FY2023 3rd Quarter Financial Results Overview

ーRevision to FY2023 Full-Year Earnings and Dividend Forecasts, and FY2023 3rd Quarter Financial Resultsー

February 1, 2024

AOZORA BANK

1. Revision to FY2023 Full-Year Earnings and Dividend Forecasts

FY2023 revised earnings and dividend forecasts (1)

Earnings forecast

(billion yen)

		FY2023 initial forecast	FY2023 revised forecast	Change
Consolidated	Net revenue	86.0	51.0	-35.0
	Business profit*1	25.5	-8.0	-33.5
	Ordinary profit	31.0	-49.0	-80.0
	Profit attributable to owners of parent	24.0	-28.0	-52.0
Non-consolidated	Net revenue	70.0	34.0	-36.0
	Business profit (before general loan-loss reserves)	22.0	-13.0	-35.0
	Ordinary profit	27.0	-54.0	-81.0
	Net income	19.0	-35.0	-54.0

Dividend forecast

	FY2023 initial forecast	FY2023 revised forecast
Full-year dividend per common share	154 yen	76 yen*2

<Reference>

(billion yen)

	FY2021 results	FY2022 results	FY2023 projection
Business-related profit*3 (customer-related business excl. financial market-related and retail businesses)	29.4	33.8	44.0

*1 Including gains/losses on equity method investments

*2 No dividend to be paid for the 3rd quarter and no dividend is forecasted for the 4th quarter of FY2023

*3 Business profit + Gains/losses on stock transactions

FY2023 revised earnings and dividend forecasts (2)

- The Bank's customer-related business focusing on Aozora's Strategic Investments Business, which aims to serve customers in their three phases of "Fostering," "Change" and "Recovery," has been steadily growing under the Mid-term Plan "Aozora 2025" announced in May 2023. Business-related profit from customer-related business was 36.4 billion yen in the first nine months of FY2023, an increase of 9.8 billion yen year-on-year, and is expected to exceed the original full-year plan

- In order to establish a better foundation for growth in our customer-related business in the next fiscal year and beyond, Aozora has decided to take fundamental actions in FY2023 and significantly reduce risks by addressing two balance sheet issues: (1) exposure to U.S. non-recourse office loan portfolio and (2) the restructuring of the securities portfolio

Earnings breakdown

(billion yen)	FY2022	FY2023				FY2023 2H Losses/expenses to be recognized
	Full-year	Interim results	3Q results	4Q projection	Revised forecast	
Net revenue	59.5	44.5	16.0	-9.6	51.0	
incl. financial market-related losses in 2H			-3.1	-29.8		Market-related -41.0
Business profit	2.5	15.6	1.6	-25.2	-8.0	
Credit-related expenses	-1.7	-9.9	-32.9	-0.0	-43.0	
incl. U.S. office loan-related expenses in 2H			-32.4	-		U.S. offices -32.4
Gains/losses on stock transactions	8.4	9.4	-7.8	0.4	2.0	
incl. financial market-related losses in 2H			-8.0	-		
Ordinary profit	7.3	14.3	-39.2	-24.2	-49.0	
Profit attributable to owners of parent	8.7	12.0	-26.7	-13.3	-28.0	

Business-related profit*

	FY2022 Full-year	FY2023 Interim results	3Q results	4Q projection	Revised forecast
Customer-related business (excl. retail and financial market-related businesses)	33.8	29.5	6.8	7.7	44.0
Retail business	-5.2	-2.3	-0.7	-1.5	-4.5
Financial market-related business	-17.5	-2.2	-12.3	-31.0	-45.5

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

U.S. non-recourse office loans (1)

- Due to higher U.S. interest rates and a shift to remote work accelerated by COVID-19, the U.S. office market continues to face adverse conditions combined with extremely low liquidity. While price discovery is anticipated to eventually improve with a gradual increase in office transactions on the back of an expected return-to-office movement as well as a pause in the rise in U.S. interest rates, our view is that it may take another year or two for the market to stabilize
- With respect to office loans originated by Aozora, the recovery process has been bifurcated depending on region and the specific characteristics of the property. Given these circumstances, we reviewed property valuations from a forward-looking perspective and strengthened our reserves by making additional provisions as below to be more prepared for a potential increase in the number of workouts, including debt collection through a sale of the underlying property assets:
  1. We reevaluated all U.S. non-recourse office loans (47 borrowers) and reviewed property valuations, taking into account the risk of price declines over the next two years
  2. Following the above valuations, we downgraded borrowers of loans with an LTV of over 100% (and a high possibility of going into a workout process over the next two years) to NPLs, in principle, while taking into consideration factors including the specific characteristics of the property and regions
  3. We also applied a stress case scenario taking into account the impact of market volatility on the NPL borrowers and made additional provisions to loan loss reserves, accordingly

Breakdown of Aozora's U.S. office loan portfolio by region (as of December 31, 2023)

	Non-performing loans			
	Number of transactions	Total outstandings ($m)	Average LTV *2	% of valuation decline
New York		82	155%	-51%
Washington, D.C.		38	172%	-56%
Chicago		171	211%	-63%
Los Angeles		127	176%	-59%
San Francisco		79	168%	-59%
Other		220	163%	-56%
Total NPLs *1	**21**	**719**	**177%**	**-58%**
Total Normal Loans	**26**	**1,174**	**76%**	**-12%**
Total	**47**	**1,893**		

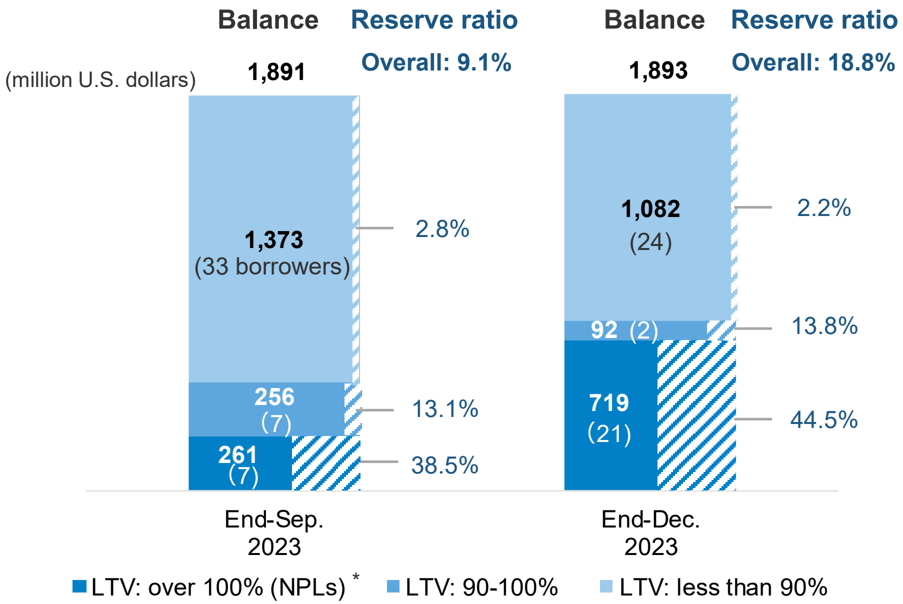
*1 Including NPLs in the following seven cities/county: Atlanta, Arlington, Austin, Philadelphia, Orange County, Minneapolis and Seattle

*2 Taking into account the risk of price declines over the next two years for NPLs

U.S. non-recourse office loans (2)

- U.S. office loan outstandings were US$ 1,893 million, which accounted for 6.6% of total loans
  - As described on page 4, we classified 21 borrowers with a total exposure of US$ 719 million as NPLs. The ratio of NPLs to total claims was 38% (13.8% as of September 30, 2023)
  - An additional reserve of 32.4 billion yen (220 million on a U.S. dollar-basis) against the U.S. non-recourse office loan portfolio were provided in 3Q. The loan loss reserve ratio increased to 18.8%, which we believe provides an adequate reserve level and significantly reduces the risk of future losses

Aozora's U.S. office loan portfolio



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

(million U.S. dollars)

	End-Sep. 2023			End-Dec. 2023		
	Balance	Reserves	Reserve ratio*	Balance	Reserves	Reserve ratio*
LTV: less than 90%	1,373	37	2.8%	1,082	23	2.2%
LTV: 90-100%	256	33	13.1%	92	12	13.8%
LTV: over 100% (NPLs)	261	100	38.5%	719	320	44.5%
Total	**1,891**	**172**	**9.1%**	**1,893**	**357**	**18.8%**

* Total exposure basis

Credit-related expenses

(billion yen)

	FY2023 Interim	FY2023 3Q	FY2023 4Q projection	FY2023 projection
The Bank total	-9.9	-32.9	-0.0	-43.0
US office loan-related	-12.4	-32.4	-	-45.0

Office market conditions by region
(property leasing and trading trends)

New York	Office supply and demand in Manhattan is expected to recover earlier compared to other cities. The polarization of credit quality is increasing within the region due to fight-to-quality trends
Washington, D.C.	Property trading is relatively active, although there are disparities in areas (central district vs. submarkets) and properties (Class A vs. other classes)
Chicago	A considerable amount of time is required to recover supply and demand balances in urban areas. The volume of property sales remains very low
Los Angeles	More time is required to balance office supply and demand in central areas. Demand is expected to emerge for suburban properties
San Francisco	More time is required to activate property trading due to long-term imbalances in office supply and demand. Purchase and sales are beginning to emerge for medium/small-sized properties

Securities portfolio restructuring

- With respect to unrealized losses on the securities portfolio, consisting mainly of foreign bonds, primarily due to the rise in U.S. interest rates we have decided to accelerate the disposition of securities with the aim to secure added flexibility in portfolio management and improve profitability in the next fiscal year and beyond
- We sold foreign currency ETFs in 3Q and plan to sell a further portion of the remaining foreign currency ETFs and MBS in 4Q. As a result, a loss of 11.1 billion yen (including losses from sale of 9.3 billion yen) was recorded in 3Q. An additional loss of 29.8 billion yen (including losses from sale of 26.7 billion yen) is expected in 4Q resulting in an expected loss of 41.0 billion yen including negative carry in 2H
- Unrealized losses on securities improved from a net loss of 92.6 billion yen as of September 30, 2023 to a net loss of 81.5 billion yen as of December 31, 2023, and are further expected to improve to a net loss of 56.0 billion yen as of March 31, 2024, which will be a significant step towards the restructuring of the securities portfolio
- Unrealized losses after the above disposition will mainly be from higher credit securities (U.S. and European government bonds, U.S. MBS and U.S. investment grade bonds ETFs, with minimum redemption risk
- Bond durations as of December 31, 2023 were 5 years for U.S. government bonds and 6 years for MBS

