

# FY2023 Interim Financial Results Overview

November 13, 2023

# Interim Financial Highlights

## Net revenue

**44.5 billion yen**

1.2 billion yen increase year-on-year  
Progress rate: 52%

## Business-related profit

**25.0 billion yen**

5.4 billion yen increase year-on-year  
Progress rate: 82%

## Profit attributable to owners of parent

**12.0 billion yen**

3.3 billion yen decrease year-on-year  
Progress rate: 50%

## Key points

- Net revenue increased by 1.2 billion yen compared to the previous year mainly due to strong results in our customer-related business
- Business-related profit (Business profit + Gains/losses on stock transactions) was 25.0 billion yen, an increase of 5.4 billion yen year-on-year. Strong performance from Aozora's Strategic Investments Business contributed to the increase
- Credit-related expenses were a net expense of 9.0 billion yen in 2Q and 9.9 billion yen for the interim period mainly due to additional provisions made to loan loss reserves for overseas real estate non-recourse loans
- Profit attributable to owners of parent was 12.0 billion yen with a progress rate of 50% towards the full-year earnings forecast of 24.0 billion yen
- Unrealized losses in the securities portfolio were 92.6 billion yen, an increase of 28.7 billion yen from March 31, 2023. The increase was mainly due to the impact of a weaker yen (13.6 billion yen) as well as realized gains of 6.4 billion yen on bond transactions and 9.4 billion yen on stock transactions

**Dividend for 2Q: 38 yen per common share (approx. 25% of the full-year dividend forecast of 154 yen)**

(Note) "1Q" refers to the period from April to June, "2Q" refers to the period from July to September, "1H" refers to the period from April to September, "3Q" refers to the period from October to December, and "4Q" refers to the period from January to March.

# PL Summary

	FY2022 Interim A	FY2023			B - A		FY2023 Forecast	Progress
		1Q	2Q	Interim B	Change	%		
(billion yen)								
<b>Net revenue</b>	<b>43.3</b>	<b>17.7</b>	<b>26.8</b>	<b>44.5</b>	<b>+1.2</b>	<b>+2.9%</b>	<b>86.0</b>	<b>51.9%</b>
Net interest income	27.2	12.0	13.1	25.1	-2.0			
Non-interest income	16.0	5.7	13.6	19.4	+3.3			
General & administrative expenses	-29.1	-15.0	-15.3	-30.4	-1.3			
Gains/losses on equity method investments	0.8	0.5	0.9	1.4	+0.6			
<b>Business profit (A)</b>	<b>15.0</b>	<b>3.1</b>	<b>12.4</b>	<b>15.6</b>	<b>+0.5</b>	<b>+3.8%</b>	<b>25.5</b>	<b>61.3%</b>
Credit-related expenses	2.0	-0.9	-9.0	-9.9	-12.0			
Gains/losses on stock transactions (B)	4.5	5.7	3.6	9.4	+4.8			
<b>Ordinary profit</b>	<b>20.4</b>	<b>7.3</b>	<b>6.9</b>	<b>14.3</b>	<b>-6.0</b>	<b>-29.5%</b>	<b>31.0</b>	<b>46.4%</b>
Taxes	-6.0	-1.1	-2.2	-3.4	+2.5			
Gains/losses attributable to non-controlling interests	0.9	0.5	0.5	1.0	+0.0			
<b>Profit attributable to owners of parent</b>	<b>15.3</b>	<b>6.7</b>	<b>5.2</b>	<b>12.0</b>	<b>-3.3</b>	<b>-21.7%</b>	<b>24.0</b>	<b>50.2%</b>
<b>ROE</b>	<b>6.5%</b>	-	-	<b>5.6%</b>	<b>-1.0%</b>	-		
							FY2023 Plan	
<b>Business-related profit (A)+(B)*</b>	<b>19.6</b>	<b>8.9</b>	<b>16.1</b>	<b>25.0</b>	<b>+5.4</b>	<b>+27.6%</b>	<b>30.5</b>	<b>82.1%</b>
Customer-related business (excl. financial market-related and retail businesses)	20.1	12.7	16.7	29.5	+9.4	+46.6%		
Retail business	-2.0	-1.2	-1.1	-2.3	-0.2	-12.8%		
Financial market-related business	1.5	-2.6	0.4	-2.2	-3.7	-		

\* Business profit + Gains/losses on stock transactions  
Management accounting basis

# Results by business segment

- Aozora's customer-related business (excluding financial market-related and retail businesses) was strong
  - The Structured Finance Group's business-related profit increased by 8.6 billion yen year-on-year mainly due to loan-related fee income from LBO financing in the Acquisition & Structured Finance Group and gains on the sale of REITs in the Real Estate Finance Group
  - The Institutional Banking Group and the International Business Group both recorded strong business-related profit due to stable earnings from the sale of derivatives and gains on the sale of overseas equities

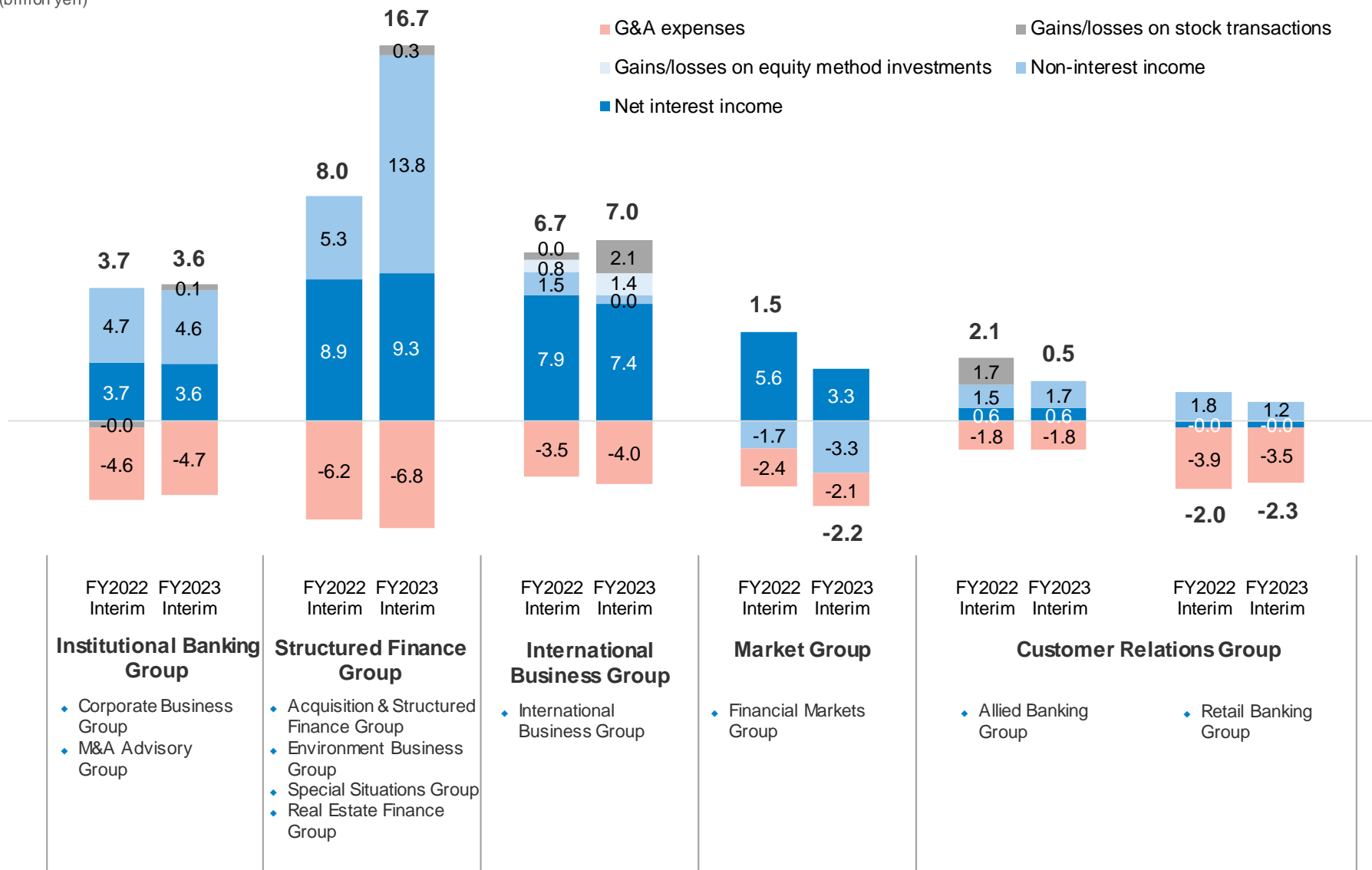
## Business-related profit by business segment

	FY2022 Interim A	FY2023		Interim B	Change B - A
		1Q	2Q		
(billion yen)					
Institutional Banking Group	3.7	1.8	1.7	3.6	-0.1
Structured Finance Group	8.0	6.2	10.4	16.7	+8.6
International Business Group	6.7	4.3	2.6	7.0	+0.3
Market Group	1.5	-2.6	0.4	-2.2	-3.7
Customer Relations Group	0.0	-1.0	-0.7	-1.7	-1.8
Allied Banking Group	2.1	0.1	0.3	0.5	-1.5
Retail Banking Group	-2.0	-1.2	-1.1	-2.3	-0.2
<b>Total (incl. other)</b>	<b>19.6</b>	<b>8.9</b>	<b>16.1</b>	<b>25.0</b>	<b>+5.4</b>

# Results by business segment

## Business-related profit breakdown by business segment

(billion yen)



# Aozora's Strategic Investments Business — Equity investments (customer-related business) —

- Capital gains and other equity returns from equity investments were 9.7 billion yen. Equity investments declined slightly from March 31, 2023
  - Gains of 5.2 billion yen on real estate-related equities were recognized mainly due to the sale of REITs as part of risk control measures taken to reduce real estate exposure
  - Gains and other returns from buyout funds increased by 0.6 billion yen for the interim period year-on-year as a result of gains from multiple large exit transactions on domestic equities in 2Q, which offset losses from devaluation resulting from a comprehensive review of Asian funds
  - Gains and other returns from venture funds recorded a year-on-year decline of 1.0 billion yen for the interim period due to losses from devaluation resulting from a comprehensive review of overseas funds as well as management fee expenses in domestic funds
  - In the equity investment portfolio, real estate-related equities significantly decreased mainly due to the sale of REITs while investments in business recovery claims increased. Venture funds also increased as a result of investments in domestic venture debt funds

