolio is a major asset class representing nearly the majority of the total assets in the consolidated financial statements. Since the allowance for loan losses relate to credit risk of the loans significantly affects financial condition or performance of the Group, the estimate of the allowance for loan losses is deemed to be important in accounting.

(a) Amounts recorded in the consolidated financial statements for the year ended March 31, 2021

Allowance for loan losses: ¥50,886 million (\$459,592 thousand)

(b) Information contributing to understanding of the detail of the significant accounting estimates related to recognized items

## (i) Determination method

The determination method of the allowance for loan losses is described in Note 2 'Summary of Significant Accounting Policies' (10) 'Write-Off of Loans and Allowance for Loan Losses.'

For some borrowers with expectation of a longer term influence of COVID-19, the allowance for loan losses is provided with consideration of possible future credit deterioration.

## (ii) Major assumptions

i) Outlook of future business performance of borrowers in determination of borrower category

For determining borrower categories, characteristics such as profit earning capability and cash flow generating capabilities are individually examined and evaluated. Specifically, for borrowers who have recorded goodwill derived from M&A transactions, the feasibility of the estimated cash flows generated from the acquired business is individually examined and evaluated.

ii) Estimation of future cash flows of underlying real estate properties in real estate non-recourse loans (i.e., loans for which the repayment source is provided only by cash flows generated from underlying real estate properties)

Since estimation of future cash flows of underlying real estate properties are significant element in determining the borrower categories for real estate non-recourse loans, rents, vacancy rates, discount rates or other factors are individually examined and evaluated.

## iii) Effects of COVID-19

The effects of the global novel coronavirus ("COVID-19") pandemic on the economy and corporate activities would continue long term and that certain borrowers' business performance may continue to be affected until the year ending March 31, 2023. Based on this general assumption, on an individual borrower level, the Group evaluated the estimated period of time where the business performance of borrowers may be impacted by COVID-19 in consideration of the business sector, region and individual characteristics of each borrower.

The assumption of the period affecting economic and corporate activities was revised from the year ended March 31, 2020. For the year ended March 31, 2020, the Bank assumed that the COVID-19 pandemic would subside soon, but its adverse impact on the economy and corporate activities would continue for some time and cause certain borrowers to be downgraded due to the deterioration of business performance in subsequent years.

(ii) Effect over the consolidated financial statements for the year ending March 31, 2022

In case the assumptions used for the original estimation changes due to fluctuations in business performance, of individual borrower or fluctuation of figures used for estimation of future cash flows generated from underlying real estate properties of real estate non-recourse loans, the allowance for loan losses can be significantly affected in the consolidated financial statements for the year ending March 31, 2022.

As the allowance for loan losses in consideration of an influence of COVID-19, in case the assumption used for the original estimation is changed due to fluctuation of containment status, containment and economic assistance measures of each country and countermeasures of each borrower to COVID-19, the allowance for loan losses can be significantly affected in the consolidated financial statements for the year ending March 31, 2022. Since the relevant assumption has a high degree of uncertainty, the loss amount can be increased or decreased in the future depending on the situation.

### 3. Cash and Cash Equivalents

Cash and cash equivalents as of March 31, 2021 and 2020, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Cash on hand	¥6,148	¥10,690	\$55,528
Due from the Bank of Japan	841,584	346,721	7,601,018
Total	¥847,732	¥357,411	\$7,656,546

### 4. Trading Account Assets and Liabilities

Trading account assets and liabilities as of March 31, 2021 and 2020, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Trading account assets:			
Trading securities	¥5	¥8	\$46
Trading securities derivatives	3,624	22,263	32,732
Trading account securities derivatives for hedging	5,907	14,350	53,356
Trading account financial derivatives	145,080	222,755	1,310,333
Total	¥154,616	¥259,378	\$1,396,467
Trading account liabilities:			
Trading securities derivatives	¥74	¥—	\$669
Trading account securities derivatives for hedging	11,000	21,130	99,354
Trading account financial derivatives	129,376	190,093	1,168,502
Total	¥140,451	¥211,223	\$1,268,525

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## 5. Securities

Certain amounts shown in the following tables include negotiable certificates of deposit in 'Due from banks', trading securities and trading account securities for hedging classified as 'Trading account assets' and certain beneficiary interests in trust classified as 'Monetary claims bought' in addition to 'Securities' stated in the consolidated balance sheet.

'Securities' stated in the consolidated balance sheets as of March 31, 2021 and 2020, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Japanese national government bonds	¥37,775	¥—	\$341,177
Japanese local government bonds	145,136	37,859	1,310,844
Japanese short-term corporate bonds	29,998	—	270,936
Japanese corporate bonds	87,841	60,294	793,362
Japanese stocks	27,416	16,755	247,616
Foreign bonds	600,550	486,594	5,424,051
Other	464,639	472,166	4,196,531
Total	¥1,393,357	¥1,073,670	\$12,584,517

As of March 31, 2021 and 2020, securities included equity investments in unconsolidated subsidiaries and affiliated companies that amounted to ¥37,958 million (\$342,829 thousand) and ¥21,138 million, respectively.

The unrealized gains and losses for trading securities as of March 31, 2021 and 2020, were charged to operations for the years then ended as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Unrealized gains (losses)	¥0	¥(4)	\$0

No held-to-maturity bonds were held as of March 31, 2021 and 2020.

The costs and carrying amounts of available-for-sale securities with fair value as of March 31, 2021 and 2020, were as follows:

	Millions of Yen			Thousands of U.S. Dollars		
	Carrying amount	Cost	Difference	Carrying amount	Cost	Difference
March 31, 2021						
Carrying amount exceeding cost:						
Japanese stocks	¥23,777	¥3,314	¥20,462	\$214,749	\$29,933	\$184,816
Japanese national government bonds	29,773	29,480	293	268,908	266,261	2,647
Japanese local government bonds	29,549	29,415	133	266,884	265,677	1,207
Japanese short-term corporate bonds	—	—	—	—	—	—
Japanese corporate bonds	71,344	70,362	981	644,365	635,500	8,865
Foreign bonds	181,080	175,202	5,877	1,635,477	1,582,394	53,083
Other	235,527	206,705	28,822	2,127,235	1,866,917	260,318
Subtotal	571,051	514,480	56,570	5,157,618	4,646,682	510,936
Carrying amount not exceeding cost:						
Japanese stocks	78	86	(7)	713	778	(65)
Japanese national government bonds	8,001	8,002	(0)	72,269	72,274	(5)
Japanese local government bonds	115,587	116,038	(451)	1,043,960	1,048,035	(4,075)
Japanese short-term corporate bonds	29,998	29,998	—	270,936	270,936	—
Japanese corporate bonds	16,496	16,547	(50)	148,997	149,453	(456)
Foreign bonds	419,470	429,922	(10,451)	3,788,574	3,882,974	(94,400)
Other	162,126	164,256	(2,130)	1,464,290	1,483,534	(19,244)
Subtotal	751,759	764,851	(13,092)	6,789,739	6,907,984	(118,245)
Total	¥1,322,811	¥1,279,332	¥43,478	\$11,947,357	\$11,554,666	\$392,691
March 31, 2020						
Carrying amount exceeding cost:						
Japanese stocks	¥13,276	¥3,098	¥10,178			
Japanese national government bonds	—	—	—			
Japanese local government bonds	17,863	17,708	154			
Japanese short-term corporate bonds	—	—	—			
Japanese corporate bonds	49,153	48,558	594			
Foreign bonds	398,939	381,942	16,996			
Other	105,950	94,841	11,108			
Subtotal	585,182	546,150	39,032			
Carrying amount not exceeding cost:						
Japanese stocks	190	235	(45)			
Japanese national government bonds	—	—	—			
Japanese local government bonds	19,996	20,038	(41)			
Japanese short-term corporate bonds	—	—	—			
Japanese corporate bonds	11,141	11,254	(112)			
Foreign bonds	87,655	90,312	(2,657)			
Other	334,764	389,576	(54,812)			
Subtotal	453,748	511,418	(57,670)			
Total	¥1,038,931	¥1,057,568	¥(18,637)			

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The Group has adopted its impairment criteria based on the severity of decline of securities by borrower category of the issuer of securities in the determination of significant declines. A significant decline is regarded as an other-than-temporary decline unless the significant decline is reasonably recoverable. Impairment losses are recognized for other-than-temporary declines.

For the years ended March 31, 2021 and 2020, the Group wrote off marketable available-for-sale securities in the amounts of ¥68 million (\$619 thousand) and ¥209 million, respectively. The breakdown of write-offs for the year ended March 31, 2021, was ¥68 million (\$619 thousand) for foreign bonds. The breakdown of write-offs for the year ended March 31, 2020, was less than ¥1 million for foreign bonds and ¥209 million for other.

If the fair value declines more than 50% from the acquisition cost or amortized cost, the Group generally deems the decline to be significant and other-than-temporary. However, based on the borrower category of the issuer of securities, the following impairment criteria determine whether or not the fair value decline is significant under the internal standards for write-offs and reserves.

'In danger of bankruptcy,' 'De facto bankrupt' and 'Bankrupt' ... if the fair value declines from cost.

'Need attention' ... if the fair value declines more than 30% from cost.

'Normal' ... if the fair value declines more than 50% from cost.

For debt securities categorized as 'Normal,' the fair value decline is deemed significant if the fair value declines more than 30% from cost.

For securities, other than debt securities, whose fair value remains below a certain level, the fair value decline is deemed significant even if it does not meet the above criteria.

'Bankrupt' borrower means an issuer of securities under legal proceedings, such as bankruptcy or liquidation. 'De facto bankrupt' borrower means an issuer of securities in a similar condition as 'Bankrupt' borrower. 'In danger of bankruptcy' borrower means an issuer of securities that is not currently bankrupt but is highly likely to become bankrupt. 'Need attention' borrower means an issuer of securities that needs to be monitored carefully. 'Normal' borrower means an issuer of securities categorized as other than 'Bankrupt,' 'De facto bankrupt,' 'In danger of bankruptcy' or 'Need attention.'

Of securities received under unsecured lending agreements, lending agreements with cash collateral or resale agreements, etc., and securities received as collateral for derivative transactions, which permit borrowers to sell or repledge such securities received, ¥214 million (\$1,933 thousand) and ¥71,268 million were repledged under such agreements, none were re-loaned under such agreements and none remained undisposed as of March 31, 2021 and 2020, respectively.

Proceeds from sales of available-for-sale securities and the gross realized gains and losses on these sales for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen			Thousands of U.S. Dollars		
	Proceeds from sales	Gross realized gains	Gross realized losses	Proceeds from sales	Gross realized gains	Gross realized losses
March 31, 2021						
Japanese stocks	¥202	¥119	¥—	\$1,829	\$1,081	\$—
Japanese national government bonds	24,486	—	458	221,157	—	4,145
Japanese local government bonds	—	—	—	—	—	—
Japanese short-term corporate bonds	—	—	—	—	—	—
Japanese corporate bonds	501	1	—	4,525	10	—
Foreign bonds	540,510	11,783	4,127	4,881,782	106,429	37,282
Other	223,823	8,994	5,578	2,021,529	81,238	50,387
Total	¥789,524	¥20,899	¥10,165	\$7,130,822	\$188,758	\$91,814
March 31, 2020						
Japanese stocks	¥17,794	¥13,342	¥0			
Japanese national government bonds	—	—	—			
Japanese local government bonds	740	0	—			
Japanese short-term corporate bonds	—	—	—			
Japanese corporate bonds	2,320	20	—			
Foreign bonds	526,377	10,523	663			
Other	227,430	9,693	4,217			
Total	¥774,663	¥33,580	¥4,880			



## 6. Money Held in Trust

The carrying amounts and related valuation gains recognized in earnings for money held in trust classified as for investment purposes as of March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Carrying amounts	¥33,521	¥27,213	\$302,763
Unrealized gains recognized in earnings	—	—	—

None of the money held in trust was categorized as held-to-maturity or available-for-sale as of March 31, 2021 and 2020.

## 7. Loans and Bills Discounted

Loans and bills discounted as of March 31, 2021 and 2020, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Bills discounted	¥4,633	¥—	\$41,852
Loans on notes	15,960	¥11,356	144,156
Loans on deeds	2,779,600	2,771,252	25,104,770
Overdrafts	148,349	171,332	1,339,859
Other	264	180	2,385
Total	¥2,948,808	¥2,954,122	\$26,633,022

The following risk-monitored loans were included in loans and bills discounted as of March 31, 2021 and 2020:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Loans to bankrupt borrowers	¥2,120	¥4,460	\$19,149
Past due loans	20,787	21,614	187,748
Loans overdue for three months or more	1,577	—	14,250
Restructured loans	2,869	2,284	25,916
Total	¥27,354	¥28,359	\$247,063

The above amounts are stated after write-offs of uncollectible amounts but before deduction of the allowance for loan losses.

'Loans to bankrupt borrowers' are loans to borrowers who are legally bankrupt and are placed on nonaccrual status.

'Past due loans' are loans on which accrued interest income is not recognized, excluding loans to bankrupt borrowers and loans on which interest payments are deferred in order to support the borrowers' recovery from financial difficulties. 'Past due loans' include loans to borrowers who are assessed as 'In danger of bankruptcy' and 'De facto bankrupt' under the self-assessment guidelines.

'Loans overdue for three months or more' are accruing loans for which principal or interest remains unpaid for at least three months, excluding loans to bankrupt borrowers and past due loans.

'Restructured loans' are loans in which lending conditions have been relaxed, such as by reducing the interest rate or by forbearing interest payments or principal repayments to support the borrowers' recovery, excluding loans to bankrupt borrowers, past due loans and loans overdue for three months or more.

Overdraft contracts and contracts for loan commitments are those by which the Group is bound to extend loans up to a prearranged amount, upon the request of customers, unless the customer is in breach of contract conditions. The unutilized balance of these contracts amounted to ¥560,116 million (\$5,058,856 thousand) and ¥561,377 million as of March 31, 2021 and 2020, respectively. ¥465,239 million (\$4,201,943 thousand) and ¥443,887 million of these amounts relate to contracts with residual contractual terms of one year or less as of March 31, 2021 and 2020, respectively.

Bills discounted are accounted for as financing transactions in accordance with 'Accounting and Auditing Treatments on the Application of Accounting Standards for Financial Instruments in the Banking Industry' (the JICPA Industry Committee Practical Guideline No.24), although the Bank has the right to sell or repledge them without restriction. The face values of such bills discounted held as of March 31, 2021 and 2020, were ¥4,633 million (\$41,852 thousand) and none, respectively.

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## 8. Foreign Exchange

Foreign exchange as of March 31, 2021 and 2020, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Assets:			
Due from foreign banks	¥58,154	¥67,168	\$525,241
Total	¥58,154	¥67,168	\$525,241

## 9. Tangible Fixed Assets and Intangible Fixed Assets

Tangible fixed assets as of March 31, 2021 and 2020, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Buildings	¥11,251	¥11,670	\$101,624
Land	9,235	9,235	83,413
Lease assets	709	942	6,409
Construction in progress	0	26	3
Other	2,114	1,824	19,096
Total	¥23,311	¥23,698	\$210,545
Accumulated depreciation	¥25,443	¥24,579	\$229,798

Intangible fixed assets as of March 31, 2021 and 2020, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Software	¥20,065	¥19,143	\$181,230
Other	67	67	608
Total	¥20,133	¥19,210	\$181,838

## 10. Customers' Liabilities for Acceptances and Guarantees

All contingent liabilities arising from acceptances and guarantees are included in acceptances and guarantees. As a contra account, customers' liabilities for acceptances and guarantees are shown as assets representing the Group's right of indemnity from customers.



## 11. Allowance for Loan Losses

Allowance for loan losses as of March 31, 2021 and 2020, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
General allowance	¥40,123	¥40,217	\$362,383
Specific allowance	10,763	13,581	97,209
Total	¥50,886	¥53,799	\$459,592

## 12. Pledged Assets and Collateralized Debts

The carrying amounts of assets pledged as collateral and collateralized debts as of March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Assets pledged as collateral:			
Securities	¥505,528	¥315,757	\$4,565,832
Loans and bills discounted	120,274	54,200	1,086,290
Total	¥625,802	¥369,958	\$5,652,122
Collateralized debts:			
Securities sold under repurchase agreements	¥56,750	¥27,758	\$512,563
Cash collateral received for securities lent	431,673	281,325	3,898,789
Borrowed money	12,403	59,530	112,029
Total	¥500,828	¥368,614	\$4,523,381

In addition, the following assets were pledged or deposited as margin money for future trading and collateral for transactions, including exchange settlements and derivatives as of March 31, 2021 and 2020:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Securities	¥7,501	¥4,967	\$67,752
Foreign exchange	11,072	10,883	100,000
Other assets:			
Cash collateral paid for financial instruments	91,590	111,153	827,226
Guarantee deposits	20,422	19,397	184,456
Total	¥130,586	¥146,401	\$1,179,434

## 13. Deposits

Deposits as of March 31, 2021 and 2020, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Current deposits	¥31,121	¥28,434	\$281,080
Ordinary deposits	1,440,848	797,576	13,013,439
Saving deposits	11,490	1,729	103,776
Deposits at notice	1,095	1,095	9,894
Time deposits	2,372,650	2,417,659	21,429,285
Negotiable certificates of deposit	34,000	47,240	307,081
Other	121,301	103,164	1,095,572
Total	¥4,012,506	¥3,396,899	\$36,240,127

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## 14. Debentures and Bonds Payable

The Bank converted its long-term credit bank charter to an ordinary commercial bank charter on April 1, 2006. The Financial Services Agency of Japan, however, allows the Bank to retain the ability to issue debentures without registration, which was one of the benefits the Bank enjoyed as a long-term credit bank, for a period of 10 years following the conversion to an ordinary commercial bank.

Debentures as of March 31, 2021 and 2020, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars	Interest Rates
	2021	2020	2021	
Five-year coupon debentures	¥—	¥44,660	\$—	0.24% - 0.31%
Total	¥—	¥44,660	\$—	

Bonds payable as of March 31, 2021 and 2020, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars	Interest Rates
	2021	2020	2021	
Three-year unsecured straight bond issued by the Bank	¥92,000	¥125,000	\$830,925	0.10% - 0.15%
Five-year unsecured straight bond issued by the Bank	25,000	25,000	225,795	0.08% - 0.19%
Three-year unsecured straight bond issued by the Bank in U.S. dollars	66,418	65,275	599,878	2.55% - 3.81%
Three-year unsecured domestic straight bond issued by the Bank in U.S. dollars	9,411	—	85,000	1.06%
Five-year unsecured domestic straight bond issued by the Bank in U.S. dollars	5,536	—	50,000	1.70%
Total	¥198,365	¥215,275	\$1,791,598	

Annual maturities of bonds payable as of March 31, 2021, were as follows:

Years Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2022	¥81,216	\$733,526
2023	79,202	715,341
2024	32,411	292,731
2025	—	—
2026	5,536	50,000
Total	¥198,365	\$1,791,598

## 15. Borrowed Money

The weighted-average annual interest rates applicable to borrowed money were 0.52% and 0.63% as of March 31, 2021 and 2020, respectively.

Borrowed money does not include subordinated borrowings as of March 31, 2021 and 2020.

Annual maturities of borrowed money as of March 31, 2021, were as follows:

Years Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2022	¥16,167	\$146,026
2023	5,000	45,159
2024	6,500	58,706
2025	5,500	49,675
2026	10,300	93,027
2027 and thereafter	306,300	2,766,438
Total	¥349,767	\$3,159,031

Apart from borrowed money, lease obligations are included in 'Other liabilities.' Annual maturities of lease obligations as of March 31, 2021, were as follows:

Years Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2022	¥249	\$2,253
2023	249	2,253
2024	240	2,173
2025	20	181
Total	¥759	\$6,860

Note: Lease obligations above include interest expense which is amortized over the lease term by the straight-line method. The weighted-average effective interest rates applicable to the lease obligations are not disclosed accordingly.

## 16. Other Assets and Liabilities

Other assets and liabilities as of March 31, 2021 and 2020, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Other assets:			
Accrued income	¥6,979	¥8,117	\$63,034
Accounts receivable	23,481	39,902	212,077
Financial derivatives	56,043	74,982	506,175
Cash collateral paid for financial instruments	91,590	111,153	827,226
Guarantee deposits	20,422	19,397	184,456
Other	33,892	23,037	306,110
Total	¥232,409	¥276,592	\$2,099,078
Other liabilities:			
Income taxes payable	¥3,481	¥13,947	\$31,448
Accrued expenses	4,311	5,669	38,938
Accounts payable	20,158	8,628	182,071
Financial derivatives	91,503	84,322	826,439
Cash collateral received for financial instruments	34,826	60,244	314,545
Asset retirement obligations	2,096	2,363	18,939
Other	37,741	23,658	340,872
Total	¥194,120	¥198,834	\$1,753,252

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## 17. Retirement and Pension Plans

The Bank and certain consolidated subsidiaries have defined retirement benefit plans for their employees. Such retirement benefits are made in the form of a lump-sum severance payment from the Group and annuity payments from trustees etc.

Changes in defined retirement benefit obligation for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Defined retirement benefit obligation at the beginning of fiscal year	¥41,824	¥41,871	\$377,753
Service cost	1,664	1,691	15,036
Interest cost	164	165	1,484
Actuarial losses (gains)	405	(158)	3,658
Benefits paid	(1,870)	(1,743)	(16,897)
Defined retirement benefit obligation at the end of fiscal year	¥42,188	¥41,824	\$381,034

Changes in plan assets for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Fair value of plan assets at the beginning of fiscal year	¥33,983	¥35,757	\$306,935
Expected return on plan assets	849	893	7,673
Actuarial gains (losses)	3,115	(1,841)	28,134
Contributions from employer	466	475	4,211
Benefits paid	(1,330)	(1,301)	(12,015)
Fair value of plan assets at the end of fiscal year	¥37,084	¥33,983	\$334,938

Reconciliation between the liability and asset recorded in the consolidated balance sheet and the balances of defined retirement benefit obligation and plan assets for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Funded defined retirement benefit obligation	¥31,344	¥31,476	\$283,093
Plan assets	(37,084)	(33,983)	(334,938)
	(5,740)	(2,507)	(51,845)
Unfunded defined retirement benefit obligation	10,844	10,348	97,941
Net liability (asset) arising from defined retirement benefit obligation	¥5,103	¥7,841	\$46,096
Retirement benefit liability	¥10,844	¥10,348	\$97,941
Retirement benefit asset	(5,740)	(2,507)	(51,845)
Net liability (asset) arising from defined retirement benefit obligation	¥5,103	¥7,841	\$46,096

Components of net periodic retirement benefit costs for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Service cost	¥1,664	¥1,691	\$15,036
Interest cost	164	165	1,484
Expected return on plan assets	(849)	(893)	(7,673)
Recognized actuarial losses	1,429	564	12,908
Amortization of prior-service cost	(327)	(327)	(2,959)
Other	—	3	—
Net periodic defined retirement benefit costs	¥2,081	¥1,202	\$18,796

Note: 'Other' stated above is the premium severance pay.

The breakdown of 'Remeasurements of defined benefit plans' in Other comprehensive income (loss), before adjusting for tax effects, for the years ended March 31, 2021 and 2020, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Amortization of prior-service cost	¥(327)	¥(327)	\$(2,959)
Recognized actuarial gains (losses)	4,139	(1,117)	37,384
Total	¥3,811	¥(1,445)	\$34,425

The breakdown of 'Remeasurements of defined benefit plans' in Accumulated other comprehensive income (loss), before adjusting for tax effects, as of March 31, 2021 and 2020, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Unrecognized prior-service cost	¥81	¥409	\$740
Unrecognized actuarial losses	1,322	(2,816)	11,947
Total	¥1,404	¥(2,406)	\$12,687

#### Plan assets

(1) Asset allocation of plan assets as of March 31, 2021 and 2020, was as follows:

	2021	2020
Bonds	51.4%	53.8%
Stocks	20.6	24.3
Cash and deposits	20.1	7.1
Other	7.9	14.8
Total	100.0%	100.0%

(2) Determination of expected long-term rate of return on plan assets

The Bank considers the asset allocation of plan assets and the expected long-term rate of return on diverse assets which plan assets comprise in the present and future, in order to determine the expected long-term rate of return on plan assets.

Principal actuarial assumptions used for the years ended March 31, 2021 and 2020, were as follows:

	2021	2020
Discount rate	0.4%	0.4%
Expected long-term rate of return on plan assets	2.5%	2.5%

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## 18. Equity

### (1) Share Capital and Capital Surplus

Authorized number of common stock was 289,828 thousand as of March 31, 2021 and 2020, respectively.

Changes in the number of issued shares of common stock and treasury stock for the years ended March 31, 2021 and 2020, consisted of the following:

	Thousands			
	Number of shares			
	As of April 1, 2020	Increase	Decrease	As of March 31, 2021
Issued stock				
Common stock	118,289	—	—	118,289
Treasury stock				
Common stock (Note)	1,604	0	18	1,586

	Thousands			
	Number of shares			
	As of April 1, 2019	Increase	Decrease	As of March 31, 2020
Issued stock				
Common stock	118,289	—	—	118,289
Treasury stock				
Common stock (Note)	1,611	0	7	1,604

Note: The increase is due to buybacks of shares constituting less than one trade unit, and the decrease is due to a transfer of shares upon exercise of stock option rights.

### Share acquisition rights

Share acquisition rights as of March 31, 2021 and 2020, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
	Share acquisition rights as stock options	¥482	¥444

## Cash dividends

Cash dividends paid during the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen	Yen	Thousands of U.S. Dollars	U.S. Dollars
	Total amounts	Per share	Total amounts	Per share
Year ended March 31, 2021				
(Record date: December 31, 2020) (Note 1) Common stock	¥3,501	¥30.00	\$31,621	\$0.27
(Record date: September 30, 2020) (Note 2) Common stock	¥3,501	¥30.00	\$31,621	\$0.27
(Record date: June 30, 2020) (Note 3) Common stock	¥3,500	¥30.00	\$31,616	\$0.27
(Record date: March 31, 2020) (Note 4) Common stock	¥4,550	¥39.00	\$41,101	\$0.35
Year ended March 31, 2020				
(Record date: December 31, 2019) (Note 5) Common stock	¥4,550	¥39.00		
(Record date: September 30, 2019) (Note 6) Common stock	¥4,550	¥39.00		
(Record date: June 30, 2019) (Note 7) Common stock	¥4,550	¥39.00		
(Record date: March 31, 2019) (Note 8) Common stock	¥3,967	¥34.00		

- Notes: 1. Cash dividends applicable to the three-month period ended December 31, 2020, were approved at the Board of Directors' meeting held on February 1, 2021.
2. Cash dividends applicable to the three-month period ended September 30, 2020, were approved at the Board of Directors' meeting held on November 16, 2020.
3. Cash dividends applicable to the three-month period ended June 30, 2020, were approved at the Board of Directors' meeting held on July 31, 2020.
4. Year-end cash dividends applicable to the fiscal year ended March 31, 2020, were approved at the Board of Directors' meeting held on May 14, 2020.
5. Cash dividends applicable to the three-month period ended December 31, 2019, were approved at the Board of Directors' meeting held on January 30, 2020.
6. Cash dividends applicable to the three-month period ended September 30, 2019, were approved at the Board of Directors' meeting held on November 14, 2019.
7. Cash dividends applicable to the three-month period ended June 30, 2019, were approved at the Board of Directors' meeting held on August 1, 2019.
8. Year-end cash dividends applicable to the fiscal year ended March 31, 2019, were approved at the Board of Directors' meeting held on May 16, 2019.

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## (2) Companies Act and Banking Act of Japan

The Bank is subject to the Companies Act and Banking Act of Japan.

### 1) Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the stockholders' meeting. For companies that meet certain criteria such as:

(1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors is prescribed as one year rather than two years of a normal term by the company's Articles of Incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has so prescribed in its Articles of Incorporation. The Bank meets all of the above criteria and its Articles of Incorporation prescribe the authority for dividend declaration by the Board of Directors.

The Companies Act permits companies to distribute dividends in kind (noncash assets) to stockholders subject to certain limitations and additional requirements.

Interim dividends may also be paid once a year upon resolution by the Board of Directors if the Articles of Incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the stockholders, however, the amount of equity after dividends must be maintained at no less than ¥3 million.

### 2) Increases/decreases and transfers of common stock, reserves and surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the

equity account charged upon the payment of such dividends until the aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that capital stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the stockholders.

Under the Banking Act of Japan, an amount equivalent to 20% of the aggregate amount of cash dividends and certain other appropriations of surplus associated with cash outlays applicable to each period shall be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the aggregate amount of legal reserve and additional paid-in capital equals 100% of stated capital. The amount of total additional paid-in capital and legal reserve that exceeds 100% of the stated capital may be available for dividends by resolution of the stockholders.

### 3) Treasury stock and treasury stock acquisition rights

The Companies Act also allows for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the stockholders which is determined by a specific formula.

Under the Companies Act, stock acquisition rights are presented as a separate component of equity.

The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.



## 19. Stock Options

(1) Expenses for stock options as of March 31, 2021, and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
General and administrative expenses	¥98	¥111	\$890

(2) Outline, volume and changes in stock options

The outline of stock options was as follows:

	Stock options for FY2020	Stock options for FY2019	Stock options for FY2018
Title and number of eligible persons	4 directors of the Bank 18 executive officers of the Bank	4 directors of the Bank 18 executive officers of the Bank	4 directors of the Bank 17 executive officers of the Bank
Number of stock options by share class <sup>(Note)</sup>	64,110 shares of common stock	47,420 shares of common stock	25,540 shares of common stock
Grant date	July 10, 2020	July 11, 2019	July 13, 2018
Condition for vesting	None	None	None
Requisite service period	None	None	None
Exercise period	From July 11, 2020 to July 10, 2050	From July 12, 2019 to July 11, 2049	From July 14, 2018 to July 13, 2048

	Stock options for FY2017	Stock options for FY2016	Stock options for FY2015
Title and number of eligible persons	4 directors of the Bank 17 executive officers of the Bank	4 directors of the Bank 18 executive officers of the Bank	4 directors of the Bank 16 executive officers of the Bank
Number of stock options by share class <sup>(Note)</sup>	26,540 shares of common stock	34,330 shares of common stock	22,970 shares of common stock
Grant date	July 13, 2017	July 15, 2016	July 14, 2015
Condition for vesting	None	None	None
Requisite service period	None	None	None
Exercise period	From July 14, 2017 to July 13, 2047	From July 16, 2016 to July 15, 2046	From July 15, 2015 to July 14, 2045

	Stock options for FY2014
Title and number of eligible persons	4 directors of the Bank
Number of stock options by share class <sup>(Note)</sup>	25,350 shares of common stock
Grant date	August 1, 2014
Condition for vesting	None
Requisite service period	None
Exercise period	From August 2, 2014 to August 1, 2044

Note: Numbers of stock options are shown on the basis of the post share consolidation effective October 1, 2017.

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## Volume and Changes in Stock Options

The number of stock options was as follows:

	Stock options for FY2020	Stock options for FY2019	Stock options for FY2018	Stock options for FY2017	Stock options for FY2016	Stock options for FY2015
Before vested						
At the beginning of fiscal year	—	—	—	—	—	—
Granted	64,110 shares	—	—	—	—	—
Forfeited	—	—	—	—	—	—
Vested	64,110 shares	—	—	—	—	—
Outstanding	—	—	—	—	—	—
After vested						
At the beginning of fiscal year	—	45,880 shares	23,790 shares	19,760 shares	20,260 shares	12,260 shares
Vested	64,110 shares	—	—	—	—	—
Exercised	—	3,770 shares	2,170 shares	2,230 shares	2,790 shares	2,040 shares
Forfeited	—	—	—	—	—	—
Exercisable	64,110 shares	42,110 shares	21,620 shares	17,530 shares	17,470 shares	10,220 shares

	Stock options for FY2014
Before vested	
At the beginning of fiscal year	—
Granted	—
Forfeited	—
Vested	—
Outstanding	—
After vested	
At the beginning of fiscal year	13,520 shares
Vested	—
Exercised	5,070 shares
Forfeited	—
Exercisable	8,450 shares

Note: Numbers of stock options are shown on the basis of the post share consolidation effective October 1, 2017.