Breakdown of loss-cuts in securities

ALM/securities *1		Balance *2, 3				Unrealized gains/losses *4	Losses from sale/redemption	Unrealized gains/losses *4	Losses from sale/redemption	Unrealized gains/losses *4
		End-Sep. 2023	End-Dec. 2023	End-Mar. 2024 projection		End-Sep. 2023	FY2023 3Q	End-Dec. 2023	FY2023 4Q projection	End-Mar. 2024 projection
JGBs, municipal bonds	(billion yen)	37.8	36.9	36.9	(billion yen)	-2.5	-	-2.9	-	-2.9
U.S. government bonds	US$ million	1,550	1,550	1,550	(billion yen)	-14.4	-	-15.7	-	-15.7
European government bonds	EUR million	405	405	405	(billion yen)	-9.9	-	-10.1	-	-10.1
MBS	US$ million	1,286	1,264	858	(billion yen)	-42.9	-	-40.2	-15.4	-24.8
ETFs	US$ million	1,101	851	465	(billion yen)	-32.1	-9.3	-24.1	-10.2	-13.9
REITs	(billion yen)	8.7	4.3	4.3	(billion yen)	-0.8	-	-0.5	-	-0.5
Investment trusts	(billion yen)	42.8	35.8	11.1	(billion yen)	-3.2	-	-1.8	-1.1	-0.7
Total										
Overall securities	(billion yen)	1,395.2	1,375.9	1,164.1	(billion yen)	-92.6	-9.3	-81.5	-26.7	-56.0

Estimate for unrealized gains/losses*4 as of March 31, 2025: approx.**-49 billion yen*5**

*1 Management accounting basis
*2 Balances are stated on an original currency basis in principle. REITs and investment trusts denominated in foreign currencies are stated on a yen basis.
*3 Bonds are stated on face value. Other securities are stated on book value
*4 Including hedging instruments
*5 Based on an assumption that the financial environment and the Bank's portfolio will remain unchanged

Earnings, Capital and Dividends

- Our customer-related businesses focusing on Aozora's Strategic Investments Business have been experiencing steady growth. We anticipate achieving net revenue of approx. 85.0 billion yen and profit attributable to owners of parent of approx. 17.0 billion yen for FY2024, driven by the overall growth of our business groups through the expansion of profitable businesses, the steady progress of GMO Aozora Net Bank (GANB) towards profitability, and signs of a positive outcome resulting from the structural reform in our retail business
- With regard to the consolidated capital adequacy ratio which is expected to temporarily decline as of the end of March 2024, we plan to exceed 9% in terms of the domestic standard and 7% in terms of CET1 as of March 31, 2025 by taking measures including the accumulation of capital through improvement in business performance in the next fiscal year
- We aim to increase the FY2024 full-year dividend from the revised FY2023 dividend forecast of 76 yen per share
- FY2024 earnings forecast will be provided as part of the announcement of FY2023 full-year earnings results scheduled for May 2024

Net revenue, profit attributable to owners of parent and capital adequacy ratio

(billion yen)	FY2021 Full year	FY2022 Full year	FY2023 Full year forecast	FY2024 Full year plan
Net revenue	103.0	59.5	51.0	Approx. 85
Customer-related business	68.9	69.3	81.2	Approx. 85
incl. GANB	2.3	3.2	5.6	Approx. 8
Retail business	8.0	2.8	2.8	Approx. 4
Financial market-related business	25.9	-12.6	-33.0	Approx. -5
Profit attributable to owners of parent	35.0	8.7	-28.0	Approx. 17

	End-Mar. 2022	End-Mar. 2023	End-Mar. 2024 estimate	End-Mar. 2025 plan
Capital adequacy ratio	10.37%	9.43%	Approx. 8.8%	9% or higher
CET1 ratio (approximation)	9.3%	7.4%	Approx. 6.6%	7% or higher

Business strategy for FY2024

Customer-related business mainly driven by Aozora’s Strategic Investments Business

The Bank strives to achieve steady growth in its customer-related business focusing on Aozora’s Strategic Investments Business, which aims to serve customers in their three phases of “Fostering,” ”Change” and “Recovery,” under the Mid-term Plan “Aozora 2025”

Growth areas and business opportunities for FY2024

Fostering — Start-ups support (venture debt, GMO Aozora Net Bank)

- Enhance Aozora’s start-ups support ecosystem framework across the Group with the aim to provide: (1) funding support through venture debt; (2) business support, including start-ups’ creating open innovation with our corporate customers; and (3) human resources support
- Provide support for start-ups, including account openings by small businesses and start-ups, through GMO Aozora Net Bank

Change — Buyout business, environmental business, etc.

- Seize business opportunities, including buyout finance and business succession M&A, by capitalizing on the active M&A market
- Promote environmental finance and corporate finance that are instrumental in resolving customers’ and society’s challenges
- Support customers in enhancing their corporate value through the following three forms of investments: equity investments with a primary focus on engagement, structured equity investments and strategic investments

Recovery — Business recovery support

- Actively respond to business recovery finance needs that are growing on the back of the end of the government’s COVID-19 related support as well as the expected normalization of the Bank of Japan’s monetary policy, together with Aozora Loan Services as a leading company in the servicing industry

2. Financial Results for the 3rd Quarter

Financial Highlights for the First Nine Months of FY2023

Net revenue	Business-related profit	Profit attributable to owners of parent
60.6 billion yen	**18.8 billion yen**	**-14.7 billion yen**
5.3 billion yen increase year-on-year	1.2 billion yen increase year-on-year	30.4 billion yen decrease year-on-year

Key points

- Net revenue was 60.6 billion yen, an increase of 5.3 billion yen year-on-year
- Business-related profit (Business profit + Gains/losses on stock transactions) was 18.8 billion yen, an increase of 1.2 billion yen year-on-year. Business-related profit from customer-related business was 36.4 billion yen, an increase of 9.8 billion yen from the previous year mainly driven by Aozora's Strategic Investments Business
- As for U.S. non-recourse office loans, we reviewed property valuations from a forward-looking perspective, made additional provisions to the loan loss reserves of 32.4 billion yen and recorded total credit-related expenses of 32.9 billion yen in 3Q (see pages 4–5 for details)
- We recorded a net loss of 9.3 billion yen in 3Q from the sale of securities as a result of accelerating the disposition of securities with the aim to secure added flexibility in the securities portfolio management and improve profitability in the next fiscal year and beyond (see page 6 for details). Unrealized losses on the securities portfolio were 81.5 billion yen as of December 31, 2023, a decrease of 11.0 billion yen from September 30, 2023

3Q dividend: No dividend paid for 3Q (No dividend is forecasted for 4Q. As a result, the full-year dividend forecast was revised downwards to 76 yen per share)

(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

(billion yen)	FY2022 1-3Q A	FY2023 1Q	FY2023 2Q	FY2023 3Q	FY2023 1-3Q B	B - A Change	B - A %	FY2023 Revised forecast
Net revenue	**55.2**	**17.7**	**26.8**	**16.0**	**60.6**	**+5.3**	**+9.7%**	**51.0**
Net interest income	40.4	12.0	13.1	8.8	33.9	-6.4		
Non-interest income	14.8	5.7	13.6	7.2	26.6	+11.7		
General & administrative expenses	-43.6	-15.0	-15.3	-15.2	-45.6	-1.9		
Gains/losses on equity method investments	1.3	0.5	0.9	0.8	2.2	+0.9		
Business profit (A)	**12.9**	**3.1**	**12.4**	**1.6**	**17.2**	**+4.3**	**+33.6%**	**-8.0**
Credit-related expenses	2.2	-0.9	-9.0	-32.9	-42.9	-45.1		
Gains/losses on stock transactions (B)	4.6	5.7	3.6	-7.8	1.5	-3.1		
Ordinary profit	**18.4**	**7.3**	**6.9**	**-39.2**	**-24.8**	**-43.2**	**-**	**-49.0**
Taxes	-4.2	-1.1	-2.2	12.2	8.8	+13.0		
Gains/losses attributable to non-controlling interests	1.5	0.5	0.5	0.2	1.3	-0.2		
Profit attributable to owners of parent	**15.7**	**6.7**	**5.2**	**-26.7**	**-14.7**	**-30.4**	**-**	**-28.0**
ROE	**4.4%**	**-**	**-**	**-**	**-**	**-**	**-**	
Business-related profit (A)+(B)*	**17.6**	**8.9**	**16.1**	**-6.2**	**18.8**	**+1.2**	**+6.8%**	
Customer-related business (excl. financial market-related and retail businesses)	26.6	12.7	16.7	6.8	36.4	+9.8	+37.0%	
Retail business	-3.3	-1.2	-1.1	-0.7	-3.0	+0.3	+9.5%	
Financial market-related business	-5.5	-2.6	0.4	-12.3	-14.5	-8.9	–	

* 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 7.6 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 recorded strong business-related profit due to stable net interest income and earnings from the sale of derivatives. The International Business Group also recorded strong business-related profit due to stable net interest income and gains on the sale of overseas equities
  - The Allied Banking Group's business-related profit decreased from the previous fiscal year due to the absence of a gain on sales of shares recorded in 2Q of last fiscal year

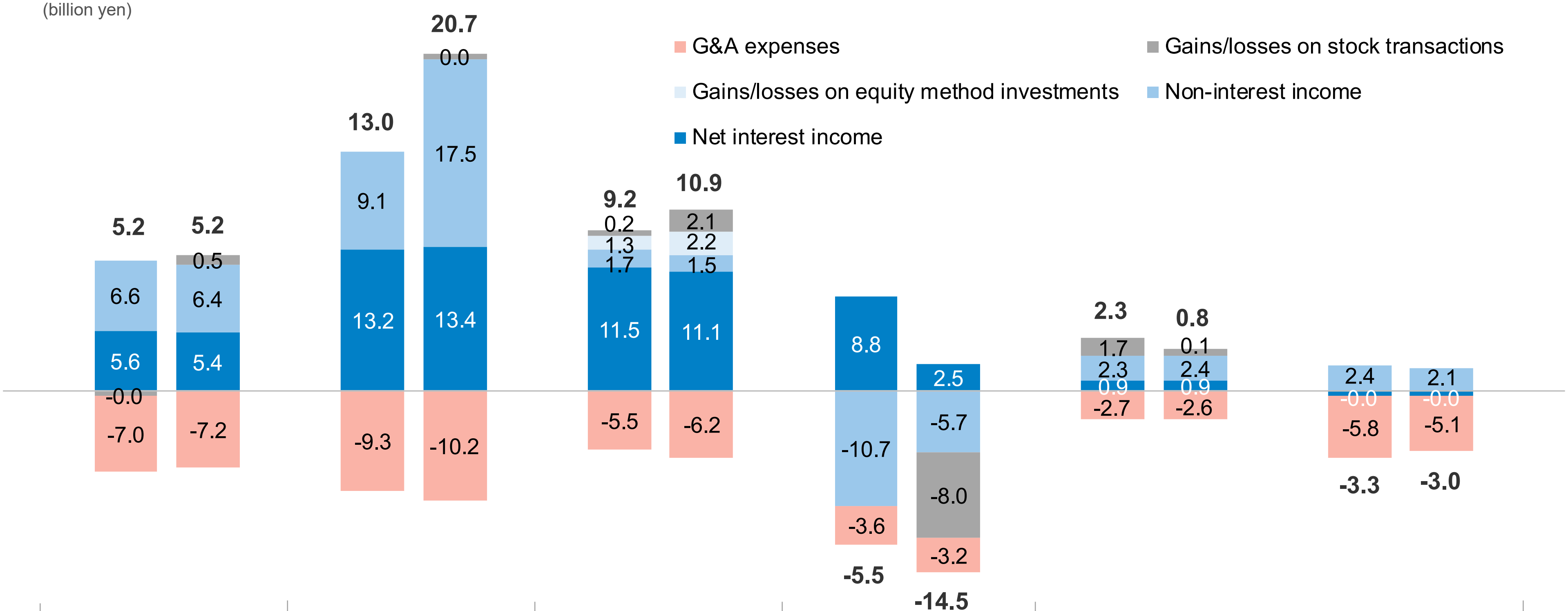
Business-related profit by business segment