## Capital gains and other equity returns\*1

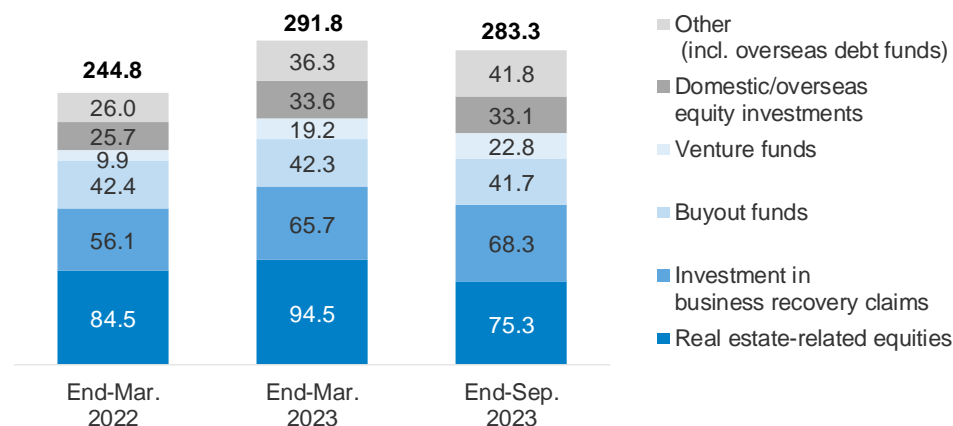
(billion yen)	FY2022 Interim A	FY2023			Change B - A
		1Q	2Q	Interim B	
Real estate-related equities	1.4	2.5	2.7	5.2	+3.7
Investment in business recovery claims	0.8	0.3	0.2	0.5	-0.2
Buyout funds	0.7	-0.4	1.7	1.3	+0.6
Venture funds	0.4	-0.2	-0.3	-0.6	-1.0
Domestic/overseas equity investments	2.2	2.6	0.2	2.9	+0.6
Other (incl. overseas debt funds)	0.4	0.1	0.1	0.2	-0.2
<b>Total</b>	<b>6.2</b>	<b>4.9</b>	<b>4.7</b>	<b>9.7</b>	<b>+3.5</b>

## <Reference> Gains/losses on stock transactions\*3

(billion yen)	FY2022 Interim A	FY2023			Change B - A
		1Q	2Q	Interim B	
<b>Gains/losses on stock transactions</b>	<b>4.5</b>	<b>5.7</b>	<b>3.6</b>	<b>9.4</b>	<b>+4.8</b>

## Equity investments\*2

(billion yen)



\*1 Management accounting basis, including gains/losses on stock transactions, gains/losses from limited partnerships, and interest and dividends on securities

\*2 Management accounting basis, customer business-related equity investments on a mark-to-market basis

\*3 Includes gains/losses on equities held solely for investment purposes

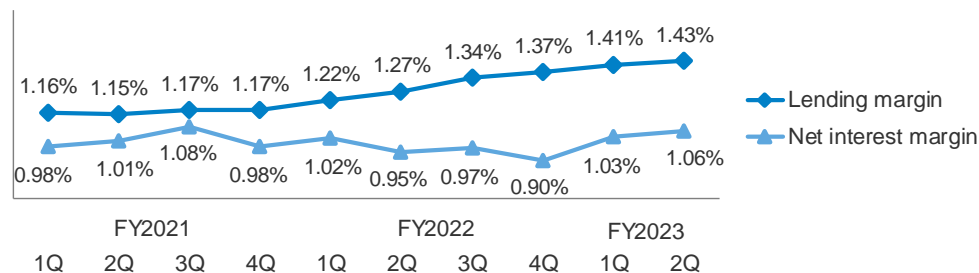
# Net interest income

- Net interest income was 25.1 billion yen, a decrease of 2.0 billion yen compared to the previous year
  - Net interest income on loans increased by approximately 6.0 billion yen year-on-year due to increases in both average loan outstandings and the lending margin
  - Net interest income on securities decreased by approximately 4.0 billion yen due to a narrower securities margin caused by higher U.S. interest rates
  - Net interest income on other assets, including liquidity reserves, decreased by approximately 4.0 billion yen mainly due to higher overseas interest rates
- The net interest margin improved by 7 bps year-on-year mainly due to improved lending margin and a contribution from gains on the cancellation of investment trusts

(billion yen)	FY2022 Interim A	FY2023			Change B - A
		1Q	2Q	Interim B	
<b>Net interest income</b>	<b>27.2</b>	<b>12.0</b>	<b>13.1</b>	<b>25.1</b>	<b>-2.0</b>
<b>Interest income</b>	<b>47.4</b>	<b>40.6</b>	<b>44.2</b>	<b>84.9</b>	<b>+37.4</b>
Interest on loans and discounts	34.2	31.1	33.6	64.8	+30.5
Interest and dividends on securities	12.2	7.7	8.5	16.2	+3.9
Incl. gains on cancellation of investment trusts	1.0	2.0	2.1	4.1	+3.1
Other	0.8	1.7	2.0	3.8	+2.9
<b>Interest expenses</b>	<b>-20.1</b>	<b>-28.6</b>	<b>-31.1</b>	<b>-59.7</b>	<b>-39.5</b>
Incl. interest on deposits and NCDs	-4.8	-3.4	-3.5	-7.0	-2.1
Incl. repurchase interest, etc.	-3.0	-3.8	-5.1	-8.9	-5.9
Incl. interest on swaps	-10.7	-19.9	-20.9	-40.8	-30.1

(billion yen)	FY2022 Interim A	FY2023			Change B - A
		1Q	2Q	Interim B	
Average balance of interest-earning assets	5,773.7	5,872.6	6,083.4	5,978.6	+204.9
Yield on interest-earning assets	1.63%	2.77%	2.88%	2.83%	+1.20%
Average balance of loans	3,593.9	3,964.1	4,105.4	4,035.1	+441.2
Yield on loans	1.90%	3.15%	3.25%	3.20%	+1.30%
Average balance of securities	1,420.0	1,373.2	1,453.2	1,413.4	-6.5
Yield on securities	1.72%	2.25%	2.33%	2.29%	+0.57%
Average balance of interest-bearing liabilities	6,167.0	6,584.4	6,778.2	6,681.9	+514.8
Yield on interest-bearing liabilities	0.65%	1.74%	1.82%	1.78%	+1.13%
Net interest margin	0.98%	1.03%	1.06%	1.05%	+0.07%
Lending margin	1.25%	1.41%	1.43%	1.42%	+0.17%
Securities margin	1.07%	0.51%	0.51%	0.51%	-0.56%

## Net interest margin and lending margin



# Non-interest income

- Non-interest income was 19.4 billion yen, an increase of 3.3 billion yen compared to the previous year
- Net fees and commissions were 10.3 billion yen, an increase of 4.6 billion yen year-on-year
  - Loan-related fee income of 5.1 billion yen increased as a result of an increase in fees received in relation to the origination of large LBO loans. M&A fee income increased year-on-year, and investment trust fee income also increased due to growth in the sale of investment trusts to Aozora's and regional financial institutions' retail customers
- Gains/losses on bond transactions were a net gain of 6.4 billion yen mainly due to 3.9 billion yen in gains on the sale of domestic REITs (see page 21 for securities operations)
- Gains/losses from limited partnerships were a net gain of 5.4 billion yen, an increase of 1.3 billion yen year-on-year, as a result of strong performance in real estate-related, distressed loan-related and buyout fund investments (see page 5 for details)

(billion yen)	FY2022 Interim A	FY2023			Change B - A
		1Q	2Q	Interim B	
<b>Non-interest income</b>	<b>16.0</b>	<b>5.7</b>	<b>13.6</b>	<b>19.4</b>	<b>+3.3</b>
<b>Net fees and commissions<sup>*1</sup></b>	<b>5.7</b>	<b>4.0</b>	<b>6.2</b>	<b>10.3</b>	<b>+4.6</b>
Loan-related fee income	2.7	1.5	3.5	5.1	+2.4
Investment trust fee income	1.2	0.7	0.8	1.6	+0.4
GANB fee income	1.2	0.8	0.8	1.7	+0.4
M&A fee income	0.1	0.6	0.2	0.8	+0.6
Other	0.2	0.2	0.7	0.9	+0.6
<b>Net trading revenues<sup>*2</sup></b>	<b>1.8</b>	<b>-1.7</b>	<b>1.8</b>	<b>0.1</b>	<b>-1.7</b>

## <Reference>

<b>Earnings from investment product sales to retail customers<sup>*3</sup></b>	<b>1.9</b>	<b>0.5</b>	<b>0.6</b>	<b>1.1</b>	<b>-0.7</b>
Incl. investment trusts	0.7	0.4	0.5	0.9	+0.2
Incl. structured bonds	1.1	0.0	0.0	0.0	-1.0

\*1 Fees and commissions are on a net basis.

\*2 Net trading revenues included a net loss of 1.3 billion yen and net other ordinary income included a net gain of 1.3 billion yen in 1Q. This was adjusted for financial reporting purposes.

\*3 Earnings from the sale of investment trusts are included in net fees and commissions. Earnings from the sale of structured bonds are included in net trading revenues.

\*4 Gains/losses on the securities portfolio

(billion yen)	FY2022 Interim A	FY2023			Change B - A
		1Q	2Q	Interim B	
<b>Net other ordinary income<sup>*2</sup></b>	<b>8.4</b>	<b>3.3</b>	<b>5.5</b>	<b>8.9</b>	<b>+0.4</b>
Incl. gains/losses on bond transactions (A)	-2.3	2.7	3.6	6.4	+8.7
Japanese government bonds (JGBs)	-0.3	-	-	-	+0.3
Municipal bonds	-0.3	-0.0	-0.0	-0.0	+0.3
Foreign government bonds and MBS	-	-0.9	-	-0.9	-0.9
Other	-1.5	3.6	3.6	7.3	+8.9
Incl. private placement investment trusts	3.6	1.2	2.1	3.4	-0.2
Incl. REITs	-0.0	2.4	1.5	3.9	+4.0
Incl. gains/losses from limited partnerships	4.0	1.1	4.2	5.4	+1.3
Incl. gains/losses on financial derivatives (B)	4.3	-0.1	0.0	-0.1	-4.4
<b>(A)+(B)<sup>*4</sup></b>	<b>1.9</b>	<b>2.6</b>	<b>3.6</b>	<b>6.2</b>	<b>+4.2</b>



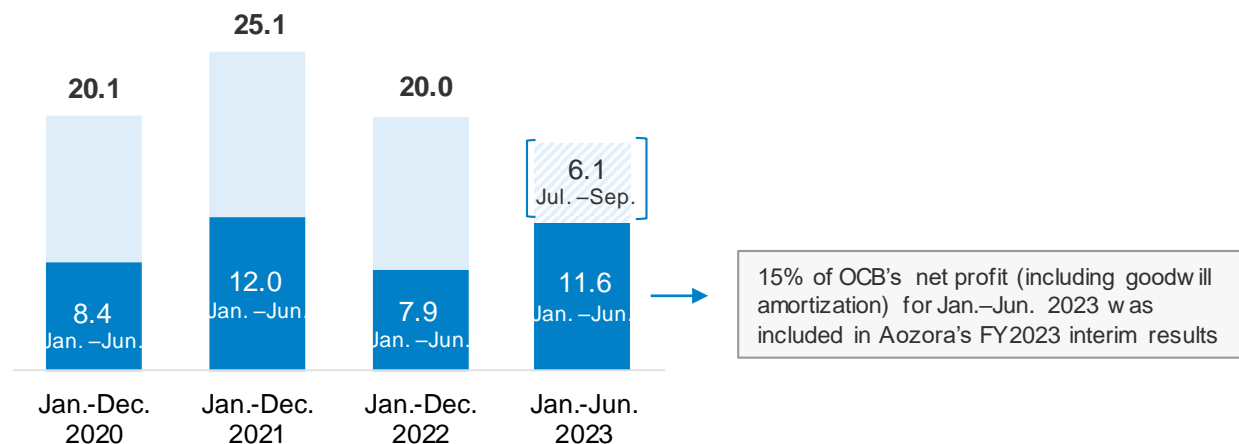
# Gains/losses on equity method investments

- Gains/losses on equity method investments were a net gain of 1.4 billion yen
  - Orient Commercial Joint Stock Bank's (OCB) net profit during the April–June 2023 period increased from the previous quarter. The increase was the result of strong net interest income as well as growth in non-interest income mainly due to the sale of securities in the lower interest rate environment within Vietnam

(billion yen)	FY2022 Interim A	FY2023			Change B - A
		1Q	2Q	Interim B	
<b>Gains/losses on equity method investments</b>	<b>0.8</b>	<b>0.5</b>	<b>0.9</b>	<b>1.4</b>	<b>+0.6</b>

## OCB's net profit\*

(billion yen)



\* Uses an exchange rate of 0.0057 yen per 1 Vietnamese dong.