Unit price information was as follows:

	Stock options for FY2020	Stock options for FY2019	Stock options for FY2018	Stock options for FY2017	Stock options for FY2016	Stock options for FY2015
Exercise price	¥1	¥1	¥1	¥1	¥1	¥1
Average stock price when exercised	—	1,852	1,852	1,852	1,852	1,852
Fair value on grant date	¥1,537	¥2,352	¥3,832	¥3,980	¥3,420	¥4,380

	Stock options for FY2014
Exercise price	¥1
Average stock price when exercised	1,852
Fair value on grant date	¥3,230

Note: Numbers are shown on the basis of the post share consolidation effective October 1, 2017.

### (3) Valuation technique used for valuing the fair value of stock options

Stock options for FY2020 granted in the fiscal year ended March 31, 2021 were valued using the Black-Scholes option pricing model.

The principal parameters and estimation methods were as follows:

	Stock options for FY2020
Expected volatility (Note 1)	37.8%
Average expected life (Note 2)	2 years
Expected dividends (Note 3)	¥156 (\$1.4) per share
Risk-free interest rate (Note 4)	0.14% negative

Notes: 1. Expected volatility is calculated based on the actual price of common stock of the Bank on each trading day from July 2, 2018 to July 6, 2020.

2. Average expected life could not be estimated rationally due to insufficient amount of data. It was estimated based on average tenures of the Bank's directors.

3. Expected dividends are estimated based on the actual dividends on common stock paid for the fiscal year ended March 31, 2020.

4. Japanese national government bond yield applicable to the average expected life.

### (4) Method of estimating the number of stock options vested

Only the actual number of forfeited stock options is reflected because it is difficult to rationally estimate the actual number of stock options that will be forfeited in the future.

## 20. Other Ordinary Income

Other ordinary income for the years ended March 31, 2021 and 2020, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Gains on sales of bonds and other securities	¥18,357	¥19,677	\$165,801
Gains on derivatives	182	—	1,647
Other	16,955	11,498	153,137
Total	¥35,495	¥31,175	\$320,585

Note: The 'Other' category primarily includes gains from investments in partnerships.

## 21. Other Income

Other income for the years ended March 31, 2021 and 2020, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Gains on sales of stocks and other securities	¥2,400	¥13,408	\$21,683
Gains on investments in money held in trust	513	644	4,641
Recoveries of written-off receivables	240	501	2,171
Reversal of provision for credit losses on off-balance-sheet instruments	—	296	—
Equity in earnings of associates	1,111	—	10,038
Gains on disposal of fixed assets	—	0	—
Other	524	1,834	4,736
Total	¥4,790	¥16,685	\$43,269

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## 22. Other Ordinary Expenses

Other ordinary expenses for the years ended March 31, 2021 and 2020, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Amortization of bond issuance costs	¥191	¥244	\$1,730
Losses on foreign exchange transactions	477	3,263	4,310
Losses on sales of bonds and other securities	9,340	4,586	84,362
Losses on redemption of bonds and other securities	794	292	7,177
Losses on devaluation of bonds and other securities	68	209	619
Losses on derivatives	—	3,158	—
Other	4,048	3,229	36,562
Total	¥14,920	¥14,983	\$134,760

Note: The 'Other' category primarily includes losses from investments in partnerships.

## 23. General and Administrative Expenses

General and administrative expenses for the years ended March 31, 2021 and 2020, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Salaries and related expenses	¥21,329	¥20,810	\$192,645
Other	34,798	32,871	314,294
Total	¥56,128	¥53,681	\$506,939

## 24. Other Expenses

Other expenses for the years ended March 31, 2021 and 2020, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Losses on sales of stocks and other securities	¥—	¥0	\$—
Losses on devaluation of stocks and other securities	25	1,744	226
Write-off of loans	174	1,089	1,578
Provision of allowance for loan losses	767	10,729	6,931
Provision of allowance for credit losses on off-balance-sheet instruments	49	—	451
Losses on disposition of loans	3,596	721	32,482
Losses on disposal of fixed assets	4	4	45
Other	1,613	1,099	14,569
Total	¥6,231	¥15,389	\$56,282

## 25. Income Taxes

The Bank and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rates of approximately 30.6% for the years ended March 31, 2021 and 2020.

The Bank files a tax return under the consolidated corporate tax system which allows the Bank to base tax payments on the combined profits or losses of the Bank and certain wholly owned domestic subsidiaries.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities as of March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Deferred tax assets:			
Tax loss carryforwards <sup>(Note 2)</sup>	¥19,195	¥21,253	\$173,373
Allowance for loan losses	15,340	16,420	138,553
Devaluation of securities	1,127	1,121	10,183
Deferred gains or losses on hedges	331	—	2,990
Difference related to investment in consolidated subsidiaries	16,937	16,949	152,974
Write-off of loans	75	75	681
Other	14,055	12,951	126,951
Total of tax loss carryforwards and temporary differences	67,063	68,773	605,705
Less valuation allowance for tax loss carryforwards	(19,024)	(21,078)	(171,830)
Less valuation allowance for temporary differences	(13,891)	(14,538)	(125,465)
Total valuation allowance <sup>(Note 1)</sup>	(32,916)	(35,617)	(297,295)
Total deferred tax assets	34,147	33,156	308,410
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	(14,854)	(4,767)	(134,164)
Deferred gains or losses on hedges	—	(101)	—
Other	(2,332)	(1,352)	(21,066)
Total deferred tax liabilities	(17,187)	(6,220)	(155,230)
Net deferred tax assets	¥16,960	¥26,935	\$153,180

The expiration of tax loss carryforwards and its deferred tax assets are as follows:

Year ended March 31, 2021

	Millions of Yen						
	1 year or less	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 4 years	Over 4 years to 5 years	Over 5 years	Total
Deferred tax assets related to tax loss carryforwards <sup>(Note 2)</sup>	¥3	¥—	¥12	¥8	¥91	¥19,079	¥19,195
Less valuation allowance for tax loss carryforwards	(3)	—	(12)	(8)	(91)	(18,908)	(19,024)
Net deferred tax assets related to tax loss carryforwards	¥—	¥—	¥—	¥—	¥—	¥170	(Note 3) ¥170

	Thousands of U.S. Dollars						
	1 year or less	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 4 years	Over 4 years to 5 years	Over 5 years	Total
Deferred tax assets related to tax loss carryforwards <sup>(Note 2)</sup>	\$35	\$—	\$109	\$79	\$830	\$172,320	\$173,373
Less valuation allowance for tax loss carryforwards	(35)	—	(109)	(79)	(830)	(170,777)	(171,830)
Net deferred tax assets related to tax loss carryforwards	\$—	\$—	\$—	\$—	\$—	\$1,543	(Note 3) \$1,543

Year ended March 31, 2020

	Millions of Yen						
	1 year or less	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 4 years	Over 4 years to 5 years	Over 5 years	Total
Deferred tax assets related to tax loss carryforwards <sup>(Note 2)</sup>	¥3	¥3	¥—	¥13	¥8	¥21,224	¥21,253
Less valuation allowance for tax loss carryforwards	(3)	(3)	—	(13)	(8)	(21,049)	(21,078)
Net deferred tax assets related to tax loss carryforwards	¥—	¥—	¥—	¥—	¥—	¥174	(Note 4) ¥174

Notes: 1. Valuation allowance decreased by ¥2,700 million from March 31, 2020, mainly due to the decrease of tax loss carryforwards

2. The amount of tax loss carryforwards is multiplied by the normal effective statutory tax rate.

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3. Of the tax loss carryforward of the ¥19,195 million (\$173,373 thousand) (multiplied by the effective statutory tax rate), the Group recorded deferred tax assets of ¥170 million (\$1,543 thousand) as of March 31, 2021. Valuation allowances are provided for the portion of tax loss carryforwards that are judged not to be recoverable.
4. Of the tax loss carryforward of the ¥21,253 million (multiplied by the effective statutory tax rate), the Group recorded deferred tax assets of ¥174 million as of March 31, 2020. Valuation allowances are provided for the portion of tax loss carryforwards that are judged not to be recoverable.

Reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income for the years ended March 31, 2021 and 2020, were as follows:

	2021	2020
Normal effective statutory tax rate	30.6%	30.6%
Valuation allowance	(8.0)	8.9
Tax loss carryforwards of subsidiaries	5.7	—
Expenses not deductible for income tax purposes	0.1	0.2
Other—net	3.0	1.3
Actual effective tax rate	31.4%	41.0%

## 26. Lease Transactions

### (1) Finance lease transactions

The Group leases certain fixed assets, such as system-related equipment.

### (2) Operating lease transactions

The minimum rental commitments under non-cancelable operating leases as of March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Due within one year	¥1,373	¥2,004	\$12,402
Due after one year	1,631	2,119	14,735
Total	¥3,004	¥4,123	\$27,137

## 27. Financial Instruments and Related Disclosures

### (1) Overview of financial instruments

#### 1) Basic policy for financial instruments

The main business of the Group is banking operations, which consist of deposit taking, lending, domestic exchange services, foreign exchange services, etc. Additionally, the Group pursues securities operations (trading of marketable securities, securities investments, etc.), and other financial services, such as trust banking operations and loan-servicing operations.

The asset side of the Group mainly consists of financial assets, such as loans and securities, and the liability side mainly consists of financial liabilities, such as deposits and bonds payable. Since the major operation of the Group is the handling of financial instruments involving market risk and/or credit risk, it is the basic business policy of the Group to avoid unexpected losses by properly managing various risks relating to financial instruments, and to achieve highly reliable and healthy management of the Group by adequately undertaking certain risks within the capacity of the Group and securing reasonable profit, well balanced with the undertaken risks.

Also, the Bank intends to stabilize and optimize profitability by maintaining an appropriate level of interest rate risk associated with assets and liabilities of the Bank, liquidity risk, and price fluctuation risk of securities, etc., based on the policy of asset liability management (ALM, comprehensive management of assets and liabilities). Derivative transactions are also used to maintain interest rate risk derived from on-balance-sheet assets and liabilities at an adequate level, and are intended to achieve stable profitability and efficient operations.

#### 2) Main items of financial instruments and related risks

Financial assets held by the Group mainly comprise loans to both domestic and foreign corporate entities and securities, etc.

Loans are subject to credit risk which includes the risk of default caused by deteriorated credit of the borrowers. Loans to the 10 largest borrowers of the Bank accounted for about 12% and 11% of the total outstanding balance of loans as of March 31, 2021 and 2020, respectively. A default by any of the borrowers with large credit exposures or a material change in our relationship with any of them could negatively affect the business results and financial condition of the Group. Also, the proportion of loans to real estate businesses and the coverage ratio of loans collateralized by real estate properties are material in the loan portfolio of the Group. Therefore, in the event that the real estate market or the real estate industry were to become stagnant, the quality of the loans protected by real estate collateral would deteriorate; the creditworthiness of the borrowers in the industry would be undermined; or the cash flows from the underlying properties of real estate nonrecourse loans would be negatively affected. In such cases, the Group might need to provide an additional allowance for loan losses or incur additional credit costs. Also, in addition to credit risk,

overseas loan exposures are subject to various risks, including those related to transactions arising from interest rate fluctuations and foreign exchange fluctuations, and risks involved with environmental changes, whether social, political and/or the economic environment.

Securities held by the Group primarily consist of debt securities, stocks and fund investments, which are subject to various risks, such as the credit risk of the issuer, interest rate fluctuation risk, and market price fluctuation risk. Securities held by the Bank include those backed by assets such as real estate properties, housing loans, etc. These securities are exposed to the risks dependent on the economic environment or transaction trends in relation to the underlying assets, in addition to other general risks related to interest rate fluctuations in the market, foreign exchange fluctuations, bond price movements, movements of the stock market, etc. Also, securities face market liquidity risk. This risk materializes when market liquidity of financial assets becomes almost nonexistent because of an abrupt deterioration in the financial environment, tumultuous movements in the financial markets, etc., resulting in the drastic decline in price at the time of disposition beyond expectations.

Financial liabilities of the Group are mainly deposits, negotiable certificates of deposit and bonds payable. Since funds procured by the Bank through deposit taking, etc., will be due one after another, refinancing of the existing liabilities is always necessary through continued deposit taking or bond issuance, etc. However, in the event the market environment becomes unstable, sufficient funding would become difficult or more expensive. The Bank is exposed to such risk and the funding liquidity risk as well.

These financial assets and financial liabilities are also subject to interest rate fluctuation risk involved in the mismatch of intervals to repricing interest rates. From the viewpoint of ALM, the interest rate risk amount for the entire balance sheet is managed at an appropriate level, partly using derivative transactions (interest rate swaps, etc.).

Regarding assets denominated in foreign currencies, since funding of the Group is primarily conducted by taking deposits and issuing bonds payable in Japanese yen, the Group seeks to avoid foreign exchange fluctuation risk through currency matching between the funding side and the asset side, using currency swaps, etc.

Derivative transactions are one of the primary operations of the Group. The derivative instruments are provided to fulfill our customers' hedge requirements for market risk (interest rate, foreign exchange, etc.). Trading derivative instruments are booked in the trading accounts, which seek gains on short-term fluctuations and arbitrage opportunities in interest rates, currency prices, market prices of securities and related indices. Moreover, the Group implements derivative transactions for the purpose of optimizing ALM, in order to maintain the interest rate risk derived from on-balance-sheet assets and liabilities at an adequate level.



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In terms of overall derivative operations, as interest rate derivatives, interest rate futures, interest rate options, and interest rate swaps are exercised; with respect to currency derivatives, currency swaps, foreign exchange forwards and currency options are exercised; and futures and options related to equities and bonds, commodity-related transactions and credit derivatives transactions are also exercised. These derivative transactions are exposed to market risk, which implies potential loss from market fluctuations in market prices, volatility of underlying interest rates, foreign exchange and so forth, and to credit risk, which implies potential loss from contractual default by counterparties.

Concerning derivative transactions for the purpose of optimizing ALM, such as interest rate swaps, etc., the Bank uses the deferral method of hedge accounting, specifying derivatives as hedging instruments and deposits or loans, etc., as hedged items, in accordance with 'Accounting and Auditing Treatments on the Application of Accounting Standards for Financial Instruments in the Banking Industry' (the JICPA Industry Committee Practical Guideline No. 24, October 8, 2020). The effectiveness of hedging for the purpose of offsetting market fluctuations is assessed as follows: the Bank specifies hedged items, such as deposits or loans, and hedging instruments such as interest rate swaps, and divides them into groups by remaining tenures to maturity and evaluates each of the groups.

The Bank applies deferral hedge accounting to hedges of foreign currency risk associated with foreign currency-denominated financial assets and liabilities in accordance with 'Accounting and Auditing Treatments for Foreign Currency Transactions in the Banking Industry' (the JICPA Industry Committee Practical Guideline No. 25, October 8, 2020). The Bank designates certain currency swaps and foreign exchange swaps for the purpose of funding foreign currencies as hedges for the exposure to changes in foreign exchange rates associated with foreign currency-denominated assets or liabilities.

Hedge effectiveness is reviewed by comparing the total currency position of the hedged items with that of the hedging instruments by currency.

For hedging the foreign currency exposure of foreign currency-denominated available-for-sale securities (other than debt securities), which were designated in advance, fair value hedge accounting is adopted on a portfolio basis when the cost of the hedged securities is covered with offsetting liabilities denominated in the same foreign currency as the hedged securities.

### 3) Risk management system concerning financial instruments

The Group, while pursuing various operations, is endeavoring to develop and maintain an adequate risk management system, to avoid the occurrence of unexpected losses and to realize highly reliable and sound management of the Group by adequately undertaking certain risks within the capacity of the Group and securing reasonable profit well-balanced with the undertaken risks.

Our basic thoughts regarding risk management are documented as internal Master Policies and Procedures in the risk management category. The basic framework of risk management, including capital allocation and risk limits, is determined by the BOD. Within this framework, the Market Risk Management Division is in charge of market risk, the Credit Risk Management Division and the Integrated Risk Management Division are in charge of credit risk, and the Integrated Risk Management Division is in charge of comprehensive risk and operational risk. Also, the Internal Audit Division is responsible for verifying the appropriateness and effectiveness of the risk management system. The BOD, the Management Committee ('MC'), and other concerned committees receive risk situation reports from each risk management function as well as audit reports from the Internal Audit Division, supervising the risk situation based on these reports or employing the information thereof for managerial decisions, and maintaining/improving the overall risk management system.

#### (a) Credit risk management

In order to maintain a sound asset portfolio of the entire Group including consolidated subsidiaries, the Group has implemented credit risk management, with the approach both at the transaction level, which entails strict credit screening and ex post facto management of individual transactions including predictive control of our clients, and at the portfolio level focusing on eliminating credit risk concentration. The Group has established a management system, including a credit rating system, quantification of credit risk, management of risk capital, management of concentration risk (large credit exposure, real estate risk, country risk, etc.), asset securitization transaction management of problem loans, and so forth. Also, concerning verification of credit ratings, self-assessments, and write-offs and reserves, the Asset Assessment Division is in charge of overall control and is responsible for adequately grasping the reality of the asset portfolio and properly implementing write-off/reserve appropriations, in cooperation with other concerned functions.

(i) Approval authority for individual credit undertaking  
Credit transactions, which mainly comprise loan transactions, are approved under the authority of the Credit Committee, consisting of Representative Directors, the Chief Risk Officer ('CRO'), the Chief Credit Risk Officer ('CCRO'), etc., and credit proposals are discussed at and reported to the Credit Committee. Also, the approval authority for investment transactions, comprised mainly of equities and fund investments, resides with the Investment Committee, consisting of Representative Directors, the CRO, etc., and investment proposals are discussed at and reported to the Investment Committee. The approval authority of the Credit Committee is partly delegated to the CCRO (Note that the approval authority delegated to the CCRO is redelegated to the credit functions and to business front office functions to a certain extent.). Also, the approval authority of the Investment Committee is partly delegated to the CRO (Note that the approval authority delegated to the CRO is redelegated to business front office functions to a certain extent.).

(ii) Credit rating system

Credit ratings are an integral component of the approval system for credit assessment and the decision for interest rate spread, etc. They are also used to conduct self-assessments and are employed as benchmarks for quantifying credit risks. The credit rating system of the Group is composed of 'Obligor Rating', 'Facility Rating' and 'Expected Loss Grade.' 'Obligor Rating' is given, in principle, to all customers for whom the Group is undertaking credit risk, and this rating represents the degree of creditworthiness of the borrower. 'Facility Rating' represents the degree of credit cost of a credit transaction in consideration of Obligor Rating and transaction conditions such as a tenor of credit facility, guarantee and collateral. Also, 'Expected Loss Grade' represents the degree of credit cost of a credit transaction which relies on cash flow arising from specified underlying assets such as real estate nonrecourse loans, securitization of monetary claims and structured bonds in senior/junior tranches. As for the credit rating processes, rating recommendations are given by the respective business divisions/branches at inception, and the recommendation is then approved by the Credit Divisions. Credit ratings are subject to review on a regular basis based on the updated financial results of each respective borrower, and on an as-needed basis whenever there is a symptom of a material change in the creditworthiness of any borrower. As for the credit rating given by business divisions/branches and the Credit Divisions, the Asset Assessment Division, which is an independent division for verification of ratings, reviews the appropriateness of credit ratings on a sample basis. Also, the Group examines its credit rating system itself through benchmarking (comparative verification of our ratings with those assigned by external agencies or external models) and back testing (assessment of the significance of credit rating based on past default).

(iii) Quantification of credit risk

As for credit risk exposures, the Group centrally manages all assets with credit risks, irrespective of the type of transaction, including not only loans, securities, equities and fund investments, and securitized transaction facilities, but also off-balance-sheet transactions such as commitment lines, derivative transactions, and the like. The credit risk amount of our portfolio is measured by Value at Risk (VaR) according to our internal model, etc., and the measured result is regularly reported to the BOD, etc., together with the credit portfolio situation of the entire Group. The internal model of the Bank employs a holding period of 1 year and a confidence interval of 99.9%. Unexpected Loss (UL) is measured using parameters, such as Probability of Default (PD), Loss Given Default (LGD), intra-sector correlation, inter-sector correlation, and parent subsidiary correlation of the borrower group.

(iv) Credit portfolio management

Concerning credit portfolio management, the Group examines the credit portfolio through the calculation and analysis of Expected Loss (EL) and UL assuming the occurrence of stress scenarios, such as the downgrading of credit ratings and declining real estate prices. Credit concentration risk is managed by establishing exposure guidelines by credit ratings of borrowers, countries or regions. For the real estate portfolio, the Group establishes additional concentration limits to control such risk.

**(b) Market risk management**

The Group performs, from various viewpoints, comprehensive analysis and understanding of the market risk affecting all assets and liabilities and off-balance-sheet transactions for its trading and banking businesses, in order to manage market risk properly.

(i) Measurement of market risk

The Group uses VaR to quantify the market risk for the trading and banking businesses and as a basis for setting market risk limits and for monitoring risk. The Bank has computed VaR with an internal model utilizing historical simulation.

The assumptions for computing VaR include a 1-day holding period, a 99% confidence interval, an observation period of 2 years for the trading account, and 3 years for the banking account in principle. The Group conducts back testing to verify the reliability of VaR by comparing daily computed VaR with daily gains or losses. To complement VaR, the Group regularly conducts stress testing to assess the potential impact of volatile market movements that could exceed statistical estimates. The results of the stress testing are reported to the ALM Committee, etc.

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## (ii) Quantitative information of market risk

### i) Financial instruments held for trading purposes

The VaR of financial instruments (trading account securities, derivatives, etc.) held for trading purposes by the Bank was ¥1,025 million (\$9,263 thousand) and ¥966 million as of March 31, 2021 and 2020, respectively. Market risk in the financial instruments held for trading purposes by certain consolidated subsidiaries is immaterial.

The back testing of the VaR calculated with internal models over the 245 business days from April 1, 2020 to March 31, 2021, and the 241 business days from April 1, 2019 to March 31, 2020, resulted in no and 1 business days with actual daily losses beyond VaR. This result supports the reliability of the Bank's internal models which have captured market risks with sufficient accuracy. However, the VaR represents the market risks arising with a certain probability using a statistical methodology based on historical market movements. It may not be able to capture the risks arising under drastic market movements beyond normal estimates.

### ii) Financial instruments held for other than trading purposes

The main financial instruments in the Bank which are affected by interest rate risk, the typical risk parameter in the Bank, are 'Loans and bills discounted,' bonds/notes of 'Securities,' 'Deposits,' 'Bonds payable,' interest rate swaps and currency swaps of Derivatives, etc.

The VaR of financial instruments held for other than trading purposes by the Bank was ¥8,849 million (\$79,927 thousand) and ¥6,525 million as of March 31, 2021 and 2020, respectively. Market risks in the financial instruments held for other than trading purposes by certain consolidated subsidiaries are immaterial. The VaR represents the market risks arising with a certain probability using a statistical methodology based on historical market movements. It may not be able to capture the risks arising under drastic market movements beyond normal estimates.

## (iii) Procedures for market risk management

The Group documents its handling of products, risk management methods and market price valuation methods under market risk management. The compliance with limits of risks and losses, etc., allocated to the front office, business units and divisions, is monitored by the Market Risk Management Division, which is independent from the front offices in terms of organization and human resources. The Market Risk Management Division monitors the market risk and profit/loss (P/L) on a daily basis for trading operations, and on a daily or monthly basis for banking operations, and they report on them directly to the CRO and Executive Officer(s) in charge of the front offices. The

Market Risk Management Division also makes periodic reports to the BOD, the MC and the ALM Committee. In the event a large loss is reported in excess of the maximum expected loss amount computed in advance, a cause analysis is conducted. Also, a discussion point, which is positioned as cross-section risk management between market risk and credit risk, is set up by asset class in order to strengthen the monitoring function for price fluctuation risks.

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

## (c) Funding liquidity risk management

The Financial Management Division centrally manages funding liquidity risk for both Japanese yen and foreign currencies. The Financial Management Division also plans for the sources and uses of funds both annually and monthly, and reports the liquidity status directly to senior management on a daily basis. The Group maintains a sufficient liquidity buffer in order to prepare for funding liquidity risk and to meet various contractual obligations, by holding an adequate level of marketable securities with high liquidity.

## (d) Operational risk management

The Group recognizes operations risk, legal and compliance risk and system risk in handling financial instruments as operational risk, and manages it in a comprehensive manner through uniform method and indicators. Actual loss events that have already occurred are gathered by the Integrated Risk Management Division. Potential risks that would lead to actual loss events are identified and assessed through risk control self-assessment, etc. Operational risk of the Group is estimated using internal model simulations, based on actual loss events and conceived risk scenarios, and capital is allocated to cover the estimated risk within the internal capital allocation system.

## (e) Comprehensive risk management

The Group establishes a basic policy on comprehensive risk management. The basic policy sets forth the scope of target risk categories, such as credit risk, market risk and operational risk, and their definitions. The policy also defines the risk management procedures which consist of the identification, assessment, monitoring and control of the target risks. The Group is committed to managing risks in compliance with this basic policy, and is always endeavoring to improve the risk management system. In the framework of comprehensive risk management, the Group measures credit risk, market risk and operational risk in a comprehensive manner, ensures that these risks are

controlled within allowable limits with reference to the Group's capital through implementation of integrated stress testing, etc., and aims at securing an adequate level of profit well balanced with the corresponding risks.

#### 4) Supplemental explanation for fair value of financial instruments

The fair value of financial instruments includes market prices as well as reasonably calculated prices in cases where there are no market prices available. Since the calculations of reasonably calculated prices are based on certain conditions and assumptions, the result of the calculations would differ if such calculations were made under different conditions and assumptions.

#### (2) Fair value of financial instruments

Carrying amounts, fair values and their differences of financial instruments as of March 31, 2021 and 2020, are shown below. Immaterial accounts on the consolidated balance sheets are not included in the table below. Some instruments, such as unlisted stocks, whose fair value cannot be reliably determined, are not included in the table below (see 'Financial instruments whose fair value cannot be reliably determined').

	Millions of Yen			Thousands of U.S. Dollars		
	2021			2021		
	Carrying Amount	Fair Value	Difference	Carrying Amount	Fair Value	Difference
Cash and due from banks	¥950,109	¥950,109	¥—	\$8,581,193	\$8,581,193	\$—
Call loans and bills bought	41,000	41,000	—	370,303	370,303	—
Securities purchased under resale agreements	—	—	—	—	—	—
Cash collateral provided for securities borrowed	—	—	—	—	—	—
Monetary claims bought (Note 1)	74,432	81,333	6,901	672,262	734,591	62,329
Trading account assets						
Trading securities	5	5	—	46	46	—
Money held in trust	33,521	35,736	2,214	302,763	322,763	20,000
Securities						
Available-for-sale securities (Note 2)	1,277,169	1,277,169	—	11,535,128	11,535,128	—
Loans and bills discounted	2,948,808			26,633,022		
Less allowance for loan losses (Note 1)	(50,178)			(453,206)		
Net loans and bills discounted	2,898,629	2,975,124	76,495	26,179,816	26,870,705	690,889
Assets total	¥5,274,868	¥5,360,478	¥85,610	\$47,641,511	\$48,414,729	\$773,218
Deposits (excluding negotiable certificates of deposit)	¥3,978,506	¥3,981,716	¥3,210	\$35,933,046	\$35,962,039	\$28,993
Negotiable certificates of deposit	34,000	34,000	—	307,081	307,081	—
Debentures	—	—	—	—	—	—
Call money and bills sold	15,536	15,536	—	140,318	140,318	—
Securities sold under repurchase agreements	56,750	56,750	—	512,563	512,563	—
Cash collateral received for securities lent	431,673	431,673	—	3,898,789	3,898,789	—
Borrowed money	349,767	350,647	879	3,159,031	3,166,978	7,947
Bonds payable	198,365	199,591	1,225	1,791,598	1,802,667	11,069
Liabilities total	¥5,064,601	¥5,069,916	¥5,315	\$45,742,426	\$45,790,435	\$48,009
Derivatives (Note 3)						
For which hedge accounting is not applied	¥21,059	¥21,059	¥—	\$190,204	\$190,204	\$—
For which hedge accounting is applied	(42,379)	(42,379)	—	(382,759)	(382,759)	—
Derivatives total	¥(21,319)	¥(21,319)	¥—	\$(192,555)	\$(192,555)	\$—

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	Millions of Yen		
	2020		
	Carrying Amount	Fair Value	Difference
Cash and due from banks	¥464,275	¥464,275	¥—
Call loans and bills bought	—	—	—
Securities purchased under resale agreements	71,011	71,011	—
Cash collateral provided for securities borrowed	—	—	—
Monetary claims bought (Note 1)	66,656	73,136	6,480
Trading account assets			
Trading securities	8	8	—
Money held in trust	27,213	29,610	2,396
Securities			
Available-for-sale securities (Note 2)	990,218	990,218	—
Loans and bills discounted	2,954,122		
Less allowance for loan losses (Note 1)	(53,102)		
Net loans and bills discounted	2,901,019	2,941,364	40,345
Assets total	¥4,520,402	¥4,569,625	¥49,222
Deposits (excluding negotiable certificates of deposit)	¥3,349,659	¥3,357,553	¥7,894
Negotiable certificates of deposit	47,240	47,240	—
Debentures	44,660	44,687	27
Call money and bills sold	38,728	38,728	—
Securities sold under repurchase agreements	27,758	27,758	—
Cash collateral received for securities lent	281,325	281,325	—
Borrowed money	427,610	430,928	3,317
Bonds payable	215,275	215,717	442
Liabilities total	¥4,432,258	¥4,443,940	¥11,682
Derivatives (Note 3)			
For which hedge accounting is not applied	¥40,266	¥40,266	¥—
For which hedge accounting is applied	(1,548)	(1,548)	—
Derivatives total	¥38,718	¥38,718	¥—

Notes: 1. General allowance for loan losses and specific allowance for loan losses provided to 'Loans and bills discounted' are separately presented in the above table. Allowance for loan losses provided to 'Monetary claims bought' is directly deducted from the carrying amounts due to immateriality.

2. Carrying amounts, fair values and their differences of available-for-sale securities do not include those of certain investments in partnerships of which composing assets consist of monetary claims etc., whose fair value is determinable. As for such investments in partnerships, the carrying amounts were ¥12,384 million (\$111,856 thousand) and ¥11,730 million, and the fair value was ¥17,305 million (\$156,302 thousand) and ¥16,098 million, which was our share of the fair value of composing assets, such as monetary claims determined by the present value of estimated future cash flows or estimated collectable amount by collaterals or guarantees as of March 31, 2021 and 2020, respectively. The difference between the fair value and the carrying amounts was ¥4,921 million (\$44,446 thousand) and ¥4,367 million as of March 31, 2021 and 2020, respectively.

3. Derivatives recorded in 'Trading account assets,' 'Trading account liabilities,' 'Other assets' and 'Other liabilities' are aggregated and shown herein in total. Assets and liabilities attributable to the derivative contracts are totally offset and the net liability position as a consequence of offsetting would be represented with brackets, if any.

## Valuation method of financial instruments

### Assets

#### (1) Cash and due from banks, call loans and bills bought, securities purchased under resale agreements and cash collateral provided for securities borrowed

Since these instruments are paid on demand, or cancellable by short notice, or with short maturities, the fair value of these instruments is approximately equal to the book value. Therefore, the book value of these instruments is deemed as the fair value.

#### (2) Monetary claims bought

Fair value of trust beneficiary rights, recorded as monetary claims bought, which meet the criteria of securities for the

purpose of accounting treatment, is measured using the same method as described in (5) Securities, below.

The fair value of monetary claims bought other than the above is calculated using the same method as described in (6) Loans and bills discounted, below.

#### (3) Trading account assets

Fair value of trading securities, mainly bonds, is determined using the market price quoted at exchange or market price announced by certain industry associations or provided by information vendors.



**(4) Money held in trust**

Securities held in trust on behalf of the Group are valued using the same method as described in (5) Securities, below. Monetary claims held in trust on behalf of the Group are calculated using the same method as described in (6) Loans and bills discounted, below.

**(5) Securities**

Stocks are valued at market prices quoted at exchanges. Bonds that have a market price announced by certain industry associations or provided by information vendors are valued at those prices, in principle. Bonds that do not have a market price announced by certain industry associations or provided by information vendors are calculated using the same method as described in (6) Loans and bills discounted, below, or valued at prices provided by brokers or dealers. Investment trust funds are valued at prices provided by the management company of each fund. Investment in partnerships are valued in accordance with the above method or using the same method as described in (6) Loans and bills discounted, below, depending on the type of assets which are held by a partnership.