(billion yen)	FY2022 1-3Q A	FY2023 1Q	FY2023 2Q	FY2023 3Q	FY2023 1-3Q B	Change B - A
Institutional Banking Group	5.2	1.8	1.7	1.5	5.2	-0.0
Structured Finance Group	13.0	6.2	10.4	3.9	20.7	+7.6
International Business Group	9.2	4.3	2.6	3.8	10.9	+1.7
Market Group	-5.5	-2.6	0.4	-12.3	-14.5	-8.9
Customer Relations Group	-1.0	-1.0	-0.7	-0.4	-2.2	-1.1
Allied Banking Group	2.3	0.1	0.3	0.3	0.8	-1.4
Retail Banking Group	-3.3	-1.2	-1.1	-0.7	-3.0	+0.3
Total (incl. other)	**17.6**	**8.9**	**16.1**	**-6.2**	**18.8**	**+1.2**

Results by business segment

Business-related profit breakdown by business segment

(billion yen)



FY2022 1-3Q / FY2023 1-3Q	FY2022 1-3Q / FY2023 1-3Q	FY2022 1-3Q / FY2023 1-3Q	FY2022 1-3Q / FY2023 1-3Q	FY2022 1-3Q / FY2023 1-3Q	FY2022 1-3Q / FY2023 1-3Q
Institutional Banking Group	**Structured Finance Group**	**International Business Group**	**Market Group**	**Customer Relations Group**	
• Corporate Business Group • M&A Advisory Group	• Acquisition & Structured Finance Group • Environment Business Group • Special Situations Group • Real Estate Finance Group	• International Business Group	• Financial Markets Group	• Allied Banking Group	• Retail Banking Group

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

- Capital gains and other equity returns from equity investments were 11.2 billion yen. Equity investments declined slightly from March 31, 2023
  - The capital gains and other equity returns in 3Q decreased quarter-on-quarter mainly due to no exit transactions in real estate-related equities. We recognized gains on the sale of REITs in 1H as a result of risk control measures and we plan to continue exit transactions in 4Q onwards
  - M&A-related exit transactions from domestic buyout funds remain active
  - Aozora Loan Services' stable revenue from domestic investments was partly offset by the increase in funding costs for overseas funds
  - Equity investments in venture funds for start-ups managed by Aozora Corporate Investment increased

Capital gains and other equity returns*1

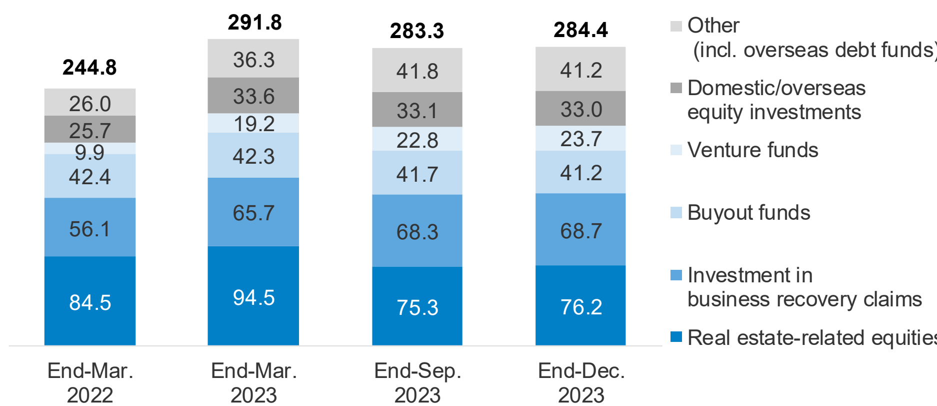
(billion yen)	FY2022 1-3Q A	FY2023 1Q	2Q	3Q	1-3Q B	Change B - A
Real estate-related equities	1.8	2.5	2.7	0.0	5.3	+3.5
Investment in business recovery claims	1.9	0.3	0.2	0.3	0.9	-1.0
Buyout funds	-0.0	-0.4	1.7	0.8	2.2	+2.2
Venture funds	0.3	-0.2	-0.3	-0.1	-0.7	-1.0
Domestic/overseas equity investments	2.2	2.6	0.2	0.1	3.0	+0.8
Other (incl. overseas debt funds)	0.3	0.1	0.1	0.2	0.4	+0.1
Total	**6.6**	**4.9**	**4.7**	**1.5**	**11.2**	**+4.6**

*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

Equity investments*2

(billion yen)



<Reference> Gains/losses on stock transactions*3

(billion yen)	FY2022 1-3Q A	FY2023 1Q	2Q	3Q	1-3Q B	Change B - A
Gains/losses on stock transactions	**4.6**	**5.7**	**3.6**	**-7.8**	**1.5**	**-3.1**

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

Includes a net loss of 8.0 billion yen due to the sale of foreign currency ETFs in the financial market-related business

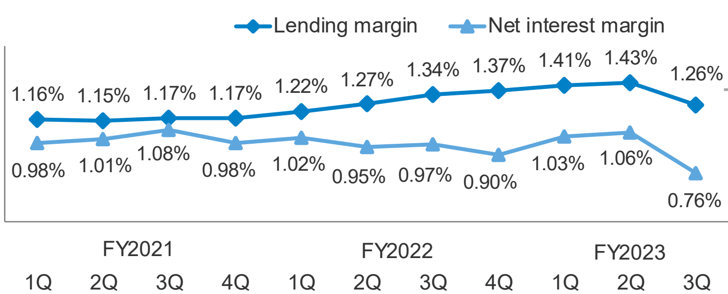
Net interest income

- Net interest income was 33.9 billion yen, a decrease of 6.4 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 6.0 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 6.0 billion yen mainly due to higher overseas interest rates
- The net interest margin remained almost flat year-on-year (slight decrease of 3 bps)
  - Foreign currency funding costs increased along with the increase of liquidity reserves and as a result, the lending margin decreased in 3Q. Gains on cancellation of investment trusts contributed to the strong lending margin in 1Q and 2Q

(billion yen)	FY2022 1-3Q A	FY2023 1Q	FY2023 2Q	FY2023 3Q	FY2023 1-3Q B	Change B - A
Net interest income	**40.4**	**12.0**	**13.1**	**8.8**	**33.9**	**-6.4**
Interest income	**79.6**	**40.6**	**44.2**	**42.1**	**127.0**	**+47.3**
Interest on loans and discounts	59.5	31.1	33.6	33.3	98.1	+38.5
Interest and dividends on securities	18.4	7.7	8.5	6.7	22.9	+4.5
Incl. gains on cancellation of investment trusts	1.2	2.0	2.1	-	4.1	+2.8
Other	1.6	1.7	2.0	2.0	5.9	+4.2
Interest expenses	**-39.1**	**-28.6**	**-31.1**	**-33.3**	**-93.0**	**-53.8**
Incl. interest on deposits and NCDs	-8.0	-3.4	-3.5	-3.8	-10.9	-2.9
Incl. repurchase interest, etc.	-6.1	-3.8	-5.1	-4.9	-13.9	-7.7
Incl. interest on swaps	-23.0	-19.9	-20.9	-22.5	-63.4	-40.4

(billion yen)	FY2022 1-3Q A	FY2023 1Q	FY2023 2Q	FY2023 3Q	FY2023 1-3Q B	Change B - A
Average balance of interest-earning assets	5,827.7	5,872.6	6,083.4	6,243.3	6,067.1	+239.3
Yield on interest-earning assets	1.81%	2.77%	2.88%	2.67%	2.77%	+0.96%
Average balance of loans	3,719.2	3,964.1	4,105.4	4,164.6	4,078.4	+359.2
Yield on loans	2.12%	3.15%	3.25%	3.17%	3.19%	+1.07%
Average balance of securities	1,452.3	1,373.2	1,453.2	1,507.5	1,444.9	-7.3
Yield on securities	1.68%	2.25%	2.33%	1.76%	2.10%	+0.42%
Average balance of interest-bearing liabilities	6,236.5	6,584.4	6,778.2	6,909.9	6,758.2	+521.6
Yield on interest-bearing liabilities	0.83%	1.74%	1.82%	1.91%	1.82%	+0.99%
Net interest margin	0.98%	1.03%	1.06%	0.76%	0.95%	-0.03%
Lending margin	1.29%	1.41%	1.43%	1.26%	1.37%	+0.08%
Securities margin	0.85%	0.51%	0.51%	-0.15%	0.28%	-0.57%

Net interest margin and lending margin



<Lending margin in 3Q>
- The lending margin declined 5 bps in the quarter due to a decrease in interest earned on U.S. non-recourse office loans that were downgraded to NPL status
- Interest expenses related to forex swap transactions, which were executed in order to enhance liquidity reserves, increased due to the application of hedge accounting, resulting in a 9 bps increase in funding costs for the quarter. (On an accounting basis, approx. 1.5 billion yen was reclassified as interest expense from gains/losses on forex transactions)
- The 17 bps Q-on-Q decline in the lending margin was mainly due to the above factors.

＊See pages 23–24 for loan spreads on an internally managed basis for domestic and overseas loans

Non-interest income

- Non-interest income was 26.6 billion yen, an increase of 11.7 billion yen compared to the previous year
- Net fees and commissions were 14.7 billion yen, an increase of 5.2 billion yen year-on-year
  - Loan-related fee income from LBO financing and M&A fee income were stable in 3Q
  - GANB fee income largely progressed in 3Q mainly due to the strong fee income from transfer transactions
- Gains/losses on bond transactions were a net loss of 1.3 billion yen in 3Q mainly due to the partial sale of foreign currency ETFs
- Gains/losses from limited partnerships were a net gain of 8.1 billion yen, an increase of 2.9 billion yen year-on-year, as a result of strong performance in real estate-related and buyout fund investments (see page 14 for details)

(billion yen)	FY2022 1-3Q A	FY2023 1Q	FY2023 2Q	FY2023 3Q	FY2023 1-3Q B	Change B - A
Non-interest income	**14.8**	**5.7**	**13.6**	**7.2**	**26.6**	**+11.7**
Net fees and commissions[*1]	**9.4**	**4.0**	**6.2**	**4.4**	**14.7**	**+5.2**
Loan-related fee income	4.6	1.5	3.5	1.1	6.3	+1.6
Investment trust fee income	1.8	0.7	0.8	0.8	2.5	+0.6
GANB fee income	1.9	0.8	0.8	1.5	3.2	+1.3
M&A fee income	0.4	0.6	0.2	0.4	1.2	+0.8
Other	0.6	0.2	0.7	0.4	1.3	+0.7
Net trading revenues[*2]	**3.0**	**-1.7**	**1.8**	**0.6**	**0.7**	**-2.2**
<Reference>						
Earnings from investment product sales to retail customers[*3]	**2.4**	**0.5**	**0.6**	**0.7**	**1.9**	**-0.5**
Incl. investment trusts	1.0	0.4	0.5	0.4	1.4	+0.3
Incl. structured bonds	1.3	0.0	0.0	0.1	0.2	-1.1