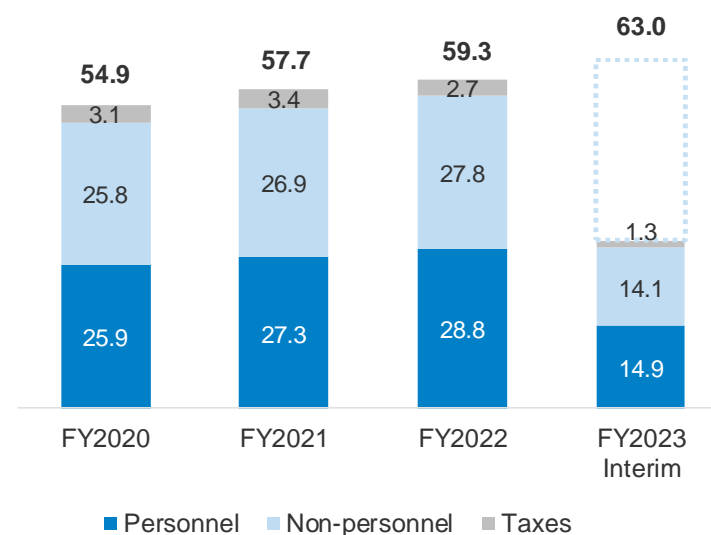
# G&A expenses

- G&A expenses were 30.4 billion yen, an increase of 1.3 billion yen from the previous year
  - Personnel expenses increased by 0.8 billion yen as a result of continued investments in human capital, including pay-scale increases following the previous year and increased staffing levels
  - Overall G&A expenses represented 48% of the original budget (63.0 billion yen) as the Bank maintained its focus on cost control
  - Business-related profit per employee increased by 1.8 million yen from the previous year

	FY2022 Interim A	FY2023			Change B - A
		1Q	2Q	Interim B	
(billion yen)					
<b>G&amp;A expenses</b>	<b>29.1</b>	<b>15.0</b>	<b>15.3</b>	<b>30.4</b>	<b>+1.3</b>
Personnel	14.1	7.2	7.6	14.9	+0.8
Non-personnel	13.3	7.0	7.0	14.1	+0.7
Incl. IT-related	5.7	3.0	3.1	6.1	+0.4
Taxes	1.6	0.7	0.5	1.3	-0.2
(million yen)					
Business-related profit per employee	<b>7.3</b>	-	-	<b>9.2</b>	<b>+1.8</b>

## G&A expenses

(billion yen)



# Credit-related expenses

- Credit-related expenses were a net expense of 9.9 billion yen for the interim period and 9.0 billion yen in 2Q
  - An additional provision of 12.4 billion yen to general and specific loan loss reserves was made for overall U.S. non-recourse office loans in the interim period as the work-out process for these loans progressed (see pages 17–18 for the status of the Bank’s overseas real estate non-recourse loan portfolio)
  - A reversal of 2.6 billion yen was recorded for domestic and other overseas loans as the Bank maintained the quality of the portfolio
  - There were no new loan losses on the North American corporate loan portfolio
- The ratio of loan loss reserves to total loans was 1.30%, an increase of 0.17% compared to March 31, 2023

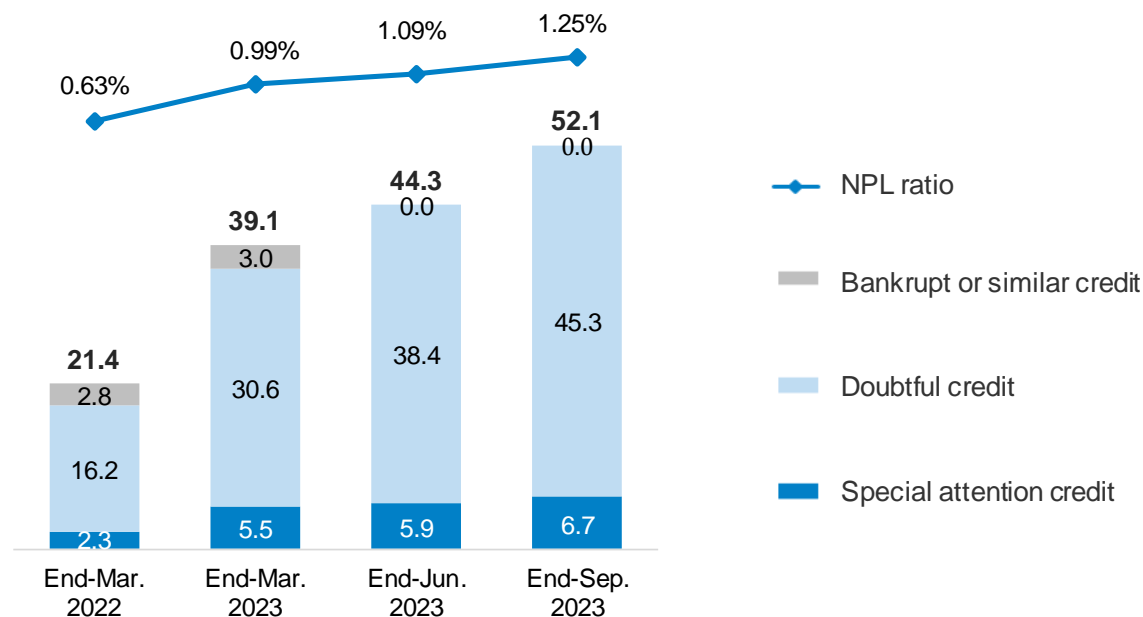
(billion yen)	FY2022		FY2023		
	Interim	Full year	1Q	2Q	Interim
<b>Credit-related expenses</b>	<b>2.0</b>	<b>-1.7</b>	<b>-0.9</b>	<b>-9.0</b>	<b>-9.9</b>
Loan loss reserves	1.1	-1.1	-0.6	-9.1	-9.7
Specific loan loss reserves	-0.1	-5.9	-0.3	-7.2	-7.5
General loan loss reserves	1.2	4.8	-0.2	-1.9	-2.1
Reserve for credit losses on off-balance-sheet instruments	-0.0	-0.0	-0.0	-0.0	-0.0
Write-off of loans	-0.0	-0.1	-0.0	-0.0	-0.0
Gains/losses on disposition of loans	-0.0	-1.5	-0.3	-0.0	-0.4
Recoveries of written-off receivables	1.1	1.1	0.1	0.2	0.3

## Ratio of loan loss reserves to total loans

(billion yen)	End - Mar. 2023	End - Jun. 2023	End - Sep. 2023
Loan loss reserves (A)	44.0	45.4	53.7
General loan loss reserves	33.6	33.9	35.8
Total loans (B)	3,881.3	4,013.3	4,118.1
Loans subject to loss reserves (C)	3,482.8	3,615.8	3,694.1
(A) / (B)	1.13%	1.13%	1.30%
(A) / (C)	1.26%	1.25%	1.45%
Reserve ratio for need attention credit	4.9%	5.0%	5.8%
Reserve ratio for normal credit	0.5%	0.5%	0.4%

# Non-performing loans based on the FRA\*

- The ratio of NPLs to total claims (NPL ratio) was 1.25%, an increase of 0.26% from March 31, 2023
  - Doubtful claims saw a net increase of 14.7 billion yen compared to March 31, 2023. The increase was mainly due to changes in the obligor classification following progress on the work-out process for U.S. office loans (18.0 billion yen, or US\$ 120 million) (see page 18 for details) as well as the impact of a weaker yen (2.8 billion yen), while recovery from the existing NPLs progressed



(billion yen)	End-Mar. 2022	End-Mar. 2023	End-Jun. 2023	End-Sep. 2023
Total claims	3,367.4	3,936.0	4,065.7	4,168.4
NPLs (A)	21.4	39.1	44.3	52.1
Coverage (B)	19.1	36.5	41.3	48.3
Reserves	11.6	13.2	14.4	20.8
Collateral & guarantees	7.4	23.3	26.9	27.5
Coverage ratio (B) / (A)	89%	93%	93%	93%

\* Financial Reconstruction Act

# Balance sheet summary

(billion yen)	End - Mar. 2023 A	End - Jun. 2023	End - Sep. 2023 B	Change B - A
Loans and bills discounted	3,881.3	4,013.3	4,118.1	+236.8
Securities	1,278.7	1,389.1	1,395.2	+116.5
Cash and due from banks	1,275.0	1,298.1	1,407.4	+132.4
Trading assets	151.2	133.7	207.7	+56.4
Other	597.6	678.5	630.6	+33.0
<b>Total assets</b>	<b>7,184.0</b>	<b>7,513.0</b>	<b>7,759.3</b>	<b>+575.2</b>

(billion yen)	End - Mar. 2023 A	End - Jun. 2023	End - Sep. 2023 B	Change B - A
Deposits / Negotiable certificates of deposit	5,497.3	5,638.3	5,718.8	+221.4
Bonds payable	147.7	163.7	202.2	+54.4
Borrowed money	525.6	529.1	556.1	+30.4
Cash collateral received for securities lent	215.9	265.8	312.0	+96.1
Trading liabilities	121.8	155.6	194.9	+73.0
Other	244.3	334.8	340.3	+95.9
<b>Total liabilities</b>	<b>6,752.9</b>	<b>7,087.5</b>	<b>7,324.4</b>	<b>+571.5</b>
Capital stock / Capital surplus	187.4	187.4	187.4	+0.0
Retained earnings	291.8	293.9	294.8	+2.9
Valuation difference on available-for-sale securities	-45.4	-58.9	-76.3	-30.9
Foreign currency translation adjustment	7.6	10.9	14.2	+6.5
Other	-10.4	-8.0	14.7	+25.2
<b>Total net assets</b>	<b>431.1</b>	<b>425.4</b>	<b>434.8</b>	<b>+3.7</b>
<b>Total liabilities and net assets</b>	<b>7,184.0</b>	<b>7,513.0</b>	<b>7,759.3</b>	<b>+575.2</b>