**(6) Loans and bills discounted**

Fair value of loans and bills discounted is mainly determined as the present value of estimated future cash flows, discounted by the market interest rates, less accrued interest. The estimated future cash flows are calculated by adjusting contractual payment of principal and interest with credit and other considerable risks, which are reflected mainly through PD and LGD. PD is based on the internal credit ratings and LGD is based on the situations of underlying assets and collateral. Some loans and bills discounted are valued at prices provided by vendor financial institutions. Concerning compound financial instruments to which bifurcation accounting is applied, the contractual payments of principal and interest for the calculations are those of the host contracts where embedded derivatives are bifurcated under bifurcation accounting.

As for loans to 'Bankrupt' borrowers, 'De facto bankrupt' borrowers and 'In danger of bankruptcy' borrowers, the collectable amount through the disposal of collateral or the execution of guarantees, or the present value of estimated future cash flows, etc., is deemed as the fair value.

As for loans with no maturity due to a feature that the amount of loans are limited within the collateral amount, and immaterial loans without concerns about collectability, the book value is deemed as fair value.

**Liabilities****(1) Deposits (excluding negotiable certificates of deposit)**

Fair value of deposits on demand is deemed as the payment amount if demanded on the consolidated balance sheet date, i.e., 'book value.' Fair value of time deposits is principally determined as the present value of contractual payments of principal and interest less accrued interest. The discount rate is the market interest rate, adjusted with average

funding spreads of the Bank observed within a specified period preceding the consolidated balance sheet date. Concerning compound financial instruments to which bifurcation accounting is applied, contractual payments of principal and interest for the calculations are those of the host contracts where embedded derivatives are bifurcated under bifurcation accounting.

**(2) Negotiable certificates of deposit**

Since the contract period is short, the fair value is approximately equal to the book value. Therefore, the book value is deemed as the fair value.

**(3) Debentures**

Debentures that have a market price announced by certain industry associations or provided by information vendors are valued at those prices. As for debentures that do not have a market price announced by certain industry associations or published by information vendors, the fair value of those with short maturities is approximately equal to the book value. Therefore, the book value is deemed as the fair value. Other than that, the fair value of debentures other than the above is calculated using the same method as for time deposits described in (1) Deposits above.

**(4) Call money and bills sold, securities sold under repurchase agreements and cash collateral received for securities lent**

Since the contract period is short, the fair value is approximately equal to the book value. Therefore, the book value is deemed as the fair value.

**(5) Borrowed money**

Since the fair value of borrowed money with short maturities is approximately equal to the book value, the book value is deemed as the fair value. Other than that, the fair value is calculated using the same method as for time deposits described in (1) Deposits above.

Concerning the compound financial instruments to which bifurcation accounting is applied, the contractual payments of principal and interest for the calculations are those of the host contracts where embedded derivatives are bifurcated under bifurcation accounting.

**(6) Bonds payable**

Fair value is calculated using the market price announced by certain industry associations or provided by information vendors.

**Derivatives**

The valuation method of derivatives is described in the footnotes to the respective tables in Note 28, 'Derivatives.'

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## Financial instruments whose fair value cannot be reliably determined

The following instruments are not included in 'Securities' in Assets in the above table showing fair value of financial instruments.

	Carrying amount 2021	
	Millions of Yen	Thousands of U.S. Dollars
(1) Unlisted stocks, etc. (Notes 1 and 3)	¥6,996	\$63,193
(2) Investments in partnerships (Note 2)	78,889	712,517
Total	¥85,886	\$775,710

	Carrying amount 2020
	Millions of Yen
(1) Unlisted stocks, etc. (Notes 1 and 3)	¥6,898
(2) Investments in partnerships (Note 2)	64,823
Total	¥71,721

Notes: 1. Fair value of unlisted stocks, etc., is not disclosed because they do not have a market price and their fair value cannot be reliably determined.  
2. Fair value of investments in partnerships, composed of assets whose fair value cannot be reliably determined, such as unlisted stocks, is not disclosed.  
3. The Group wrote off unlisted stocks, etc., by ¥25 million (\$226 thousand) and ¥1,744 million for the years ended March 31, 2021 and 2020, respectively.

## Maturity analysis for claims and securities with contractual maturities as of March 31, 2021 and 2020

Year ended March 31, 2021

	Millions of Yen					
	1 year or less	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years to 7 years	Over 7 years to 10 years	Over 10 years
Due from banks	¥943,961	¥—	¥—	¥—	¥—	¥—
Call loans and bills bought	41,000	—	—	—	—	—
Securities purchased under resale agreements	—	—	—	—	—	—
Cash collateral provided for securities borrowed	—	—	—	—	—	—
Monetary claims bought (Note 1)	15,494	17,274	6,088	695	3,870	6,046
Securities:						
Available-for-sale securities with fixed maturity	57,617	51,520	185,475	67,797	222,085	316,804
Loans and bills discounted (Note 2)	859,226	690,099	733,334	433,641	129,582	80,016
Total	¥1,917,298	¥758,894	¥924,898	¥502,135	¥355,539	¥402,867

	Thousands of U.S. Dollars					
	1 year or less	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years to 7 years	Over 7 years to 10 years	Over 10 years
Due from banks	\$8,525,665	\$—	\$—	\$—	\$—	\$—
Call loans and bills bought	370,303	—	—	—	—	—
Securities purchased under resale agreements	—	—	—	—	—	—
Cash collateral provided for securities borrowed	—	—	—	—	—	—
Monetary claims bought (Note 1)	139,939	156,019	54,994	6,283	34,961	54,608
Securities:						
Available-for-sale securities with fixed maturity	520,386	465,327	1,675,174	612,335	2,005,835	2,861,315
Loans and bills discounted (Note 2)	7,760,352	6,232,834	6,623,321	3,916,562	1,170,365	722,690
Total	\$17,316,645	\$6,854,180	\$8,353,489	\$4,535,180	\$3,211,161	\$3,638,613

Notes: 1. Of monetary claims bought, the portion whose collection is unforeseeable, such as loans to 'Bankrupt' borrowers, loans to 'De facto bankrupt' borrowers and loans to 'In danger of bankruptcy' borrowers, amounting to ¥25,035 million (\$226,120 thousand) as of March 31, 2021, is not included in the table.  
2. Of loans and bills discounted, the portion whose collection is unforeseeable, such as loans to 'Bankrupt' borrowers, loans to 'De facto bankrupt' borrowers and loans to 'In danger of bankruptcy' borrowers, amounting to ¥22,907 million (\$206,897 thousand) as of March 31, 2021, is not included in the table. There are no loans that do not have fixed maturity.



Year ended March 31, 2020

	Millions of Yen					
	1 year or less	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years to 7 years	Over 7 years to 10 years	Over 10 years
Due from banks	¥453,584	¥—	¥—	¥—	¥—	¥—
Call loans and bills bought	—	—	—	—	—	—
Securities purchased under resale agreements	71,011	—	—	—	—	—
Cash collateral provided for securities borrowed	—	—	—	—	—	—
Monetary claims bought (Note 1)	12,468	13,787	7,620	3,270	—	7,561
Securities:						
Available-for-sale securities with fixed maturity	8,884	42,228	118,843	90,037	86,133	238,622
Loans and bills discounted (Note 2)	744,422	695,721	746,325	527,571	121,379	92,626
<b>Total</b>	<b>¥1,290,371</b>	<b>¥751,737</b>	<b>¥872,788</b>	<b>¥620,879</b>	<b>¥207,512</b>	<b>¥338,810</b>

Notes: 1. Of monetary claims bought, the portion whose collection is unforeseeable, such as loans to 'Bankrupt' borrowers, loans to 'De facto bankrupt' borrowers and loans to 'In danger of bankruptcy' borrowers, amounting to ¥22,069 million as of March 31, 2020, is not included in the table.  
2. Of loans and bills discounted, the portion whose collection is unforeseeable, such as loans to 'Bankrupt' borrowers, loans to 'De facto bankrupt' borrowers and loans to 'In danger of bankruptcy' borrowers, amounting to ¥26,075 million as of March 31, 2020, is not included in the table.  
There are no loans that do not have fixed maturity amounted.

#### Maturity analysis for interest-bearing liabilities as of March 31, 2021 and 2020

Year ended March 31, 2021

	Millions of Yen					
	1 year or less	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years to 7 years	Over 7 years to 10 years	Over 10 years
Deposits (excluding negotiable certificates of deposit)	¥2,938,703	¥315,828	¥152,880	¥40,207	¥139,408	¥391,479
Negotiable certificates of deposit	34,000	—	—	—	—	—
Debentures	—	—	—	—	—	—
Call money and bills sold	15,536	—	—	—	—	—
Securities sold under repurchase agreements	56,750	—	—	—	—	—
Cash collateral received for securities lent	431,673	—	—	—	—	—
Borrowed money	16,167	11,500	15,800	18,500	54,800	233,000
Bonds payable	81,216	111,613	5,536	—	—	—
<b>Total</b>	<b>¥3,574,047</b>	<b>¥438,941</b>	<b>¥174,216</b>	<b>¥58,707</b>	<b>¥194,208</b>	<b>¥624,479</b>

	Thousands of U.S. Dollars					
	1 year or less	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years to 7 years	Over 7 years to 10 years	Over 10 years
Deposits (excluding negotiable certificates of deposit)	\$26,541,755	\$2,852,495	\$1,380,781	\$363,148	\$1,259,109	\$3,535,758
Negotiable certificates of deposit	307,081	—	—	—	—	—
Debentures	—	—	—	—	—	—
Call money and bills sold	140,318	—	—	—	—	—
Securities sold under repurchase agreements	512,563	—	—	—	—	—
Cash collateral received for securities lent	3,898,789	—	—	—	—	—
Borrowed money	146,026	103,866	142,702	167,088	494,942	2,104,408
Bonds payable	733,526	1,008,072	50,000	—	—	—
<b>Total</b>	<b>\$32,280,058</b>	<b>\$3,964,433</b>	<b>\$1,573,483</b>	<b>\$530,236</b>	<b>\$1,754,051</b>	<b>\$5,640,166</b>

Note: Deposits on demand (current deposits, ordinary deposits and deposits at notice) are included in '1 year or less.'

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Year ended March 31, 2020

	Millions of Yen					
	1 year or less	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years to 7 years	Over 7 years to 10 years	Over 10 years
Deposits (excluding negotiable certificates of deposit)	¥2,335,118	¥266,757	¥196,680	¥43,895	¥179,215	¥327,992
Negotiable certificates of deposit	47,240	—	—	—	—	—
Debentures	44,660	—	—	—	—	—
Call money and bills sold	38,728	—	—	—	—	—
Securities sold under repurchase agreements	27,758	—	—	—	—	—
Cash collateral received for securities lent	281,325	—	—	—	—	—
Borrowed money	64,710	28,500	12,000	40,300	61,500	220,600
Bonds payable	53,000	159,275	3,000	—	—	—
Total	¥2,892,542	¥454,532	¥211,680	¥84,195	¥240,715	¥548,592

Note: Deposits on demand (current deposits, ordinary deposits and deposits at notice) are included in '1 year or less.'

## 28. Derivatives

The qualitative nature of derivative transactions, such as the type of derivatives, policy and purpose of using derivatives, risks and risk control systems for derivatives, are described in Note 27, 'Financial Instruments and Related Disclosures.'

### (1) Derivative transactions for which hedge accounting is not applied

The Group had the following derivative contracts, which were listed on exchanges, outstanding as of March 31, 2021 and 2020:

	Millions of Yen				Thousands of U.S. Dollars			
	Contract or Notional Amount	Due after 1 Year	Fair Value	Valuation Gain/(Loss)	Contract or Notional Amount	Due after 1 Year	Fair Value	Valuation Gain/(Loss)
<b>March 31, 2021</b>								
Interest rate contacts:								
Futures sold	¥24,853	¥24,853	¥13	¥13	\$224,473	\$224,473	\$125	\$125
Futures bought	24,747	24,747	(29)	(29)	223,511	223,511	(266)	(266)
Options written	—	—	—	—	—	—	—	—
Options purchased	55,360	—	1	(6)	500,000	—	16	(59)
Bond contracts:								
Futures sold	8,222	—	20	20	74,266	—	186	186
Futures bought	67,283	—	(47)	(47)	607,691	—	(432)	(432)
Futures options written	553	—	(5)	(0)	5,000	—	(49)	(5)
Futures options purchased	111,384	—	182	87	1,006,000	—	1,644	791
Equity contracts:								
Index futures sold	2,088	—	0	0	18,862	—	8	8
Index futures bought	58,575	—	952	952	529,041	—	8,599	8,599
Index options written	367,975	128,231	(10,820)	4,396	3,323,482	1,158,161	(97,730)	39,707
Index options purchased	357,503	61,803	4,798	(2,847)	3,228,898	558,200	43,340	(25,720)
<b>March 31, 2020</b>								
Interest rate contacts:								
Futures sold	¥—	¥—	¥—	¥—				
Futures bought	—	—	—	—				
Options written	380,905	—	(3)	28				
Options purchased	108,830	—	2	(26)				
Bond contracts:								
Futures sold	13,023	—	(27)	(27)				
Futures bought	2,775	—	0	0				
Futures options written	21,766	—	(110)	204				
Futures options purchased	54,415	—	137	(41)				
Equity contracts:								
Index futures sold	921	—	3	3				
Index futures bought	32,172	—	3,392	3,392				
Index options written	204,962	126,669	(21,263)	(5,219)				
Index options purchased	166,646	74,417	11,212	463				

Notes: 1. The contracts or notional amounts of derivatives which are shown in the above table do not necessarily represent the amounts exchanged by the parties and do not measure the exposure of the Group to credit or market risk.

2. Derivative transactions shown above are stated at fair value in the accompanying consolidated financial statements.

3. Fair values of the above derivatives are based on quoted market prices, such as those from the Tokyo Financial Exchange, Inc. or the Osaka Exchange, Inc.

The Group had the following derivative contracts, which were not listed on exchanges, outstanding as of March 31, 2021 and 2020:

	Millions of Yen				Thousands of U.S. Dollars			
	Contract or Notional Amount	Due after 1 Year	Fair Value	Valuation Gain/(Loss)	Contract or Notional Amount	Due after 1 Year	Fair Value	Valuation Gain/(Loss)
<b>March 31, 2021</b>								
Interest rate contracts:								
Interest rate swaps:								
Receive fixed and pay floating	¥5,163,851	¥4,205,578	¥87,275	¥87,275	\$46,638,833	\$37,983,909	\$788,251	\$788,251
Receive floating and pay fixed	5,151,144	4,149,728	(55,583)	(55,583)	46,524,065	37,479,484	(502,020)	(502,020)
Receive floating and pay floating	409,404	365,604	164	164	3,697,655	3,302,063	1,485	1,485
Other contracts sold	2,305,458	1,926,422	2,177	2,177	20,822,425	17,399,046	19,664	19,664
Other contracts bought	933,725	772,216	(3,856)	(3,856)	8,433,213	6,974,494	(34,832)	(34,832)
Foreign exchange contracts:								
Currency swaps	540,230	171,442	(228)	(228)	4,879,246	1,548,437	(2,062)	(2,062)
Forward exchange contracts sold	498,921	83,010	(32,212)	(32,212)	4,506,158	749,731	(290,932)	(290,932)
Forward exchange contracts bought	382,985	94,200	18,807	18,807	3,459,046	850,801	169,862	169,862
Options written	911,660	458,724	(33,231)	34,954	8,233,926	4,143,101	(300,140)	315,700
Options purchased	903,061	446,770	35,904	(23,924)	8,156,264	4,035,140	324,283	(216,083)
Commodity derivatives:								
Commodity swaps:								
Receive fixed and pay floating	15,410	7,942	(2,180)	(2,180)	139,188	71,739	(19,695)	(19,695)
Receive floating and pay fixed	15,181	7,810	2,409	2,409	137,119	70,539	21,762	21,762
Options written	2,840	921	(121)	(121)	25,657	8,325	(1,098)	(1,098)
Options purchased	2,840	921	121	121	25,657	8,325	1,098	1,098
Credit derivatives:								
CDS sold	143,750	115,750	3,109	3,109	1,298,320	1,045,430	28,085	28,085
CDS bought	117,550	86,500	(945)	(945)	1,061,687	781,250	(8,537)	(8,537)
Equity index swap:								
Receive equity index and pay interest rate	60,732	60,732	3,550	3,550	548,523	548,523	32,063	32,063
Internal transactions:								
Currency swaps	482,501	128,526	898	898	4,357,849	1,160,820	8,114	8,114
Forward exchange contracts sold	9	—	(0)	(0)	82	—	(2)	(2)
Forward exchange contracts bought	9	—	0	0	82	—	2	2
<b>March 31, 2020</b>								
Interest rate contracts:								
Interest rate swaps:								
Receive fixed and pay floating	¥7,322,776	¥6,452,065	¥169,910	¥169,910				
Receive floating and pay fixed	7,285,700	6,348,444	(126,734)	(126,734)				
Receive floating and pay floating	528,734	372,584	212	212				
Other contracts sold	2,715,876	2,035,561	(11,623)	(11,623)				
Other contracts bought	1,177,103	933,688	(2,893)	(2,893)				
Foreign exchange contracts:								
Currency swaps	601,489	179,979	(601)	(601)				
Forward exchange contracts sold	907,225	190,171	(25,228)	(25,228)				
Forward exchange contracts bought	562,786	250,978	16,877	16,877				
Options written	1,186,389	771,461	(44,380)	31,802				
Options purchased	1,193,939	791,985	45,785	(21,711)				
Commodity derivatives:								
Commodity swaps:								
Receive fixed and pay floating	25,509	15,833	8,430	8,430				
Receive floating and pay fixed	25,235	15,625	(8,186)	(8,186)				
Options written	8,963	4,087	(1,377)	(1,377)				
Options purchased	8,963	4,087	1,377	1,377				
Credit derivatives:								
CDS sold	156,750	123,500	1,114	1,114				
CDS bought	140,225	107,050	700	700				
Equity index swap:								
Receive equity index and pay interest rate	53,219	53,219	22,263	22,263				
Internal transactions:								
Currency swaps	560,543	142,191	1,271	1,271				
Forward exchange contracts sold	8	—	(0)	(0)				
Forward exchange contracts bought	8	—	0	0				

- Notes: 1. The contracts or notional amounts of derivatives which are shown in the above table do not necessarily represent the amounts exchanged by the parties and do not measure the exposure of the Group to credit or market risk.
2. Derivative transactions shown above are stated at fair value in the accompanying consolidated financial statements.
3. The calculation or quotation of the fair value of the above derivatives are based on the discounted present value method or option pricing models, etc.
4. 'Sold' credit derivatives represent credit risk taking. 'Bought' credit derivatives represent credit risk transfer.
5. Foreign exchange profit/loss generated from currency exposure with the final principal settlement of currency swaps, amounting to a loss of ¥64 million (\$586 thousand) and a gain of ¥3 million as of March 31, 2021 and 2020, respectively, are excluded from 'Fair Value' and 'Valuation Gain/(Loss)' shown above.
6. Other contracts sold and bought of 'Interest rate contracts' were mainly swaptions.
7. CDS is the abbreviation for credit default swaps.
8. Commodity derivatives are mainly related to oil and non-ferrous metal.

# Consolidated Financial Statements

## (2) Derivative transactions for which hedge accounting is applied

The Group had the following derivative contracts for which hedge accounting is applied as of March 31, 2021 and 2020:

	Millions of Yen			Thousands of U.S. Dollars		
	Contract or Notional Amount	Due after 1 Year	Fair Value	Contract or Notional Amount	Due after 1 Year	Fair Value
<b>March 31, 2021</b>						
Equity contracts:						
Total return swaps	¥4,438	¥4,438	¥(311)	\$40,087	\$40,087	\$(2,810)
Foreign exchange contracts:						
Currency swaps	499,293	132,853	(898)	4,509,518	1,199,908	(8,114)
Forward exchange contracts	577,607	—	(24,610)	5,216,831	—	(222,278)
<b>March 31, 2020</b>						
Equity contracts:						
Total return swaps	¥—	¥—	¥—			
Foreign exchange contracts:						
Currency swaps	558,213	141,488	(1,271)			
Forward exchange contracts	406,899	—	(2,607)			

- Notes: 1. The contracts or notional amounts of derivatives which are shown in the above table do not necessarily represent the amounts exchanged by the parties and do not measure the exposure of the Group to credit or market risk.
2. The calculation or quotation of the fair value of the above derivatives are based on the discounted present value method, etc.
3. For the currency swaps and forward exchange contracts shown above, deferred hedge accounting is applied in accordance with the JICPA Industry Committee Practical Guideline No. 25.
4. The main hedged items for total return swaps are stock-price-bearing financial assets, such as available-for-sale securities.
5. The main hedged items for currency swaps and forward exchange contracts are foreign-currency-denominated financial assets or liabilities, such as loans and securities.
6. Foreign exchange profit/loss generated from currency exposure with the final principal settlement of currency swaps, amounting to a loss of ¥16,558 million (\$149,557 thousand) and a gain of ¥2,329 million as of March 31, 2021 and 2020, respectively, are excluded from 'Fair Value' shown above.
7. The contracts shown above are mainly internal transactions.

## 29. Other Comprehensive Income

The components of other comprehensive income for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
<b>Reclassification and tax effect related to comprehensive income</b>			
Valuation difference on available-for-sale securities:			
Difference arising during the year	¥71,750	¥(2,764)	\$648,033
Reclassification adjustment to profit or loss	(9,634)	(53,852)	(87,014)
Amount before income tax effect	62,116	(56,616)	561,019
Income tax effect	(10,580)	8,774	(95,559)
Valuation difference on available-for-sale securities	51,535	(47,842)	465,460
Deferred gains or losses on hedges:			
Gains (losses) arising during the year	(7,452)	(24,131)	(67,308)
Reclassification adjustment to profit or loss	6,039	49,125	54,550
Amount before income tax effect	(1,412)	24,994	(12,758)
Income tax effect	432	(7,653)	3,907
Deferred gains or losses on hedges	(980)	17,341	(8,851)
Foreign currency translation adjustment:			
Adjustments arising during the year	207	(515)	1,878
Reclassification adjustment to profit or loss	—	—	—
Amount before income tax effect	207	(515)	1,878
Income tax effect	—	—	—
Foreign currency translation adjustment	207	(515)	1,878
Remeasurements of defined benefit plans:			
Adjustments arising during the year	2,709	(1,682)	24,476
Reclassification adjustment to profit or loss	1,101	237	9,949
Amount before income tax effect	3,811	(1,445)	34,425
Income tax effect	(1,167)	442	(10,541)
Remeasurements of defined benefit plans	2,644	(1,002)	23,884
Share of other comprehensive income (loss) in associates:			
Adjustments arising during the year	(372)	—	(3,368)
Reclassification adjustment to profit or loss	—	—	—
Amount before income tax effect	(372)	—	(3,368)
Income tax effect	—	—	—
Share of other comprehensive income (loss) in associates	(372)	—	(3,368)
Other comprehensive income total	¥53,035	¥(32,019)	\$479,003

# Consolidated Financial Statements

## 30. Per Share Information

The reconciliation of differences between basic and diluted net income per share (EPS) for the years ended March 31, 2021 and 2020, was as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
	Net Income	Weighted-Average Number of Shares	EPS	
<b>Year Ended March 31, 2021</b>				
Basic EPS—Net income available to common stockholders (Net income attributable to owners of the parent)	¥28,972	116,698	¥248.27	\$2.24
Effect of dilutive securities— Share acquisition rights to shares	—	169		
Diluted EPS—Net income for computation	¥28,972	116,868	¥247.90	\$2.24
<b>Year Ended March 31, 2020</b>				
Basic EPS—Net income available to common stockholders (Net income attributable to owners of the parent)	¥28,142	116,681	¥241.18	
Effect of dilutive securities— Share acquisition rights to shares	—	126		
Diluted EPS—Net income for computation	¥28,142	116,808	¥240.92	

Net assets per share of common stock as of March 31, 2021 and 2020, were as follows:

	Yen		U.S. Dollars
	2021	2020	2021
Net assets per share of common stock	¥4,233.53	¥3,659.84	\$38.24

Net assets per share of common stock as of March 31, 2021 and 2020, were calculated based on the following:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Total equity	¥490,006	¥424,758	\$4,425,637
Deductions from total equity:			
Non-controlling interests	(4,541)	(2,734)	(41,013)
Share acquisition rights	482	444	4,353
Net assets attributable to common stock at the end of the year	¥494,065	¥427,048	\$4,462,297
Number of shares of common stock at the end of the year used for the calculation of net assets per share of common stock (shares in thousands)	116,702	116,684	

## 31. Segment Information

### (1) Segment information

Segment information for the years ended March 31, 2021 and 2020, was as follows:

#### 1) Description of reportable segments

##### (a) Identification of operating segments

The Bank has classified its Group's business operations into business groups based upon the nature of the customers served and products offered: Retail Banking Group ('RBG'), Institutional Banking Group ('IBG'), Allied Banking Group ('ABG'), Specialty Finance Group ('SFG'), International Finance Group ('IFG'), and Financial Markets Group ('FMG'). The Bank has designated these business groups as operating segments and reportable segments for the purpose of the disclosures contained herein.

Financial information for these groups is regularly reported to the Management Committee, which comprises members from amongst the Executive Officers who are approved and appointed by the Board of Directors, and is utilized for management decisions on the allocation of resources, an evaluation of the performance of each business group, etc.

##### (b) Services provided by each reportable segment

RBG offers financial services to retail customers. RBG's major services are the sale of investment products, including deposits, investment trusts and insurance, and other financial services.

IBG offers financial services to corporate customers and public sector customers. Major services offered by IBG are loans and deposits, sale of financial products, financing through securitization, privately placed bonds, M&A advisory, private equity operations, acquisition finance, and other financial services.

ABG offers financial services to financial institutions. Major services offered by ABG are loans and deposits, sale of financial products, and other financial services.

SFG offers financial services that require specialized expertise such as corporate restructuring finance and real estate finance.

IFG offers financial services that require specialized expertise such as overseas loans and investments.

FMG offers derivatives and foreign exchange products to customers, trading derivatives and foreign exchange products, as well as ALM operations.

#### 2) Methods of measurement for the amounts of revenues, profit (loss), assets and liabilities by reportable segments

Revenues, profit (loss), assets and liabilities of reportable segments are recognized and measured mainly in accordance with accounting policies applied to consolidated financial statements.

The Bank calculates its net interest income from funding and investing across reportable segments based on i) the internal transfer rates determined by the average rate of funding by the currency and by contractual term, and ii) the allocation ratio determined by the Bank based on the value of compensation for funding activities.

Fixed assets are not allocated to reportable segments, while the associated expenses are allocated to specific reportable segments and included in the segments' expenses.



# Consolidated Financial Statements

## 3) Revenues, profit (loss), assets and liabilities by reportable segment

Year ended March 31, 2021

	Millions of Yen						
	RBG	IBG	ABG	SFG	IFG	FMG	Total
Consolidated net revenue	¥8,894	¥21,771	¥6,274	¥20,663	¥11,155	¥27,967	¥96,726
General and administrative expenses	11,013	12,172	3,427	9,407	7,044	5,447	48,512
Segment profit (loss)	(2,119)	10,710	2,846	11,256	4,111	22,519	49,325
Segment assets	27,665	1,309,235	133,588	1,063,949	759,944	2,181,466	5,475,850
Segment liabilities	2,515,153	553,616	1,060,031	53,518	57	946,684	5,129,062

	Thousands of U.S. Dollars						
	RBG	IBG	ABG	SFG	IFG	FMG	Total
Consolidated net revenue	\$80,330	\$196,637	\$56,665	\$186,631	\$100,755	\$252,595	\$873,613
General and administrative expenses	99,475	109,935	30,958	84,964	63,620	49,200	438,152
Segment profit (loss)	(19,145)	96,740	25,707	101,667	37,135	203,395	445,499
Segment assets	249,872	11,824,745	1,206,547	9,609,371	6,863,661	19,702,549	49,456,745
Segment liabilities	22,716,346	5,000,151	9,573,984	483,366	516	8,550,260	46,324,623

Notes: 1. Due to the nature of the banking business, the Bank uses 'Consolidated net revenue' as a substitute for 'Sales' as would be used by non-financial service companies. Consolidated net revenue represents the total of net interest income, trust fees, net fees and commissions, net gains on trading account transactions and net other ordinary income. The Bank oversees its revenue by reportable segment using consolidated net revenue. The Bank offsets interest income and interest expense for the management purposes, therefore, revenue in transactions between reportable segments is not disclosed.

2. Depreciation expenses are included in the general and administrative expenses of each reportable segment, but are not disclosed as a separate item, because in the calculation process of the segment profit (loss), a part of depreciation expenses is allocated to each reportable segment, aggregated with other general and administrative expenses. Therefore, depreciation expenses by reportable segment are not managed separately. The amount of depreciation expense for the year is ¥5,827 million (\$52,628 thousand).

3. Segment profit of IBG includes equity in earnings of associates of ¥1,111 million (\$10,038 thousand) and segment assets of IBG include investments in entities applying equity methods of ¥17,917 million (\$161,823 thousand).

Year ended March 31, 2020

	Millions of Yen						
	RBG	IBG	ABG	SFG	IFG	FMG	Total
Consolidated net revenue	¥12,247	¥21,893	¥7,157	¥19,646	¥12,851	¥20,055	¥93,851
General and administrative expenses	10,631	11,559	3,600	9,491	6,843	5,540	47,664
Segment profit (loss)	1,616	10,334	3,557	10,155	6,008	14,515	46,187
Segment assets	18,211	1,214,441	82,584	1,117,619	800,817	1,598,930	4,832,602
Segment liabilities	2,041,342	522,158	1,120,229	50,201	58	918,164	4,652,152

Notes: 1. Due to the nature of the banking business, the Bank uses 'Consolidated net revenue' as a substitute for 'Sales' as would be used by non-financial service companies. Consolidated net revenue represents the total of net interest income, trust fees, net fees and commissions, net gains on trading account transactions and net other ordinary income. The Bank oversees its revenue by reportable segment using consolidated net revenue. The Bank offsets interest income and interest expense for the management purposes, therefore, revenue in transactions between reportable segments is not disclosed.

2. Depreciation expenses are included in the general and administrative expenses of each reportable segment, but are not disclosed as a separate item, because in the calculation process of the segment profit (loss), a part of depreciation expenses is allocated to each reportable segment, aggregated with other general and administrative expenses. Therefore, depreciation expenses by reportable segment are not managed separately. The amount of depreciation expense for the year is ¥5,407 million.

#### 4) Reconciliation between total segment amounts and the consolidated financial statements

(a) Reconciliation between total consolidated net revenue of reportable segments and the consolidated net revenue in the consolidated statement of income for the years ended March 31, 2021 and 2020, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Total consolidated net revenue of reportable segments	¥96,726	¥93,851	\$873,613
Variances resulting from differences in the basis of revenue and expense recognition and measurement	(179)	1,859	(1,625)
Net revenue derived from the consolidated statement of income	¥96,546	¥95,711	\$871,988

(b) Reconciliation between total segment profits and income before income taxes in the consolidated statement of income for the years ended March 31, 2021 and 2020, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Total segment profits	¥49,325	¥46,187	\$445,499
Variances resulting from differences in the basis of revenue and expense recognition and measurement	(6,656)	(3,874)	(60,120)
Amortization of actuarial differences on retirement benefit plans, etc.	(1,139)	(282)	(10,292)
Credit-related expenses, etc.	(4,348)	(11,742)	(39,271)
Gains (losses) on stock transactions	2,375	11,663	21,457
Others, including net extraordinary income (losses)	(579)	1,374	(5,238)
Income before income taxes in the consolidated statement of income	¥38,977	¥43,325	\$352,035

Note: Credit-related expenses, etc., represent the total of write-offs of loans, provision of allowance for loan losses and losses on disposition of non-performing loans.

(c) Reconciliation between total segment assets and total assets in the consolidated balance sheet as of March 31, 2021 and 2020, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Total segment assets	¥5,475,850	¥4,832,602	\$49,456,745
Allowance for loan losses	(40,123)	(40,217)	(362,383)
Assets not allocated to reportable segments	481,139	507,431	4,345,545
Total assets in the consolidated balance sheet	¥5,916,866	¥5,299,815	\$53,439,907

Note: As of March 31, 2021, assets not allocated to reportable segments include foreign exchange of ¥58,154 million (\$525,241 thousand), other assets of ¥176,366 million (\$1,592,903 thousand), fixed assets of ¥43,444 million (\$392,383 thousand) and deferred tax assets of ¥16,984 million (\$153,398 thousand). As of March 31, 2020, assets not allocated to reportable segments include foreign exchange of ¥67,168 million, other assets of ¥201,609 million, fixed assets of ¥42,909 million and deferred tax assets of ¥26,960 million.