(billion yen)	FY2022 1-3Q A	FY2023 1Q	FY2023 2Q	FY2023 3Q	FY2023 1-3Q B	Change B - A
Net other ordinary income[*2]	**2.3**	**3.3**	**5.5**	**2.1**	**11.1**	**+8.7**
Incl. gains/losses on bond transactions (A)	-6.2	2.7	3.6	-1.3	5.1	+11.3
Japanese government bonds (JGBs)	-0.3	-	-	-	-	+0.3
Municipal bonds	-1.0	-0.0	-0.0	-0.0	-0.0	+1.0
Foreign government bonds and MBS	-2.8	-0.9	-	-	-0.9	+1.9
Other	-1.8	3.6	3.6	-1.3	6.0	+7.9
Incl. private placement investment trusts	3.1	1.2	2.1	-1.1	2.2	-0.9
Incl. REITs	0.1	2.4	1.5	-0.1	3.8	+3.7
Incl. gains/losses from limited partnerships	5.1	1.1	4.2	2.7	8.1	+2.9
Incl. gains/losses on financial derivatives (B)	3.9	-0.1	0.0	0.6	0.5	-3.4
(A)+(B)[*4]	-2.3	2.6	3.6	-0.6	5.6	+7.9

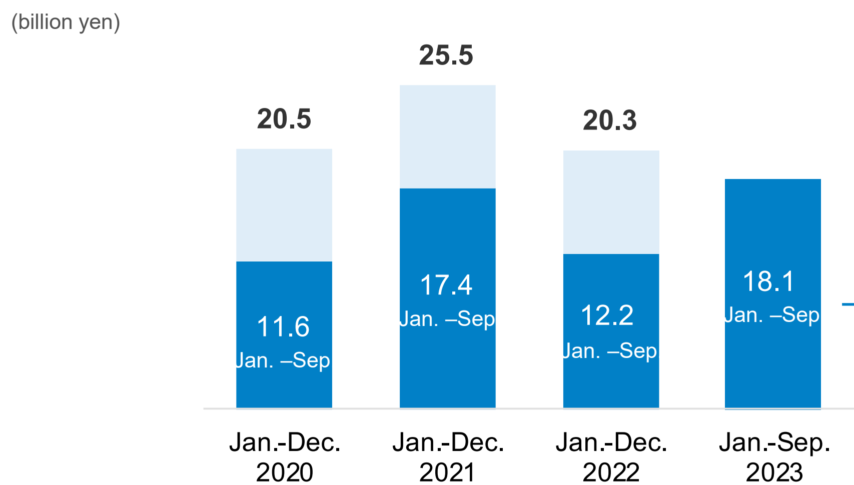
*1 Fees and commissions are on a net basis.
*2 Net trading revenues included a net loss of 1.3 billion yen and net other ordinary income included a net gain of 1.3 billion yen in 1Q. This was adjusted for financial reporting purposes.
*3 Earnings from the sale of investment trusts are included in net fees and commissions. Earnings from the sale of structured bonds are included in net trading revenues.
*4 Gains/losses on the securities portfolio

Gains/losses on equity method investments

- Gains/losses on equity method investments were a net gain of 2.2 billion yen
  - Orient Commercial Joint Stock Bank's (OCB) net profit during the July–September 2023 period exceeded the plan. The increase was the result of growth in non-interest income mainly due to the sale of securities in the lower interest rate environment in Vietnam as well as increased foreign exchange transactions following the post-COVID-19 recovery of exports and imports

(billion yen)	FY2022 1-3Q A	FY2023				Change B - A
		1Q	2Q	3Q	1-3Q B	
Gains/losses on equity method investments	**1.3**	**0.5**	**0.9**	**0.8**	**2.2**	**+0.9**

OCB's net profit*



15% of OCB's net profit (including goodwill amortization) for Jan.–Sep. 2023 was included in Aozora's FY2023 1–3Q results

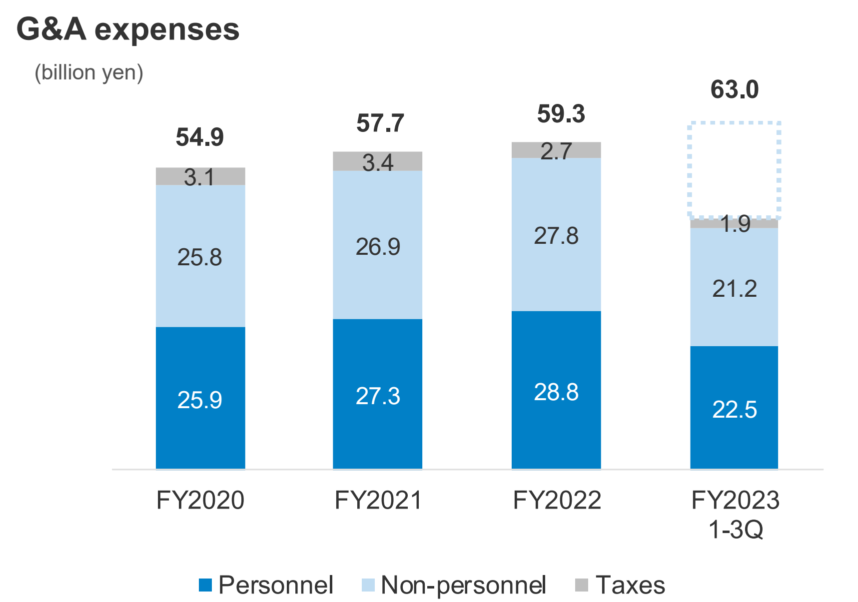
* Uses an exchange rate of 0.0058 yen per 1 Vietnamese dong.

G&A expenses

- G&A expenses were 45.6 billion yen, an increase of 1.9 billion yen from the previous year
  - Personnel expenses increased by 1.3 billion yen as a result of continued investments in human capital, including pay-scale increases and increased staffing levels
  - Overall G&A expenses represented 73% of the original budget (63.0 billion yen) as the Bank maintained its focus on cost control
  - Business-related profit per employee increased by 0.3 million yen from the previous year

(billion yen)	FY2022 1-3Q A	FY2023 1Q	FY2023 2Q	FY2023 3Q	FY2023 1-3Q B	Change B - A
G&A expenses	**43.6**	**15.0**	**15.3**	**15.2**	**45.6**	**+1.9**
Personnel	21.1	7.2	7.6	7.5	22.5	+1.3
Non-personnel	20.3	7.0	7.0	7.1	21.2	+0.9
Incl. IT-related	8.6	3.0	3.1	3.1	9.3	+0.6
Taxes	2.1	0.7	0.5	0.5	1.9	-0.2

(million yen)						
Business-related profit per employee	**6.6**	**-**	**-**	**-**	**6.9**	**+0.3**



Credit-related expenses

- Credit-related expenses were a net expense of 42.9 billion yen for the 1–3Q period and 32.9 billion yen in 3Q
  - A provision of 32.4 billion yen to loan loss reserves (31.1 billion yen of specific loan loss reserves and 1.3 billion yen of reserves for credit losses on off-balance-sheet instruments) was made for the U.S. non-recourse office loan portfolio in 3Q as the borrower category was changed to “In Danger of Bankruptcy” after we reevaluated our U.S. non-recourse office loans and reviewed property valuations from a forward-looking perspective, taking into account the risk of price declines over the next two years (see pages 4–5 for details)
  - There were no new loan losses on the domestic and other overseas corporate loan portfolios
- The ratio of loan loss reserves to total loans was 2.06%, an increase of 0.93 percentage points compared to March 31, 2023 due to the additional reserves made to loan loss reserves for U.S. non-recourse office loans

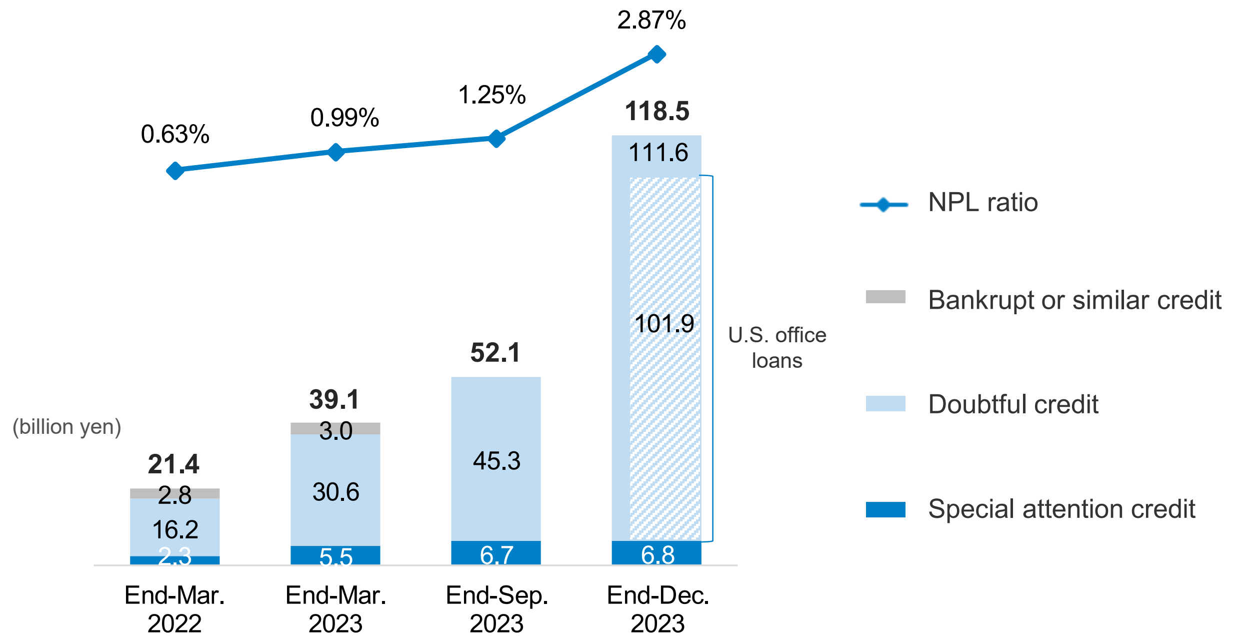
	FY2022		FY2023			
(billion yen)	1-3Q	Full year	1Q	2Q	3Q	1-3Q
Credit-related expenses	**2.2**	**-1.7**	**-0.9**	**-9.0**	**-32.9**	**-42.9**
Loan loss reserves	1.4	-1.1	-0.6	-9.1	-31.4	-41.2
Specific loan loss reserves	-0.1	-5.9	-0.3	-7.2	-31.5	-39.1
General loan loss reserves	1.6	4.8	-0.2	-1.9	0.1	-2.0
Reserve for credit losses on off-balance-sheet instruments	-0.0	-0.0	-0.0	-0.0	-1.5	-1.6
Write-off of loans	-0.0	-0.1	-0.0	-0.0	-0.0	-0.0
Gains/losses on disposition of loans	-0.3	-1.5	-0.3	-0.0	-0.2	-0.6
Recoveries of written-off receivables	1.1	1.1	0.1	0.2	0.2	0.6