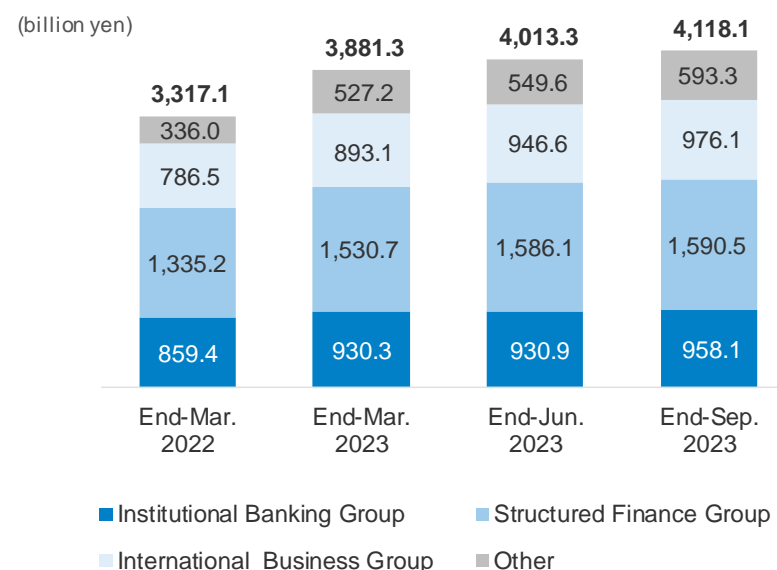
# Loans — Summary —

- Total loans were 4,118.1 billion yen, an increase of 236.8 billion yen compared to March 31, 2023
- Domestic loans increased by 128.9 billion yen. Overseas loans increased by 107.8 billion yen, although they decreased by 379 million on a U.S. dollar-basis
  - The Structured Finance Group recorded an increase of 59.8 billion yen from March 31, 2023 mainly due to the origination of LBO loans
  - Due to the impact of a weaker yen, the International Business Group saw an increase of 83.0 billion yen compared to March 31, 2023, while recording a decrease of 162 million on a U.S. dollar-basis

(billion yen)	End - Mar. 2023 A	End - Jun. 2023	End - Sep. 2023 B	Change B - A
<b>Total loans (A)</b>	<b>3,881.3</b>	<b>4,013.3</b>	<b>4,118.1</b>	<b>+236.8</b>
Domestic loans	2,510.1	2,553.5	2,639.1	+128.9
Overseas loans* (B)	1,371.1	1,459.8	1,479.0	+107.8
(B) / (A)	35.3%	36.4%	35.9%	-

\* Overseas loans are with no final risk residing in Japan

## Loan outstandings by business segment



## Loan outstandings by business segment

(billion yen)	End - Mar. 2023 A	End - Jun. 2023	End - Sep. 2023 B	Change B - A
Institutional Banking Group	930.3	930.9	958.1	+27.8
Structured Finance Group	1,530.7	1,586.1	1,590.5	+59.8
International Business Group	893.1	946.6	976.1	+83.0
Other	527.2	549.6	593.3	+66.1
<b>Total</b>	<b>3,881.3</b>	<b>4,013.3</b>	<b>4,118.1</b>	<b>+236.8</b>

# Loans — Domestic —

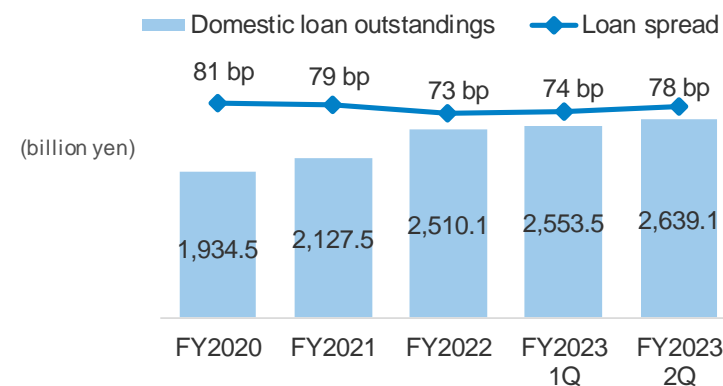
- Domestic loans were 2,639.1 billion yen, an increase of 128.9 billion yen compared to March 31, 2023
  - Loan outstandings increased in “Manufacturing” by 49.9 billion yen mainly due to the origination of LBO loans, decreased in “Utilities (electric power/gas/heat supply/water service)” by 28.4 billion yen mainly due to the sell-down of environmental finance for syndication purposes, and increased in “Other services” by 33.2 billion yen mainly due to the origination of loans to borrowers with stronger credit ratings
- Domestic loan spreads improved to 78 bps compared to the previous quarter

## Balance by industry

(billion yen)	End - Mar. 2023 A	End - Jun. 2023	End - Sep. 2023 B	Change B - A	Share
Manufacturing	258.7	280.4	308.6	+49.9	12%
Utilities (electric power/gas/heat supply/water service)	141.5	140.3	113.0	-28.4	4%
Information and communications	105.3	101.9	115.2	+9.8	4%
Transport, postal services	49.7	49.3	50.3	+0.5	2%
Wholesale and retail sale	86.9	81.2	84.9	-1.9	3%
Financial and insurance	342.4	333.8	345.5	+3.0	13%
Real estate	760.4	760.6	773.8	+13.4	29%
Incl. non-recourse loans	428.0	420.8	433.2	+5.2	16%
Leasing	148.7	174.0	171.2	+22.4	7%
Other services	155.2	172.3	188.4	+33.2	7%
Other	460.9	459.2	487.6	+26.7	19%
<b>Total *</b>	<b>2,510.1</b>	<b>2,553.5</b>	<b>2,639.1</b>	<b>+128.9</b>	<b>100%</b>

\* Domestic loans are with final risk residing in Japan

## Domestic loan outstandings and loan spread\*



\* Management accounting basis. Loan balances and loan spreads at fiscal-year/quarter end

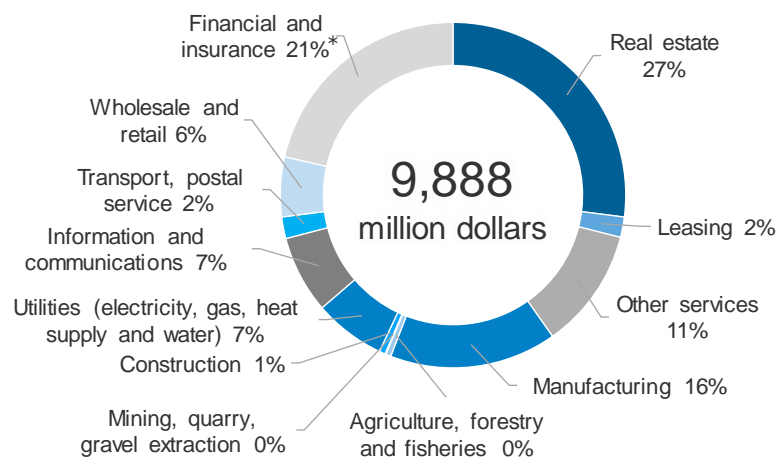
# Loans — Overseas —

- Overseas loans were 1,479.0 billion yen, or 9.9 billion on a U.S. dollar-basis (a decrease of US\$ 379 million from March 31, 2023)
  - North American corporate loans and overseas real estate non-recourse loans decreased by US\$ 223 million and US\$ 210 million, respectively, compared to March 31, 2023
- Overseas loan spreads remained flat at 152 bps

(billion yen)	End - Mar. 2023 A	End - Jun. 2023	End - Sep. 2023 B	Change B - A
Total loans (A)	3,881.3	4,013.3	4,118.1	+236.8
<b>Overseas loans* (US\$ million)</b>	<b>10,268</b>	<b>10,067</b>	<b>9,888</b>	<b>-379</b>
Overseas loans (B)	1,371.1	1,459.8	1,479.0	+107.8
(B) / (A)	35.3%	36.4%	35.9%	-
Foreign exchange rate (US\$/JPY)	¥133.54	¥145.00	¥149.58	¥16.04

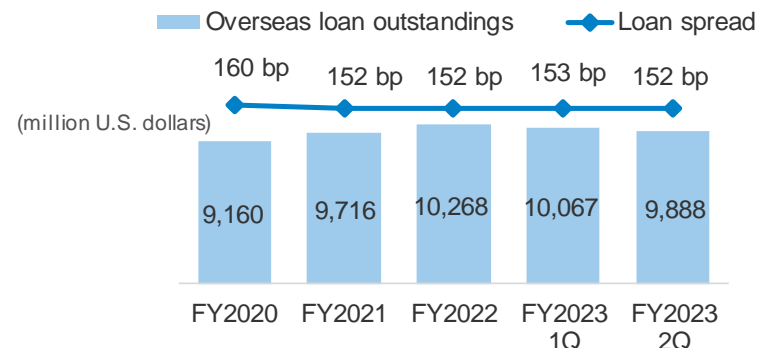
\* Overseas loans are with no final risk residing in Japan

## By industry



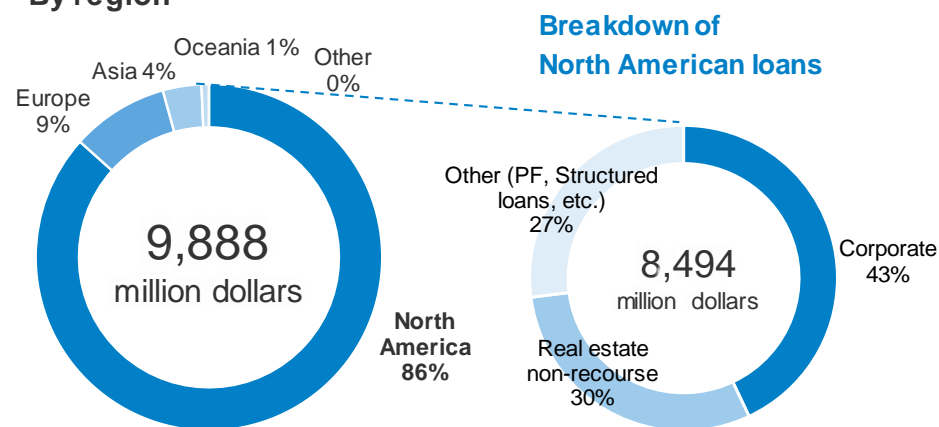
\* The majority of "Financial and insurance" consist of the highest senior tranche (AAA-rated) of middle-market CLO backed by diversified portfolio of U.S. medium-sized companies.