(d) Reconciliation between total segment liabilities and total liabilities in the consolidated balance sheet as of March 31, 2021 and 2020, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Total segment liabilities	¥5,129,062	¥4,652,152	\$46,324,623
Liabilities not allocated to reportable segments	297,797	222,904	2,689,647
Total liabilities in the consolidated balance sheet	¥5,426,859	¥4,875,056	\$49,014,270

Note: As of March 31, 2021, liabilities not allocated to reportable segments include other liabilities of ¥98,530 million (\$889,907 thousand) and retirement benefit liability of ¥10,844 million (\$97,941 thousand). As of March 31, 2020, liabilities not allocated to reportable segments include other liabilities of ¥110,371 million and retirement benefit liability of ¥10,348 million.

# Consolidated Financial Statements

## (2) Related information

### 1) Segment information by service

Year ended March 31, 2021

	Millions of Yen				
	Lending	Securities investment	Derivatives, etc.	Others	Total
Ordinary income from external customers	¥53,737	¥52,115	¥32,906	¥16,996	¥155,755

	Thousands of U.S. Dollars				
	Lending	Securities investment	Derivatives, etc.	Others	Total
Ordinary income from external customers	\$485,350	\$470,693	\$297,203	\$153,507	\$1,406,753

Year ended March 31, 2020

	Millions of Yen				
	Lending	Securities investment	Derivatives, etc.	Others	Total
Ordinary income from external customers	¥70,732	¥89,291	¥9,911	¥14,470	¥184,406

Note: 'Ordinary income' is presented instead of 'Sales' as would be used by non-financial service companies.

### 2) Segment information by geographic region

#### (a) Ordinary income

The information by geographic region has been omitted as the transaction data on each customer regarding interest income, gains on sales of securities and income related to derivative transactions, etc., were not available to be segmented by customers' domicile.

#### (b) Tangible fixed assets

The information by geographic region has been omitted as the amounts of tangible fixed assets located in Japan exceeded 90% of the total amount of tangible fixed assets in the consolidated balance sheet as of March 31, 2021 and 2020.

### 3) Segment information by major customer

The information by major customer has been omitted as ordinary income from any particular customer was less than 10% of ordinary income in the consolidated statement of income.

#### (3) Segment information on impairment losses on fixed assets by reportable segment

Not applicable.

#### (4) Segment information on amortization and unamortized portion of goodwill by reportable segment

Not applicable.

#### (5) Segment information on profit on negative goodwill by reportable segment

Not applicable.

## 32. Related-Party Transactions

There were no material related party transactions to be disclosed for the years ended March 31, 2021 and 2020.

Information on the parent company (including entities similar to partnerships) is as follows:

Not applicable

### 33. Subsequent Events

#### (1) Appropriation of retained earnings

The following distribution of retained earnings to the stockholders of record as of March 31, 2021, was approved at the Board of Directors' meeting held on May 13, 2021:

	Millions of Yen	Thousands of U.S. Dollars
Year-end dividends:		
Common stock, ¥34.00 (\$0.31) per share	¥3,967	\$35,837

# Independent Auditor's Report

# Deloitte.

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Aozora Bank, Ltd.:

### Opinion

We have audited the consolidated financial statements of Aozora Bank, Ltd. and its consolidated subsidiaries (the "Group"), which comprise the consolidated balance sheet as of March 31, 2021, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, all expressed in Japanese yen.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

### Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matter

A key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements of the current period. The matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on the matter.

Member of  
Deloitte Touche Tohmatsu Limited



Write-off of loans and determination of allowance for loan losses	
Key Audit Matter Description	How the Key Audit Matter Was Addressed in the Audit
<p>The Group recorded allowance for loan losses of 50.8 billion yen against the loans of 2,948.8 billion yen and other accounts receivables in its consolidated financial statements as of March 31, 2021.</p> <p>As described in Note 2 "Summary of Significant Accounting Policies" (10) "Write-off of Loans and Allowance for Loan Losses" to the consolidated financial statements, all loans are monitored in accordance with the internal self-assessment standard and other guidance on an ongoing basis. The operating divisions or branches review the internal credit ratings of the borrowers, which also determine the borrower categories. The internal credit ratings are then approved by the divisions in charge of credit. In addition, the division in charge of asset assessment, which is independent of the operating divisions or branches and the divisions in charge of credit, reviews the appropriateness of the internal credit ratings on a sample basis.</p> <p>For allowance for loan losses, based on the borrower categories as of year-end determined by the aforementioned process, the operating divisions or branches initially determine the write-offs and the allowances for loan losses, and the division in charge of asset assessment verifies and determines the final amounts.</p> <p>The allowance for loan losses depends on the borrowers' financial conditions, the value of collateral held, forecasts related to economic trends, as well as other factors. As such, the determination of the allowance for loan losses requires significant judgments made by management. As described in Note 2 "Summary of Significant Accounting Policies" (24) "Significant Accounting Estimates" 1) "Allowance for loan losses" to the consolidated financial statements, the following areas have a high degree of uncertainty. As the determination of the allowance for loan losses is particularly significant to our audit of the consolidated financial statements for the year ended March 31, 2021, we have identified it as a key audit matter.</p> <ul style="list-style-type: none"> <li>Overseas loans accounted for approximately 34% of total loans as of March 31, 2021, including those to borrowers raising funds for the purpose of business acquisitions or other arrangements. To determine the borrower's financial conditions, the valuation of goodwill based on expected excess earnings of the acquired business becomes a significant factor. To evaluate the valuation of goodwill, the Group individually examines and evaluates the feasibility of the estimated cash flows generated from the acquired businesses, and is required to make significant judgment.</li> </ul>	<p>We performed the following audit procedures, among others, to examine the Group's write-off of loans and allowance for loan losses.</p> <p>(Evaluation of controls)</p> <ul style="list-style-type: none"> <li>With regard to the borrower categories of overseas loans, we tested the effectiveness of the control in which the division in charge of asset assessment evaluated whether the judgment to determine the borrower categories conformed with the internal self-assessment standard and other guidance.</li> <li>For the real estate non-recourse loans, we tested the effectiveness of the control in which the division in charge of asset assessment evaluated whether the valuation of the underlying real estate properties conformed to the appraisal standard and other guidance.</li> <li>With regard to the allowance for loan losses considering the effects of COVID-19, we tested the effectiveness of the control in which the division in charge of asset assessment evaluated the determination of borrower categories based on the effects of COVID-19 and the determination of the allowance for loan losses considering the possibility of future credit deterioration.</li> </ul> <p>(Substantive procedures)</p> <ul style="list-style-type: none"> <li>For borrowers with overseas loans that require consideration of the valuation of goodwill, we examined whether business conditions forecasts, cash flow projections and other information that served as the basis for the evaluation of goodwill were consistent with the facts and circumstances of the borrowers and the acquired businesses as well as the industry or economic trends included in reports from external agencies, and evaluated the rationale of the estimation.</li> </ul>



# Independent Auditor's Report

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| <ul style="list-style-type: none"> <li>• Domestic and overseas real estate non-recourse loans (i.e., loans for which the repayment source is provided only by cash flows generated from underlying real estate properties) accounted for approximately 22% of total loans as of March 31, 2021. The estimated future cash flows generated from the underlying real estate properties are a significant element in determining the borrower categories for real estate non-recourse loans. Therefore, the Group individually examines rents, vacancy rates, discount rates or other factors, and evaluates the underlying real estate properties based on the internal appraisal standard and other guidance. Such valuation of the real estate properties requires significant judgment in estimation, specifically in cases when adjustments are required for actual or market rates regarding rents, vacancy rates, discount rates or other factors to reflect the individual characteristics of the real estate properties.</li> <li>• In developing accounting estimates, the Group assumed that the effects of the global novel coronavirus ("COVID-19") pandemic on the economy and corporate activities would continue long term and that certain borrowers' business performance may continue to be affected until the year ending March 31, 2023. Based on this general assumption, on an individual borrower level, the Group evaluated the estimated period of time where the business performance of borrowers may be impacted by COVID-19 in consideration of the business sector, region and individual characteristics of each borrower. As such, the determination of borrower categories on this assumption and determination of allowance for loan losses require consideration of potential future credit deterioration and involve significant judgment in estimation.</li> </ul> | <ul style="list-style-type: none"> <li>• For the valuation of real estate properties related to real estate non-recourse loans, based on quantitative analysis on the changes in appraised values or other factors and inspection of self-assessment documents, we identified significant real estate properties for which related rents, vacancy rates, discount rates or other factors were adjusted from the actual or market rates due to the individual characteristics of the real estate properties. With the assistance of our internal valuation specialists, we evaluated the reasonableness of rents, vacancy rates, discount rates or other factors used in the valuation of the real estate properties using the income approach.</li> <li>• We evaluated the assumption that effects of the COVID-19 pandemic on the economy and corporate activities would continue long term and that a certain portion of the borrowers may continue to be affected through the year ending March 31, 2023, by analyzing the Group's credit portfolio status, the industry specific information on the ongoing effects of COVID-19 published by external agencies as well as other analyses to determine if the assumption fell within a reasonable range. In addition, we evaluated the rationale of the assumptions and estimates used in determining the borrower categories and the allowance for loan losses by inspecting relevant documents, evaluating the effects of COVID-19 prepared by management, and analyzing the expected ongoing effect of COVID-19 by industry through inspection of published information by external agencies as well as other analyses.</li> </ul> |
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## Responsibilities of Management and Audit & Supervisory Board Members and the Audit & Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Group's financial reporting process.



### Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgment. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit & Supervisory Board members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit & Supervisory Board members and the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

# Independent Auditor's Report

From the matters communicated with Audit & Supervisory Board members and the Audit & Supervisory Board, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## **Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan**

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

*Deloitte Touche Tohmatsu LLC*

June 18, 2021

# Income Analysis (Consolidated)

## Interest-Earning Assets and Interest-Bearing Liabilities

Years Ended March 31

(Millions of Yen, %)

	Average balance			Interest income/expenses			Return/rates		
	2021	2020	Change	2021	2020	Change	2021	2020	Change
<b>Interest-earning assets</b>	<b>4,615,337</b>	<b>4,385,755</b>	<b>229,581</b>	<b>67,807</b>	<b>95,409</b>	<b>(27,602)</b>	<b>1.46</b>	<b>2.17</b>	<b>(0.71)</b>
Due from banks	66,226	72,628	(6,401)	29	839	(810)	0.04	1.15	(1.11)
Call loans and bills bought	158,540	20,768	137,772	(31)	(5)	(26)	(0.01)	(0.02)	0.01
Securities purchased under resale agreements	142,350	1,358	140,992	(142)	(1)	(140)	(0.09)	(0.10)	0.01
Cash collateral provided for securities borrowed	—	—	—	—	—	—	—	—	—
Securities	1,157,287	1,203,893	(46,606)	21,234	31,409	(10,175)	1.83	2.60	(0.77)
Loans and bills discounted	2,911,611	2,878,279	33,331	45,631	61,440	(15,809)	1.56	2.13	(0.57)
<b>Interest-bearing liabilities</b>	<b>4,784,351</b>	<b>4,517,505</b>	<b>266,845</b>	<b>17,698</b>	<b>46,594</b>	<b>(28,895)</b>	<b>0.36</b>	<b>1.03</b>	<b>(0.67)</b>
Deposits	3,627,441	3,208,266	419,175	5,650	7,278	(1,627)	0.15	0.22	(0.07)
Negotiable certificates of deposit	39,574	76,555	(36,980)	4	7	(2)	0.01	0.00	0.01
Debentures	20,925	50,170	(29,244)	55	138	(83)	0.26	0.27	(0.01)
Call money and bills sold	18,921	49,823	(30,902)	34	632	(598)	0.18	1.26	(1.08)
Securities sold under repurchase agreements	43,279	67,393	(24,114)	107	1,526	(1,418)	0.24	2.26	(2.02)
Cash collateral received for securities lent	348,299	457,352	(109,052)	1,513	9,485	(7,972)	0.43	2.07	(1.64)
Borrowed money	462,705	335,771	126,934	1,744	1,079	665	0.37	0.32	0.05
Bonds payable	198,383	240,913	(42,530)	2,230	2,666	(435)	1.12	1.10	0.02

Note: Interest expenses are shown after deduction of amounts of assumed cost of funding money held in trust .

## Fees and Commissions

Years Ended March 31

(Millions of Yen)

	2021	2020	Change
<b>Net fees and commissions</b>	<b>12,481</b>	<b>12,655</b>	<b>(174)</b>
<b>Fees and commissions (including trust fees)</b>	<b>14,938</b>	<b>14,631</b>	<b>307</b>
Deposits, debentures and loan operations	7,561	8,143	(581)
Foreign exchange operations	1,032	371	660
Securities-related operations	2,237	2,407	(169)
Agency services	945	1,086	(140)
Guarantee operations	151	139	12
<b>Fees and commissions payments</b>	<b>2,457</b>	<b>1,975</b>	<b>481</b>
Foreign exchange operations	484	230	253

## Gains on trading account transactions

Years Ended March 31

(Millions of Yen)

	2021	2020	Change
<b>Net gains on trading account transactions</b>	<b>13,401</b>	<b>18,073</b>	<b>(4,672)</b>
<b>Gains on trading account transactions</b>	<b>32,723</b>	<b>26,505</b>	<b>6,218</b>
Gains on trading securities	—	17,444	(17,444)
Gains on trading account securities	26,378	—	26,378
Gains on trading account financial derivatives	6,345	9,061	(2,715)
Gains on other trading account transactions	—	—	—
<b>Losses on trading account transactions</b>	<b>19,322</b>	<b>8,431</b>	<b>10,890</b>
Losses on trading securities	19,322	—	19,322
Losses on trading account securities	—	8,431	(8,431)
Losses on trading account financial derivatives	—	—	—
Losses on other trading account transactions	—	—	—

## Other Ordinary Income

Years Ended March 31

(Millions of Yen)

	2021	2020	Change
<b>Net other ordinary income</b>	<b>20,574</b>	<b>16,191</b>	<b>4,382</b>
<b>Other ordinary income</b>	<b>35,495</b>	<b>31,175</b>	<b>4,319</b>
Gains on foreign exchange transactions	—	—	—
Gains on sales of bonds and other securities	18,357	19,677	(1,319)
Gains on redemption of bonds and other securities	—	—	—
Gains on derivatives	182	—	182
Other	16,955	11,498	5,457
<b>Other ordinary expenses</b>	<b>14,920</b>	<b>14,983</b>	<b>(63)</b>
Losses on foreign exchange transactions	477	3,263	(2,786)
Losses on sales of bonds and other securities	9,340	4,586	4,754
Losses on redemption of bonds and other securities	794	292	502
Losses on devaluation of bonds and other securities	68	209	(140)
Amortization of debenture and bond issuance costs	191	244	(53)
Losses on derivatives	—	3,158	(3,158)
Other	4,048	3,229	819



# Non-Consolidated Business Results

## Non-Consolidated Financial Highlights [Five-Year Summary]

Years Ended March 31

(Millions of Yen)

	2021	2020	2019	2018	2017
Ordinary income	149,454	176,858	156,829	143,932	130,272
Trust fees (Note 5)	386	462	189	—	—
Ordinary profit	41,473	45,342	51,335	56,948	50,081
Net income	29,526	28,669	38,043	42,015	43,475
Share capital	100,000	100,000	100,000	100,000	100,000
Number of issued shares (in thousands)					
Common stock	118,289	118,289	118,289	118,289	1,182,894
Total equity	489,440	424,309	443,611	429,092	411,678
Total assets	5,735,238	5,212,668	5,205,876	4,907,226	4,583,403
Debentures and Bonds payable	198,365	259,935	283,946	257,563	246,269
Deposits (Note 1)	3,855,140	3,325,989	3,196,659	2,980,351	2,866,434
Loans and bills discounted	2,918,317	2,937,508	2,782,131	2,624,742	2,538,325
Securities	1,445,782	1,151,561	1,314,968	1,209,919	1,010,660
Net assets per share (yen) (Note 2)	4,189.77	3,632.56	3,798.95	3,675.35	3,526.93
Common stock dividends per share (yen) (Note 3)	124.00	156.00	154.00	184.00	18.70
1st quarter end	(30.00)	(39.00)	(40.00)	(4.00)	(4.00)
2nd quarter end	(30.00)	(39.00)	(40.00)	(4.00)	(4.00)
3rd quarter end	(30.00)	(39.00)	(40.00)	(50.00)	(5.00)
Year end	(34.00)	(39.00)	(34.00)	(54.00)	(5.70)
Basic net income per share (yen) (Note 2)	253.01	245.70	326.06	360.17	372.73
Diluted net income per share (yen) (Note 2)	252.65	245.43	325.80	359.90	372.49
Dividend payout ratio (%)	49.00	63.49	47.23	51.08	50.17
Capital adequacy ratio (domestic standard) (%)	11.13	10.26	10.19	10.25	10.56
Number of employees (Note 4)	1,933	1,928	1,878	1,787	1,730
Trust assets (Note 5)	730,209	835,481	797,320	—	—
Loans and bills discounted (Trust account) (Note 5)	28,116	43,312	40,981	—	—
Securities (Trust account) (Note 5)	176,573	163,390	175,292	—	—
Rights represented by securities transferred and recorded electronically (Trust account)	—	—	—	—	—

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

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

3. The Bank consolidated every ten common shares into one common share on October 1, 2017. 'Common stock dividends per share' of FY2017 (184 yen) is presented as if the share consolidation was effective at the beginning of the fiscal year ended March 31, 2018. The dividend payments for the 1st quarter end and the 2nd quarter end of FY2017 are actual amounts before the share consolidation, and those for the 3rd quarter end and year-end are actual amounts after the share consolidation.

4. Number of employees includes executive officers and locally hired overseas staff, but excludes the Bank's employees seconded to other firms.

5. Due to the transfer of the trust business operations from GMO Aozora Net Bank, Ltd., to the Bank on October 1, 2018, 'Trust fees', 'Trust assets', 'Loans and bills discounted (Trust account)' and 'Securities (Trust account)' are added from the fiscal year ended March 31, 2019, going forward. 'Trust assets' is assets in trust pertaining to trust business under the Act on Engagement in Trust Business by a Financial Institution (the Concurrent Business Act).

# Non-Consolidated Financial Statements

## Non-Consolidated Balance Sheet (Unaudited)

Aozora Bank, Ltd.

March 31, 2021

Assets	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Cash and cash equivalents	¥758,637	¥310,477	\$6,851,852
Due from banks	59,466	54,166	537,089
Call loans	41,000	—	370,303
Securities purchased under resale agreements	—	71,011	—
Monetary claims bought	49,470	44,708	446,804
Trading account assets	154,611	259,369	1,396,421
Money held in trust	4,975	14,455	44,942
Securities	1,445,782	1,151,561	13,058,010
Loans and bills discounted	2,918,317	2,937,508	26,357,636
Foreign exchange	58,154	67,168	525,241
Other assets	222,907	267,759	2,013,258
Tangible fixed assets	22,596	22,888	204,091
Intangible fixed assets	12,461	12,068	112,551
Prepaid pension costs	4,227	4,669	38,185
Deferred tax assets	17,262	26,705	155,909
Customers' liabilities for acceptances and guarantees	16,083	21,731	145,259
Allowance for loan losses	(50,043)	(53,183)	(451,978)
Allowance for investment losses	(674)	(399)	(6,094)
<b>Total</b>	<b>¥5,735,238</b>	<b>¥5,212,668</b>	<b>\$51,799,479</b>

Liabilities and Equity	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
<b>Liabilities:</b>			
Deposits	¥3,855,140	¥3,325,989	\$34,818,823
Debentures	—	44,660	—
Call money	15,536	38,728	140,318
Securities sold under repurchase agreements	56,750	27,758	512,563
Cash collateral received for securities lent	431,673	281,325	3,898,789
Trading account liabilities	140,451	211,223	1,268,525
Borrowed money	349,503	427,430	3,156,646
Bonds payable	198,365	215,275	1,791,598
Other liabilities	171,299	183,843	1,547,140
Provision for retirement benefits	10,383	9,834	93,784
Provision for credit losses on off-balance-sheet instruments	609	557	5,508
Acceptances and guarantees	16,083	21,731	145,258
<b>Total liabilities</b>	<b>5,245,797</b>	<b>4,788,358</b>	<b>47,378,952</b>
<b>Equity:</b>			
Share capital	100,000	100,000	903,179
Capital surplus			
Legal capital surplus	87,313	87,313	788,596
Other capital surplus	98	74	891
Retained earnings			
Legal retained earnings	12,686	12,686	114,585
Other retained earnings	265,675	251,201	2,399,522
Treasury stock-at cost	(3,260)	(3,297)	(29,448)
Valuation difference on available-for-sale securities	27,195	(24,343)	245,625
Deferred gains or losses on hedges	(750)	229	(6,776)
Share acquisition rights	482	444	4,353
<b>Total equity</b>	<b>489,440</b>	<b>424,309</b>	<b>4,420,527</b>
<b>Total</b>	<b>¥5,735,238</b>	<b>¥5,212,668</b>	<b>\$51,799,479</b>

Note: The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at the rate of ¥110.72 to \$1.00, the approximate rate of exchange at March 31, 2021.

# Non-Consolidated Financial Statements

## Non-Consolidated Statement of Income (Unaudited)

Aozora Bank, Ltd.

Year Ended March 31, 2021

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
<b>Income:</b>			
Interest income:			
Interest on loans and discounts	¥39,813	¥58,955	\$359,584
Interest and dividends on securities	21,251	31,389	191,942
Interest on due from banks	27	704	251
Other interest income	910	1,726	8,222
Trust fees	386	462	3,491
Fees and commissions income	14,563	15,864	131,533
Gain on trading account transactions	32,723	22,052	295,556
Other ordinary income	37,008	30,480	334,255
Other income	2,768	15,223	25,007
<b>Total income</b>	<b>149,454</b>	<b>176,858</b>	<b>1,349,841</b>
<b>Expenses:</b>			
Interest expenses:			
Interest on deposits	5,611	7,237	50,683
Interest on debentures and bonds payable	2,285	2,804	20,646
Interest on borrowings and rediscounts	1,816	1,703	16,410
Other interest expenses	7,996	34,817	72,227
Fees and commissions expenses	4,623	4,279	41,758
Loss on trading account transactions	20,851	8,431	188,323
Other ordinary expenses	14,084	14,460	127,205
General and administrative expenses	45,488	43,780	410,840
Other expenses	5,227	14,005	47,217
<b>Total expenses</b>	<b>107,986</b>	<b>131,519</b>	<b>975,309</b>
<b>Income before income taxes</b>	<b>41,468</b>	<b>45,338</b>	<b>374,532</b>
<b>Income taxes:</b>			
Current	12,645	18,530	114,210
Deferred	(704)	(1,861)	(6,358)
<b>Total income taxes</b>	<b>11,941</b>	<b>16,669</b>	<b>107,852</b>
<b>Net income</b>	<b>¥29,526</b>	<b>¥28,669</b>	<b>\$266,680</b>

Note: The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at the rate of ¥110.72 to \$1.00, the approximate rate of exchange at March 31, 2021.

## Non-Consolidated Statement of Changes in Equity (Unaudited)

Aozora Bank, Ltd.

Year Ended March 31, 2021

	Millions of Yen									
	Share capital	Capital surplus		Retained earnings		Treasury stock-at cost	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Share acquisition rights	Total equity
		Legal capital surplus	Other capital surplus	Legal retained earnings	Other retained earnings					
Balance, April 1, 2019	¥100,000	¥87,313	¥64	¥12,686	¥240,150	¥(3,312)	¥23,461	¥(17,111)	¥357	¥443,611
Net income					28,669					28,669
Cash dividends paid					(17,618)					(17,618)
Purchase of treasury stock						(0)				(0)
Disposal of treasury stock			10			14				24
Net changes in items during the year							(47,804)	17,341	86	(30,376)
Balance, March 31, 2020	¥100,000	¥87,313	¥74	¥12,686	¥251,201	¥(3,297)	¥(24,343)	¥229	¥444	¥424,309
Net income					29,526					29,526
Cash dividends paid					(15,053)					(15,053)
Purchase of treasury stock						(0)				(0)
Disposal of treasury stock			23			37				60
Net changes in items during the year							51,539	(980)	37	50,596
Balance, March 31, 2021	¥100,000	¥87,313	¥98	¥12,686	¥265,675	¥(3,260)	¥27,195	¥(750)	¥482	¥489,440

	Thousands of U.S. Dollars (Note)									
	Share capital	Capital surplus		Retained earnings		Treasury stock-at cost	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Share acquisition rights	Total equity
		Legal capital surplus	Other capital surplus	Legal retained earnings	Other retained earnings					
Balance, March 31, 2020	\$903,179	\$788,596	\$676	\$114,585	\$2,268,800	\$(29,783)	\$(219,865)	\$2,076	\$4,013	\$3,832,277
Net income					266,681					266,681
Cash dividends paid					(135,959)					(135,959)
Purchase of treasury stock						(0)				(0)
Disposal of treasury stock			215			335				550
Net changes in items during the year							465,490	(8,852)	340	456,978
Balance, March 31, 2021	\$903,179	\$788,596	\$891	\$114,585	\$2,399,522	\$(29,448)	\$245,625	\$(6,776)	\$4,353	\$4,420,527

Note: The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at the rate of ¥110.72 to \$1.00, the approximate rate of exchange at March 31, 2021.



# Income Analysis (Non-Consolidated)

## Net Revenue, Business Profit

(Millions of Yen)

	2021			2020		
	Total	Domestic operations	International operations	Total	Domestic operations	International operations
<b>Net interest income</b>	<b>44,311</b>	<b>20,245</b>	<b>24,065</b>	<b>46,237</b>	<b>20,899</b>	<b>25,337</b>
Interest income	62,003	26,765	37,372	92,774	27,132	68,443
Interest expenses	17,692	6,520	13,306	46,537	6,232	43,105
		[2,134]	[2,134]		[2,801]	[2,801]
<b>Trust fees</b>	<b>386</b>	<b>386</b>	<b>—</b>	<b>462</b>	<b>462</b>	<b>—</b>
<b>Net fees and commissions</b>	<b>9,939</b>	<b>8,152</b>	<b>1,787</b>	<b>11,584</b>	<b>10,142</b>	<b>1,442</b>
Fees and commissions (income)	14,563	12,054	2,508	15,864	13,689	2,175
Fees and commissions (expenses)	4,623	3,901	721	4,279	3,546	733
<b>Net trading income</b>	<b>11,872</b>	<b>(11,039)</b>	<b>22,912</b>	<b>13,620</b>	<b>18,227</b>	<b>(4,606)</b>
Gain on trading account transactions	32,723	9,813	22,910	22,052	20,895	1,157
Loss on trading account transactions	20,851	20,852	(1)	8,431	2,668	5,763
<b>Net other ordinary income</b>	<b>22,924</b>	<b>7,498</b>	<b>15,425</b>	<b>16,020</b>	<b>11,522</b>	<b>4,497</b>
Other ordinary income	37,008	10,578	26,430	30,480	13,373	17,106
Other ordinary expenses	14,084	3,079	11,004	14,460	1,850	12,609
<b>Net revenue</b>	<b>89,434</b>	<b>25,243</b>	<b>64,191</b>	<b>87,925</b>	<b>61,254</b>	<b>26,670</b>
<b>Net revenue ratio (%)</b>	<b>1.95</b>	<b>0.65</b>	<b>3.13</b>	<b>2.00</b>	<b>1.66</b>	<b>1.18</b>
<b>Business profit</b>	<b>45,364</b>	<b>—</b>	<b>—</b>	<b>41,666</b>	<b>—</b>	<b>—</b>
<b>Core net business profit</b>	<b>45,085</b>	<b>—</b>	<b>—</b>	<b>44,427</b>	<b>—</b>	<b>—</b>
<b>Core net business profit excluding gains (losses) on bonds</b>	<b>36,931</b>	<b>—</b>	<b>—</b>	<b>29,838</b>	<b>—</b>	<b>—</b>
<b>Core net business profit excluding gains (losses) on bonds and cancellation on investment trusts</b>	<b>36,790</b>	<b>—</b>	<b>—</b>	<b>29,345</b>	<b>—</b>	<b>—</b>

Notes: 1. Domestic operations include yen-denominated transactions by domestic offices, while international operations include foreign currency-denominated transactions by domestic offices and transactions by overseas offices. Yen-denominated nonresident transactions and Japan offshore banking accounts are included under international operations.

2. Interest expenses are shown after deduction of amounts equivalent to interest expenses on money held in trust (¥19 million for the fiscal year ended March 31, 2021 and ¥25 million for the fiscal year ended March 31, 2020).

3. Figures in brackets [ ] indicate interest received/paid as a result of interdepartmental lending and borrowing activities between domestic and international operations.

4. Net revenue ratio is calculated as follows:

$$\text{Net revenue ratio} = \frac{\text{net revenue}}{\text{average balance of interest-bearing assets}} \times 100$$

5. Business profit is calculated by deducting the net provision to general allowance for loan losses and general and administrative expenses from net revenue.

6. Core net business profit is calculated by deducting the general and administrative expenses from net revenue.

## Ratios

(%)

	2021	2020
Ordinary profit to total assets	0.78	0.90
Ordinary profit to equity	9.07	10.44
Net income to total assets	0.56	0.56
Net income to equity	6.46	6.60

Notes: 1. Return on assets, as calculated using ordinary profit or net income =  $\frac{\text{ordinary profit or net income}}{(\text{average balance of total assets} - \text{customers' liabilities for acceptances and guarantees})} \times 100$

2. Return on equity, as calculated using ordinary profit or net income =  $\frac{\text{ordinary profit or net income}}{(\text{equity, beginning of year} + \text{equity, end of year}) \div 2} \times 100$

## Yield on Interest-Earning Assets, Interest Rate on Interest-Bearing Liabilities, Net Yield/Interest Rate

(%)

	2021			2020		
	Total	Domestic operations	International operations	Total	Domestic operations	International operations
Yield on interest-earning assets	1.35	0.69	1.82	2.11	0.73	3.04
Interest rate on interest-bearing liabilities	1.32	1.17	0.85	2.01	1.21	2.08
Net yield/interest rate	0.03	(0.48)	0.97	0.10	(0.48)	0.96

## Average Balance of Interest-Earning Assets and Interest-Bearing Liabilities

(Millions of Yen)

		2021			2020		
		Total	Domestic operations	International operations	Total	Domestic operations	International operations
<b>Balance of interest-earning assets</b>	<b>Average balance</b>	<b>4,573,685</b>	<b>3,837,272</b>	<b>2,046,313</b>	<b>4,386,274</b>	<b>3,690,043</b>	<b>2,248,517</b>
	<b>Interest income/expense</b>	<b>62,003</b>	<b>26,765</b>	<b>37,372</b>	<b>92,774</b>	<b>27,132</b>	<b>68,443</b>
	<b>Return/rates (%)</b>	<b>1.35</b>	<b>0.69</b>	<b>1.82</b>	<b>2.11</b>	<b>0.73</b>	<b>3.04</b>
Due from banks	Average balance	37,398	144	37,253	39,152	353	38,798
	Interest income/expense	27	0	27	704	0	704
	Return/rates (%)	0.07	0.04	0.07	1.79	0.02	1.81
Call loans	Average balance	139,689	139,345	344	249	246	2
	Interest income/expense	(23)	(24)	0	0	0	0
	Return/rates (%)	(0.01)	(0.01)	0.08	0.05	0.02	2.26
Securities purchased under resale agreements	Average balance	142,350	142,350	—	1,358	1,358	—
	Interest income/expense	(142)	(142)	—	(1)	(1)	—
	Return/rates (%)	(0.10)	(0.10)	—	(0.10)	(0.10)	—
Cash collateral provided for securities borrowed	Average balance	—	—	—	—	—	—
	Interest income/expense	—	—	—	—	—	—
	Return/rates (%)	—	—	—	—	—	—
Securities	Average balance	1,213,757	366,328	847,428	1,279,631	300,647	978,984
	Interest income/expense	21,251	4,645	16,605	31,389	4,780	26,609
	Return/rates (%)	1.75	1.26	1.95	2.45	1.58	2.71
Loans and bills discounted	Average balance	2,883,214	1,808,727	1,074,486	2,879,883	1,738,633	1,141,249
	Interest income/expense	39,837	19,207	20,629	58,954	18,095	40,859
	Return/rates (%)	1.38	1.06	1.91	2.04	1.04	3.58
<b>Balance of interest-bearing liabilities</b>	<b>Average balance</b>	<b>4,676,466</b>	<b>3,973,485</b>	<b>2,012,881</b>	<b>4,469,091</b>	<b>3,745,417</b>	<b>2,275,962</b>
	<b>Interest income/expense</b>	<b>17,692</b>	<b>6,520</b>	<b>13,306</b>	<b>46,537</b>	<b>6,232</b>	<b>43,105</b>
	<b>Return/rates (%)</b>	<b>0.37</b>	<b>0.16</b>	<b>0.66</b>	<b>1.04</b>	<b>0.16</b>	<b>1.89</b>
Deposits	Average balance	3,519,794	3,401,395	118,399	3,160,434	3,048,801	111,632
	Interest income/expense	5,607	4,931	676	7,230	4,831	2,398
	Return/rates (%)	0.15	0.14	0.57	0.22	0.15	2.14
Negotiable certificates of deposit	Average balance	39,574	39,574	—	76,555	76,555	—
	Interest income/expense	4	4	—	7	7	—
	Return/rates (%)	0.01	0.01	—	0.00	0.00	—
Debentures	Average balance	20,925	20,925	—	50,170	50,170	—
	Interest income/expense	55	55	—	138	138	—
	Return/rates (%)	0.26	0.26	—	0.27	0.27	—
Call money	Average balance	18,921	15,164	3,756	49,823	26,131	23,692
	Interest income/expense	34	(0)	35	632	(1)	634
	Return/rates (%)	0.18	(0.00)	0.93	1.26	(0.00)	2.67
Securities sold under repurchase agreements	Average balance	43,279	—	43,279	67,393	—	67,393
	Interest income/expense	107	—	107	1,526	—	1,526
	Return/rates (%)	0.24	—	0.24	2.26	—	2.26
Cash collateral received for securities lent	Average balance	348,299	969	347,330	457,352	32,034	425,317
	Interest income/expense	1,513	—	1,513	9,485	0	9,485
	Return/rates (%)	0.43	—	0.43	2.07	0.00	2.23
Borrowed money	Average balance	462,466	347,536	114,930	335,189	329,165	6,024
	Interest income/expense	1,782	1,392	390	1,070	946	124
	Return/rates (%)	0.38	0.40	0.33	0.31	0.28	2.06
Bonds payable	Average balance	198,383	133,863	64,520	240,913	159,341	81,571
	Interest income/expense	2,230	155	2,075	2,666	177	2,489
	Return/rates (%)	1.12	0.11	3.21	1.10	0.11	3.05

Notes: 1. Interest-earning assets are shown after deduction of the average balance of non-interest-earning deposits. Interest-bearing liabilities are shown after deduction of amounts equivalent to the average balance of money held in trust and corresponding interest.