Ratio of loan loss reserves to total loans

(billion yen)	End - Mar. 2023	End - Sep. 2023	End - Dec. 2023
Loan loss reserves (A)	44.0	53.7	84.2
General loan loss reserves	33.6	35.8	35.7
Total loans (B)	3,881.3	4,118.1	4,073.5
Loans subject to loss reserves (C)	3,482.8	3,694.1	3,635.2
(A) / (B)	1.13%	1.30%	2.06%
(A) / (C)	1.26%	1.45%	2.31%
Reserve ratio for need attention credit	4.9%	5.8%	5.4%
Reserve ratio for normal credit	0.5%	0.4%	0.5%

Non-performing loans based on the FRA*

- The ratio of NPLs to total claims (NPL ratio) was 2.87%, an increase of 1.88 percentage points from March 31, 2023
  - Doubtful claims increased mainly due to changes in the borrower category for U.S. non-recourse office loans following a review of property valuations from a forward-looking perspective, taking into account the risk of price declines over the next two years (see pages 4–5 for details)



(billion yen)	End-Mar. 2022	End-Mar. 2023	End-Sep. 2023	End-Dec. 2023
Total claims	3,367.4	3,936.0	4,168.4	4,123.6
NPLs (A)	21.4	39.1	52.1	118.5
Coverage (B)	19.1	36.5	48.3	114.7
Reserves	11.6	13.2	20.8	51.5
Collateral & guarantees	7.4	23.3	27.5	63.1
Coverage ratio (B) / (A)	89%	93%	93%	97%

* Financial Reconstruction Act

Balance sheet summary

(billion yen)	End - Mar. 2023 A	End - Sep. 2023	End - Dec. 2023 B	Change B - A
Loans and bills discounted	3,881.3	4,118.1	4,073.5	+192.1
Securities	1,278.7	1,395.2	1,375.9	+97.2
Cash and due from banks	1,275.0	1,407.4	1,537.3	+262.3
Trading assets	151.2	207.7	207.6	+56.3
Other	597.6	630.6	528.2	-69.4
Total assets	**7,184.0**	**7,759.3**	**7,722.7**	**+538.6**

(billion yen)	End - Mar. 2023 A	End - Sep. 2023	End - Dec. 2023 B	Change B - A
Deposits / Negotiable certificates of deposit	5,497.3	5,718.8	5,840.7	+343.3
Bonds payable	147.7	202.2	193.7	+45.9
Borrowed money	525.6	556.1	562.3	+36.6
Cash collateral received for securities lent	215.9	312.0	293.2	+77.2
Trading liabilities	121.8	194.9	141.1	+19.2
Other	244.3	340.3	281.4	+37.0
Total liabilities	**6,752.9**	**7,324.4**	**7,312.5**	**+559.5**
Capital stock / Capital surplus	187.4	187.4	187.4	+0.0
Retained earnings	291.8	294.8	263.6	-28.2
Valuation difference on available-for-sale securities	-45.4	-76.3	-55.9	-10.4
Deferred gains/losses on hedges	0.9	10.9	0.0	-0.8
Foreign currency translation adjustment	7.6	14.2	11.3	+3.6
Other	-11.4	3.7	3.6	+15.1
Total net assets	**431.1**	**434.8**	**410.2**	**-20.8**
Total liabilities and net assets	**7,184.0**	**7,759.3**	**7,722.7**	**+538.6**

Loans — Summary —

- Total loans were 4,073.5 billion yen, an increase of 192.1 billion yen compared to March 31, 2023
- Domestic loans increased by 170.4 billion yen. Overseas loans increased by 21.6 billion yen, although they decreased by 440 million on a U.S. dollar-basis
  - The Institutional Banking Group saw an increase of 67.2 billion yen compared to March 31, 2023 mainly due to the origination of loans to borrowers with stronger credit ratings
  - The Structured Finance Group recorded an increase of 14.7 billion yen from March 31, 2023 mainly due to the origination of LBO loans

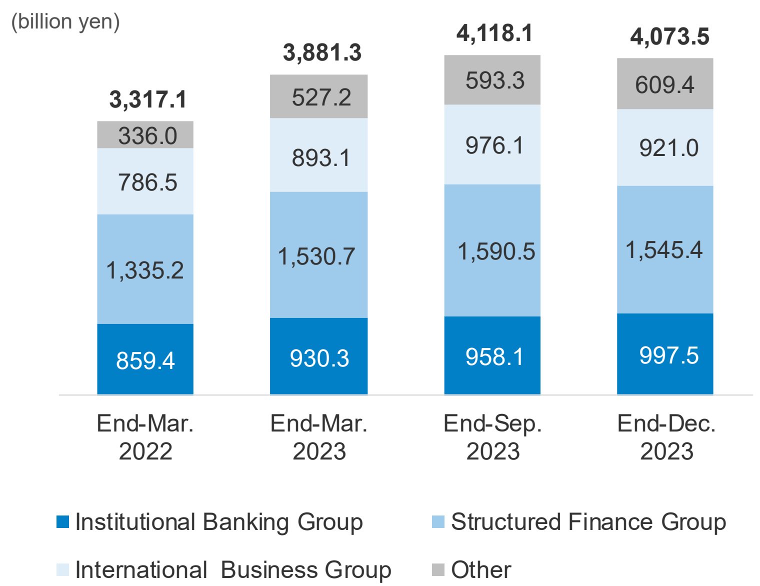
(billion yen)	End - Mar. 2023 A	End - Sep. 2023	End - Dec. 2023 B	Change B - A
Total loans (A)	**3,881.3**	**4,118.1**	**4,073.5**	**+192.1**
Domestic loans	2,510.1	2,639.1	2,680.6	+170.4
Overseas loans* (B)	1,371.1	1,479.0	1,392.8	+21.6
(B) / (A)	35.3%	35.9%	34.2%	-

* Overseas loans are with no final risk residing in Japan

Loan outstandings by business segment

(billion yen)	End - Mar. 2023 A	End - Sep. 2023	End - Dec. 2023 B	Change B - A
Institutional Banking Group	930.3	958.1	997.5	+67.2
Structured Finance Group	1,530.7	1,590.5	1,545.4	+14.7
International Business Group	893.1	976.1	921.0	+27.9
Other	527.2	593.3	609.4	+82.2
Total	**3,881.3**	**4,118.1**	**4,073.5**	**+192.1**

Loan outstandings by business segment



Loans — Domestic —

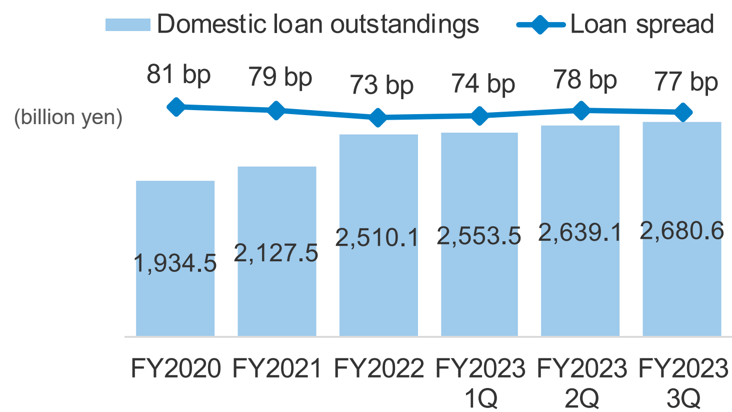
- Domestic loans were 2,680.6 billion yen, an increase of 170.4 billion yen compared to March 31, 2023
  - Loan outstandings increased in “Manufacturing” by 29.3 billion yen mainly due to the origination of LBO loans, decreased in “Utilities (electric power/gas/heat supply/water service)” by 33.2 billion yen mainly due to the sell-down of environmental finance for syndication purposes, and increased in “Other services” by 49.8 billion yen mainly due to the origination of loans to borrowers with stronger credit ratings
- Domestic loan spreads were 77 bps which was almost flat from the previous quarter

Balance by industry

(billion yen)	End - Mar. 2023 A	End - Sep. 2023	End - Dec. 2023 B	Change B - A	*Share*
Manufacturing	258.7	308.6	288.1	+29.3	*11%*
Utilities (electric power/gas/ heat supply/water service)	141.5	113.0	108.2	-33.2	*4%*
Information and communications	105.3	115.2	123.0	+17.6	*4%*
Transport, postal services	49.7	50.3	48.2	-1.5	*2%*
Wholesale and retail sale	86.9	84.9	80.8	-6.0	*3%*
Financial and insurance	342.4	345.5	372.9	+30.5	*14%*
Real estate	760.4	773.8	763.7	+3.2	*28%*
Incl. non-recourse loans	428.0	433.2	427.6	-0.4	*16%*
Leasing	148.7	171.2	180.4	+31.6	*7%*
Other services	155.2	188.4	205.0	+49.8	*8%*
Other	460.9	487.6	509.8	+48.9	*19%*
Total *	**2,510.1**	**2,639.1**	**2,680.6**	**+170.4**	*100%*

* Domestic loans are with final risk residing in Japan

Domestic loan outstandings and loan spread*



* Management accounting basis, as of each fiscal year/quarter end. Average loan spread does not include NPLs

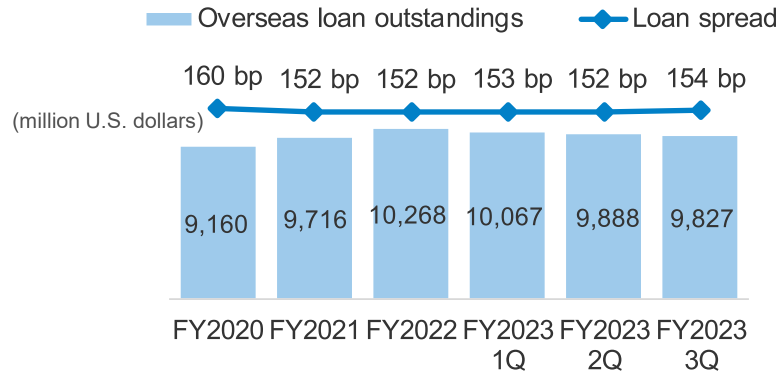
Loans — Overseas —

- Overseas loans were 1,392.8 billion yen, or 9.8 billion on a U.S. dollar-basis (a decrease of US$ 440 million from March 31, 2023)
  - North American corporate loans and overseas real estate non-recourse loans decreased by US$ 362 million and US$ 214 million, respectively, compared to March 31, 2023
- Overseas loan spread was 154 bps, almost flat from 2Q

(billion yen)	End - Mar. 2023 A	End - Sep. 2023	End - Dec. 2023 B	Change B - A
Total loans (A)	3,881.3	4,118.1	4,073.5	+192.1
Overseas loans* **(US$ million)**	**10,268**	**9,888**	**9,827**	**-440**
Overseas loans (B)	1,371.1	1,479.0	1,392.8	+21.6
(B) / (A)	35.3%	35.9%	34.2%	-
Foreign exchange rate (US$/JPY)	*¥133.54*	*¥149.58*	*¥141.73*	*¥8.19*