## Overseas loan outstandings and loan spread\*



\* Management accounting basis. Loan outstandings and loan spreads at fiscal-year/quarter end

## By region



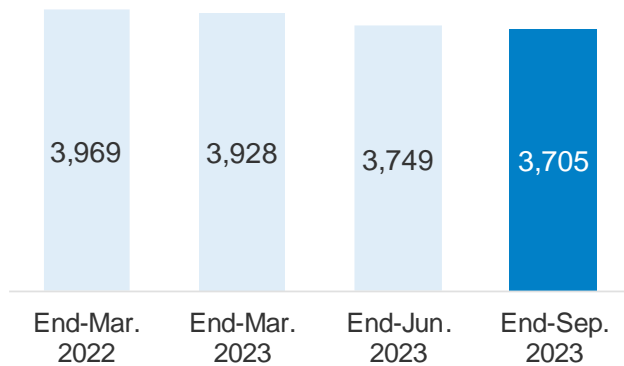


# Loans — North American corporate loans —

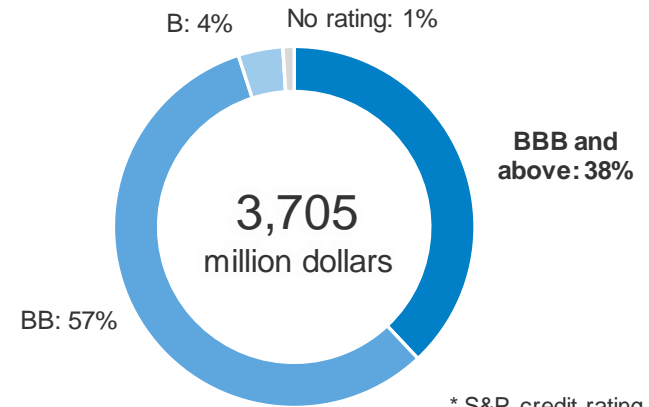
- North American corporate loans were US\$ 3.7 billion, a decrease of US\$ 223 million compared to March 31, 2023
  - Aozora continued to control total exposure mainly through flexible rebalancing in response to market conditions while prioritizing maintaining loan portfolio quality
  - The average bid price of the Bank's loan portfolio remained strong. Loans rated BB or higher represented 95%, which was almost flat compared to March 31, 2023

## North American corporate loan outstandings

(million U.S. dollars)

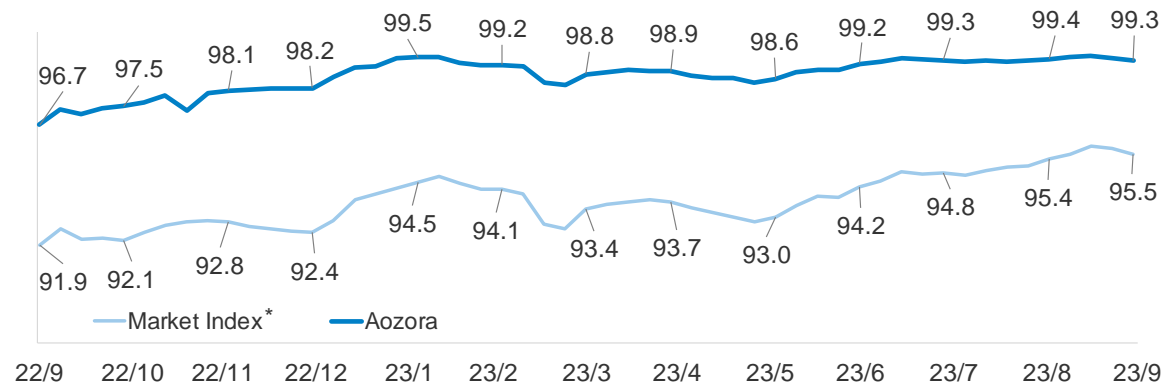


## North American corporate loans by credit rating\*



\* S&P credit rating (facility basis)

## Average bid price



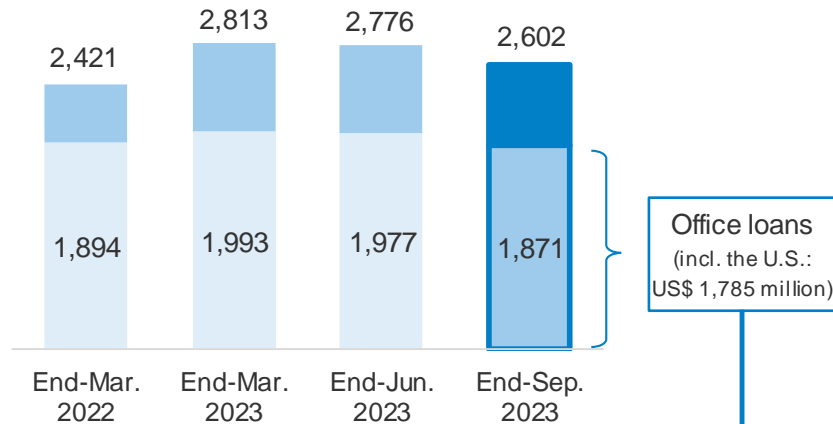
\* Source: Leveraged Commentary & Data

# Loans — Overseas real estate non-recourse loans (NRLs) —

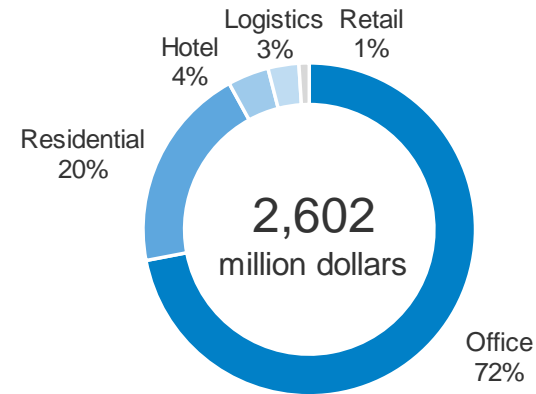
- Overseas real estate non-recourse loans were US\$ 2.6 billion, a decrease of US\$ 210 million compared to March 31, 2023
  - For overseas real estate non-recourse loans by region, the U.S. represented 96%, U.K. 3% and Canada 1%
  - U.S. office loans (US\$ 1.8 billion) are detailed on the next page

## Overseas real estate non-recourse loan outstandings

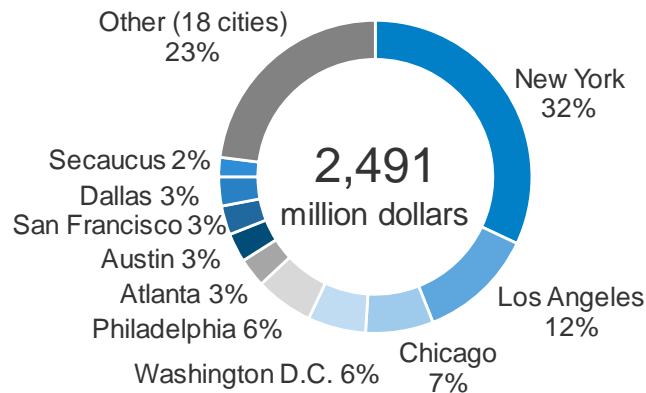
(million U.S. dollars)



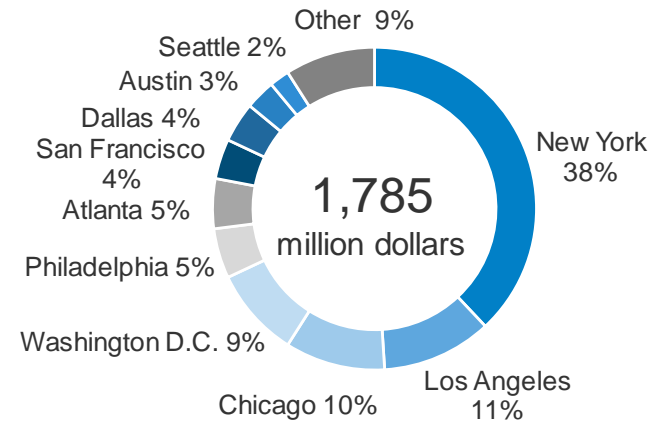
## By sector



## By U.S. city – Total NRLs



## By U.S. city – Office loans only

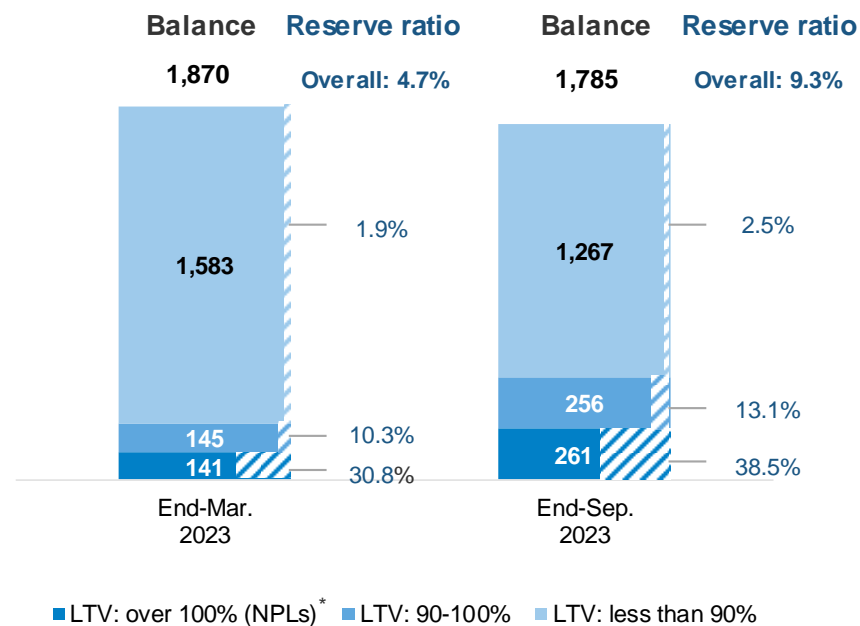


# Loans — Overseas real estate non-recourse loans (U.S. office loans) —

- U.S. office loans were US\$ 1.8 billion, a decrease of US\$ 84 million from March 31, 2023. The ratio of U.S. office loans to total loans was 6.5%
  - NPLs based on the FRA were US\$ 261 million (an increase of US\$ 120 million from March 31, 2023) and the NPL ratio was 14.6% (7.5% as of March 31, 2023)
  - For the interim period, Aozora made additional provisions of 12.4 billion yen (US\$ 78 million) based on its ongoing conservative review process and progress on the work-out process
  - The loan loss reserve ratio for overall U.S. office loans was 9.3% as of September 30, 2023. The loan loss reserve ratio for U.S. office loans with an LTV of over 100% (NPLs based on the FRA) was 38.5%, and that for the loans with an LTV of 90–100% was 13.1%, both of which increased compared to March 31, 2023

## Aozora's U.S. office loan portfolio

(million U.S. dollars)



■ LTV: over 100% (NPLs)\* ■ LTV: 90-100% ■ LTV: less than 90%

\* U.S. office loans with an LTV of over 100% are classified as NPLs in principle

(million U.S. dollars)	End-Mar. 2023			End-Sep. 2023		
	Balance	Reserves	Reserve ratio*	Balance	Reserves	Reserve ratio*
LTV: less than 90%	1,583	29	1.9%	1,267	32	2.5%
LTV: 90-100%	145	15	10.3%	256	33	13.1%
LTV: over 100% (NPLs)	141	43	30.8%	261	100	38.5%
<b>Total</b>	<b>1,870</b>	<b>88</b>	<b>4.7%</b>	<b>1,785</b>	<b>167</b>	<b>9.3%</b>