2. Figures in brackets [ ] indicate the average balances of interdepartmental lending and borrowing activities between domestic and international operations and corresponding interest income/expenses.

# Income Analysis (Non-Consolidated)

## Analysis of Interest Income and Interest Expenses

(Millions of Yen)

		2021			2020		
		Total	Domestic operations	International operations	Total	Domestic operations	International operations
<b>Interest income</b>	<b>Volume-related increase (decrease)</b>	<b>3,963</b>	<b>1,082</b>	<b>(6,154)</b>	<b>5,539</b>	<b>1,343</b>	<b>1,315</b>
	<b>Rate-related increase (decrease)</b>	<b>(34,735)</b>	<b>(1,449)</b>	<b>(24,915)</b>	<b>(7,684)</b>	<b>1,583</b>	<b>(6,490)</b>
	<b>Net increase (decrease)</b>	<b>(30,771)</b>	<b>(366)</b>	<b>(31,070)</b>	<b>(2,144)</b>	<b>2,927</b>	<b>(5,174)</b>
Due from banks	Volume-related increase (decrease)	(31)	(0)	(28)	(70)	(0)	13
	Rate-related increase (decrease)	(644)	0	(648)	(24)	0	(107)
	Net increase (decrease)	(676)	(0)	(676)	(94)	(0)	(94)
Call loans	Volume-related increase (decrease)	75	38	7	(1)	0	(5)
	Rate-related increase (decrease)	(99)	(62)	(7)	(4)	(0)	0
	Net increase (decrease)	(24)	(24)	0	(5)	0	(5)
Securities purchased under resale agreements	Volume-related increase (decrease)	(141)	(141)	—	(0)	(0)	—
	Rate-related increase (decrease)	0	0	—	(0)	(0)	—
	Net increase (decrease)	(140)	(140)	—	(1)	(1)	—
Cash collateral provided for securities borrowed	Volume-related increase (decrease)	—	—	—	(0)	(0)	—
	Rate-related increase (decrease)	—	—	—	—	—	—
	Net increase (decrease)	—	—	—	(0)	(0)	—
Securities	Volume-related increase (decrease)	(1,615)	1,044	(3,575)	567	(62)	738
	Rate-related increase (decrease)	(8,521)	(1,178)	(6,427)	(5,295)	(785)	(4,618)
	Net increase (decrease)	(10,137)	(134)	(10,003)	(4,728)	(848)	(3,879)
Loans and bills discounted	Volume-related increase (decrease)	68	729	(2,390)	4,184	1,570	1,161
	Rate-related increase (decrease)	(19,186)	383	(17,840)	(2,045)	1,724	(2,318)
	Net increase (decrease)	(19,117)	1,112	(20,230)	2,138	3,295	(1,156)
<b>Interest expenses</b>	<b>Volume-related increase (decrease)</b>	<b>2,159</b>	<b>379</b>	<b>(4,982)</b>	<b>2,762</b>	<b>296</b>	<b>1,460</b>
	<b>Rate-related increase (decrease)</b>	<b>(31,004)</b>	<b>(92)</b>	<b>(24,816)</b>	<b>(3,302)</b>	<b>(475)</b>	<b>(1,922)</b>
	<b>Net increase (decrease)</b>	<b>(28,845)</b>	<b>287</b>	<b>(29,798)</b>	<b>(539)</b>	<b>(178)</b>	<b>(462)</b>
Deposits	Volume-related increase (decrease)	822	558	145	523	347	98
	Rate-related increase (decrease)	(2,445)	(459)	(1,867)	(665)	(319)	(266)
	Net increase (decrease)	(1,622)	99	(1,722)	(141)	27	(168)
Negotiable certificates of deposit	Volume-related increase (decrease)	(3)	(3)	—	(2)	(2)	—
	Rate-related increase (decrease)	0	0	—	1	1	—
	Net increase (decrease)	(2)	(2)	—	(0)	(0)	—
Debentures	Volume-related increase (decrease)	(80)	(80)	—	(9)	(9)	—
	Rate-related increase (decrease)	(2)	(2)	—	2	2	—
	Net increase (decrease)	(83)	(83)	—	(7)	(7)	—
Call money	Volume-related increase (decrease)	(392)	0	(533)	(343)	3	(346)
	Rate-related increase (decrease)	(205)	0	(65)	0	5	(6)
	Net increase (decrease)	(598)	0	(598)	(343)	9	(352)
Securities sold under repurchase agreements	Volume-related increase (decrease)	(546)	—	(546)	641	0	641
	Rate-related increase (decrease)	(872)	—	(872)	(77)	—	(77)
	Net increase (decrease)	(1,418)	—	(1,418)	563	0	563
Cash collateral received for securities lent	Volume-related increase (decrease)	(2,261)	(0)	(1,739)	614	(0)	1,201
	Rate-related increase (decrease)	(5,710)	(0)	(6,233)	66	(0)	(520)
	Net increase (decrease)	(7,972)	(0)	(7,972)	681	(0)	681
Borrowed money	Volume-related increase (decrease)	406	52	2,249	114	106	(58)
	Rate-related increase (decrease)	305	393	(1,983)	(171)	(98)	(6)
	Net increase (decrease)	712	446	266	(57)	8	(65)
Bonds payable	Volume-related increase (decrease)	(470)	(28)	(520)	137	(14)	949
	Rate-related increase (decrease)	35	6	106	682	0	(116)
	Net increase (decrease)	(435)	(21)	(414)	819	(13)	833

Note: Changes due to a combination of volume- and rate-related increases (decreases) have been included in rate-related increase (decrease).

## Fees and Commissions

(Millions of Yen)

	2021			2020		
	Total	Domestic operations	International operations	Total	Domestic operations	International operations
<b>Net fees and commissions</b>	<b>9,939</b>	<b>8,152</b>	<b>1,787</b>	<b>11,584</b>	<b>10,142</b>	<b>1,442</b>
<b>Fees and commissions income</b>	<b>14,563</b>	<b>12,054</b>	<b>2,508</b>	<b>15,864</b>	<b>13,689</b>	<b>2,175</b>
Deposits, debentures and loan operations	7,419	7,113	305	7,944	7,053	891
Foreign exchange operations	198	182	16	174	155	19
Securities-related operations	938	938	—	1,233	1,233	—
Agency services	5,105	2,986	2,119	5,719	4,516	1,202
Guarantee operations	152	96	55	140	100	39
<b>Fees and commissions expenses</b>	<b>4,623</b>	<b>3,901</b>	<b>721</b>	<b>4,279</b>	<b>3,546</b>	<b>733</b>
Foreign exchange operations	153	108	44	144	102	42

## Trading Income

(Millions of Yen)

	2021			2020		
	Total	Domestic operations	International operations	Total	Domestic operations	International operations
<b>Net trading income</b>	<b>11,872</b>	<b>(11,039)</b>	<b>22,912</b>	<b>13,620</b>	<b>18,227</b>	<b>(4,606)</b>
<b>Gain on trading account transactions</b>	<b>32,723</b>	<b>9,813</b>	<b>22,910</b>	<b>22,052</b>	<b>20,895</b>	<b>1,157</b>
Net gain on trading securities	—	—	—	12,991	12,992	(1)
Net gain on trading account securities	26,378	7,963	18,415	—	—	—
Net gain on trading account financial derivatives	6,345	1,850	4,495	9,061	7,902	1,158
Net gain on other trading account transactions	—	—	—	—	—	—
<b>Loss on trading account transactions</b>	<b>20,851</b>	<b>20,852</b>	<b>(1)</b>	<b>8,431</b>	<b>2,668</b>	<b>5,763</b>
Net loss on trading securities	20,851	20,852	(1)	—	—	—
Net loss on trading account securities	—	—	—	8,431	2,668	5,763
Net loss on trading account financial derivatives	—	—	—	—	—	—
Net loss on other trading account transactions	—	—	—	—	—	—

# Income Analysis (Non-Consolidated)

## Other Ordinary Income

(Millions of Yen)

	2021			2020		
	Total	Domestic operations	International operations	Total	Domestic operations	International operations
<b>Net other ordinary income</b>	<b>22,924</b>	<b>7,498</b>	<b>15,425</b>	<b>16,020</b>	<b>11,522</b>	<b>4,497</b>
<b>Other ordinary income</b>	<b>37,008</b>	<b>10,578</b>	<b>26,430</b>	<b>30,480</b>	<b>13,373</b>	<b>17,106</b>
Gains on foreign exchange transactions	—	—	—	—	—	—
Gains on sales of bonds and other securities	18,357	1,449	16,908	19,677	4,099	15,577
Gains on redemption of bonds and other securities	—	—	—	—	—	—
Gains on derivatives	182	—	182	—	—	—
Other	18,468	9,129	9,339	10,803	9,274	1,529
<b>Other ordinary expenses</b>	<b>14,084</b>	<b>3,079</b>	<b>11,004</b>	<b>14,460</b>	<b>1,850</b>	<b>12,609</b>
Losses on foreign exchange transactions	527	—	527	3,468	—	3,468
Losses on sales of bonds and other securities	9,340	1,055	8,285	4,586	0	4,585
Losses on redemption of bonds and other securities	794	173	621	292	64	227
Losses on devaluation of bonds and other securities	68	—	68	209	209	0
Amortization of debenture and bond issuance costs	233	166	67	295	200	95
Losses on derivatives	—	—	—	3,158	—	3,158
Other	3,118	1,684	1,434	2,449	1,376	1,072

## General and Administrative Expenses

(Millions of Yen)

	2021	2020
<b>General and administrative expenses</b>	<b>45,488</b>	<b>43,780</b>
Salaries and allowances	17,571	17,313
Retirement benefit expenses	2,031	1,166
Welfare expenses	542	542
Depreciation	4,521	4,256
Rent and lease expenses	3,112	3,088
Building and maintenance expenses	257	310
Supplies expenses	294	274
Utilities expenses	301	323
Traveling expenses	85	275
Communication expenses	696	532
Advertising expenses	766	844
Taxes and dues	2,639	2,741
Other	12,667	12,111

# Deposit Operations (Non-Consolidated)

## Balance of Deposits

(Millions of Yen, %)

		2021			2020		
		Total	Domestic operations	International operations	Total	Domestic operations	International operations
<b>Deposits</b>							
<b>Liquid deposits</b>	<b>Average balance</b>	<b>1,023,087</b>	<b>1,023,087</b>	—	<b>591,341</b>	<b>591,341</b>	—
	<b>(%)</b>	<b>(29.07)</b>	<b>(30.08)</b>	—	<b>(18.71)</b>	<b>(19.40)</b>	—
	<b>Term-end balance</b>	<b>1,346,894</b>	<b>1,346,894</b>	—	<b>766,123</b>	<b>766,123</b>	—
	<b>(%)</b>	<b>(35.25)</b>	<b>(36.45)</b>	—	<b>(23.37)</b>	<b>(24.19)</b>	—
Interest-bearing deposits	Average balance	989,770	989,770	—	561,130	561,130	—
	(%)	(28.12)	(29.10)	—	(17.75)	(18.40)	—
	Term-end balance	1,310,418	1,310,418	—	735,576	735,576	—
	(%)	(34.29)	(35.46)	—	(22.43)	(23.22)	—
<b>Time deposits (in general)</b>	<b>Average balance</b>	<b>2,377,594</b>	<b>2,377,594</b>	—	<b>2,456,823</b>	<b>2,456,823</b>	—
	<b>(%)</b>	<b>(67.55)</b>	<b>(69.90)</b>	—	<b>(77.74)</b>	<b>(80.58)</b>	—
	<b>Term-end balance</b>	<b>2,346,518</b>	<b>2,346,518</b>	—	<b>2,400,595</b>	<b>2,400,595</b>	—
	<b>(%)</b>	<b>(61.41)</b>	<b>(63.50)</b>	—	<b>(73.22)</b>	<b>(75.78)</b>	—
Deregulated interest rate time deposits (fixed)	Average balance	1,692,262	1,692,262	—	1,818,117	1,818,117	—
	(%)	(48.08)	(49.75)	—	(57.53)	(59.63)	—
	Term-end balance	1,623,119	1,623,119	—	1,726,059	1,726,059	—
	(%)	(42.48)	(43.92)	—	(52.64)	(54.49)	—
Deregulated interest rate time deposits (floating)	Average balance	685,332	685,332	—	638,706	638,706	—
	(%)	(19.47)	(20.15)	—	(20.21)	(20.95)	—
	Term-end balance	723,398	723,398	—	674,535	674,535	—
	(%)	(18.93)	(19.58)	—	(20.57)	(21.29)	—
<b>Others</b>	<b>Average balance</b>	<b>119,112</b>	<b>712</b>	<b>118,399</b>	<b>112,269</b>	<b>636</b>	<b>111,632</b>
	<b>(%)</b>	<b>(3.38)</b>	<b>(0.02)</b>	<b>(100.00)</b>	<b>(3.55)</b>	<b>(0.02)</b>	<b>(100.00)</b>
	<b>Term-end balance</b>	<b>127,727</b>	<b>1,989</b>	<b>125,738</b>	<b>112,030</b>	<b>1,041</b>	<b>110,989</b>
	<b>(%)</b>	<b>(3.34)</b>	<b>(0.05)</b>	<b>(100.00)</b>	<b>(3.41)</b>	<b>(0.03)</b>	<b>(100.00)</b>
<b>Subtotal</b>	<b>Average balance</b>	<b>3,519,794</b>	<b>3,401,395</b>	<b>118,399</b>	<b>3,160,434</b>	<b>3,048,801</b>	<b>111,632</b>
	<b>(%)</b>	<b>(100.00)</b>	<b>(100.00)</b>	<b>(100.00)</b>	<b>(100.00)</b>	<b>(100.00)</b>	<b>(100.00)</b>
	<b>Term-end balance</b>	<b>3,821,140</b>	<b>3,695,402</b>	<b>125,738</b>	<b>3,278,749</b>	<b>3,167,760</b>	<b>110,989</b>
	<b>(%)</b>	<b>(100.00)</b>	<b>(100.00)</b>	<b>(100.00)</b>	<b>(100.00)</b>	<b>(100.00)</b>	<b>(100.00)</b>
<b>Negotiable certificates of deposit</b>	<b>Average balance</b>	<b>39,574</b>	<b>39,574</b>	—	<b>76,555</b>	<b>76,555</b>	—
	<b>Term-end balance</b>	<b>34,000</b>	<b>34,000</b>	—	<b>47,240</b>	<b>47,240</b>	—
<b>Total</b>	<b>Average balance</b>	<b>3,559,369</b>	<b>3,440,970</b>	<b>118,399</b>	<b>3,236,990</b>	<b>3,125,357</b>	<b>111,632</b>
	<b>Term-end balance</b>	<b>3,855,140</b>	<b>3,729,402</b>	<b>125,738</b>	<b>3,325,989</b>	<b>3,215,000</b>	<b>110,989</b>

Notes: 1. Liquid deposits = Current deposits + ordinary deposits + saving deposits + deposits at notice

2. Time deposits (in general) = Time deposits

Deregulated interest rate time deposits (fixed) = Deregulated interest rate time deposits for which the interest up to the due date is determined when the deposits are made.

Deregulated interest rate time deposits (floating) = Deregulated interest rate time deposits for which the interest varies according to changes in market interest rates during the period of deposit.

# Deposit Operations (Non-Consolidated)

## Balance of Time Deposits by Residual Period

Years Ended March 31

(Millions of Yen)

	2021			2020		
	Total	Deregulated interest rate (fixed)	Deregulated interest rate (floating)	Total	Deregulated interest rate (fixed)	Deregulated interest rate (floating)
Less than 3 months	388,530	378,880	9,650	427,711	413,317	14,394
3–6 months	344,039	343,539	500	364,745	363,668	1,077
6 months–1 year	558,512	558,512	—	578,252	577,718	534
1–2 years	204,886	146,687	58,199	183,955	183,655	300
2–3 years	126,300	86,502	39,797	98,126	51,448	46,678
More than 3 years	724,249	108,997	615,252	747,803	136,250	611,552
<b>Total</b>	<b>2,346,518</b>	<b>1,623,119</b>	<b>723,398</b>	<b>2,400,595</b>	<b>1,726,059</b>	<b>674,535</b>

## Balance of Deposits by Depositor

Years Ended March 31

(Millions of Yen, %)

	2021		2020	
	Balance	Share	Balance	Share
Corporate	655,853	17.16	609,849	18.60
Retail	2,388,661	62.51	1,942,374	59.24
Public sector	53,345	1.40	50,829	1.55
Financial institutions	723,279	18.93	675,694	20.61
<b>Total</b>	<b>3,821,140</b>	<b>100.00</b>	<b>3,278,749</b>	<b>100.00</b>

Note: The above balance does not include negotiable certificates of deposit in offshore market accounts.

## Deposits per Office

Years Ended March 31

(Number of Offices, Millions of Yen)

	2021			2020		
	Total	Domestic offices	Overseas offices	Total	Domestic offices	Overseas offices
Number of offices	20	20	—	20	20	—
Deposits per office	192,757	192,757	—	166,299	166,299	—

Notes: 1. Deposits include negotiable certificates of deposit.

2. Number of offices does not include domestic sub-branches and overseas representative offices.

## Deposits per Employee

Years Ended March 31

(Number of Employees, Millions of Yen)

	2021			2020		
	Total	Domestic offices	Overseas offices	Total	Domestic offices	Overseas offices
Number of employees	1,955	1,955	—	1,935	1,935	—
Deposits per employee	1,971	1,971	—	1,718	1,718	—

Notes: 1. Deposits include negotiable certificates of deposit.

2. Number of employees represents the average number of employees in each fiscal year. The number of employees in domestic offices includes head office staff.



# Loan Operations (Non-Consolidated)

## Balance of Loans

Years Ended March 31

(Millions of Yen)

		2021			2020		
		Total	Domestic operations	International operations	Total	Domestic operations	International operations
Loans on deeds	Average balance	2,691,707	1,617,220	1,074,486	2,678,790	1,537,541	1,141,249
	Term-end balance	2,749,373	1,667,864	1,081,509	2,754,819	1,614,200	1,140,619
Loans on bills	Average balance	12,456	12,456	—	13,963	13,963	—
	Term-end balance	15,960	15,960	—	11,356	11,356	—
Overdrafts	Average balance	176,518	176,518	—	187,108	187,108	—
	Term-end balance	148,349	148,349	—	171,332	171,332	—
Bills discounted	Average balance	2,532	2,532	—	20	20	—
	Term-end balance	4,633	4,633	—	—	—	—
<b>Total</b>	<b>Average balance</b>	<b>2,883,214</b>	<b>1,808,727</b>	<b>1,074,486</b>	<b>2,879,883</b>	<b>1,738,633</b>	<b>1,141,249</b>
	<b>Term-end balance</b>	<b>2,918,317</b>	<b>1,836,808</b>	<b>1,081,509</b>	<b>2,937,508</b>	<b>1,796,889</b>	<b>1,140,619</b>

Note: The Bank carries out partial and direct write-off of loans. This also applies to the table shown below.

## Balance of Loans by Residual Period

Years Ended March 31

(Millions of Yen)

	2021			2020		
	Total	Fixed interest	Floating interest	Total	Fixed interest	Floating interest
Less than 1 year	1,314,189	—	—	1,277,102	—	—
1–3 years	565,946	221,229	344,717	611,189	193,514	417,675
3–5 years	561,529	198,664	362,865	548,885	168,236	380,649
5–7 years	268,927	60,888	208,038	312,756	72,133	240,623
Over 7 years	207,725	70,612	137,112	187,573	64,761	122,812
Indefinite period	—	—	—	—	—	—
<b>Total</b>	<b>2,918,317</b>	—	—	<b>2,937,508</b>	—	—

Notes: 1. Maturity is based on scheduled final maturity dates.

2. No distinction has been made between fixed interest and floating interest for loans with a residual period of less than 1 year.

## Ratio of Loans and Bills Discounted to Debentures/Deposits

(Millions of Yen, %)

	2021			2020		
	Total	Domestic operations	International operations	Total	Domestic operations	International operations
Loans and bills discounted (A)	2,918,317	1,836,808	1,081,509	2,937,508	1,796,889	1,140,619
Debentures and deposits (B)	3,855,140	3,729,402	125,738	3,370,649	3,259,660	110,989
Ratio(A)/(B)	75.69	49.25	860.12	87.14	55.12	1,027.68
Average during the year	80.53	52.24	907.50	87.61	54.75	1,022.32

Note: Deposits include negotiable certificates of deposit.

## Loans per Office

(Number of Offices, Millions of Yen)

	2021			2020		
	Total	Domestic offices	Overseas offices	Total	Domestic offices	Overseas offices
Number of offices	20	20	—	20	20	—
Loans per office	145,915	145,915	—	146,875	146,875	—

Note: Number of offices does not include domestic sub-branches and overseas representative offices.

# Loan Operations (Non-Consolidated)

## Loans per Employee

(Number of Employees, Millions of Yen)

	2021			2020		
	Total	Domestic offices	Overseas offices	Total	Domestic offices	Overseas offices
Number of employees	1,955	1,955	—	1,935	1,935	—
Loans per employee	1,492	1,492	—	1,518	1,518	—

Note: Number of employees represents the average number of employees in each fiscal year. The number of employees in domestic offices includes head office staff.

## Loans to Small and Medium-Sized Enterprises(SMEs)

(Number of Borrowers, Millions of Yen, %)

	2021		2020	
	Number of borrowers	Value	Number of borrowers	Value
Total loans and bills discounted (A)	1,048	2,918,317	1,123	2,937,508
Loans to small and medium-sized enterprises(SMEs) (B)	823	2,240,369	884	2,362,313
(B)/(A)	78.53	76.76	78.71	80.41

Notes: 1. In this table, the balance of loans and bills discounted does not include offshore banking accounts.

2. SMEs are defined as companies having capital of not more than ¥300 million (¥100 million in wholesale, and ¥50 million in retail, food service and leasing business categories), or companies with not more than 300 full-time employees (100 in wholesale and leasing, 50 in retail and food service business categories), etc.

## Consumer Loans Outstanding

(Millions of Yen)

	2021	2020
<b>Consumer loans</b>	<b>1,385</b>	<b>1,539</b>
Housing loans	979	1,119
Others	405	420

Note: Consumer loans outstanding includes personal housing loans, as well as personal loans for general spending purposes and tax payments, and does not include business loans to sole proprietorships or their owners.

## Breakdown of Loans and Bills Discounted by Industry

Years Ended March 31

(Millions of Yen, %)

	2021		2020	
	Balance of loans	Share	Balance of loans	Share
<b>Domestic offices</b>	<b>2,918,317</b>	<b>100.00</b>	<b>2,937,508</b>	<b>100.00</b>
(excluding Japan offshore market accounts)				
Manufacturing	212,283	7.27	240,906	8.20
Agriculture, forestry and fisheries	4,501	0.15	4,628	0.16
Mining, quarry and gravel extraction	—	—	—	—
Construction	12,228	0.42	10,212	0.35
Electricity, gas, heat supply and water	49,788	1.71	47,275	1.61
Information and communications	113,118	3.88	77,707	2.65
Transport and postal service	35,778	1.23	35,565	1.21
Wholesale and retail trade	71,898	2.46	68,384	2.33
Finance and insurance	361,798	12.40	412,053	14.03
Real estate	626,079	21.45	625,814	21.30
Leasing	75,701	2.59	32,652	1.11
Other services	186,041	6.38	213,015	7.25
Local government	21,115	0.72	7,146	0.24
Others	1,147,982	39.34	1,162,143	39.56
<b>Overseas offices</b>	—	—	—	—
(including Japan offshore market accounts)				
Government	—	—	—	—
Financial institutions	—	—	—	—
Others	—	—	—	—
<b>Total</b>	<b>2,918,317</b>		<b>2,937,508</b>	

Note: Domestic offices refer to the Bank's head office and branch offices; overseas offices refer to the Bank's overseas branch offices.

## Risk-Monitored Loans by Industry

Years Ended March 31

(Millions of Yen)

	2021	2020
<b>Domestic offices</b>	<b>25,726</b>	<b>28,285</b>
(excluding Japan offshore market accounts)		
Manufacturing	2,905	3,379
Agriculture, forestry and fisheries	4,501	4,612
Mining, quarry and gravel extraction	—	—
Construction	—	—
Electricity, gas, heat supply and water	—	—
Information and communications	—	—
Transport and postal service	—	2,176
Wholesale and retail trade	2,025	2,164
Finance and insurance	—	—
Real estate	2,273	—
Leasing	861	—
Other services	1,380	1,239
Local government	—	—
Others	11,779	14,711
<b>Overseas offices</b>	—	—
(including Japan offshore market accounts)		
Government	—	—
Financial institutions	—	—
Others	—	—
<b>Total</b>	<b>25,726</b>	<b>28,285</b>

# Loan Operations (Non-Consolidated)

## Balance of Loans and Bills Discounted, Classified by Purpose

(Millions of Yen, %)

	2021		2020	
	Balance of loans	Share	Balance of loans	Share
Funds for capital investment	400,627	13.73	390,099	13.28
Funds for working capital	2,517,689	86.27	2,547,408	86.72
<b>Total</b>	<b>2,918,317</b>	<b>100.00</b>	<b>2,937,508</b>	<b>100.00</b>

## Breakdown of Balance of Acceptances and Guarantees

(Millions of Yen)

	2021	2020
Acceptances of bills	—	—
Letters of credit	3,565	3,453
Guarantees	12,517	18,278
<b>Total</b>	<b>16,083</b>	<b>21,731</b>

## Breakdown of Loans and Bills Discounted by Collateral

(Millions of Yen)

	2021	2020
Securities	9,634	6,478
Claims	42,061	40,741
Merchandise	—	—
Real estate	164,681	175,395
Others	13,920	14,636
<b>Subtotal</b>	<b>230,298</b>	<b>237,251</b>
Guaranteed	102,025	76,704
Unsecured	2,585,993	2,623,552
<b>Total</b>	<b>2,918,317</b>	<b>2,937,508</b>

## Breakdown of Collateral for Customers' Liabilities for Acceptances and Guarantees

(Millions of Yen)

	2021	2020
Securities	—	—
Claims	—	—
Real estate	—	—
Others	25	100
<b>Subtotal</b>	<b>25</b>	<b>100</b>
Guaranteed	361	1,362
Unsecured	15,697	20,269
<b>Total</b>	<b>16,083</b>	<b>21,731</b>

## Write-Off of Loans

(Millions of Yen)

	2021	2020
Write-off of loans	3,020	1,133

## Allowance for Loan Losses

Years Ended March 31

(Millions of Yen)

	2021					2020				
	Balance at beginning of year	Provision	Reduction during year		Balance at end of year	Balance at beginning of year	Provision	Reduction during year		Balance at end of year
			Used for specific purpose	Other				Used for specific purpose	Other	
General allowance	39,612	39,280	—	39,612	39,280	36,851	39,612	—	36,851	39,612
	(101)					(105)				
Specific allowance	13,470	10,763	3,610	9,859	10,763	7,322	13,571	1,809	5,513	13,571
Related to non-residents	(101)					(20)				
	4,789	3,749	3,151	1,637	3,749	1,094	4,891	659	435	4,891
Allowance for loans to restructuring countries	—	—	—	—	—	—	—	—	—	—

Note: Figures in parentheses for balance at beginning of year indicate translation difference due to foreign exchange fluctuations.

## Country Risk Reserve

None.

## Disclosed Claims under the Financial Reconstruction Law

Years Ended March 31

(Billions of Yen)

	2021	2020
Disclosed claims under the Financial Reconstruction Law		
Bankrupt and similar credit	2.1	4.4
Doubtful credit	20.7	21.7
Special attention credit	2.8	2.2
Subtotal (A)	25.7	28.3
Normal credit	2,938.5	2,951.5
Total credit (B)	2,964.2	2,979.8
(A/B)	0.86%	0.95%

# Loan Operations (Non-Consolidated)

## Risk-Monitored Loans

Years Ended March 31

### Non-consolidated

(Billions of Yen)

	2021	2020
Risk-monitored loans:		
Loans to bankrupt borrowers	2.1	4.4
Past due loans	20.7	21.6
Loans overdue for three months or more	—	—
Restructured loans	2.8	2.2
Total (A)	25.7	28.2
Year-end balance of total loans (B)	2,918.3	2,937.5
(A/B)	0.88%	0.96%

### Consolidated

(Billions of Yen)

	2021	2020
Risk-monitored loans:		
Loans to bankrupt borrowers	2.1	4.4
Past due loans	20.7	21.6
Loans overdue for three months or more	1.5	—
Restructured loans	2.8	2.2
Total (A)	27.3	28.3
Year-end balance of total loans (B)	2,948.8	2,954.1
(A/B)	0.92%	0.95%

## Reserve Ratios for Each Category of Borrower, Based on Asset-Assessments

Years Ended March 31

### Non-consolidated

(%)

Definition of Borrower Categories	2021	2020
Normal	0.8	0.9
Need attention:		
Other need attention borrowers	5.0	4.8
Special attention borrowers (Ratio of reserve to unsecured)	52.5	74.1
In danger of bankruptcy (Ratio of reserve to unsecured)	87.7	98.4
De facto bankrupt and bankrupt (Ratio of reserve to unsecured)	100.0	100.0

## Asset-Assessment, Disclosed Claims, Write-Offs, Reserves and Risk-Monitored Loans

(After Partial and Direct Write-Offs, Non-Consolidated Basis) as of March 31, 2021

(Billions of Yen)

Borrower categories for self-assessment	Disclosed credit under the FRL		Reserve and coverage for claims under the FRL	Reserve to unsecured credit ratio	Reserve and coverage ratio for claims under the FRL	Risk-monitored loans	
	Loans	Other					
Bankrupt borrowers	Bankrupt and similar credit 2.1		Collateral/Guarantee coverage Reserve	2.1	100.0%	100.0%	Loans to bankrupt borrowers 2.1
De facto bankrupt borrowers							
In danger of bankruptcy borrowers	Doubtful credit 20.7		Collateral/Guarantee coverage Reserve	8.4	87.7%	92.7%	Past due loans 20.7
				Estimated collections	1.5		
Need attention borrowers	Special attention credit 2.8		Collateral/Guarantee coverage Reserve	1.5	52.5%	52.5%	Loans overdue for three months or more —
			Estimated collections	1.3			Restructured loans 2.8
Normal borrowers	Normal credit 2,938.5						
			Collateral/Guarantee coverage Reserve	10.6	Reserve ratio for disclosed claims under the FRL 81.0%	Reserve and coverage ratio for disclosed claims under the FRL 88.8%	Risk-monitored loans 25.7
			Estimated collections	2.8			
Total credit			2,964.2	Total reserve	50.0		

FRL: Financial Reconstruction Law

Reserve to unsecured credit ratio = Reserve ÷ (Claims – Collateral, guarantees, etc.)