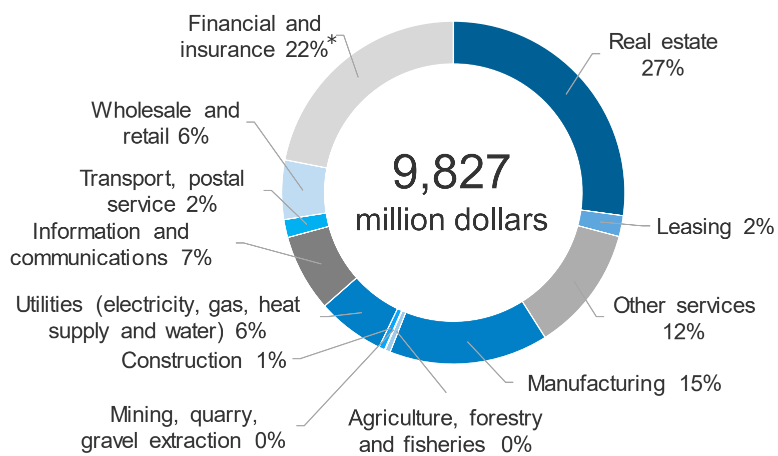
* Overseas loans are with no final risk residing in Japan

Overseas loan outstandings and loan spread*



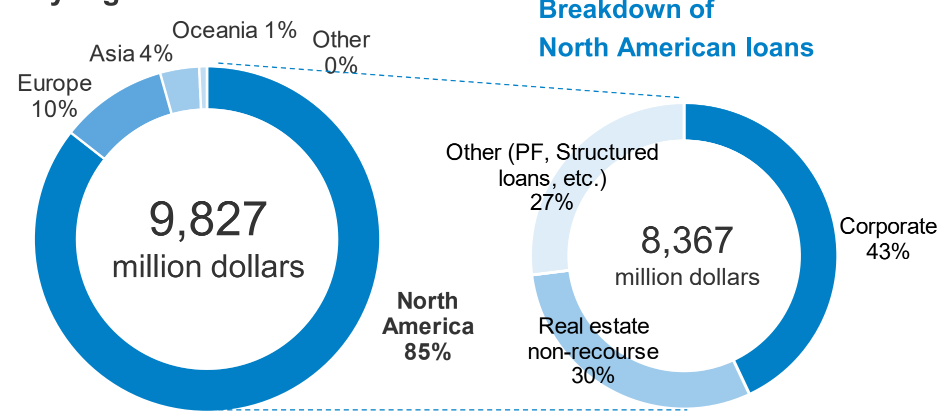
* Management accounting basis, as of each fiscal year/quarter end. Average loan spread does not include NPLs but includes forex forwards to which hedge accounting is not applied

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.

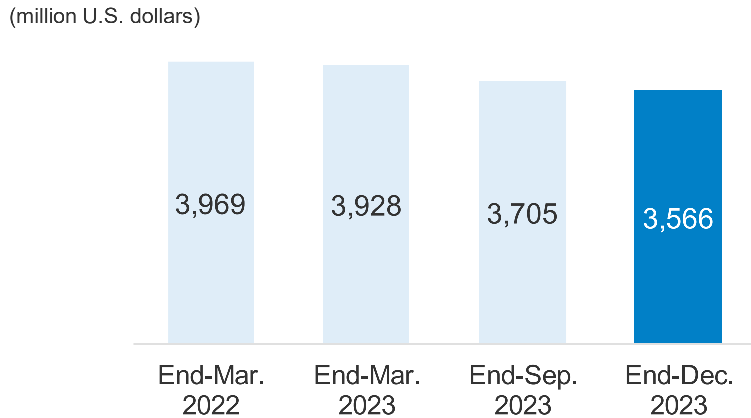
By region



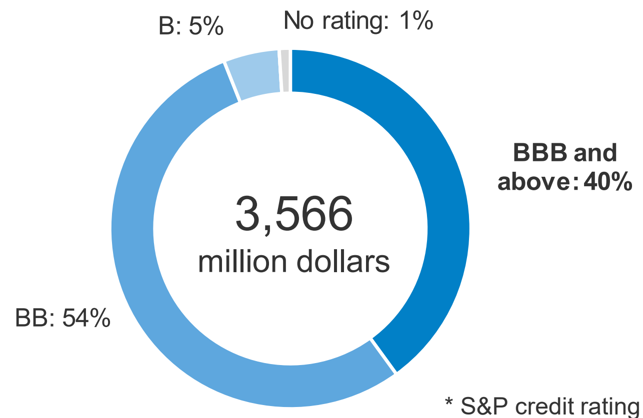
Loans — North American corporate loans —

- North American corporate loans were US$ 3.6 billion, a decrease of US$ 362 million compared to March 31, 2023
  - Aozora continued selective origination from a risk-return perspective, taking into consideration exposure management on a yen basis
  - The soft landing scenario of the U.S. economy is expected to prevail, and the risk tolerance of the loan market will gradually increase. The average bid prices of our loan portfolio remain strong. Loans rated BB or higher represented 94%, almost flat compared to March 31, 2023

North American corporate loan outstandings

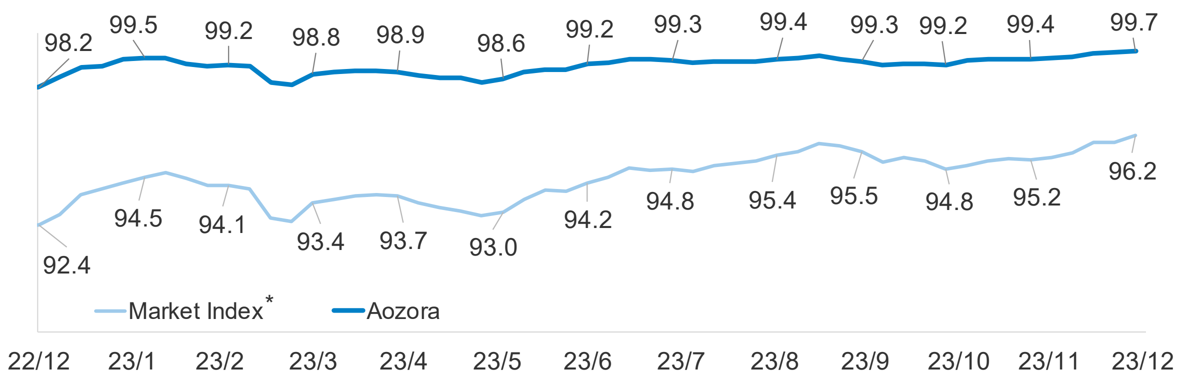


North American corporate loans by credit rating*



* S&P credit rating (facility basis)

Average bid price

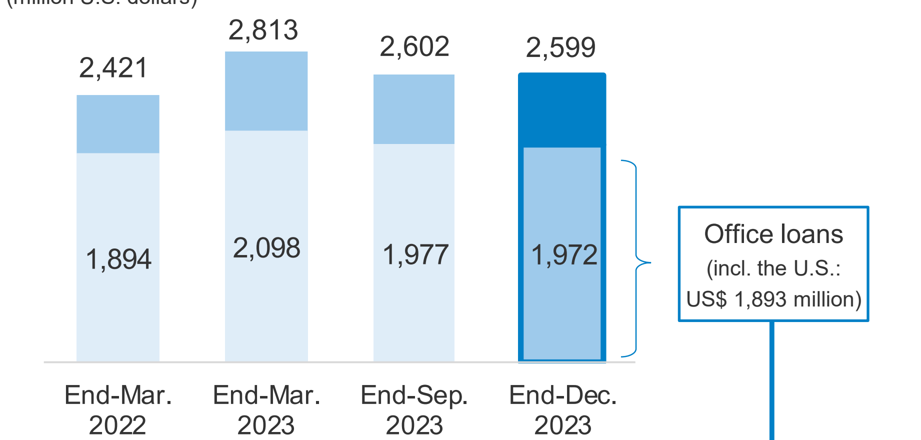


* Source: Leveraged Commentary & Data

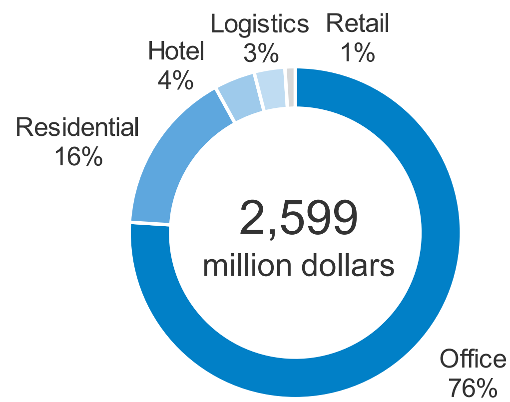
Loans — Overseas real estate non-recourse loans (NRLs) —

- Overseas real estate non-recourse loans were US$ 2.6 billion, a decrease of US$ 214 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$ 1.9 billion) are detailed on pages 4–5

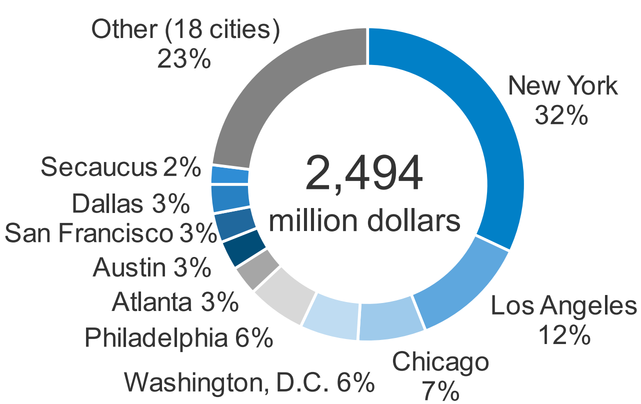
Overseas real estate non-recourse loan outstandings



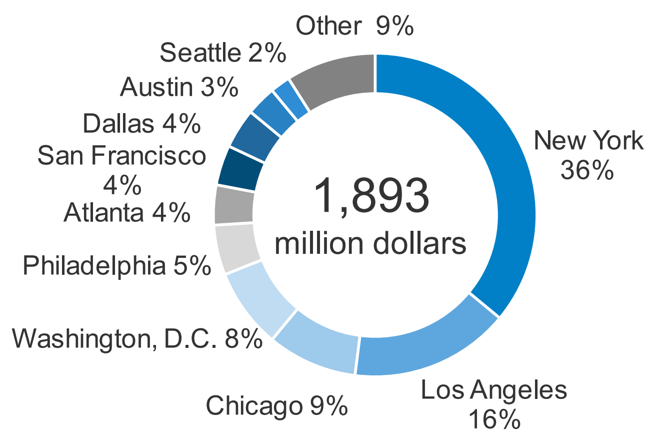
By sector



By U.S. city – Total NRLs



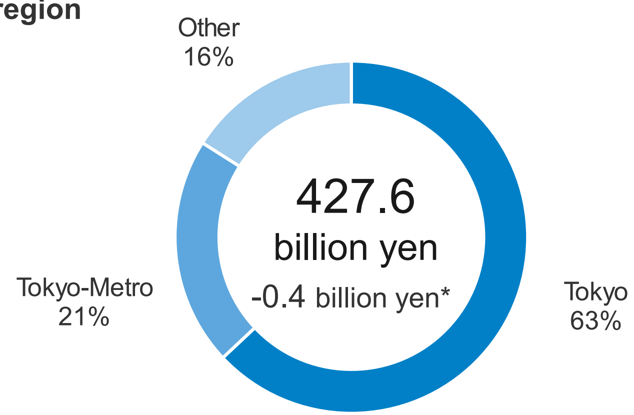
By U.S. city – Office loans only



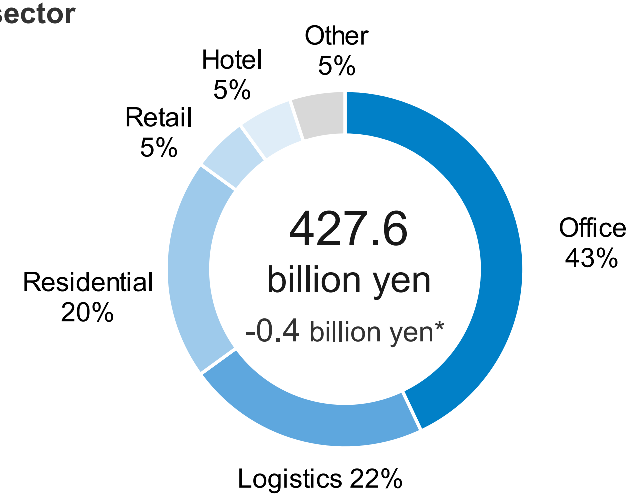
Loans — Domestic real estate non-recourse loans (NRLs) —