\* Total exposure basis

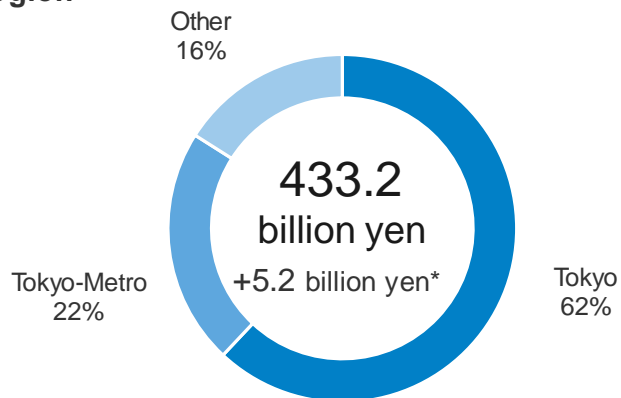
## Office market conditions by region

San Francisco	Reflecting the stressed nature of the market, experiencing relatively large price declines, with a search for a pricing bottom being observed
Los Angeles	Limited volume of large urban property sales, but demand is beginning to emerge for suburban properties
New York	Solid performance by relatively new Class A properties, growing demand to acquire work-out properties for redevelopment purposes
Washington, D.C.	More active trading of properties with relatively strong performance, including refinancing through CMBS, compared to other regions
Chicago	While sale and purchase of properties are limited, a search for a pricing bottom is being observed

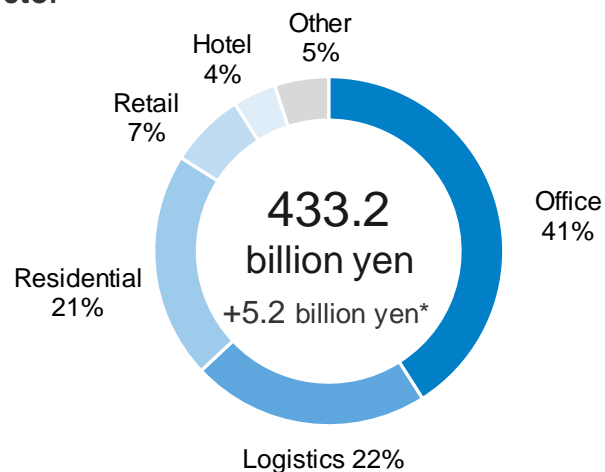
# Loans — Domestic real estate non-recourse loans (NRLs) —

- Domestic real estate non-recourse loan outstandings totaled 433.2 billion yen, almost flat compared to March 31, 2023
  - Aozora focused on originating REITs in light of an expected increase in interest rates. For real estate non-recourse loans excluding REITs, the Bank continued its selective origination of higher credit quality loans as part of its risk control strategy
  - Real estate non-recourse loans (excluding REITs) with an LTV of 70% or less accounted for 99% of the total, and REIT loans with an LTV of below 50% represented 100% of the total

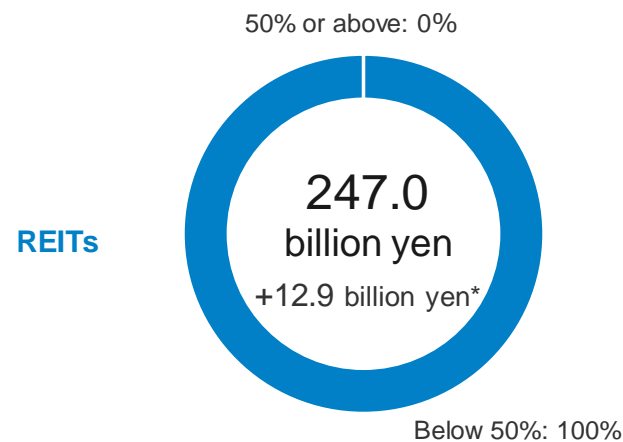
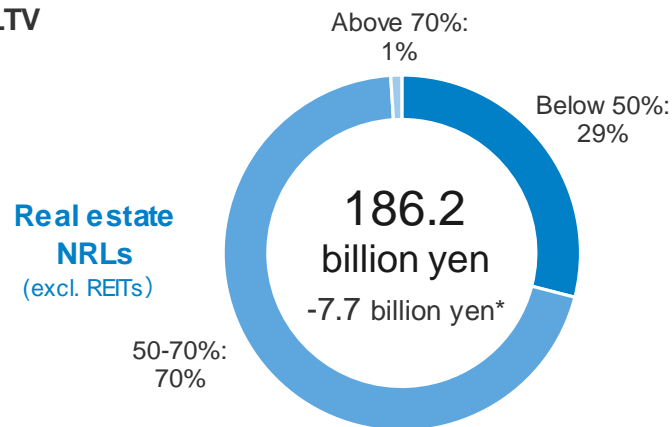
## By region



## By sector



## LTV



\* Compared to March 31, 2023

# Securities

- Securities were 1,395.2 billion yen, an increase of 116.5 billion yen compared to March 31, 2023
  - The increase was mainly the result of the impact of a weaker yen (approximately 80.0 billion yen) and investments in “bear funds” for risk-hedging purposes (approximately 18.0 billion yen)
- Unrealized gains/losses, including unrealized gains/losses on hedging instruments, were a net loss of 92.6 billion yen. Unrealized losses increased by 28.7 billion yen compared to March 31, 2023 mainly due to the impact of a weaker yen (13.6 billion yen) as well as realized gains of 15.8 billion yen (6.4 billion yen on bond transactions and 9.4 billion yen on stock transactions)
  - No securities are booked as held-to-maturity
- Bond durations\* as of September 30, 2023 were 5 years for U.S. government bonds, 7 years for mortgage-backed securities, 4 years for municipal bonds, and 17 years for Japanese government bonds

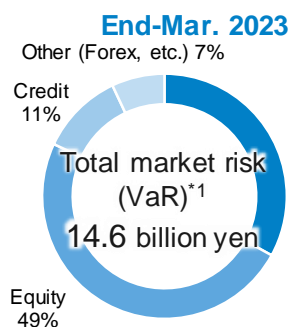
	Book value				Unrealized gains/losses				
	End - Mar. 2023 A	End - Jun. 2023	End - Sep. 2023 B	Change B - A	End - Mar. 2023 C	End - Jun. 2023 D	End - Sep. 2023 E	Change E - C	Change E - D
(billion yen)									
JGBs	18.3	18.5	27.3	+9.0	-1.3	-1.1	-2.3	-1.0	-1.1
Municipal bonds	38.9	34.3	30.3	-8.6	-0.1	-0.0	-0.2	-0.1	-0.1
Corporate bonds / short-term corporate bonds	127.9	146.2	136.3	+8.4	-0.9	-0.0	-0.5	+0.3	-0.4
Equities	30.1	29.5	26.4	-3.7	12.8	13.0	10.1	-2.7	-2.9
Foreign bonds	458.7	532.3	518.8	+60.0	-62.4	-72.2	-91.9	-29.4	-19.6
Foreign government bonds	195.8	250.0	247.9	+52.1	-27.0	-31.9	-41.4	-14.3	-9.4
MBS	152.3	159.6	151.2	-1.1	-32.5	-37.1	-47.4	-14.8	-10.2
Other	110.6	122.6	119.5	+8.9	-2.8	-3.1	-3.1	-0.2	+0.0
Other securities	604.4	628.0	655.9	+51.4	-14.0	-24.8	-25.5	-11.5	-0.6
ETFs	123.3	132.6	131.8	+8.5	-23.7	-27.0	-32.9	-9.1	-5.8
Investments in limited partnerships	169.5	181.1	177.7	+8.1	1.8	1.8	0.8	-1.0	-1.0
REITs	46.5	38.3	36.1	-10.3	6.5	4.6	3.2	-3.2	-1.4
Investment trusts	225.0	236.2	267.2	+42.2	-1.4	-4.9	2.6	+4.0	+7.5
Other	40.0	39.6	42.9	+2.9	2.7	0.5	0.6	-2.1	+0.0
<b>Total</b>	<b>1,278.7</b>	<b>1,389.1</b>	<b>1,395.2</b>	<b>+116.5</b>	<b>-65.9</b>	<b>-85.4</b>	<b>-110.5</b>	<b>-44.5</b>	<b>-25.0</b>
Unrealized gains/losses, incl. unrealized gains/losses on hedging instruments					<b>-63.8</b>	<b>-76.9</b>	<b>-92.6</b>	<b>-28.7</b>	<b>-15.6</b>

\* Non-consolidated basis

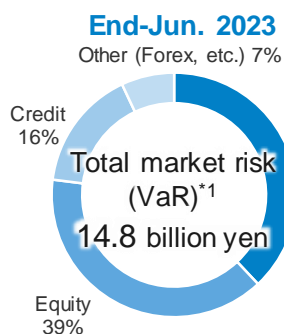
# Securities operations

- Aozora worked to rebuild its securities portfolio and conduct timely risk control operations, while taking a risk-off approach towards the end of September in response to higher U.S. and European interest rates in the latter half of 2Q
- The Bank conducted yen interest rate risk reduction operations across all yen exposures in the banking book, including yen-denominated corporate bonds and loans that are not included below in addition to securities, in order to effectively limit yen interest rate risks

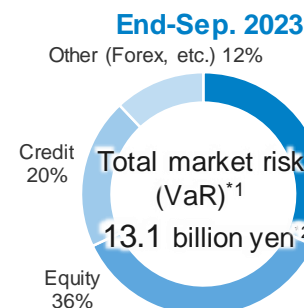
## Market risk (VaR)



U.S. dollar interest rate risk (10BPV):  
-0.1 billion yen  
Yen interest rate risk (10BPV): -0.3 billion yen



U.S. dollar interest rate risk (10BPV):  
-0.8 billion yen  
Yen interest rate risk (10BPV): -0.1 billion yen



U.S. dollar interest rate risk (10BPV):  
-0.1 billion yen  
Yen interest rate risk (10BPV): -0.4 billion yen

\*1 VaR considering the holding period since End-Mar. 2023

\*2 Preliminary basis

## ALM/securities operations

		Balance <sup>*1, 2</sup>			Net balance after hedging <sup>*1, 2</sup>	Gains from sale <sup>*3</sup>	Losses from sale / redemption <sup>*3</sup>	Net gains/losses <sup>*3</sup>
		End-Mar. 2023	End-Jun. 2023	End-Sep. 2023	End-Sep. 2023			
JGBs, municipal bonds	(billion yen)	38.2	37.7	37.8	37.8	0.3	-0.0	0.2
U.S. government bonds	(US\$ million)	1,250	1,550	1,550	-	1.9	-0.9	0.9
European government bonds	(EUR million)	405	405	405	-	0.8	-	0.8
MBS	(US\$ million)	1,341	1,314	1,286	-	2.2	-	2.2
ETFs	(US\$ million)	1,101	1,101	1,101	81	-	-	-
REITs	(billion yen)	6.9	7.5	8.7	8.7	0.6	-0.1	0.4
Investment trusts	(billion yen)	38.5	39.6	42.8	34.2	2.2	-0.0	2.1
<b>Total</b>						<b>8.1</b>	<b>-1.2</b>	<b>6.9</b>
						FY2023 Interim		
						Gains/losses on financial derivatives	(billion yen)	-0.1
						Gains/losses on equity derivatives	(billion yen)	-0.3
						<b>Total</b>	(billion yen)	<b>-0.5</b>