Reserve and coverage ratio = (Collateral, guarantees, etc. + Reserve) ÷ Claims

### <Definitions of Borrower Categories>

<b>Normal</b>	Business performance is strong and no special financial problems exist.
<b>Need attention</b>	Borrowers that need to be monitored carefully because of weak business fundamentals, financial problems or problematic lending conditions.
<b>In danger of bankruptcy</b>	Borrowers that are not currently bankrupt but are highly likely to become bankrupt.
<b>De facto bankrupt</b>	Borrowers that are substantially bankrupt but are not legally or practically bankrupt yet.
<b>Bankrupt</b>	Borrowers that are legally or practically bankrupt.

### <Definitions of Asset Classifications>

<b>Category I</b>	Assets that present no particular risk of collectability or impairment of value.
<b>Category II</b>	Assets, including credits, which bear above-average risk of collectability.
<b>Category III</b>	Assets that bear substantial risk of final collectability or impairment of value, and are likely to incur losses.
<b>Category IV</b>	Assets deemed to be uncollectable or valueless.

### <Write-Off and Reserve Provision Rules>

<b>Normal and Need attention borrowers</b>	A general allowance is provided by applying the estimated loan-loss ratio determined based on the historical loan-loss data over a defined period in the past. However, for borrowers with large credit exposure, the loan-loss amount estimated by the DCF method is reflected as an addition to the allowance for loan losses calculated based on the estimated loan-loss ratio, if necessary.
<b>In danger of bankruptcy borrowers</b>	A specific allowance is provided for the loan losses at an amount considered to be necessary based on an overall solvency assessment of the borrowers and expected collectible amounts through the disposal of collateral or execution of guarantees, etc. For loans whose future cash flows of principal and interest are reasonably estimated, the difference between the discounted cash flows and the carrying value is accounted for as an allowance for loan losses.
<b>De facto bankrupt and Bankrupt borrowers</b>	In principle, the full amounts of credits that bear substantial risk of final collectability or impairment of value, and credits deemed to be uncollectable or valueless are written off directly.

### <Definitions of Disclosed Claims under the Financial Reconstruction Law>

<b>Bankrupt and similar credit</b>	Bankrupt and similar credit refers to the credit of borrowers who have filed for bankruptcy, corporate reorganization, composition, etc., as well as those borrowers who are in an equivalent situation.
<b>Doubtful credit</b>	Doubtful refers to credit with serious doubt concerning the recovery of principal and receiving of interest as contract provisions, because the borrower's financial condition and business results have worsened, although they have not reached the point of management collapse.
<b>Special attention credit</b>	Special attention refers to loans in arrears for more than three months or with mitigated conditions.

### Normal credit

Normal credit refers to credit to borrowers whose financial condition and business results have no particular problem and which are not categorized in any of the above categories.

### <Risk-Monitored Loans>

<b>Loans to bankrupt borrowers</b>	Loans to bankrupt borrowers are loans for which interest in arrears has not been accrued because recovery or settlement of principal or interest is unlikely due to the prolonged delay in payment of principal or interest (which hereafter shall be called 'non-accrual loans') and whose borrowers are legally bankrupt (defined below), excluding the amount of write-offs.  1. Borrowers that have applied for commencement of company or financial institution reorganization procedures under the provisions of the Corporate Reorganization Law. 2. Borrowers that have applied for reorganization under the provisions of the Civil Reorganization Law. 3. Borrowers that have applied for bankruptcy under the provisions of the Bankruptcy Law. 4. Borrowers that have applied to commence special liquidation under the provisions of the Company Law. 5. Borrowers with reasons equivalent to 1. to 4. above as defined by Ministry of Finance ordinances. 6. Borrowers who have applied for commencement of legal liquidation procedures under overseas laws, corresponding to those listed above.
<b>Past due loans</b>	Past due loans refer to non-accrual loans except those for which concessions on payment of interest were made in order to assist the reorganization of bankrupt borrowers and loans to them.
<b>Loans overdue for three months or more</b>	Loans overdue for three months or more refer to those loans, excluding loans to bankrupt borrowers and past due loans for which principal or interest remains unpaid for at least three months.
<b>Restructured loans</b>	Restructured loans refer to those loans, excluding loans to bankrupt borrowers, past due loans and loans overdue for three months or more for which agreement was made to provide reduction or a moratorium on interest payments, or concessions in the borrower's favor on interest or principal payments or to waive claims for the purpose of assisting the reconstruction of insolvent borrowers.

### <Differences Between Disclosed Claims under the Financial Reconstruction Law and Risk-Monitored Loans>

<b>• Disclosed Claims</b>	
Disclosure:	Loans and other claims equivalent thereof (foreign exchange, acceptances and guarantees, suspense payments, as well as loaned securities that require notation [limited to only those subject to a usage and lending or lending agreement], etc.).
Disclosed:	By borrower (by loan for special attention credit)
<b>• Risk-Monitored Loans</b>	
Disclosure:	Loans only
Disclosed:	By loan



# Securities (Non-Consolidated)

## Balance of Securities Held

(Millions of Yen, %)

		2021			2020		
		Total	Domestic operations	International operations	Total	Domestic operations	International operations
<b>Total</b>	<b>Average balance (%)</b>	<b>1,213,757</b>	<b>366,328</b>	<b>847,428</b>	<b>1,279,631</b>	<b>300,647</b>	<b>978,984</b>
	<b>(100.00)</b>	<b>(100.00)</b>	<b>(100.00)</b>	<b>(100.00)</b>	<b>(100.00)</b>	<b>(100.00)</b>	<b>(100.00)</b>
	<b>Term-end balance (%)</b>	<b>1,445,782</b>	<b>499,076</b>	<b>946,705</b>	<b>1,151,561</b>	<b>311,484</b>	<b>840,076</b>
	<b>(100.00)</b>	<b>(100.00)</b>	<b>(100.00)</b>	<b>(100.00)</b>	<b>(100.00)</b>	<b>(100.00)</b>	<b>(100.00)</b>
Japanese national government bonds	Average balance (%)	10,400	10,400	—	—	—	—
	(%)	(0.86)	(2.84)	—	—	—	—
	Term-end balance (%)	29,773	29,773	—	—	—	—
	(%)	(2.06)	(5.97)	—	—	—	—
Japanese local government bonds	Average balance (%)	72,149	72,149	—	34,898	34,898	—
	(%)	(5.94)	(19.70)	—	(2.73)	(11.61)	—
	Term-end balance (%)	128,971	128,971	—	37,859	37,859	—
	(%)	(8.92)	(25.84)	—	(3.29)	(12.15)	—
Japanese short-term corporate bonds	Average balance (%)	191	191	—	—	—	—
	(%)	(0.02)	(0.05)	—	—	—	—
	Term-end balance (%)	29,998	29,998	—	—	—	—
	(%)	(2.07)	(6.01)	—	—	—	—
Japanese corporate bonds	Average balance (%)	79,694	79,694	—	56,614	56,614	—
	(%)	(6.57)	(21.75)	—	(4.42)	(18.83)	—
	Term-end balance (%)	82,401	82,401	—	59,994	59,994	—
	(%)	(5.70)	(16.51)	—	(5.21)	(19.26)	—
Japanese stocks	Average balance (%)	36,654	36,654	—	39,260	39,260	—
	(%)	(3.02)	(10.01)	—	(3.07)	(13.06)	—
	Term-end balance (%)	58,219	58,219	—	43,081	43,081	—
	(%)	(4.03)	(11.67)	—	(3.74)	(13.83)	—
Others	Average balance (%)	1,014,666	167,237	847,428	1,148,857	169,873	978,984
	(%)	(83.59)	(45.65)	(100.00)	(89.78)	(56.50)	(100.00)
	Term-end balance (%)	1,116,418	169,712	946,705	1,010,625	170,548	840,076
	(%)	(77.22)	(34.00)	(100.00)	(87.76)	(54.76)	(100.00)

Note: Total for 'Others' is the sum of domestic operations and international operations.

## Balance of Securities by Residual Period

(Millions of Yen)

	2021						2020					
	Japanese national government bonds	Japanese local government bonds	Japanese short-term corporate bonds	Japanese corporate bonds	Japanese stocks	Others	Japanese national government bonds	Japanese local government bonds	Japanese short-term corporate bonds	Japanese corporate bonds	Japanese stocks	Others
Less than 1 year	—	3,473	29,998	1,068	/	11,313	—	2,527	—	58	/	5,997
1–3 years	—	7,973	—	705	/	24,999	—	6,610	—	3,708	/	31,909
3–5 years	—	11,063	—	14,820	/	159,591	—	9,039	—	7,963	/	101,840
5–7 years	—	8,868	—	10,169	/	48,759	—	8,590	—	7,572	/	73,874
7–10 years	10,009	97,592	—	4,225	/	110,258	—	11,091	—	3,841	/	71,200
Over 10 years	19,764	—	—	51,411	/	245,628	—	—	—	36,849	/	201,772
Indefinite period	—	—	—	—	58,219	515,867	—	—	—	—	43,081	524,030
<b>Total</b>	<b>29,773</b>	<b>128,971</b>	<b>29,998</b>	<b>82,401</b>	<b>58,219</b>	<b>1,116,418</b>	<b>—</b>	<b>37,859</b>	<b>—</b>	<b>59,994</b>	<b>43,081</b>	<b>1,010,625</b>

## Ratio of Securities to Debentures and Deposits

(Millions of Yen, %)

	2021			2020		
	Total	Domestic operations	International operations	Total	Domestic operations	International operations
Securities (A)	1,445,782	499,076	946,705	1,151,561	311,484	840,076
Debentures and deposits (B)	3,855,140	3,729,402	125,738	3,370,649	3,259,660	110,989
Ratio (A)/(B)	37.50	13.38	752.91	34.16	9.55	756.89
Average during the year	33.90	10.58	715.73	38.92	9.46	876.96

Note: Deposits include negotiable certificates of deposit.

# Securities Business (Non-Consolidated)

## Underwriting of Public Bonds

(Millions of Yen)

	2021	2020
Japanese national government bonds	—	—
Japanese local government bonds and government-guaranteed bonds	—	—
<b>Total</b>	—	—

## Over-the-Counter Sales of Public Bonds and Securities Investment Trusts

(Millions of Yen)

	2021	2020
Japanese national government bonds	—	—
Japanese local government bonds and government-guaranteed bonds	—	—
<b>Total</b>	—	—
Securities investment trusts	37,138	36,043

# International Operations (Non-Consolidated)

## Foreign Exchange Transactions

Years Ended March 31

(Millions of U.S. Dollars)

		2021	2020
Outward exchange:	Foreign bills sold	6,328	9,145
	Foreign bills bought	—	—
Incoming exchange:	Foreign bills payable	2,519	2,431
	Foreign bills receivable	—	—
<b>Total</b>		<b>8,848</b>	<b>11,576</b>

## Balance of Assets in International Operations

(Millions of Yen)

	2021			2020		
	Total	Domestic offices	Overseas offices	Total	Domestic offices	Overseas offices
Balance of assets in international operations	2,268,277	2,268,277	—	2,257,507	2,257,507	—

# Trust Business Operations (Non-Consolidated)

## Statement of Trust Assets and Liabilities

(Millions of Yen)

Account	2021	2020
<b>(Assets)</b>		
<b>Loans and bills discounted</b>	<b>28,116</b>	<b>43,312</b>
Loans on deeds	28,116	43,312
<b>Securities</b>	<b>176,573</b>	<b>163,390</b>
Government bonds	7,788	4,105
Local government bonds	9,075	9,075
Corporate bonds	26,849	27,349
Foreign securities	132,860	122,861
<b>Beneficiary rights</b>	<b>3,625</b>	<b>6,457</b>
<b>Securities held in custody accounts</b>	<b>217,707</b>	<b>267,021</b>
<b>Money claims</b>	<b>117,676</b>	<b>162,245</b>
Money claims on home mortgage	1,664	2,072
Other money claims	116,011	160,173
<b>Tangible fixed assets</b>	<b>98,136</b>	<b>98,319</b>
Real estate	98,136	98,319
<b>Other claims</b>	<b>8,683</b>	<b>9,511</b>
<b>Cash and due from banks</b>	<b>79,690</b>	<b>85,221</b>
Due from banks	79,690	85,221
<b>Assets Total</b>	<b>730,209</b>	<b>835,481</b>
<b>(Liabilities)</b>		
<b>Money trusts</b>	<b>192,267</b>	<b>172,407</b>
<b>Money entrusted, other than money trusts</b>	<b>106,790</b>	<b>134,400</b>
<b>Securities trusts</b>	<b>217,890</b>	<b>267,192</b>
<b>Monetary claims trusts</b>	<b>7,004</b>	<b>47,253</b>
<b>Composite trusts</b>	<b>206,257</b>	<b>214,227</b>
<b>Liabilities Total</b>	<b>730,209</b>	<b>835,481</b>

Notes: 1. "Beneficiary rights", which the Bank acquired from a trust where the Bank acts as entrustor and trustee, is deducted from the total amount of beneficiary rights in the trust account, in order to avoid duplication.

The principal balance of the corresponding trust account is deducted from liabilities by the same amount.

2. There are no balances for guaranteed trusts.

## Balance of Money Trusts under Management

(Millions of Yen)

Type	2021	2020
Money trusts	192,267	172,407
<b>Total</b>	<b>192,267</b>	<b>172,407</b>

Note: There are no balances for pension trusts, asset formation benefit trusts or loan trusts.

# Trust Business Operations (Non-Consolidated)

## Balance of Securities Related to Money Trusts

(Millions of Yen, %)

Type	2021		2020	
	Balance	Percentage	Balance	Percentage
Government bonds	6,785	3.87	3,102	1.92
Local government bond	9,075	5.17	9,075	5.62
Short-term corporate bonds	—	—	—	—
Corporate bonds	26,849	15.29	26,345	16.33
Stocks	—	—	—	—
Other securities	132,860	75.67	122,861	76.13
<b>Total</b>	<b>175,570</b>	<b>100.00</b>	<b>161,384</b>	<b>100.00</b>

Note: There are no balances for pension trusts, asset formation benefit trusts or loan trusts.

## Balance of Principal of Money Trusts by Trust Period

(Millions of Yen)

Type	2021	2020
Money trusts		
Less than 1 year	607	1
1-2 years	10,290	10,597
2-5 years	793	287
Over 5 years	1,223	1,270
Others	—	—
<b>Total</b>	<b>12,915</b>	<b>12,157</b>

Note: There are no balances for loan trusts.

## Balance of Loans and Securities Held in Money Trust by Type

(Millions of Yen)

Type	2021	2020
Money trusts		
Loans	—	—
Securities	175,570	161,384
<b>Money trusts Total</b>	<b>175,570</b>	<b>161,384</b>
<b>Total Loans</b>	<b>—</b>	<b>—</b>
<b>Total Securities</b>	<b>175,570</b>	<b>161,384</b>
<b>Total Loans and Securities</b>	<b>175,570</b>	<b>161,384</b>

Note: There are no balances for pension trusts, asset formation benefit trusts or loan trusts.

The followings are not applicable.

- Balance of guaranteed trust (including trust assets entrusted to other banks for asset management) by type.
- Balance of loans held in money trusts by type.
- Balance of loans related to money trusts by category (loans on deeds, loans on bills and bills discounted).
- Balance of loans related to money trusts by contract term.
- Balance of loans related to money trusts by type of collateral (securities, claims, commodities, real estate, guarantees and unsecured).
- Balance of loans related to money trusts by purpose of use (capital spending and working capital).
- Balance of loans related to money trusts by industry and ratios to total loans.
- Balance of loans to Small and Medium-Sized Enterprises (SMEs) related to money trusts and ratios to total loans.  
SMEs are defined as companies having capital of not more than ¥300 million (¥100 million in wholesale, and ¥50 million in retail, food service and leasing business categories), or companies with not more than 300 full-time employees (100 in wholesale and leasing, 50 in retail and food service business categories), etc.
- Balance of Risk-Monitored Loans related to guaranteed trust (including trust assets entrusted to other trust banks for asset management).  
Risk-Monitored Loans are "Loans to bankrupt borrowers", "Past due loans", "Loans overdue for three months or more" and "Restructured loans."

# Capitalization (Non-Consolidated)

## History of Capitalization

(Millions of Yen)

Month/Year	Capital increases	Capital thereafter	Remarks
Sep. 2000	66,666	419,781	Compensatory private placement (common stock, 333,334 thousand shares); Issue price ¥300; Transfer to capital ¥200
Oct. 2000	(260,000)	159,781	Non-compensatory reduction of capital <ul style="list-style-type: none"> <li>Capital reduction of ¥105,287 million by redemption of the 2nd preferred stock, 102,000 thousand shares; the 3rd preferred stock, 386,398 thousand shares; and the 4th preferred stock, 71,856 thousand shares</li> <li>Capital reduction of ¥154,712 million exceeding face amount of common stock and transferred to capital</li> </ul>
Oct. 2000	260,000	419,781	Compensatory private placement (the 5th preferred stock, 866,667 thousand shares); Issue price ¥300; Transfer to capital ¥300
Nov. 2012	(319,781)	100,000	Capital reduction (Change in capital composition) Capital stock was reduced by ¥319,781 million. Of which, ¥53,980 million was transferred to legal capital surplus, and the remaining ¥265,801 million was transferred to other capital surplus.

## Major Shareholders

(As of March 31, 2021)

	Number of shares held	Percentage of total outstanding shares
The Master Trust Bank of Japan, Ltd. (Trust Account)	10,610 Thousands	8.97%
The Nomura Trust and Banking Co., Ltd. (Trust Account 2502255)	5,000	4.23
Custody Bank of Japan, Ltd. (Trust Account)	4,851	4.10
Custody Bank of Japan, Ltd. (Trust Account 9)	2,357	1.99
Custody Bank of Japan, Ltd. (Trust Account 5)	1,801	1.52
Custody Bank of Japan, Ltd. (Trust Account 6)	1,597	1.35
Aozora Bank, Ltd.	1,586	1.34
JP MORGAN CHASE BANK 385781	1,513	1.28
Custody Bank of Japan, Ltd. (Trust Account 1)	1,439	1.22
The Nomura Trust and Banking Co., Ltd. (Investment Trust Account)	1,289	1.09
STATE STREET BANK WEST CLIENT-TREATY 505234	1,216	1.03
Others	85,024	71.88
Total	118,289	100.00

Notes: The above table was compiled based on the Bank's Shareholder Registry as of March 31, 2021.

## Ownership and Distribution of Shares

(As of March 31, 2021)

Classification	Stock Status (1 <i>tangen</i> unit = 100 shares)								Fractional shares of common stock
	National and municipal governments	Financial institutions	Financial instruments firms	Other domestic companies	Foreign Investors		Individuals and others	Total	
					Other than individuals	Individuals			
Number of shareholders	1	64	41	774	329	188	88,414	89,811	—
Number of shares held ( <i>tangen</i> )	1	359,430	35,481	45,091	187,818	1,683	552,722	1,182,226	66,818
Percentage of total number of shares	0.00	30.40	3.00	3.82	15.89	0.14	46.75	100.00	—

Notes: 1. Treasury stock of 1,586,557 shares comprises 15,865 *tangen* units under Individuals and others and 57 shares under Fractional shares of common stock.

2. In the Other domestic companies column, shares in the name of Japan Securities Depository Center Incorporated represent one *tangen* unit.

# Disclosure Based on Basel III Capital Accord Pillar III—Market Discipline

This section describes the information consistent with FSA Notice Number 7, Basel III Pillar III—Market Discipline, based on Article 19-2.1.5.d and 19-3.1.3.c of the Ordinance for the Enforcement of the Banking Act (Ministry of Finance Ordinance Number 10, 1982), issued in 2014.

'Notice' in this section refers to FSA Notice Number 19, Basel III Pillar I—Minimum Capital Requirements and Buffers, issued in 2006.

## Composition of Capital Disclosure

### Composition of Capital Disclosure (Consolidated)

(Basel III)

(Millions of Yen)

Items	March 31, 2021	March 31, 2020
<b>Core capital: instruments and reserves (1)</b>		
Directly issued qualifying common share capital and preferred share capital with mandatory conversion clause plus related stock surplus and retained earnings	463,856	449,283
of which: capital and capital surplus	187,412	187,388
of which: retained earnings	283,674	269,746
of which: treasury stock (–)	3,260	3,297
of which: national specific regulatory adjustments (earnings to be distributed) (–)	3,969	4,553
of which: other than above	–	–
Accumulated other comprehensive income included in Core capital	3	(2,476)
of which: foreign currency translation adjustment	(971)	(806)
of which: remeasurements of defined benefit plans	974	(1,669)
Subscription rights to common shares and preferred shares with mandatory conversion clause	482	444
Adjusted non-controlling interests (amount allowed in group Core capital)	–	–
Total of general allowance for loan losses and eligible provisions included in Core capital	40,697	40,780
of which: general allowance for loan losses	40,697	40,780
of which: eligible provisions	–	–
Eligible non-cumulative perpetual preferred shares subject to transitional arrangements included in Core capital	–	–
Eligible capital instruments, other than non-cumulative perpetual preferred shares, subject to transitional arrangements included in Core capital	–	–
Capital instruments issued using public capital injection programs included in Core capital	–	–
Amounts equivalent to 45% of land revaluation excess subject to transitional arrangements included in Core capital	–	–
Non-controlling interests subject to transitional arrangements included in Core capital	272	357
Core capital: instruments and reserves (A)	505,311	488,389
<b>Core capital: regulatory adjustments (2)</b>		
Total intangible assets (net of related tax liability, excluding those relating to mortgage servicing rights)	19,642	13,328
of which: goodwill (including those equivalent)	3,761	–
of which: other intangibles other than goodwill and mortgage servicing rights	15,881	13,328
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	170	174
Shortfall of eligible provisions to expected losses	–	–
Securitization gain on sale	–	–
Gains and losses due to changes in own credit risk on fair valued liabilities	–	–
Defined-benefit pension fund net assets (prepaid pension costs)	3,982	1,739
Investments in own shares (excluding those reported in the Net assets section)	10	25
Reciprocal cross-holdings in capital instruments	–	–
Investments in the common stock and preferred stock with mandatory conversion clause of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	–	–



(Millions of Yen)

Items	March 31, 2021	March 31, 2020
Amount exceeding the 10% threshold on specified items	—	—
of which: significant investments in the common stock and preferred stock with mandatory conversion clause of financials	—	—
of which: mortgage servicing rights	—	—
of which: deferred tax assets arising from temporary differences (net of related tax liability)	—	—
Amount exceeding the 15% threshold on specified items	—	—
of which: significant investments in the common stock and preferred stock with mandatory conversion clause of financials	—	—
of which: mortgage servicing rights	—	—
of which: deferred tax assets arising from temporary differences (net of related tax liability)	—	—
Core capital: regulatory adjustments (B)	23,806	15,268
<b>Regulatory capital</b>		
Regulatory capital ((A)-(B)) (C)	481,505	473,121
<b>Risk-weighted assets (3)</b>		
Credit risk assets	3,853,572	4,065,125
Total of items subject to transitional arrangements included in risk-weighted assets	—	(22,500)
of which: investments in capital instruments of financials	—	(22,500)
of which: other than above	—	—
Risk assets derived from market risk equivalents	355,759	380,164
Risk assets derived from operational risk equivalents	152,219	149,632
Adjustments to credit risk assets	—	—
Adjustments to operational risk equivalents	—	—
Total risk-weighted assets (D)	4,361,551	4,594,922
<b>Consolidated capital adequacy ratio</b>		
Consolidated capital adequacy ratio ((C)/(D))	11.03%	10.29%

Note: Consolidated capital adequacy ratio is calculated based on the Notice.

The Bank uses the domestic standard applicable to Japanese banks without overseas branches or banking subsidiaries.

Methods used to calculate risk-weighted assets and amounts of required capital for each risk are as follows:

(Millions of Yen)

	Methods	March 31, 2021	March 31, 2020
Total required capital		174,462	183,796
Credit risk	Standardized approach	154,142	162,605
Market risk equivalents	Internal models approach and Standardized approach	14,230	15,206
Operational risk equivalents	Standardized approach	6,088	5,985

# Disclosure Based on Basel III Capital Accord Pillar III—Market Discipline

## Composition of Capital Disclosure (Non-Consolidated)

(Basel III)

(Millions of Yen)

Items	March 31, 2021	March 31, 2020
<b>Core capital: instruments and reserves (1)</b>		
Directly issued qualifying common share capital and preferred share capital with mandatory conversion clause plus related stock surplus and retained earnings	458,545	443,428
of which: capital and capital surplus	187,412	187,388
of which: retained earnings	278,361	263,888
of which: treasury stock (–)	3,260	3,297
of which: national specific regulatory adjustments (earnings to be distributed) (–)	3,967	4,550
of which: other than above	–	–
Subscription rights to common shares and preferred shares with mandatory conversion clause	482	444
Total of general allowance for loan losses and eligible provisions included in Core capital	39,852	40,169
of which: general allowance for loan losses	39,852	40,169
of which: eligible provisions	–	–
Eligible non-cumulative perpetual preferred shares subject to transitional arrangements included in Core capital	–	–
Eligible capital instruments, other than non-cumulative perpetual preferred shares, subject to transitional arrangements included in Core capital	–	–
Capital instruments issued using public capital injection programs included in Core capital	–	–
Amounts equivalent to 45% of land revaluation excess subject to transitional arrangements included in Core capital	–	–
Core capital: instruments and reserves (A)	498,879	484,041
<b>Core capital: regulatory adjustments (2)</b>		
Total intangible assets (net of related tax liability, excluding those relating to mortgage servicing rights)	8,645	8,373
of which: goodwill (including those equivalent)	–	–
of which: other intangibles other than goodwill and mortgage servicing rights	8,645	8,373
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	–	–
Shortfall of eligible provisions to expected losses	–	–
Securitization gain on sale	–	–
Gains and losses due to changes in own credit risk on fair valued liabilities	–	–
Defined-benefit pension fund net assets (prepaid pension costs)	2,933	3,239
Investments in own shares (excluding those reported in the Net assets section)	10	25
Reciprocal cross-holdings in capital instruments	–	–
Investments in the common stock and preferred stock with mandatory conversion clause of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	–	–
Amount exceeding the 10% threshold on specified items	–	–
of which: significant investments in the common stock and preferred stock with mandatory conversion clause of financials	–	–
of which: mortgage servicing rights	–	–
of which: deferred tax assets arising from temporary differences (net of related tax liability)	–	–
Amount exceeding the 15% threshold on specified items	–	–
of which: significant investments in the common stock and preferred stock with mandatory conversion clause of financials	–	–
of which: mortgage servicing rights	–	–
of which: deferred tax assets arising from temporary differences (net of related tax liability)	–	–
Core capital: regulatory adjustments (B)	11,589	11,638
<b>Regulatory capital</b>		
Regulatory capital ((A)–(B)) (C)	487,290	472,403

(Millions of Yen)

Items	March 31, 2021	March 31, 2020
<b>Risk-weighted assets (3)</b>		
Credit risk assets	3,881,639	4,085,188
Total of items subject to transitional arrangements included in risk-weighted assets	—	(22,500)
of which: investments in capital instruments of financials	—	(22,500)
of which: other than above	—	—
Risk assets derived from market risk equivalents	355,315	379,703
Risk assets derived from operational risk equivalents	141,139	139,183
Adjustments to credit risk assets	—	—
Adjustments to operational risk equivalents	—	—
Total risk-weighted assets (D)	4,378,094	4,604,075
<b>Non-consolidated capital adequacy ratio</b>		
Non-consolidated capital adequacy ratio ((C)/(D))	11.13%	10.26%

Note: Non-consolidated capital adequacy ratio is calculated based on the Notice.

The Bank uses the domestic standard applicable to Japanese banks without overseas branches or banking subsidiaries.

Methods used to calculate risk-weighted assets and amounts of required capital for each risk are as follows:

(Millions of Yen)

	Methods	March 31, 2021	March 31, 2020
Total required capital		175,123	184,163
Credit risk	Standardized approach	155,265	163,407
Market risk equivalents	Internal models approach and Standardized approach	14,212	15,188
Operational risk equivalents	Standardized approach	5,645	5,567

# Disclosure Based on Basel III Capital Accord Pillar III—Market Discipline

## Qualitative Disclosure

### 1. Items pertaining to the scope of consolidation

**(1) A discrepancy between the definition of companies belonging to the group of companies (hereafter, 'Consolidated Group') subject to calculation of consolidated capital adequacy ratio, in accordance with Article 26 of the Notice, and companies included within the scope of accounting consolidation, and cause of the discrepancy**

Subsidiaries deemed as 'financial subsidiaries' according to the Notice but excluded from the scope of accounting consolidation are included in the Consolidated Group in accordance with Article 26 of the Notice.

**(2) Number of consolidated subsidiaries, names of principal consolidated subsidiaries and major lines of business**

Number of consolidated subsidiaries for the consolidated financial statements: 25

Principal consolidated subsidiaries:

GMO Aozora Net Bank, Ltd. (banking business)  
 Aozora Loan Services Co., Ltd. (distressed loan servicing)  
 Aozora Securities Co., Ltd. (financial instruments business)  
 Aozora Regional Consulting Co., Ltd. (business consulting services)  
 Aozora Investment Management Co., Ltd. (investment management services)  
 Aozora Real Estate Investment Advisors Co., Ltd. (investment advisory services)  
 ABN Advisors Co., Ltd. (M&A advisory services)  
 Aozora Corporate Investment Co., Ltd. (venture capital investment)  
 Aozora Asia Pacific Finance Limited (financial services)  
 Aozora Europe Limited (financial services)  
 Aozora North America, Inc. (financial services)  
 AZB Funding (investment vehicle)  
 AZB Funding 2 (investment vehicle)  
 AZB Funding 3 (investment vehicle)  
 AZB Funding 4 Limited (investment vehicle)  
 AZB Funding 5 (investment vehicle)  
 AZB Funding 6 (investment vehicle)  
 AZB Funding 7 (investment vehicle)  
 AZB Funding 8 Limited (investment vehicle)  
 AZB Funding 9 Limited (investment vehicle)  
 AZB Funding 10 Limited (investment vehicle)  
 AZB Funding 11 Limited (investment vehicle)  
 AZB Funding 12 Limited (investment vehicle)

**(3) Number of affiliates conducting financial services and having applied Article 32 of the Notice, and names, amounts of total assets and net assets and main business of such affiliates**

Not applicable

**(4) Names, amounts of total assets and net assets, and main business of companies belonging to the Consolidated Group but not included in the scope of accounting consolidation, and companies not belonging to the Consolidated Group but included in the scope of accounting consolidation**

(Companies belonging to the Consolidated Group but not included in the scope of accounting consolidation)

(Millions of Yen)

Name	Total assets	Net assets	Main business
AT Investments Co., Ltd.	937	242	financial services
AHT Investments	11	11	financial services
Tokyo Recovery	29	3	financial services
Aozora Recovery Acquisition 1	4,176	4	financial services
Momiji Recovery	2	2	financial services
Chiba-Musashino Partner	320	2	financial services
Shinkumi Recovery Co., Ltd.	537	3	financial services
Aozora Recovery Support Co., Ltd.	1,321	2	financial services
AL3 Co., Ltd.	55	3	financial services
AL4 Co., Ltd.	1	1	financial services
Aozora Asset Co., Ltd.	490	2	financial services
Fukushima Recovery Co., Ltd.	221	214	financial services
Aozora Chiiki Saisei Co., Ltd.	4,658	10	financial services

(Companies not belonging to the Consolidated Group but included in the scope of accounting consolidation)

Not applicable

**(5) Summary of restrictions on the movement of cash and equity capital within the Consolidated Group**

Not applicable

## 2. Summary of equity financing methods

The Aozora Bank Group executes equity financing through the issuance of shares of common stock as follows.