- Domestic real estate non-recourse loan outstandings totaled 427.6 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 98% of the total, and REIT loans with an LTV of below 50% represented 100% of the total

By region

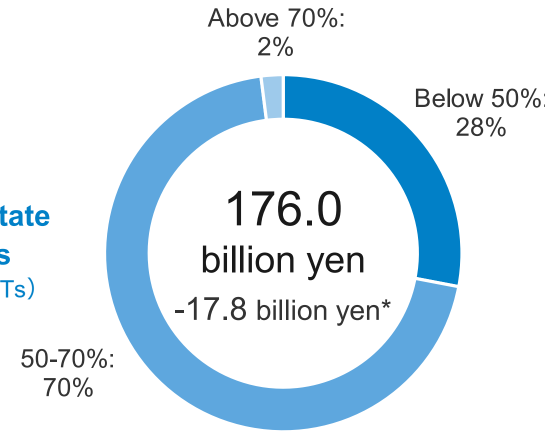


By sector

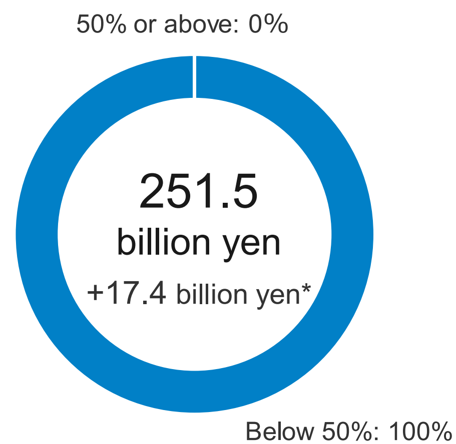


LTV

Real estate NRLs (excl. REITs)



REITs



* Compared to March 31, 2023

Securities

- Securities were 1,375.9 billion yen, an increase of 97.2 billion yen compared to March 31, 2023
  - The increase was mainly the result of the impact of a weaker yen (approximately 40.0 billion yen)
- Unrealized gains/losses, including unrealized gains/losses on hedging instruments, were a net loss of 81.5 billion yen and the losses decreased by 11.0 billion yen compared to September 30, 2023
  - This improvement was the result of restructuring of the securities (see page 6 for details)
- Bond durations* as of December 31, 2023 were 5 years for U.S. government bonds, 6 years for mortgage-backed securities, 4 years for municipal bonds, and 17 years for Japanese government bonds

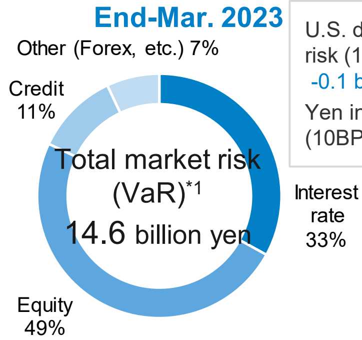
	Book value				Unrealized gains/losses				
(billion yen)	End - Mar. 2023 A	End - Sep. 2023	End - Dec. 2023 B	Change B - A	End - Mar. 2023 C	End - Sep. 2023 D	End - Dec. 2023 E	Change E - C	Change E - D
JGBs	18.3	27.3	27.6	+9.2	-1.3	-2.3	-2.0	-0.7	+0.2
Municipal bonds	38.9	30.3	29.6	-9.2	-0.1	-0.2	-0.1	-0.0	+0.0
Corporate bonds / short-term corporate bonds	127.9	136.3	143.6	+15.6	-0.9	-0.5	-0.3	+0.5	+0.1
Equities	30.1	26.4	27.9	-2.1	12.8	10.1	11.7	-1.0	+1.6
Foreign bonds	458.7	518.8	528.0	+69.2	-62.4	-91.9	-61.1	+1.3	+30.8
Foreign government bonds	195.8	247.9	250.2	+54.4	-27.0	-41.4	-27.0	-0.0	+14.3
MBS	152.3	151.2	151.0	-1.3	-32.5	-47.4	-33.9	-1.4	+13.4
Other	110.6	119.5	126.7	+16.1	-2.8	-3.1	-0.0	+2.8	+3.0
Other securities	604.4	655.9	619.0	+14.5	-14.0	-25.5	-29.2	-15.1	-3.6
ETFs	123.3	131.8	104.0	-19.2	-23.7	-32.9	-16.5	+7.1	+16.3
Investments in limited partnerships	169.5	177.7	175.8	+6.2	1.8	0.8	0.5	-1.2	-0.2
REITs	46.5	36.1	33.5	-13.0	6.5	3.2	3.3	-3.1	+0.0
Investment trusts	225.0	267.2	262.7	+37.6	-1.4	2.6	-17.1	-15.7	-19.7
Other	40.0	42.9	42.8	+2.8	2.7	0.6	0.5	-2.1	-0.0
Total	**1,278.7**	**1,395.2**	**1,375.9**	**+97.2**	**-65.9**	**-110.5**	**-81.1**	**-15.1**	**+29.3**
Foreign exchange rate (US$/JPY)	*¥133.54*	*¥149.58*	*¥141.73*	*¥8.19*					
Unrealized gains/losses, incl. unrealized gains/losses on hedging instruments					**-63.8**	**-92.6**	**-81.5**	**-17.7**	**+11.0**

* Non-consolidated basis

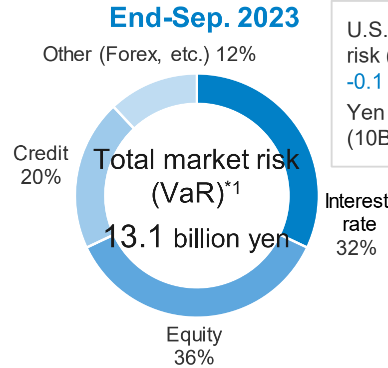
Securities operations

- A net loss of 9.3 billion yen was recognized due to the partial sale of foreign currency ETFs in 3Q in order to accelerate the disposition of securities with the aim to secure added flexibility in portfolio management and improve profitability in the next fiscal year and beyond
- We continued to control both U.S. interest rate risk and yen interest rate risk to be limited

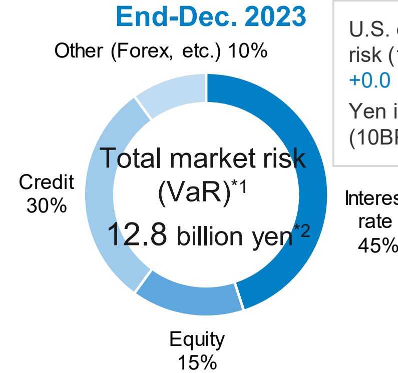
Market risk (VaR)



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): -0.1 billion yen
Yen interest rate risk (10BPV): -0.4 billion yen



U.S. dollar interest rate risk (10BPV): +0.0 billion yen
Yen interest rate risk (10BPV): -0.0 billion yen

*1 VaR considering the holding period since End-Mar. 2023
*2 Preliminary basis

ALM/securities operations

		Balance*1, 2			Net balance after hedging*1, 2		Gains from sale*3	Losses from sale / redemption*3	Net gains/losses*3
		End-Mar. 2023	End-Sep. 2023	End-Dec. 2023	End-Dec. 2023		FY2023 1-3Q		
JGBs, municipal bonds	(billion yen)	38.2	37.8	36.9	0.7	(billion yen)	0.3	-0.0	0.2
U.S. government bonds	(US$ million)	1,250	1,550	1,550	-	(billion yen)	2.1	-0.9	1.1
European government bonds	(EUR million)	405	405	405	-	(billion yen)	0.8	-	0.8
MBS	(US$ million)	1,341	1,286	1,264	-	(billion yen)	2.2	-	2.2
ETFs	(US$ million)	1,101	1,101	851	56	(billion yen)	0.0	-9.3	-9.2
REITs	(billion yen)	6.9	8.7	4.3	4.3	(billion yen)	0.7	-0.3	0.3
Investment trusts	(billion yen)	38.5	42.8	35.8	35.8	(billion yen)	2.2	-0.2	1.9
						Total	**8.5**	**-11.0**	**-2.4**

Gains/losses on financial derivatives	(billion yen)	0.5
Gains/losses on equity derivatives	(billion yen)	-0.3
Total	(billion yen)	**0.1**

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 6,034.4 billion yen, an increase of 389.2 billion yen compared to March 31, 2023
  - The balance of retail deposits increased by 123.6 billion yen from March 31, 2023. Retail funding ratio was 64%, slightly decreased compared to March 31, 2023

(billion yen)	End - Mar. 2023 A	End - Sep. 2023	End - Dec. 2023 B	Change B - A
Total core funding	**5,645.1**	**5,921.0**	**6,034.4**	**+389.2**
Deposits / NCDs	5,497.3	5,718.8	5,840.7	+343.3
Incl. the balance of retail deposits	3,739.6	3,899.2	3,863.2	+123.6
Bonds	147.7	202.2	193.7	+45.9
Retail funding ratio*	66%	66%	64%	
Loan-to-deposit ratio incl. NCDs	71%	72%	70%	

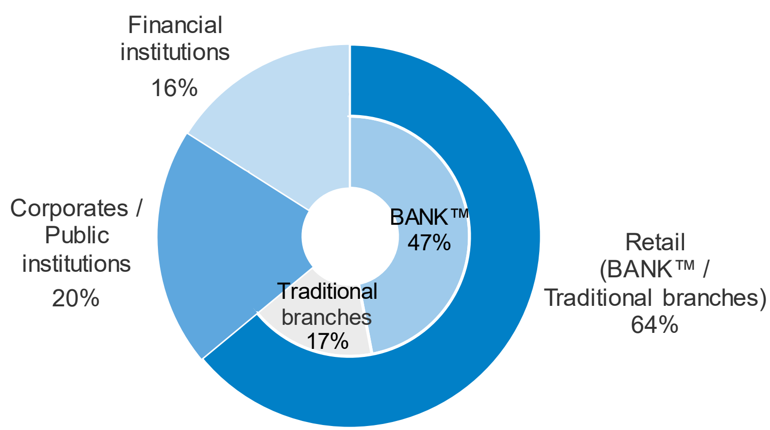
* Defined as follows:
Retail funding ratio = Retail deposits / Total core funding