Note 1: Assets managed under the ALM securities portfolio. Non-consolidated, management accounting basis (risk basis)

Note 2: "Net balance after hedging" and "Net gains/losses" include bear funds

\*1 Bonds are calculated based on face value. Other securities are calculated based on book value

\*2 Foreign currency-denominated REITs and investment trusts converted to yen. Other categories stated in original currency

\*3 All realized gains/losses converted to yen. Includes 3.8 billion yen in gains on the cancellation of investment trusts recorded as net interest income

# Funding

- Core funding (deposits, negotiable certificates of deposit, and bonds) was 5,921.0 billion yen, an increase of 275.8 billion yen compared to March 31, 2023
  - The balance of retail deposits increased by 159.6 billion yen from March 31, 2023. Retail funding ratio was 66%, almost the same compared to March 31, 2023

(billion yen)	End - Mar. 2023 A	End - Jun. 2023	End - Sep. 2023 B	Change B - A
<b>Total core funding</b>	<b>5,645.1</b>	<b>5,802.1</b>	<b>5,921.0</b>	<b>+275.8</b>
Deposits / NCDs	5,497.3	5,638.3	5,718.8	+221.4
Incl. the balance of retail deposits	3,739.6	3,860.8	3,899.2	+159.6
Bonds	147.7	163.7	202.2	+54.4
Retail funding ratio*	66%	67%	66%	
Loan-to-deposit ratio incl. NCDs	71%	71%	72%	

\* Defined as follows:  
Retail funding ratio = Retail deposits / Total core funding

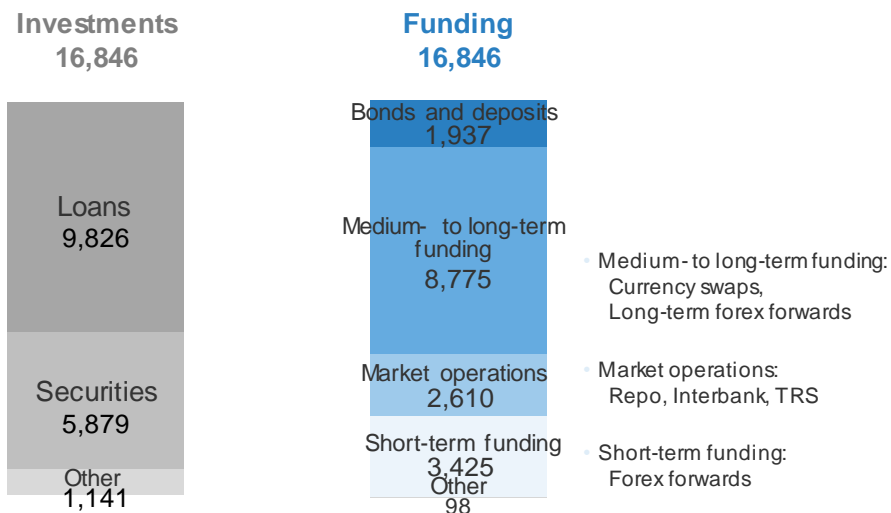
## Liquidity reserves\*

(billion yen)	End - Mar. 2023 A	End - Jun. 2023	End - Sep. 2023 B	Change B - A
<b>Liquidity reserves</b>	<b>1,356.6</b>	<b>1,304.5</b>	<b>1,308.5</b>	<b>-48.0</b>

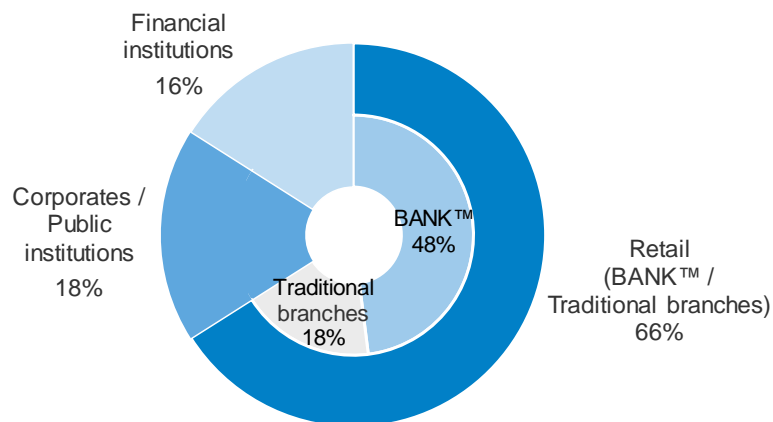
\* Non-consolidated basis  
Surplus funds at hand for cash management purpose operated with high liquidity method including BOJ current account balance, JGBs, U.S. government bonds and call loans

## Foreign currency investments/funding

(million U.S. dollars)



## Core funding by customer segment



# Reference: Sensitivity analysis to an increase in interest rates

- The impact of a 0.1% increase in yen interest rates for all terms on annual net interest income is estimated to be a net increase of approximately 2.4 billion yen

## Breakdown:

Investments: +3.3 billion yen (approx.)

Funding: -0.9 billion yen (approx.)

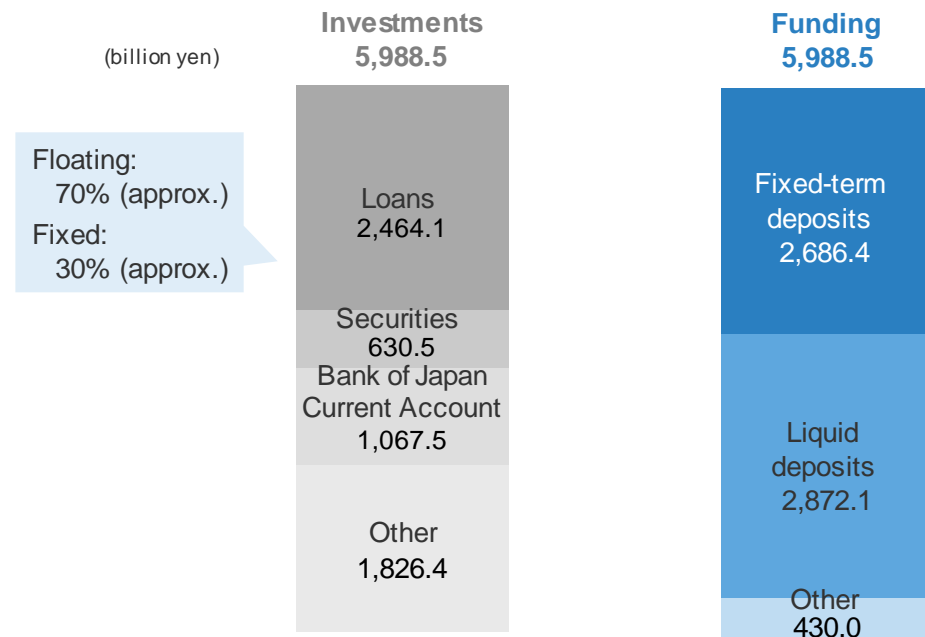
**+2.4 billion yen (approx.)**

- Investments  
Higher interest income due to floating-rate lending and currency swaps/forex forwards
- Funding  
Higher interest expenses due to floating-rate funding

## Estimate assumptions:

- 0.1% interest rate increase for all terms
- No change in the balance sheet compared to September 30, 2023

## Yen-denominated investments/funding



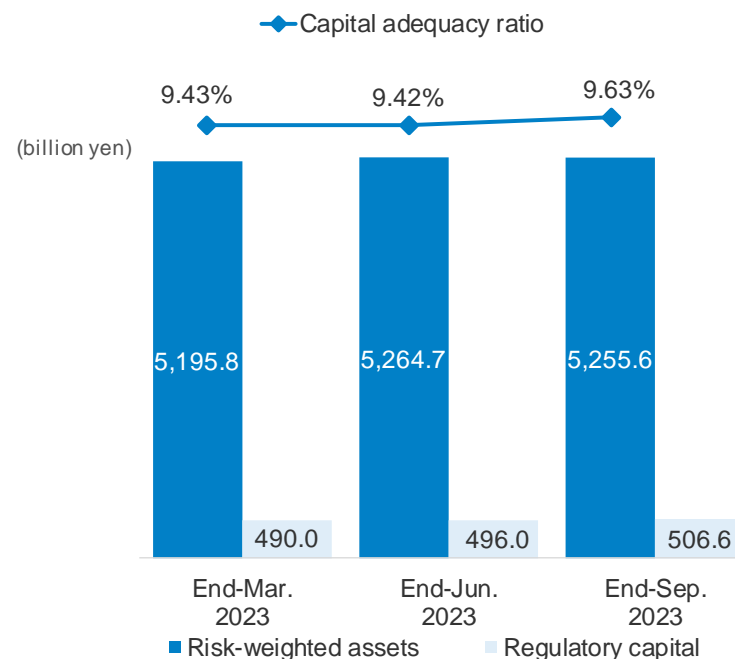


# Capital adequacy ratio (preliminary)

- The consolidated capital adequacy ratio (domestic standard) remained adequate at 9.63% (preliminary basis)
  - The CET1 (Common Equity Tier 1) ratio was approximately 6.8%

## Domestic standard

(billion yen)	End - Mar. 2023 A	End - Jun. 2023	End - Sep. 2023 B	Change B - A
Capital adequacy ratio	9.43%	9.42%	9.63%	+0.20 %
Regulatory capital (A - B)	490.0	496.0	506.6	+16.5
Instruments and reserves (A)	512.9	518.9	529.3	+16.4
Shareholders' equity	471.8	474.2	475.0	+3.2
Other	41.1	44.7	54.3	+13.1
Regulatory adjustment (B)	22.8	22.9	22.7	-0.0
Risk-weighted assets	5,195.8	5,264.7	5,255.6	+59.8
Credit risk assets	4,559.6	4,696.6	4,734.2	+174.6
Market risk assets	478.4	410.2	364.5	-113.9
Operational risk assets	157.7	157.7	156.9	-0.8



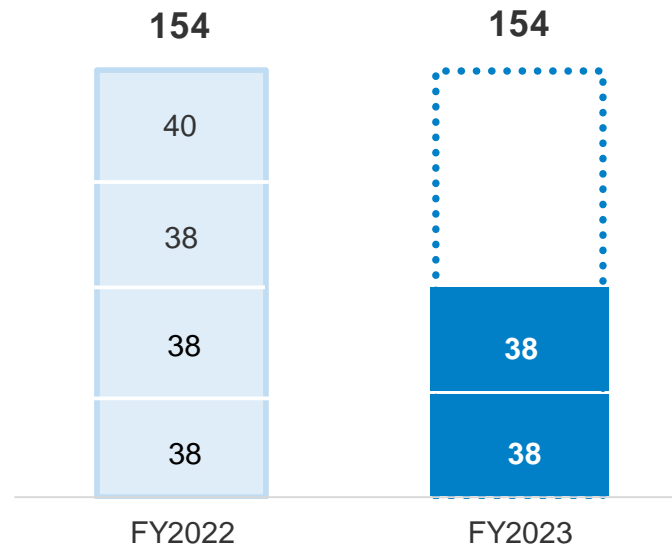
# Dividends

- Profit attributable to owners of parent achieved a progress rate of 50% towards the full-year earnings forecast due to strong results in our customer-related business, and the capital adequacy ratio remained at an adequate level of 9.63% (preliminary basis). As a result, the second quarter dividend is 38 yen per common share, approximately 25% of the full-year dividend forecast of 154 yen