(As of March 31, 2021)

Item	Common Stock
Issuing entity	Aozora Bank
Amounts included in core capital	¥187,412 million

## 3. Outline of capital adequacy assessment method

The Bank manages its capital based on 'risk capital,' namely economic capital, in order to control the size of its business within its intended scope and secure sufficient capital to match the risk it faces. We assess our capital adequacy by comparing the amounts of total capital for the fiscal year and risk capital usage in which actual risk profile is reflected, and thus confirming that an adequate amount of capital for the risk is secured.

Such assessment is also made from the perspective of whether the Bank can maintain sufficient capital to cover the effects of the estimated impact of a loss assumed in a stress-testing on the Bank's capital position and ensure the continuous operation from the following fiscal year onwards, and secure the required capital adequacy ratio. The status of risk capital is reported to the senior management on an approximately monthly basis.

## 4. Items pertaining to credit risk

### (1) Summary of risk management policies and procedures

The policies and procedures applied to risk management at Aozora Bank are described in the Risk Governance section of this annual report under the heading 'Credit Risk Management,' in the Consolidated Financial Statements: Basic Requirements for the Preparation of Consolidated Financial Statements and the Non-Consolidated Financial Statements: Significant Accounting Policies.

### (2) Eligible rating agencies used for the judgment on risk weight

The eligible rating agencies which we use for the judgment on risk weight are as follows. We do not use country risk scores of OECD or Export Credit Agencies.

Type of exposure	Eligible rating agencies used
Sovereign (including government-affiliated organizations)	Rating and Investment Information, Inc. (R&I)
Financial institutions (including securities firms)	Japan Credit Rating Agency, Ltd. (JCR)
Securitization	Moody's Investors Service (Moody's)
Exposures to corporates	S&P Global Ratings(S&P)

## 5. Risk management policy associated with credit risk mitigation and outline of procedures

The Bank uses a standard form of documentation for collateral or guarantee contracts which we confirm as to its legal enforceability. When this standard documentation is not used, we take steps such as confirming the legal enforceability of each contract, among other procedures in the process of our decision to grant or refuse a transaction.

The concentration of credit and market risks resulting from the use of credit risk mitigation is modest.

### (Major collateral)

Type of collateral	Valuation	Management policy	Procedures
Financial assets (deposits at Aozora Bank, securities)	Notional amount or market price	Prices are reviewed on a monthly basis. (Prices of listed securities are reviewed every business day.)	In the calculation of risk-weighted assets, such financial collateral are applied as eligible credit risk mitigations. If a strong positive correlation exists between the credit risk of the counterparty and that of the subject eligible for financial collateral, we do not use such collateral as a credit risk mitigation.
Real estate, etc.	Appraisal	Value is reviewed annually or semiannually according to the credit strength of the borrower.	In the calculation of risk-weighted assets, we do not use such collateral as credit risk mitigation.
Nominative claims, etc.	Amount of billed receivables	Change in creditworthiness of the underlying obligor is monitored appropriately.	
Others	Judged individually	Judged individually	

# Disclosure Based on Basel III Capital Accord Pillar III—Market Discipline

## (Guarantees/CDS)

	Type and creditworthiness of counterparty
Guarantees	<p>We individually judge the creditworthiness of the guarantor or the necessity of obtaining a proof thereof.</p> <p>We use a guarantee transaction as a credit risk mitigation contingent on the following:</p> <ol style="list-style-type: none"> <li>1. The risk weight of the guarantor must be lower than that of the borrower.</li> <li>2. The guarantor must be a sovereign or financial institution.</li> <li>3. If a guarantor is not a sovereign or financial institution, the Bank will use the rating of the guarantor assigned by eligible ratings agencies for the judgment of risk weight.</li> </ol>
CDS	<p>The providers of protection in CDS transactions mainly consist of domestic and overseas financial institutions, and we judge the creditworthiness of the protection provider individually.</p> <p>When a CDS transaction is used as a credit risk mitigation, we set the minimum requirement of meeting the prerequisites of a guarantee as stated above.</p>

## (Offsetting/Netting)

	Policy/procedures/type of transaction/scope
Loan and deposit at Aozora Bank (On-balance-sheet netting)	<p>(Policy)</p> <p>In extending a loan, we conclude a contract with a clause of special agreement on general requirements needed for offsetting, which allows legal offsetting of loans and deposits at Aozora Bank. In the calculation of risk-weighted assets, an amount after netting of a loan and deposit at Aozora subject to the offsetting agreement is treated as an exposure after credit risk mitigations are applied.</p> <p>(Type and scope of transactions)</p> <p>Claim against which the balance on the deposit account is offset: Loans</p> <p>Claims used to offset a loan: Time deposits</p> <p>(Procedures)</p> <p>Under the appropriate maturity control, we apply credit risk mitigations through netting of a loan provided by Aozora and time deposits at Aozora. However, if the remaining period of the loan exceeds the remaining period of time deposits at Aozora, credit risk mitigating effects are recognized only when the initial contract period of time deposits at Aozora is one year or longer and the remaining period as of the base date of calculation is over 3 months.</p>
Derivatives	<p>(Policy)</p> <p>We apply netting for derivative transactions subject to a legally enforceable netting agreement. Transactions exempt from calculation of credit equivalent amounts are not included in the target transactions of netting.</p> <p>(Type and scope of transactions)</p> <p>Interest derivatives, foreign exchange derivatives, credit derivatives, equity derivatives, commodity derivatives, and other various derivatives.</p> <p>(Procedures)</p> <p>We use the ISDA Master Agreement, whose legal enforceability has been confirmed by an outside law firm, as the standard form of derivative transactions. We have also confirmed that there is rational legal opinion for its use.</p>
Repo-style transactions	<p>(Policy)</p> <p>We apply netting for repo-style transactions subject to a legally enforceable netting agreement.</p> <p>(Type and scope of transactions)</p> <p>Repo-style transactions</p> <p>(Procedures)</p> <p>We use a contract, whose legal enforceability has been confirmed by an outside law firm, as the standard form of repo-style transactions. We have also confirmed that there is rational legal opinion for its use.</p>



## 6. Summary of risk management policies and procedures associated with counterparties to derivative product transactions and long-term settlement transactions

Policies and procedures are described under 'Risk Governance section,' 'Credit Risk Management' and 'Market Risk Management.' The Bank is obliged to provide additional collateral for derivative product transactions when there is a deterioration of its credit quality.

## 7. Items pertaining to securitization exposures

### (1) Summary of risk management policies and risk characteristics

Securitization transactions refer to transactions which are structured with two or more tranches in line with underlying credit and which are either partially or wholly transferred to a third party.

The main role of the Bank in securitization transactions is that of investor or servicer. Sometimes, it may also act as originator or swap provider.

Securitization transactions have various risks depending on underlying assets and the Bank's role in securitization transactions.

Risk management policies are described under 'Risk Governance section' and 'Credit Risk Management.'

### (2) Summary of system development and management status in accordance with No. 1 to No. 4 of Paragraph 1, Article 248 of the Capital Adequacy Ratio Notice (this includes cases in which Paragraph 2 of Article 302-2 apply).

Regarding securitization transactions (including resecuritization transactions), individual transactions and portfolios are monitored in accordance with risk characteristics by establishing monitoring policies for each product in line with the underlying assets.

### (3) Policy for using securitization transactions as credit risk mitigation

Securitization transactions as a way to manage the portfolio are considered when necessary.

### (4) Name of method used to calculate the amount of credit risk assets for securitization exposures

This is described in this document under the heading 'Quantitative Disclosures' 2. (1).

### (5) Name of method used to calculate equivalent market risk amounts of securitization exposures

Not applicable.

### (6) Name of SPE types and whether the Bank or its consolidated subsidiaries have securitization exposures to securitization transactions which Aozora Group makes for a third party's assets using an SPE for securitization.

There are no applicable securitization transactions as of March 31, 2021.

### (7) Names of subsidiaries (excluding consolidated subsidiaries) and affiliates which have securitization exposures to securitization transactions made by the Aozora Group (including securitization transactions in which the Aozora Group uses SPEs)

There are no applicable subsidiaries or affiliates as of March 31, 2021.

### (8) Accounting policy for securitization transactions

When the Group originates securitization transactions, the following treatments are applied:

- The Group recognizes the securitization transactions as sale of assets if conditions required for the elimination of assets, based on the Accounting Standards for Financial Instruments, have been satisfied.
- The Group recognizes sale of assets when the assets are reassigned (delivery standard).
- The Group records remainders at the acquisition price. However, if severe impairment mars assessment of the securitized assets, the Group will consider a charge-off.
- The Group provides the necessary amount of provisions for off-balance credits including liquidity facilities or credit facilities, based on internal Write-off and Reserve Standards and related rules.

When the Group acquires securitized products, the assets are treated according to the Accounting Standards for Financial Instruments.

### (9) Names of eligible rating agencies used for the judgment of risk weights according to type of securitization exposure

This is described in this document under the heading 'Qualitative Disclosure' 4. (2).

# Disclosure Based on Basel III Capital Accord Pillar III—Market Discipline

## 8. Items pertaining to market risk

- (1) Summary of risk management policies and procedures
  - (2) Methods used to calculate market risk equivalents
  - (3) Techniques used to accurately assess value according to transaction characteristics, given such factors as assumed holding period and the probability of an extended holding period
  - (4) Outline of models applied to market risk and explanations about back testing and stress tests
  - (5) Assumptions on and evaluation techniques for assessing the level of capital reinforcement required to cover market risk
- These items are described in the Risk Governance section of this annual report under the heading 'Market Risk Management.'

## 9. Items pertaining to operational risk

- (1) Summary of risk management policies and procedures
  - (2) Methods used to calculate operational risk equivalents
- These items are described in this document under the heading 'Composition of Capital Disclosure' and in the Risk Governance section of this annual report under the heading 'Operational Risk Management.'

## 10. Summary of policies and procedures for risk management related to equity exposures

Policies and procedures are described under 'Risk Governance section,' 'Credit Risk Management' and 'Market Risk Management.'

Accounting policies applicable to equity exposures are as follows:

The Group evaluates equity exposures by holding purposes, in line with the Accounting Standards for Financial Instruments.

- a) Stocks in subsidiaries and affiliates are stated at cost.
- b) Available-for-sale securities with fair value are reported at fair value.
- c) Available-for-sale securities whose fair value cannot be reliably determined are stated at cost.

## 11. Items pertaining to interest rate risk

- (1) Summary of risk management policies and procedures  
Consolidated and non-consolidated interest rate risk is measured on a quarterly basis and the CRO reports  $\Delta$ EVE and related items to the ALM Committee, etc. Interest rate risk is controlled by using bond transactions, swaps to which hedge accounting is applied, bond and interest rate futures, and options for those.
- (2) Summary of interest rate risk calculation method  
Interest rate risk in the banking book is measured in such a way that the interest due date under contract for each transaction is recognized as the maturity date, and prepayments of fixed rate housing loans and term deposits are assumed. We adopt the assumed rates for repayment and cancellation set by the Regulator. For liquid deposits, "core deposits" (liquid deposits that are to remain in the bank for a long period without withdrawal) are considered. Maturity dates of core deposits are set monthly by equal amount to the maximum maturity of 5 years for whichever is the lowest amount over the past 1 year among the following three criteria: (1) the minimum balance over the past 5 years, (2) the balance delivered by subtracting the largest annual outflow over the past 5 years from the current balance or (3) 50% of the current balance. The maximum maturity set to liquid deposits is 5 years, and the average maturity is 0.7 years on a non-consolidated basis and 0.6 years on a consolidated basis. For the aggregation of interest rate risk amount calculated per currency,  $\Delta$ EVE is calculate by adding only the currencies with positive  $\Delta$ EVE and  $\Delta$ NII is calculated by simply adding up  $\Delta$ NII of each currency. Also, spreads are considered in cash flows.  
Other items are described in the Risk Governance section of this annual report under the heading 'Market Risk Management'.

## Quantitative Disclosure

### 1. Names of subsidiaries classified as other financial institutions under the Notice whose capital is short of the regulatory amount required, and total shortfall amount of such subsidiaries

(As of March 31, 2021 and 2020)

Not applicable

### 2. Items pertaining to capital adequacy

#### (1) Breakdown by Portfolio (Non-Consolidated)

(100 Million Yen)

Category	March 31, 2021			March 31, 2020		
	Amount of exposure	Amount of credit risk assets	Amount of capital requirements	Amount of exposure	Amount of credit risk assets	Amount of capital requirements
Cash	61	—	—	106	—	—
Claims on Japanese government/bank	9,588	—	—	4,826	—	—
Claims on foreign central government/bank	3,779	85	3	2,803	72	2
Claims on Bank for International Settlements (BIS)	—	—	—	—	—	—
Claims on Japanese local public bodies	1,509	—	—	455	0	0
Claims on non-central government public sector entities (PSEs) of foreign countries	1,320	264	10	1,365	273	10
Claims on multilateral development banks (MDBs)	—	—	—	—	—	—
Claims on Japan Finance Organization for Municipalities (JFM)	29	0	0	29	0	0
Claims on organs affiliated with the Japanese government	182	8	0	143	3	0
Claims on three major local public corporations	92	1	0	27	1	0
Claims on financial institutions and Type I financial instruments business operators	3,268	653	26	3,369	693	27
Claims on corporates	21,040	17,436	697	21,159	18,565	742
Claims on SMEs and individuals	—	—	—	—	—	—
Mortgage-backed housing loans	6	2	0	6	2	0
Claims on projects including acquisition of real estate properties	1,966	1,966	78	1,865	1,865	74
Loans overdue for three months or more	982	1,411	56	1,184	1,670	66
Cash items in process of collection	—	—	—	—	—	—
Loans guaranteed by Credit Guarantee Association, etc.	—	—	—	0	0	0
Loans guaranteed by Regional Economy Vitalization Corporation of Japan (REVIC), etc.	—	—	—	—	—	—
Equity, etc.	1,179	1,179	47	1,237	1,237	49
Securitization exposure	2,162	742	29	1,970	715	28
Rating-based approach	2,040	687	27	1,884	671	26
Standardised approach	121	54	2	86	44	1
Risk weight = 1,250%	—	—	—	—	—	—
Specialised lending	6,353	6,207	248	6,619	6,471	258
Exposures relating to funds	3,997	5,026	201	4,852	5,354	214
Look-through approach	3,963	4,992	199	4,805	5,308	212
Mandate-based approach	33	33	1	46	46	1
250%	—	—	—	—	—	—
400%	—	—	—	—	—	—
Fall-back approach = 1,250%	—	—	—	—	—	—
Amount calculated by dividing equivalent CVA risk amount by 8%	—	650	26	—	838	33
Central counterparty-related	698	67	2	6,153	249	9
Total of items included in risk-weighted assets subject to phase-out arrangements	—	—	—	150	150	6
Other	1,438	3,111	124	1,268	2,682	107
<b>Total</b>	<b>59,659</b>	<b>38,816</b>	<b>1,552</b>	<b>59,595</b>	<b>40,851</b>	<b>1,634</b>

Notes: 1. Amount of exposure

• After deducting the amount equivalent to partial direct write-offs.

Specific allowance for loan losses and allowance for loans to restructuring countries are not subject to the deduction.

• The amount is equivalent to credit extension set forth in the Notice (after the effect of deducting the amount equivalent to credit extension under netting agreement).

• After credit risk mitigation.

• As the Bank is subject to domestic standards, the amount is calculated as 'credit risk assets ×4%'.

• There were no securitization transactions originated or sponsored by the Aozora Group.

• The amount is rounded down to the whole number. The same applies to the following charts.

2. Amount of credit risk assets
3. Amount of capital requirements
4. Securitization exposure
5. Indication method after the decimal point

# Disclosure Based on Basel III Capital Accord Pillar III—Market Discipline

## Breakdown by Portfolio (Consolidated)

(100 Million Yen)

Category	March 31, 2021			March 31, 2020		
	Amount of exposure	Amount of credit risk assets	Amount of capital requirements	Amount of exposure	Amount of credit risk assets	Amount of capital requirements
Cash	61	—	—	106	—	—
Claims on Japanese government/bank	11,412	—	—	5,647	—	—
Claims on foreign central government/bank	3,779	85	3	2,803	72	2
Claims on Bank for International Settlements (BIS)	—	—	—	—	—	—
Claims on Japanese local public bodies	1,671	—	—	455	0	0
Claims on non-central government public sector entities (PSEs) of foreign countries	1,320	264	10	1,365	273	10
Claims on multilateral development banks (MDBs)	—	—	—	—	—	—
Claims on Japan Finance Organization for Municipalities (JFM)	29	0	0	29	0	0
Claims on organs affiliated with the Japanese government	209	11	0	143	3	0
Claims on three major local public corporations	92	1	0	27	1	0
Claims on financial institutions and Type I financial instruments business operators	3,504	700	28	3,466	711	28
Claims on corporates	21,317	17,746	709	21,392	18,848	753
Claims on SMEs and individuals	—	—	—	—	—	—
Mortgage-backed housing loans	6	2	0	6	2	0
Claims on projects including acquisition of real estate properties	1,966	1,966	78	1,865	1,865	74
Loans overdue for three months or more	1,300	1,888	75	1,461	2,086	83
Cash items in process of collection	11	2	0	2	0	0
Loans guaranteed by Credit Guarantee Association, etc.	—	—	—	0	0	0
Loans guaranteed by Regional Economy Vitalization Corporation of Japan (REVIC), etc.	—	—	—	—	—	—
Equity, etc.	669	669	26	772	772	30
Securitization exposure	2,172	746	29	1,970	715	28
Rating-based approach	2,050	691	27	1,884	671	26
Standardised approach	121	54	2	86	44	1
Risk weight = 1,250%	—	—	—	—	—	—
Specialised lending	6,353	6,207	248	6,619	6,471	258
Exposures relating to funds	3,559	4,420	176	4,423	4,794	191
Look-through approach	3,525	4,386	175	4,377	4,748	189
Mandate-based approach	33	33	1	46	46	1
250%	—	—	—	—	—	—
400%	—	—	—	—	—	—
Fall-back approach = 1,250%	0	0	0	0	0	0
Amount calculated by dividing equivalent CVA risk amount by 8%	—	650	26	—	838	33
Central counterparty-related	698	67	2	6,153	249	9
Total of items included in risk-weighted assets subject to phase-out arrangements	—	—	—	150	150	6
Other	1,561	3,103	124	1,566	2,790	111
<b>Total</b>	<b>61,699</b>	<b>38,535</b>	<b>1,541</b>	<b>60,431</b>	<b>40,651</b>	<b>1,626</b>

Notes: 1. Amount of exposure

• After deducting the amount equivalent to partial direct write-offs. Specific allowance for loan losses and allowance for loans to restructuring countries are not subject to the deduction.

• The amount is equivalent to credit extension set forth in the Notice (after the effect of deducting the amount equivalent to credit extension under netting agreement).

• After credit risk mitigation.

• As the Bank is subject to domestic standards, the amount is calculated as 'credit risk assets ×4%'.

• There were no securitization transactions originated or sponsored by the Aozora Group.

2. Amount of credit risk assets

3. Amount of capital requirements

4. Securitization exposure

**(2) Amount of capital required to cover credit risk related to exposures held in funds:**

This item is described in 'Exposures relating to funds' of (1).

**(3) Amount of capital required to cover market risk and amounts presented by each method used by the Consolidated Group:**

This information is described in the Risk Governance section of this annual report under the heading 'Market Risk Management.'

**(4) Amount of capital required to cover operational risk and amounts presented by each method used by the Consolidated Group:**

This information is described in this document under the heading 'Composition of Capital Disclosure' and in the Risk Governance section of this annual report under the heading 'Operational Risk Management.'

**(5) Total capital requirements:**

This information is described in 'Composition of Capital Disclosure.'

**3. Items pertaining to credit risk**

**(1) Breakdown of year-end credit risk exposure balance by area, industry and residual period, as well as category:**

Breakdown of Exposure by Area (Non-Consolidated)

(100 Million Yen)

Area	March 31, 2021				March 31, 2020			
	Loans, etc.	Securities	Derivatives	Total	Loans, etc.	Securities	Derivatives	Total
Japan	32,397	4,626	1,028	38,052	27,897	3,041	6,830	37,769
Overseas	12,039	8,887	679	21,606	12,591	8,313	920	21,826
<b>Total</b>	<b>44,436</b>	<b>13,514</b>	<b>1,708</b>	<b>59,659</b>	<b>40,489</b>	<b>11,354</b>	<b>7,751</b>	<b>59,595</b>

Notes: 1. Loans, etc. include on-balance and off-balance-sheet exposures such as loans and commitment lines, other than securities and derivatives above.  
2. Disclosure of the average balance is not made because there is no significant difference between the average risk position of the exposure for the term and the balance at the term-end.

Breakdown of Exposure by Area (Consolidated)

(100 Million Yen)

Area	March 31, 2021				March 31, 2020			
	Loans, etc.	Securities	Derivatives	Total	Loans, etc.	Securities	Derivatives	Total
Japan	34,941	4,167	1,028	40,137	29,480	2,340	6,830	38,652
Overseas	12,193	8,688	679	21,561	12,743	8,114	920	21,779
<b>Total</b>	<b>47,135</b>	<b>12,855</b>	<b>1,708</b>	<b>61,699</b>	<b>42,224</b>	<b>10,455</b>	<b>7,751</b>	<b>60,431</b>

Notes: 1. Loans, etc. include on-balance and off-balance-sheet exposures such as loans and commitment lines, other than securities and derivatives above.  
2. Disclosure of the average balance is not made because there is no significant difference between the average risk position of the exposure for the term and the balance at the term-end.

# Disclosure Based on Basel III Capital Accord Pillar III—Market Discipline

## Breakdown of Exposure by Industry Sector (Non-Consolidated)

(100 Million Yen)

Industry sector	March 31, 2021				March 31, 2020			
	Loans, etc.	Securities	Derivatives	Total	Loans, etc.	Securities	Derivatives	Total
Sovereign	9,707	6,772	25	16,505	5,003	4,624	24	9,652
Financial institution	2,086	593	653	3,333	1,977	248	1,443	3,669
Manufacturing	4,173	368	63	4,605	4,685	244	82	5,012
Agriculture/forestry/fisheries	67	—	1	68	46	—	2	48
Mining	59	—	—	59	60	—	—	60
Construction	274	11	6	291	201	11	0	212
Utilities (electric power/gas/ heat supply/water service)	1,278	179	76	1,535	1,244	168	77	1,490
Information & telecommunications	2,141	112	0	2,254	1,718	127	0	1,845
Transport	594	53	38	686	634	43	165	843
Wholesale/retail	1,313	103	92	1,509	1,335	73	102	1,510
Other financial business (moneylending, leasing)	7,181	4,107	700	11,988	7,574	4,462	5,791	17,828
Real estate	9,498	1,196	25	10,721	9,438	1,333	33	10,805
Various services (excluding leasing)	3,561	4	24	3,590	3,838	5	26	3,869
Others	2,498	10	0	2,509	2,731	12	1	2,745
<b>Total</b>	<b>44,436</b>	<b>13,514</b>	<b>1,708</b>	<b>59,659</b>	<b>40,489</b>	<b>11,354</b>	<b>7,751</b>	<b>59,595</b>

Note: Loans, etc. include on-balance and off-balance-sheet exposures such as loans and commitment lines, other than securities and derivatives above.

## Breakdown of Exposure by Industry Sector (Consolidated)

(100 Million Yen)

Industry sector	March 31, 2021				March 31, 2020			
	Loans, etc.	Securities	Derivatives	Total	Loans, etc.	Securities	Derivatives	Total
Sovereign	10,559	7,041	25	17,626	5,355	4,624	24	10,004
Financial institution	2,316	307	653	3,277	2,072	3	1,443	3,518
Manufacturing	4,189	368	63	4,621	4,707	244	82	5,034
Agriculture/forestry/fisheries	86	—	1	87	72	—	2	75
Mining	59	—	—	59	67	—	—	67
Construction	297	11	6	314	222	11	0	233
Utilities (electric power/gas/ heat supply/water service)	1,349	179	76	1,606	1,315	168	77	1,561
Information & telecommunications	2,185	112	0	2,298	1,766	127	0	1,894
Transport	594	73	38	706	634	43	165	843
Wholesale/retail	1,328	103	92	1,524	1,349	73	102	1,524
Other financial business (moneylending, leasing)	7,228	3,450	700	11,378	7,587	3,812	5,791	17,191
Real estate	9,498	1,196	25	10,721	9,438	1,333	33	10,805
Various services (excluding leasing)	3,582	0	24	3,607	3,853	1	26	3,880
Others	3,857	10	0	3,868	3,782	12	1	3,796
<b>Total</b>	<b>47,135</b>	<b>12,855</b>	<b>1,708</b>	<b>61,699</b>	<b>42,224</b>	<b>10,455</b>	<b>7,751</b>	<b>60,431</b>

Note: Loans, etc. include on-balance and off-balance-sheet exposures such as loans and commitment lines, other than securities and derivatives above.



## Breakdown of Exposure by Residual Period (Non-Consolidated)

(100 Million Yen)

Residual period	March 31, 2021				March 31, 2020			
	Loans, etc.	Securities	Derivatives	Total	Loans, etc.	Securities	Derivatives	Total
< 1 year	6,444	450	306	7,201	5,138	86	444	5,669
≥ 1 year < 5 years	15,632	1,744	428	17,805	12,566	1,277	2,560	16,404
≥ 5 years	22,359	11,318	973	34,652	22,784	9,990	4,746	37,521
<b>Total</b>	<b>44,436</b>	<b>13,514</b>	<b>1,708</b>	<b>59,659</b>	<b>40,489</b>	<b>11,354</b>	<b>7,751</b>	<b>59,595</b>

Notes: 1. Loans, etc. include on-balance and off-balance-sheet exposures such as loans and commitment lines, other than securities and derivatives above.  
2. Exposures with a residual period of ≥ 5 years also include the transactions for which no maturity period is stipulated.

## Breakdown of Exposure by Residual Period (Consolidated)

(100 Million Yen)

Residual period	March 31, 2021				March 31, 2020			
	Loans, etc.	Securities	Derivatives	Total	Loans, etc.	Securities	Derivatives	Total
< 1 year	6,681	567	306	7,556	4,845	86	444	5,376
≥ 1 year < 5 years	15,828	1,923	428	18,180	12,566	1,277	2,560	16,404
≥ 5 years	24,625	10,364	973	35,963	24,812	9,091	4,746	38,650
<b>Total</b>	<b>47,135</b>	<b>12,855</b>	<b>1,708</b>	<b>61,699</b>	<b>42,224</b>	<b>10,455</b>	<b>7,751</b>	<b>60,431</b>

Notes: 1. Loans, etc. include on-balance and off-balance-sheet exposures such as loans and commitment lines, other than securities and derivatives above.  
2. Exposures with a residual period of ≥ 5 years also include the transactions for which no maturity period is stipulated.

## (2) Balance of year-end exposure overdue for three months or more and breakdown by area and industry:

### Breakdown of Exposure Overdue for Three Months or More by Area (Non-Consolidated)

(100 Million Yen)

Area	March 31, 2021				March 31, 2020			
	Loans, etc.	Securities	Derivatives	Total	Loans, etc.	Securities	Derivatives	Total
Japan	45	—	1	47	7	—	0	7
Overseas	929	5	—	935	1,177	—	—	1,177
<b>Total</b>	<b>975</b>	<b>5</b>	<b>1</b>	<b>982</b>	<b>1,184</b>	<b>—</b>	<b>0</b>	<b>1,184</b>

Notes: 1. Loans, etc. include on-balance and off-balance-sheet exposures such as loans and commitment lines, other than securities and derivatives above.  
2. 'Exposures Overdue for Three Months or More' shows assets which have 150% of risk weight that is before write-off/reserve by Provision 71 of the Notice.

### Breakdown of Exposure Overdue for Three Months or More by Area (Consolidated)

(100 Million Yen)

Area	March 31, 2021				March 31, 2020			
	Loans, etc.	Securities	Derivatives	Total	Loans, etc.	Securities	Derivatives	Total
Japan	347	—	1	348	283	—	0	284
Overseas	945	5	—	951	1,177	—	—	1,177
<b>Total</b>	<b>1,293</b>	<b>5</b>	<b>1</b>	<b>1,300</b>	<b>1,461</b>	<b>—</b>	<b>0</b>	<b>1,461</b>

Notes: 1. Loans, etc. include on-balance and off-balance-sheet exposures such as loans and commitment lines, other than securities and derivatives above.  
2. 'Exposures Overdue for Three Months or More' shows assets which have 150% of risk weight that is before write-off/reserve by Provision 71 of the Notice.

# Disclosure Based on Basel III Capital Accord Pillar III—Market Discipline

## Breakdown of Exposure Overdue for Three Months or More by Industry Sector (Non-Consolidated)

(100 Million Yen)

Industry sector	March 31, 2021				March 31, 2020			
	Loans, etc.	Securities	Derivatives	Total	Loans, etc.	Securities	Derivatives	Total
Sovereign	—	—	—	—	—	—	—	—
Financial institution	—	—	—	—	—	—	—	—
Manufacturing	286	—	—	286	415	—	0	415
Agriculture/forestry/fisheries	21	—	1	22	—	—	—	—
Mining	—	—	—	—	—	—	—	—
Construction	—	—	—	—	—	—	—	—
Utilities (electric power/gas/ heat supply/water service)	29	—	—	29	102	—	—	102
Information & telecommunications	150	—	—	150	184	—	—	184
Transport	0	5	—	5	0	—	—	0
Wholesale/retail	159	—	—	159	187	—	—	187
Other financial business (moneylending, leasing)	—	—	—	—	—	—	—	—
Real estate	26	—	—	26	47	—	—	47
Various services (excluding leasing)	301	—	—	301	246	—	—	246
Others	0	—	—	0	0	—	—	0
<b>Total</b>	<b>975</b>	<b>5</b>	<b>1</b>	<b>982</b>	<b>1,184</b>	<b>—</b>	<b>0</b>	<b>1,184</b>

Notes: 1. Loans, etc. include on-balance and off-balance-sheet exposures such as loans and commitment lines, other than securities and derivatives above.  
2. 'Exposures Overdue for Three Months or More' shows assets which have 150% of risk weight that is before write-off/reserve by Provision 71 of the Notice.

## Breakdown of Exposure Overdue for Three Months or More by Industry Sector (Consolidated)

(100 Million Yen)

Industry sector	March 31, 2021				March 31, 2020			
	Loans, etc.	Securities	Derivatives	Total	Loans, etc.	Securities	Derivatives	Total
Sovereign	—	—	—	—	—	—	—	—
Financial institution	—	—	—	—	—	—	—	—
Manufacturing	286	—	—	286	416	—	0	416
Agriculture/forestry/fisheries	37	—	1	38	—	—	—	—
Mining	—	—	—	—	—	—	—	—
Construction	—	—	—	—	—	—	—	—
Utilities (electric power/gas/ heat supply/water service)	29	—	—	29	102	—	—	102
Information & telecommunications	150	—	—	150	184	—	—	184
Transport	0	5	—	5	0	—	—	0
Wholesale/retail	159	—	—	159	187	—	—	187
Other financial business (moneylending, leasing)	—	—	—	—	—	—	—	—
Real estate	26	—	—	26	47	—	—	47
Various services (excluding leasing)	301	—	—	301	246	—	—	246
Others	301	—	—	301	276	—	—	276
<b>Total</b>	<b>1,293</b>	<b>5</b>	<b>1</b>	<b>1,300</b>	<b>1,461</b>	<b>—</b>	<b>0</b>	<b>1,461</b>

Notes: 1. Loans, etc. include on-balance and off-balance-sheet exposures such as loans and commitment lines, other than securities and derivatives above.  
2. 'Exposures Overdue for Three Months or More' shows assets which have 150% of risk weight that is before write-off/reserve by Provision 71 of the Notice.