## Dividend per common share

Record date	June 30 (1st quarter)	September 30 (2nd quarter)	December 31 (3rd quarter)	March 31 (4th quarter)	Full-year
Current forecast (FY2023)			—	—	<b>154 yen</b>
Dividend payment (FY2023)	38 yen	38 yen			

## Dividend payments



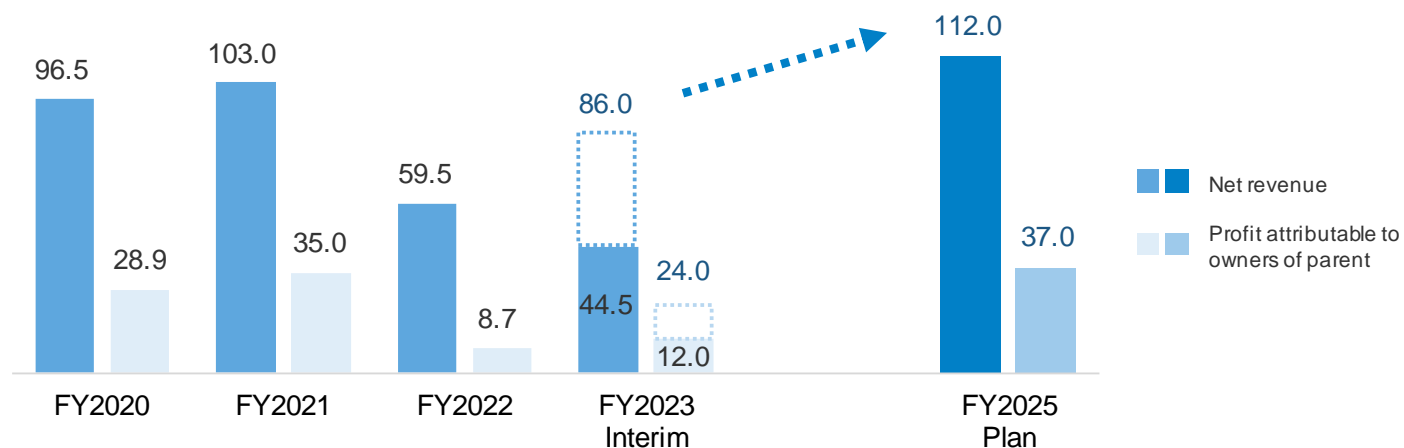
# Progress compared to mid-term financial targets

## Key performance indicators (KPIs)

		FY2021	FY2022	FY2023 1H	FY2025 (targets)
<b>Capital efficiency</b>	ROE	7.2%	1.9%	5.6%* <sup>3</sup>	8% (medium- to long-term: 10%)
<b>Financial strength</b>	Capital adequacy ratio	10.4%	9.4%	9.6% (preliminary basis)	9% or higher
<b>Productivity</b>	Business-related profit* <sup>1</sup> per employee	19 million yen	4 million yen	9 million yen	20 million yen
<b>Profitability</b>	Business-related profit* <sup>2</sup> RORA	1.1%	0.2%	1.0%* <sup>3</sup>	1.3%
<b>Earnings level</b>	Profit attributable to owners of parent	35.0 billion yen	8.7 billion yen	12.0 billion yen	37.0 billion yen

## Target earnings (net revenue and profit attributable to owners of parent)

(billion yen)



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

\*2 Business-related profit/Risk-weighted assets

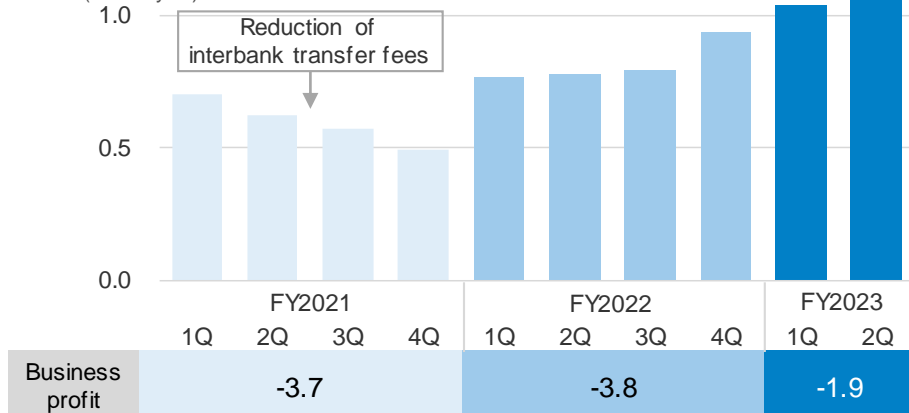
\*3 Annualized basis

# GMO Aozora Net Bank (GANB)

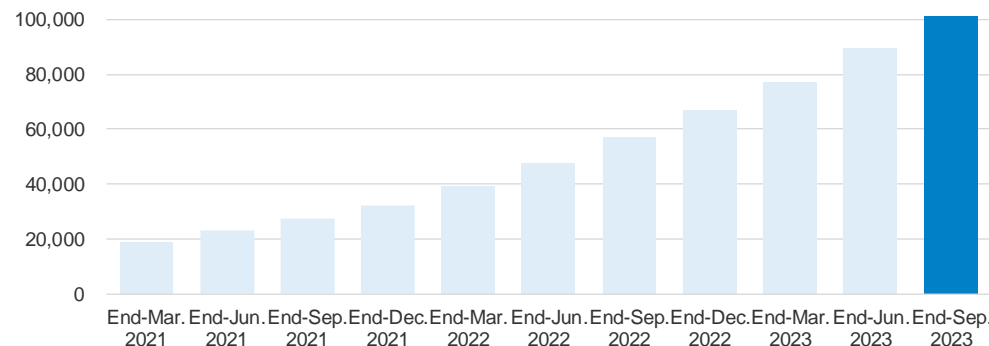
- The net revenue for 2Q was 1.1 billion yen, slightly below target
  - Net revenue from transfer transactions was almost in line with the initial plan. The number of transfer transactions significantly increased in 1Q due to a one-time factor and progressed as planned in 2Q
  - Net revenue from debit card payments fell below plan due to lower than expected debit card spending. GANB intends to promote customers' use of debit cards mainly through the enhancement of convenience as corporate debit cards
- The number of corporate accounts steadily increased to 100,000 as of September 30, 2023
- The number of “BaaS by GMO Aozora” (renamed from “Simple Embedded Finance Services”) contracts steadily increased due to GANB’s industry-leading range of bank API lineups and prompt technical support

## Quarterly net revenue

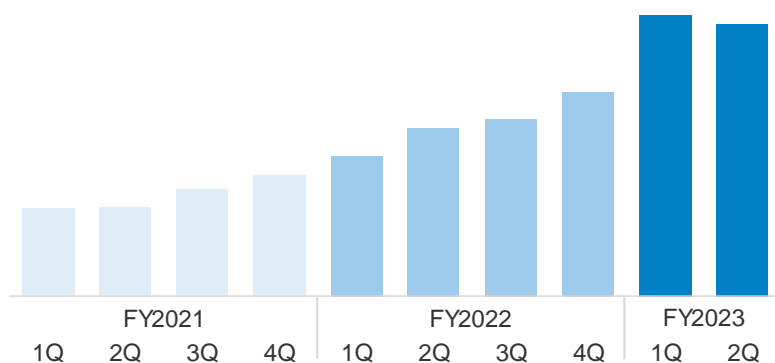
(billion yen)



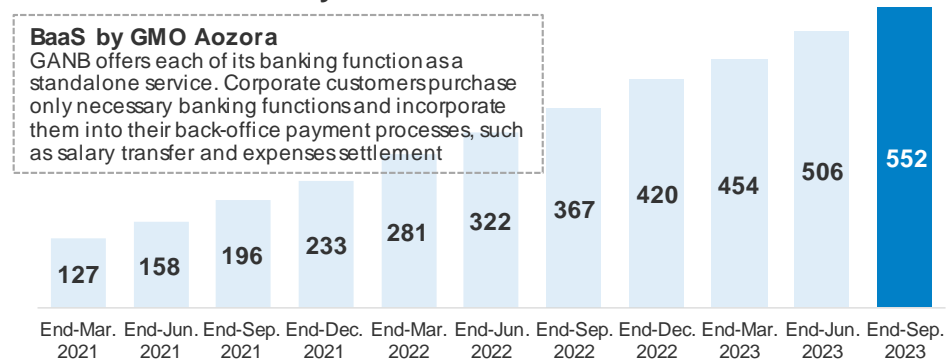
## Number of corporate accounts



## Number of transfer transactions



## Number of “BaaS by GMO Aozora” contracts



# Aozora Group companies / consolidated, non-consolidated difference

(billion yen)

<b>(A) Non-consolidated net income</b>	<b>8.5</b>
<b>(B) Profit attributable to owners of parent</b>	<b>12.0</b>
<b>(B) - (A) (a + b) Difference</b>	<b>3.5</b>

## Breakdown of the difference

<b>(a) Consolidated subsidiaries/affiliates</b>	<b>1.7</b>
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	Share of Earnings <sup>*1</sup>	Net Revenue	Net Income
GMO Aozora Net Bank, Ltd.	50.0% <sup>*2</sup>	2.1	-2.1
Aozora Loan Services Co., Ltd.	67.6%	0.5	0.0
Aozora Securities Co., Ltd.	100.0%	0.1	-0.3
Aozora Regional Consulting Co., Ltd.	100.0%	0.0	0.0
Aozora Investment Management Co., Ltd.	100.0%	0.7	0.3
Aozora Real Estate Investment Advisors Co., Ltd.	100.0%	0.1	0.0
ABN Advisors Co., Ltd.	100.0%	0.1	-0.0
Aozora Corporate Investment Co., Ltd.	100.0%	0.1	0.0
Aozora Asia Pacific Finance Limited	100.0%	0.5	0.2
Aozora Europe Limited	100.0%	0.3	0.0
Aozora North America, Inc.	100.0%	2.3	1.1
Other	-	1.5	1.0
Orient Commercial Joint Stock Bank	15.0%	-	1.4 <sup>*3</sup>

<b>(b) Consolidation adjustments</b>	<b>1.8</b>
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Gains/losses attributable to non-controlling interests (GMO Aozora Net Bank, Ltd.)	-	1.0
Other	-	0.7

\*1 Percentage of profit and loss attributable to owners of parent

\*2 Voting rights ratio is 85.1%

\*3 Revenue contribution from equity method investments

## Contact

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