**(3) Year-end balances and year-on-year changes for general allowance for loan losses, specific allowance for loan losses and country risk allowance:**

**Breakdown of Allowance by Area (Non-Consolidated)**

(100 Million Yen)

Area	Mar. 2021	Mar. 2020	Difference
General allowance	392	396	(3)
Specific allowance	107	135	(28)
Japan	70	86	(16)
Overseas	37	48	(11)
Allowance for loans to restructuring countries	—	—	—
<b>Total</b>	<b>500</b>	<b>531</b>	<b>(31)</b>

**Breakdown of Allowance by Area (Consolidated)**

(100 Million Yen)

Area	Mar. 2021	Mar. 2020	Difference
General allowance	401	402	(0)
Specific allowance	107	135	(28)
Japan	70	86	(16)
Overseas	37	49	(11)
Allowance for loans to restructuring countries	—	—	—
<b>Total</b>	<b>508</b>	<b>537</b>	<b>(29)</b>

**Breakdown of Allowance by Industry Sector (Non-Consolidated)**

(100 Million Yen)

Industry sector	Mar. 2021	Mar. 2020	Difference
General allowance	392	396	(3)
Specific allowance	107	135	(28)
Sovereign	—	—	—
Financial institution	—	—	—
Manufacturing	1	17	(15)
Agriculture/forestry/fisheries	32	44	(11)
Mining	—	—	—
Construction	—	—	—
Utilities (electric power/gas/heat supply/water service)	—	—	—
Information & telecommunications	—	19	(19)
Transport	—	—	—
Wholesale/retail	20	28	(7)
Other financial business (moneylending, leasing)	23	—	23
Real estate	17	14	3
Various services (excluding leasing)	11	11	(0)
Others	0	0	0
Allowance for loans to restructuring countries	—	—	—
<b>Total</b>	<b>500</b>	<b>531</b>	<b>(31)</b>

# Disclosure Based on Basel III Capital Accord Pillar III—Market Discipline

## Breakdown of Allowance by Industry Sector (Consolidated)

(100 Million Yen)

Industry sector	Mar. 2021	Mar. 2020	Difference
General allowance	401	402	(0)
Specific allowance	107	135	(28)
Sovereign	—	—	—
Financial institution	—	—	—
Manufacturing	1	17	(15)
Agriculture/forestry/fisheries	32	44	(11)
Mining	—	—	—
Construction	—	—	—
Utilities (electric power/gas/heat supply/water service)	—	—	—
Information & telecommunications	—	19	(19)
Transport	—	—	—
Wholesale/retail	20	28	(7)
Other financial business (moneylending, leasing)	23	—	23
Real estate	17	14	3
Various services (excluding leasing)	11	11	(0)
Others	0	0	0
Allowance for loans to restructuring countries	—	—	—
<b>Total</b>	<b>508</b>	<b>537</b>	<b>(29)</b>

## (4) Write-offs by industry sector:

### Breakdown of Write-Offs by Industry Sector (Non-Consolidated)

(100 Million Yen)

Industry sector	Mar. 2021	Mar. 2020	Difference
Sovereign	—	—	—
Financial institution	—	—	—
Manufacturing	10	0	10
Agriculture/forestry/fisheries	—	—	—
Mining	—	6	(6)
Construction	—	—	—
Utilities (electric power/gas/heat supply/water service)	—	—	—
Information & telecommunications	—	—	—
Transport	4	—	4
Wholesale/retail	7	4	2
Other financial business (moneylending, leasing)	—	—	—
Real estate	—	—	—
Various services (excluding leasing)	7	—	7
Others	—	—	—
<b>Total</b>	<b>30</b>	<b>11</b>	<b>18</b>

Note: The table shows the breakdown of the write-off of loans in the Statement of Operations.

### Breakdown of Write-Offs by Industry Sector (Consolidated)

(100 Million Yen)

Industry sector	Mar. 2021	Mar. 2020	Difference
Sovereign	—	—	—
Financial institution	—	—	—
Manufacturing	0	3	(3)
Agriculture/forestry/fisheries	—	—	—
Mining	—	—	—
Construction	—	—	—
Utilities (electric power/gas/heat supply/water service)	—	—	—
Information & telecommunications	—	—	—
Transport	—	—	—
Wholesale/retail	—	4	(4)
Other financial business (moneylending, leasing)	—	—	—
Real estate	—	—	—
Various services (excluding leasing)	—	—	—
Others	1	3	(1)
<b>Total</b>	<b>1</b>	<b>10</b>	<b>(9)</b>

Notes: 1. The table shows the breakdown of the write-off of loans in the Statement of Operations.

2. The 'Write-offs' include write-offs made by AOZORA Loan Services Co., Ltd., which are shown on the 'Others' line.

#### (5) Outstanding exposure after credit risk mitigation by risk weight:

##### (Non-Consolidated)

(100 Million Yen)

Risk weight	March 31, 2021		March 31, 2020	
	Amount of exposure		Amount of exposure	
		Application of external rating		Application of external rating
0%	15,724	3,527	8,540	2,486
> 0% ≤ 10%	749	19	6,195	22
> 10% ≤ 20%	7,533	7,476	6,804	6,740
> 20% ≤ 50%	3,516	3,390	2,111	2,052
> 50% ≤ 75%	1,073	332	1,693	413
> 75% ≤ 100%	26,126	6,904	28,267	7,777
> 100% ≤ 150%	3,122	1,039	3,751	1,195
> 150% < 1,250%	1,504	—	1,361	4
1,250%	37	—	0	—
<b>Total</b>	<b>59,389</b>	<b>22,690</b>	<b>58,727</b>	<b>20,693</b>

Note: In the 'Application of external rating' section, the exposures to which an external rating is applied in the calculation of risk weight are included.

##### (Consolidated)

(100 Million Yen)

Risk weight	March 31, 2021		March 31, 2020	
	Amount of exposure		Amount of exposure	
		Application of external rating		Application of external rating
0%	17,704	3,527	9,416	2,486
> 0% ≤ 10%	776	19	6,195	22
> 10% ≤ 20%	7,923	7,733	7,105	6,834
> 20% ≤ 50%	3,524	3,408	2,102	2,052
> 50% ≤ 75%	1,073	332	1,665	413
> 75% ≤ 100%	25,756	7,053	27,934	7,915
> 100% ≤ 150%	3,154	1,039	3,765	1,195
> 150% < 1,250%	1,478	—	1,376	4
1,250%	37	—	0	—
<b>Total</b>	<b>61,429</b>	<b>23,114</b>	<b>59,562</b>	<b>20,924</b>

Note: In the 'Application of external rating' section, the exposures to which an external rating is applied in the calculation of risk weight are included.

#### 4. Items pertaining to credit risk mitigation techniques

##### Breakdown of Exposure for Which Credit Risk Mitigations Are Applied (Non-Consolidated)

(100 Million Yen)

Credit risk mitigation	March 31, 2021	March 31, 2020
Eligible financial collateral	1,368	1,245
Cash and deposits at Aozora	1,358	1,234
Debt securities	—	—
Equities	10	11
Others	—	—
Guarantees and credit derivatives	850	662
Guarantees	850	662
Credit derivatives	—	—
<b>Total</b>	<b>2,219</b>	<b>1,907</b>

Note: The exposure above does not include the amount for which a credit risk mitigation is recognized through netting between loans and deposits at the Bank under the netting agreement (Provision 117 of the Notice) and the repo transactions etc.

# Disclosure Based on Basel III Capital Accord Pillar III—Market Discipline

## Breakdown of Exposure for Which Credit Risk Mitigations Are Applied (Consolidated)

(100 Million Yen)

Credit risk mitigation	March 31, 2021	March 31, 2020
Eligible financial collateral	1,368	1,245
Cash and deposits at Aozora	1,358	1,234
Debt securities	—	—
Equities	10	11
Others	—	—
Guarantees and credit derivatives	850	662
Guarantees	850	662
Credit derivatives	—	—
<b>Total</b>	<b>2,219</b>	<b>1,907</b>

Note: The exposure above does not include the amount for which a credit risk mitigation is recognized through netting between loans and deposits at the Bank under the netting agreement (Provision 117 of the Notice) and the repo transactions etc.

## 5. Items pertaining to counterparty risk on derivative transactions and long-settlement transactions

### Credit-equivalent amount of Derivative Transactions and Long-Settlement Transactions (Non-Consolidated)

(100 Million Yen)

	March 31, 2021	March 31, 2020
Replacement cost(RC)	651	2,395
Potential future exposures(PFE)	1,280	3,141
Credit-equivalent amount(RC + PFE) x 1.4	2,704	7,751
Amount of credit risk assets	514	1,032
Collateral used in this transaction		
Received collateral	1,221	992
Posted collateral	589	688

Notes: 1. Credit-equivalent amounts are figures after credit risk mitigation.

2. Received collateral and posted collateral are cash and deposits at Aozora. Received collateral is after taking into account credit risk mitigation.



### Credit-equivalent amount of Derivative Transactions and Long-Settlement Transactions (Consolidated)

(100 Million Yen)

	March 31, 2021	March 31, 2020
Replacement cost(RC)	651	2,395
Potential future exposures(PFE)	1,280	3,141
Credit-equivalent amount(RC + PFE) x 1.4	2,704	7,751
Amount of credit risk assets	514	1,032
Collateral used in this transaction		
Received collateral	1,221	992
Posted collateral	589	688

Notes: 1. Credit-equivalent amounts are figures after credit risk mitigation.

2. Received collateral and posted collateral are cash and deposits at Aozora. Received collateral is after taking into account credit risk mitigation.

### Breakdown of Credit Derivative Transactions (Non-Consolidated)

(100 Million Yen)

Type of transaction	Purchase or supply of guarantee	March 31, 2021	March 31, 2020
		Notional principal	Notional principal
Transactions subject to the calculation of credit-equivalent amount		2,613	2,969
Credit derivatives (credit reference asset of single organization)	Purchase	1,175	1,402
	Supply	1,437	1,567
First-to-default type	Purchase	—	—
	Supply	—	—
Second-to-default type	Purchase	—	—
	Supply	—	—
Transactions not subject to the calculation of credit-equivalent amount	Purchase	—	—

Note: The transactions not subject to the calculation of credit-equivalent amount are figures used for credit risk mitigations.

### Breakdown of Credit Derivative Transactions (Consolidated)

(100 Million Yen)

Type of transaction	Purchase or supply of guarantee	March 31, 2021	March 31, 2020
		Notional principal	Notional principal
Transactions subject to the calculation of credit-equivalent amount		2,613	2,969
Credit derivatives (credit reference asset of single organization)	Purchase	1,175	1,402
	Supply	1,437	1,567
First-to-default type	Purchase	—	—
	Supply	—	—
Second-to-default type	Purchase	—	—
	Supply	—	—
Transactions not subject to the calculation of credit-equivalent amount	Purchase	—	—

Note: The transactions not subject to the calculation of credit-equivalent amount are figures used for credit risk mitigations.

# Disclosure Based on Basel III Capital Accord Pillar III—Market Discipline

## 6. Items pertaining to securitization transactions

### (1) Securitization transactions originated by the Aozora Group

As of March 31, 2020 and 2021, there were no securitization transactions originated by the Aozora Group.

### (2) Securitization transactions in which the Aozora Group invests

#### Securitization Exposure Held by the Group (Non-Consolidated)

(100 Million Yen)

Category of underlying assets	March 31, 2021					
	Securitization exposure		Resecuritization exposure		Total	
	On-Balance	Off-Balance	On-Balance	Off-Balance	On-Balance	Off-Balance
Corporate exposures	1,067	50	—	—	1,067	50
Retail exposures	1,027	16	—	—	1,027	16
Residential loan receivables	—	—	—	—	—	—
Lease receivables	—	—	—	—	—	—
Others	—	—	—	—	—	—
<b>Total</b>	<b>2,095</b>	<b>66</b>	<b>—</b>	<b>—</b>	<b>2,095</b>	<b>66</b>

(100 Million Yen)

Category of underlying assets	March 31, 2020					
	Securitization exposure		Resecuritization exposure		Total	
	On-Balance	Off-Balance	On-Balance	Off-Balance	On-Balance	Off-Balance
Corporate exposures	914	68	—	—	914	68
Retail exposures	970	0	—	—	970	0
Residential loan receivables	—	—	—	—	—	—
Lease receivables	—	—	—	—	—	—
Others	16	—	—	—	16	—
<b>Total</b>	<b>1,902</b>	<b>68</b>	<b>—</b>	<b>—</b>	<b>1,902</b>	<b>68</b>

### Securitization Exposure Held by the Group (Consolidated)

(100 Million Yen)

Category of underlying assets	March 31, 2021					
	Securitization exposure		Resecuritization exposure		Total	
	On-Balance	Off-Balance	On-Balance	Off-Balance	On-Balance	Off-Balance
Corporate exposures	1,067	50	—	—	1,067	50
Retail exposures	1,037	16	—	—	1,037	16
Residential loan receivables	—	—	—	—	—	—
Lease receivables	—	—	—	—	—	—
Others	—	—	—	—	—	—
<b>Total</b>	<b>2,105</b>	<b>66</b>	<b>—</b>	<b>—</b>	<b>2,105</b>	<b>66</b>

(100 Million Yen)

Category of underlying assets	March 31, 2020					
	Securitization exposure		Resecuritization exposure		Total	
	On-Balance	Off-Balance	On-Balance	Off-Balance	On-Balance	Off-Balance
Corporate exposures	914	68	—	—	914	68
Retail exposures	970	0	—	—	970	0
Residential loan receivables	—	—	—	—	—	—
Lease receivables	—	—	—	—	—	—
Others	16	—	—	—	16	—
<b>Total</b>	<b>1,902</b>	<b>68</b>	<b>—</b>	<b>—</b>	<b>1,902</b>	<b>68</b>

### Outstanding Securitization Exposure by Risk Weight and Capital Requirement Thereof (Non-Consolidated)

(100 Million Yen)

Risk weight	March 31, 2021							
	Securitization exposure				Resecuritization exposure			
	On-Balance		Off-Balance		On-Balance		Off-Balance	
	Outstanding	Capital requirement	Outstanding	Capital requirement	Outstanding	Capital requirement	Outstanding	Capital requirement
0%	—	—	—	—	—	—	—	—
> 0% ≤ 20%	1,519	11	50	0	—	—	—	—
> 20% ≤ 50%	134	2	—	—	—	—	—	—
> 50% ≤ 100%	337	8	—	—	—	—	—	—
> 100% < 1,250%	103	5	16	0	—	—	—	—
1,250%	—	—	—	—	—	—	—	—
<b>Total</b>	<b>2,095</b>	<b>28</b>	<b>66</b>	<b>1</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>

# Disclosure Based on Basel III Capital Accord Pillar III—Market Discipline

(100 Million Yen)

Risk weight	March 31, 2020							
	Securitization exposure				Resecuritization exposure			
	On-Balance		Off-Balance		On-Balance		Off-Balance	
	Outstanding	Capital requirement	Outstanding	Capital requirement	Outstanding	Capital requirement	Outstanding	Capital requirement
0%	—	—	—	—	—	—	—	—
> 0% ≤ 20%	1,319	10	50	0	—	—	—	—
> 20% ≤ 50%	83	1	18	0	—	—	—	—
> 50% ≤ 100%	382	9	—	—	—	—	—	—
> 100% < 1,250%	116	6	—	—	—	—	—	—
1,250%	—	—	—	—	—	—	—	—
<b>Total</b>	<b>1,902</b>	<b>27</b>	<b>68</b>	<b>0</b>	—	—	—	—

## Outstanding Securitization Exposure by Risk Weight and Capital Requirement Thereof (Consolidated)

(100 Million Yen)

Risk weight	March 31, 2021							
	Securitization exposure				Resecuritization exposure			
	On-Balance		Off-Balance		On-Balance		Off-Balance	
	Outstanding	Capital requirement	Outstanding	Capital requirement	Outstanding	Capital requirement	Outstanding	Capital requirement
0%	—	—	—	—	—	—	—	—
> 0% ≤ 20%	1,519	11	50	0	—	—	—	—
> 20% ≤ 50%	144	2	—	—	—	—	—	—
> 50% ≤ 100%	337	8	—	—	—	—	—	—
> 100% < 1,250%	103	5	16	0	—	—	—	—
1,250%	—	—	—	—	—	—	—	—
<b>Total</b>	<b>2,105</b>	<b>28</b>	<b>66</b>	<b>1</b>	—	—	—	—

(100 Million Yen)

Risk weight	March 31, 2020							
	Securitization exposure				Resecuritization exposure			
	On-Balance		Off-Balance		On-Balance		Off-Balance	
	Outstanding	Capital requirement	Outstanding	Capital requirement	Outstanding	Capital requirement	Outstanding	Capital requirement
0%	—	—	—	—	—	—	—	—
> 0% ≤ 20%	1,319	10	50	0	—	—	—	—
> 20% ≤ 50%	83	1	18	0	—	—	—	—
> 50% ≤ 100%	382	9	—	—	—	—	—	—
> 100% < 1,250%	116	6	—	—	—	—	—	—
1,250%	—	—	—	—	—	—	—	—
<b>Total</b>	<b>1,902</b>	<b>27</b>	<b>68</b>	<b>0</b>	—	—	—	—

### Securitization Exposure Calculated By Risk Weight of 1,250% (Non-Consolidated)

(100 Million Yen)

Category of underlying assets	March 31, 2021	March 31, 2020
	Amount of exposure	Amount of exposure
Corporate exposures	—	—
Retail exposures	—	—
Residential loan receivables	—	—
Lease receivables	—	—
Others	—	—
<b>Total</b>	<b>—</b>	<b>—</b>

### Securitization Exposure Calculated By Risk Weight of 1,250% (Consolidated)

(100 Million Yen)

Category of underlying assets	March 31, 2021	March 31, 2020
	Amount of exposure	Amount of exposure
Corporate exposures	—	—
Retail exposures	—	—
Residential loan receivables	—	—
Lease receivables	—	—
Others	—	—
<b>Total</b>	<b>—</b>	<b>—</b>

### Presence/Absence of Method Applied to Reduce Credit Risk to Resecuritization Exposures in Which the Aozora Group Invests and Breakdown of Risk-Weight Categories Applied to Guarantors

As of March 31, 2020 and 2021, there were no resecuritization exposures to which methods to reduce credit risk have been applied.

#### (3) Securitization exposure in which Aozora Group invests that is subject to the calculation of the market risk amount

There was no securitization exposure in which Aozora Group invests that was subject to the calculation of the market risk amount as of March 31, 2020 and 2021.

#### (4) Securitization exposure originated by Aozora Group that is subject to the calculation of the market risk amount

There was no securitization exposure originated by Aozora Group that was subject to the calculation of the market risk amount as of March 31, 2020 and 2021.

# Disclosure Based on Basel III Capital Accord Pillar III—Market Discipline

## 7. Items pertaining to market risk

- (1) The Value at Risk (VaR) number at year-end as well as the highest, lowest and average VaR numbers during the disclosure period
- (2) The Stressed Value at Risk (Stressed VaR) amount at term-end, and the highest, lowest and average Stressed VaR amounts during the disclosure period
- (3) Back-testing results and explanations in the event actual losses strayed significantly downward from VaR numbers  
These items are described in the Risk Governance section of this annual report under the heading 'Market Risk Management.'
- (4) Amount of required capital for additional and comprehensive risk at term-end and the highest, lowest and average capital requirements during the disclosure period

There was no applicable required capital amount as of March 31, 2020 and 2021.

## 8. Items pertaining to equity exposures in the banking book

### (1) Balance sheet amount

(Millions of Yen)

	March 31, 2021		March 31, 2020	
	Non-consolidated	Consolidated	Non-consolidated	Consolidated
Balance sheet amount	150,691	99,711	126,687	80,159
Listed stock exposures	98,671	98,671	79,698	79,698
Other	52,020	1,040	46,988	460

### (2) Gains and losses on sales, and write-offs of equity exposure

(Millions of Yen)

	FY2020		FY2019	
	Non-consolidated	Consolidated	Non-consolidated	Consolidated
Gains on sales	1,567	1,567	17,505	17,505
Losses on sales	669	669	0	0
Write-off	0	0	1,744	1,744

### (3) Unrealized gains/losses recognized on the balance sheet but not recognized on the statement of income

(Millions of Yen)

	March 31, 2021		March 31, 2020	
	Non-consolidated	Consolidated	Non-consolidated	Consolidated
Unrealized gains (losses)	22,986	22,986	(5,682)	(5,682)

### (4) Unrealized gains/losses not recognized on the balance sheet or the statement of income

(As of March 31, 2021 and 2020)

Consolidated: Not applicable

Non-consolidated: Not applicable



## 9. Amount of exposures held in funds

This item is described in 'Exposures relating to funds' of 2.(1).

## 10. Items pertaining to interest rate risk

### • Non-consolidated

(Millions of Yen)

IRRBB1 : Interest rate risk					
Item No.		a	b	c	d
		△EVE		△NII	
		March 31, 2021	March 31, 2020	March 31, 2021	March 31, 2020
1	Parallel up	81,003	54,949	△5,438	△10,464
2	Parallel down	25	40	△3,318	1,185
3	Steepener	52,438	24,838	/	/
4	Flattener	/	/	/	/
5	Short-term interest rate up	/	/	/	/
6	Short-term interest rate down	/	/	/	/
7	Maximum	81,003	54,949	△3,318	1,185
		e		f	
		March 31 2021		March 31 2020	
8	Regulatory capital	487,290		472,403	

### • Consolidated

(Millions of Yen)

IRRBB1 : Interest rate risk					
Item No.		a	b	c	d
		△EVE		△NII	
		March 31, 2021	March 31, 2020	March 31, 2021	March 31, 2020
1	Parallel up	85,779	60,246	△10,071	△11,842
2	Parallel down	5	19	6,201	10,792
3	Steepener	52,387	25,130	/	/
4	Flattener	/	/	/	/
5	Short-term interest rate up	/	/	/	/
6	Short-term interest rate down	/	/	/	/
7	Maximum	85,779	60,246	6,201	10,792
		e		f	
		March 31 2021		March 31 2020	
8	Regulatory capital	481,505		473,121	

# Disclosure Related to Remuneration

This section describes the information consistent with FSA Notice Number 11, items pertaining to remuneration, issued on March 14, 2018 in accordance with Articles 19-2.1.6, 19-3.4, and 34-26-1-5 of the Ordinance for the Enforcement of the Banking Act.

## 1. Items pertaining to the framework of remuneration for officers and employees of the Aozora Group

### (1) Scope of 'officers and employees' covered herein

As stated in the remuneration notice, the scope of 'officers' and 'employees' ('officers and employees' together) covered herein, subject to disclosure, is as follows:

#### (a) Scope of 'officers' covered herein

'Officers' refers to the Bank's directors, including outside directors and members of the Audit & Supervisory Board.

#### (b) Scope of 'employees' covered herein

'Employees' refers to Bank employees and those of its main consolidated subsidiaries who receive high remuneration and who also have a significant influence on the execution of business of the Bank and its main consolidated subsidiaries or on its assets.

#### (i) Scope of 'main consolidated subsidiaries' covered herein

A 'main consolidated subsidiary' is defined as one in which the ratio of its total assets exceeds 2% of the total consolidated assets of the Bank.

#### (ii) Scope of 'Receivers of high remuneration' covered herein

'Receivers of high remuneration' refers to those who are remunerated above 'the average level of remuneration for officers' which is calculated by dividing the total remuneration amount by the number of officers, which are both stated in the Bank's Securities Report.

#### (iii) Scope of 'those who have a significant influence on the execution of business of the Bank and its main consolidated subsidiaries or on its assets' covered herein

'Those who have a significant influence on the execution of business of the Bank and its main consolidated subsidiaries or on its assets' refers to those who have a significant influence on the execution of business of the Bank and its main consolidated subsidiaries when engaged in transactions or matters of management, or those who have a significant influence on its assets when losses are incurred as a result of transactions. Specifically, this refers to executive officers, general managers, and any other such persons to which this definition applies.

### (2) Determination of remuneration for officers and employees covered herein

#### (a) Determination of remuneration for officers covered herein

The Bank has established a Nomination and Remuneration Committee (NRC) which is delegated authority by the Board of Directors (BoD) for the purpose of complementing the BoD's supervisory function over its directors. The NRC comprises mainly outside directors and in order to ensure the sound management and suitable business execution of the Bank, the NRC, which is independent from business promotion groups, discusses and determines the amounts of remuneration for individual directors in line with the basic policies for determining remuneration as stipulated by the BoD.

The remuneration for individual members of the Audit & Supervisory Board is determined based on discussions among the members of the Audit & Supervisory Board in accordance with Article 387-2 of the Companies Act and based on deliberations and recommendations by NRC.

#### (b) Determination of remuneration for employees covered herein

The remuneration of employees in the Aozora Group is determined and paid according to the basic policy stated in the Bank's 'Human Resource Master Policy.' Remuneration of the Bank's employees is determined in accordance with the policy on HR rules developed and documented by the HR Division independently from business promotion groups. Individual remuneration amounts for executive officers are discussed and determined by the NRC.

Individual remuneration amounts of certain employees that exceeds a certain level will be reported to the NRC. The remuneration for managers with a certain level of responsibility is determined upon approval from the President and Deputy Presidents of the Bank. In the Bank's consolidated subsidiaries, the HR or related divisions establish the remuneration policy and develop the remuneration framework independently from business promotion groups. The consolidated subsidiaries regularly submit a report on their remuneration policy and related matters to the Bank's HR Division.

#### (c) Determination of remuneration for overseas officers and employees

Remuneration for overseas officers and employees is determined based on prior discussions held between overseas subsidiaries and the relevant divisions of the Bank or HR Division in accordance with local rules, regulations and employment practices. The remuneration amounts of individual employees which exceed a certain level will be reported to the NRC.

### (3) Total remuneration paid to members of the NRC and the total number of meetings held

	No. of meetings held during the FY ending March 2021
Meetings of NRC	7

The sum of individual remunerations of NRC members is not stated as it is difficult to calculate how much of an individual NRC member's total remuneration corresponds to remuneration paid for NRC-related duties.

## 2. Items pertaining to assessing the validity of the design and implementation of the remuneration framework for Aozora Group's 'officers and employees'

### Remuneration policy

#### (a) Remuneration policy for 'officers' covered herein

The remuneration for officers basically consists of the base remuneration (fixed remuneration), bonus and Equity Compensation Type Stock Options for internal directors (full-time directors) and solely of base remuneration (fixed remuneration) for outside directors as well as ASB members. The base remuneration is determined by checking the appropriate level based on the research data obtained by engaging a dedicated third-party institution. The amount of bonus is determined based on achieved performance and the standard amounts set per position and responsibilities. The value granted as Equity Compensation Type Stock Options are determined at an appropriate level by the NRC and BoD based on discussions on the proportion of cash remuneration, bonus and equity compensation type stock options so as to function as sound incentives towards sustainable growth.

#### (b) Remuneration policy for 'employees' covered herein

Remuneration for the Bank's employees and its main consolidated subsidiaries' officers and employees is determined based on an evaluation of their performance which reflects their contribution to the business results.

The Bank's HR Division confirms that the Bank and its main consolidated subsidiaries do not depend too heavily on 'pay for performance' in the remuneration of the Bank's employees and its main consolidated subsidiaries' officers and employees, by checking the remuneration framework, performance evaluation status and actual remunerations.

## 3. Items pertaining to the consistency between the remuneration framework for officers and employees and risk management in the Aozora Group, and the link between remuneration and business performance

As for the directors, the ceiling amount of 600 million yen has been approved at the 82nd general shareholders' meeting held on June 26, 2015 as the base remuneration and bonus for directors, including those for external directors, and the ceiling of remuneration for ASB members, including external ASB members, was approved in the amount not more than 60 million yen at the 73rd general shareholders' meeting held on June 23, 2006.

As to stock acquisition rights as the Equity Compensation Type Stock Options, allotments to internal directors (full-time directors) were approved at the 88th general shareholders' meeting held on June 24, 2021 in the total annual value up to 150 million yen (and up to 7,500 units) in addition to the base remuneration and bonus.

In determining the remuneration of employees of the Aozora Group, including those who fall under the scope of 'employees,' a budget is drawn up after considering the financial status of the Group. In addition to the authorised quota for those to be granted to full-time directors, Equity Compensation Type Stock Options are also granted to executive officers of the Bank based on decisions made by NRC and BoD.

## 4. Items pertaining to remuneration type, total amounts and method of payment for Aozora Group's officers and employees

Total remuneration amounts for those who fall under the scope of 'officers' and 'employees' (from April 1, 2020 to March 31, 2021)

(Number of Persons, Millions of Yen)

Classification	Number of persons	Total remuneration	Basic remuneration	Bonus	Stock options	Provision for retirement allowance	Others
'Officers' (including external officers)	12	374	273	64	37	-	-
'Employees' (including executive officers)	22	893	543	208	61	80	-

Notes: 1. The 'officers' listed above are the Bank's directors (including outside directors) and members of the Audit & Supervisory Board.

The breakdown of the Total Remuneration for officers for the fiscal year ended March 2021 is as follows:

Remuneration to directors: 320 million yen

Remuneration to the members of the Audit and Supervisory Board ("ASB"): 53 million yen

of which remuneration to outside directors and external members of ASB: 80 million yen

2. One member of the Board of Directors is included in the above 'officers' who resigned at the Ordinary General Meeting of Shareholders on June 24, 2020.

3. Because there are no 'employees' subject to disclosure in the Bank's major consolidated subsidiaries, the above 'employees' are the only ones among the Bank's employees, including the Bank's executive officers, to whom this applies.

4. There is no deferred bonus to be paid in subsequent years as of this fiscal year.

5. The exercise periods of stock options (Compensation Type Stock Acquisition Rights) are as follows. As per the Agreement for Allotment of Stock Options, the exercise is deferred until the holder ceases to be both an executive officer and a director of the Bank even during the exercise period.

Name of Stock Option Issuance	Exercise Periods	Amount Outstanding (millions of yen)
The First Equity Compensation Type Stock Options	As from August 2, 2014 through August 1, 2044	27
The Second Equity Compensation Type Stock Options	As from July 15, 2015 through July 14, 2045	44
The Third Equity Compensation Type Stock Options	As from July 16, 2016 through July 15, 2046	59
The Fourth Equity Compensation Type Stock Options	As from July 14, 2017 through July 13, 2047	69
The Fifth Equity Compensation Type Stock Options	As from July 14, 2018 through July 13, 2048	82
The Sixth Equity Compensation Type Stock Options	As from July 12, 2019 through July 11, 2049	99
The Seventh Equity Compensation Type Stock Options	As from July 11, 2020 through July 10, 2050	98

6. A payment of compensation with an extraordinary nature was not applicable during the fiscal year ended March 2021 such as a guaranteed bonus, sign-on bonus and additional retirement allowance on involuntary separation among 'officer' and 'employees'.

## 5. Other items pertaining to the framework of the Bank's 'officers and employees'

There are no specific items to be stated here other than the ones already stated above.

# Share Procedure Information

(As of July 1, 2021)

- **Fiscal year** From April 1 to March 31
- **Ordinary General Shareholders' Meeting** Held in June
- **Record date for determination of dividends** March 31, June 30, September 30 and December 31
- **Record date** Ordinary General Shareholders' Meeting: March 31 (also to be held in other cases as deemed necessary, whereby the record date will be set and advance notice given)
- **Public notifications** Electronic public notice via the Internet. In the event that public notice cannot be made via the Internet, the Nihon Keizai Shimbun will be used.
- **Listed on** The First Section of the Tokyo Stock Exchange
- **Securities code** 8304
- **Number of shares constituting one unit (tangen)** 100 shares
- **Manager of register of shareholders and administrator of the 'special account'** Sumitomo Mitsui Trust Bank, Limited  
4-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo
- **Manager of register of shareholders' location** Stock Transfer Agency Business Planning Dept.,  
Sumitomo Mitsui Trust Bank, Limited  
4-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo
- **(Mailing address)** Stock Transfer Agency Business Planning Dept.,  
Sumitomo Mitsui Trust Bank, Limited  
8-4, Izumi 2-chome, Suginami-ku, Tokyo, 168-0063
- **(Contact number)** 0120-782-031 (toll free only if calling from Japan)
- **Inquiries regarding shares and notification of changes**

We ask that shareholders direct all inquiries, including change of address, to their securities company. For those shareholders who do not have an account with a securities firm, inquiries should be directed to the agent above.
- **Regarding the 'special account'**

Prior to the implementation of the electronic share certificate system in Japan, an account was established with Sumitomo Mitsui Trust Bank, Limited, for shareholders who did not use JASDEC's hofuri system. Such shareholders should direct all matters related to change of address and other inquiries to the agent above.

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