Liquidity reserves*

(billion yen)	End - Mar. 2023 A	End - Sep. 2023	End - Dec. 2023 B	Change B - A
Liquidity reserves	**1,356.6**	**1,308.5**	**1,473.6**	**+117.0**

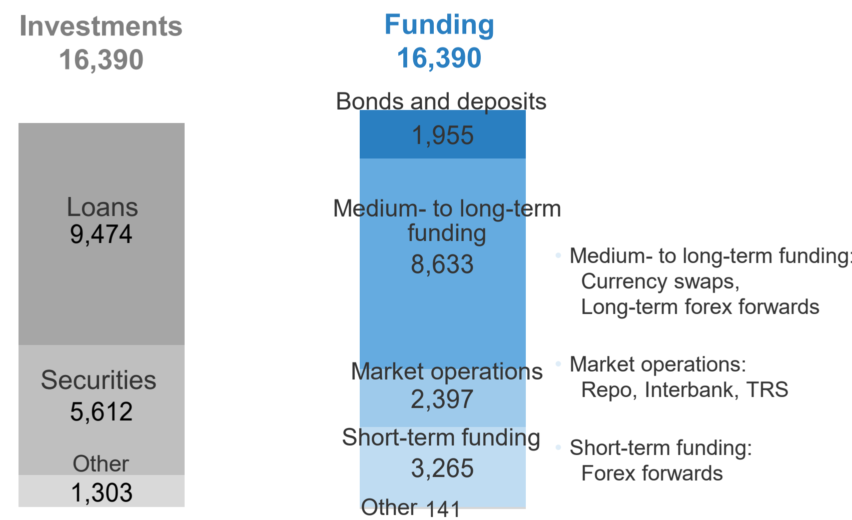
* Non-consolidated basis
Surplus funds at hand for cash management purpose operated with high liquidity method including BOJ current account balance, JGBs, U.S. government bonds and call loans

Core funding by customer segment



Foreign currency investments/funding

(million U.S. dollars)

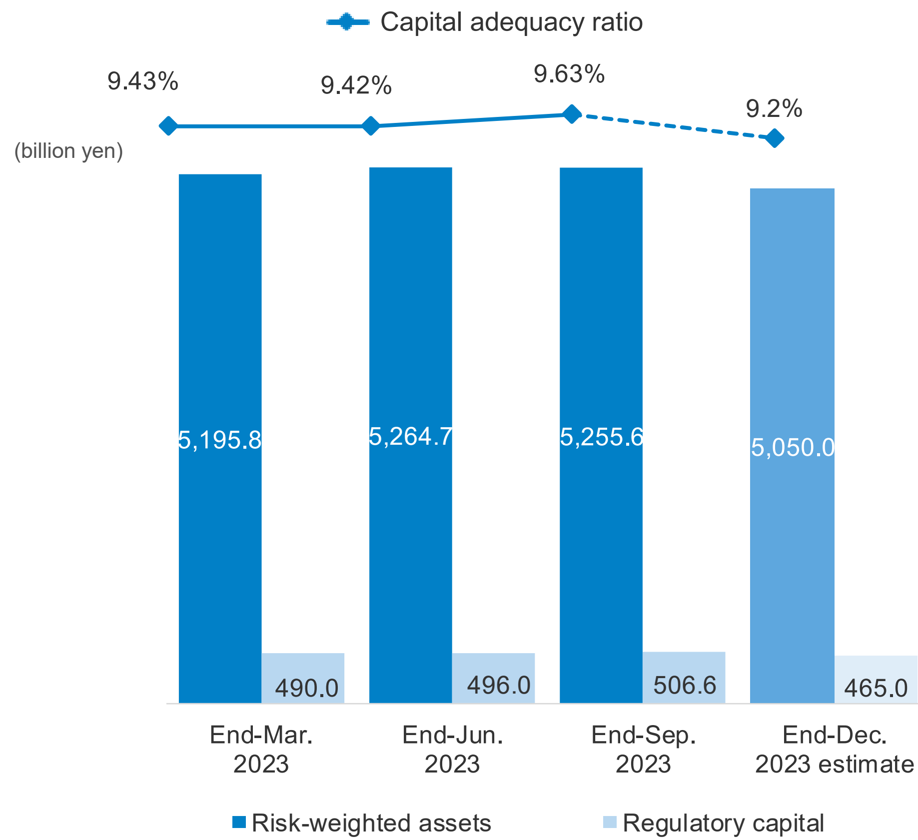


Capital adequacy ratio

- The consolidated capital adequacy ratio (domestic standard) as of December 31, 2023 is expected to be approximately 9.2% and the CET1 (Common Equity Tier 1) ratio to be approximately 6.5% (to be disclosed in mid-February)

Domestic standard

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



Dividends

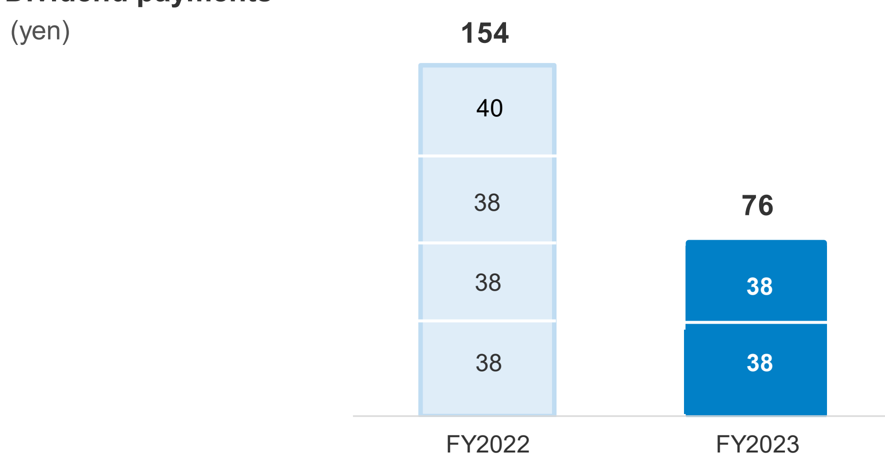
In setting the FY2023 full-year dividend forecast, we had planned to provide a stable dividend based on the steady growth of our customer-related businesses and maintaining a sufficient capital adequacy ratio. However, the consolidated capital adequacy ratio (domestic standards) and the CET1 ratio as of March 31, 2024 are expected to be approximately 8.8% and 6.6% respectively, temporarily falling below our target levels of 9% and 7%, respectively.

In order to retain capital for growth as well as to enhance our overall financial strength in the next fiscal year and beyond, we have decided to not pay a dividend for the third quarter and we are now forecasting no dividend for the fourth quarter. As a result, the full-year dividend forecast for FY2023 has been revised downward to 76 yen per share.

Dividend per common share

Record date	June 30 (1st quarter)	September 30 (2nd quarter)	December 31 (3rd quarter)	March 31 (4th quarter)	Full-year
Initial forecast (FY2023)			—	—	**154 yen**
Revised forecast (FY2023)				0 yen	**76 yen**
Dividend payment (FY2023)	38 yen	38 yen	0 yen		

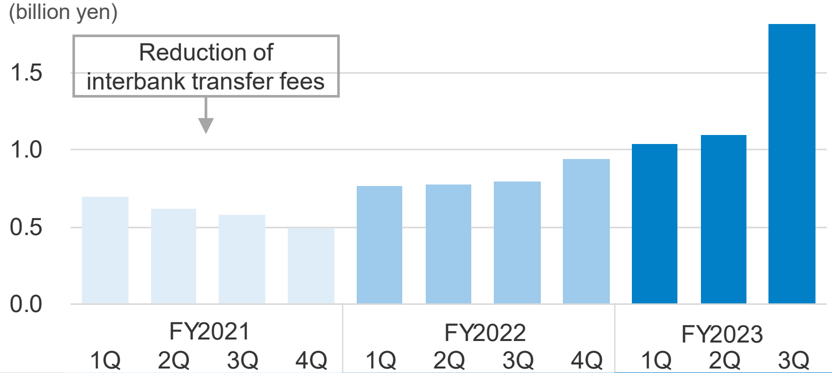
Dividend payments



GMO Aozora Net Bank (GANB)

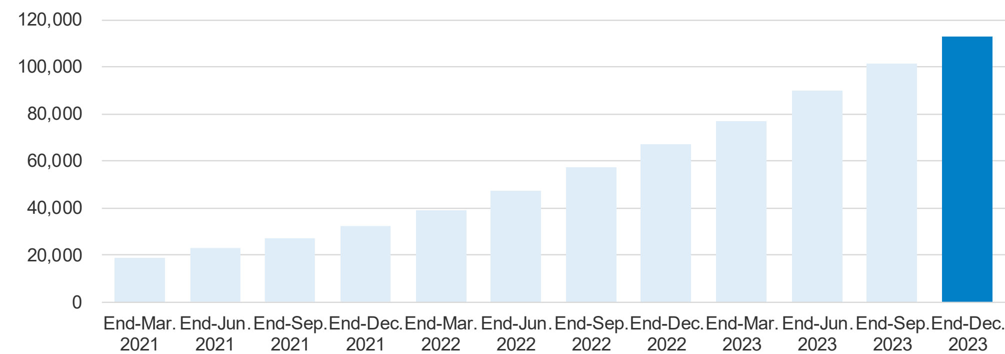
- Net revenue for 3Q was 1.8 billion yen, which was strong and exceeded the plan
  - Net revenue from debit card payments increased due to the measures taken to strengthen the services and functions as corporate debit cards as well as the temporary increase in the yen value of transactions
  - Net revenue from transfer transactions also contributed to the strong results as the number of transactions increased due to the stable utilization of corporate accounts including active users. Net revenue from BaaS (Banking as a Service) also exceeded the plan
- The number of corporate accounts reached 110,000 as of December 31, 2023
- The number of "BaaS by GMO Aozora" contracts steadily increased due to GANB's industry-leading range of bank API lineups and prompt technical support

Quarterly net revenue

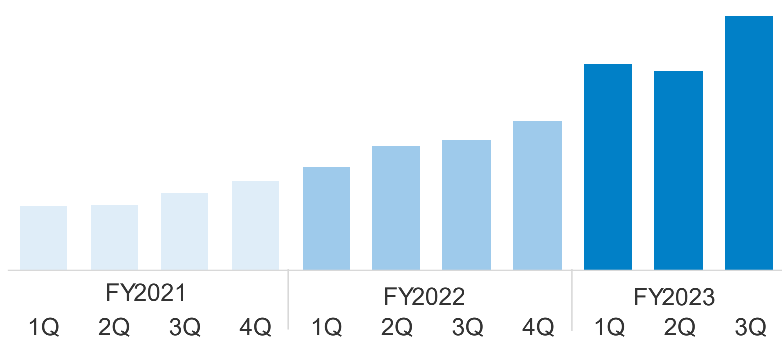


Business profit	-3.7	-3.8	-2.2

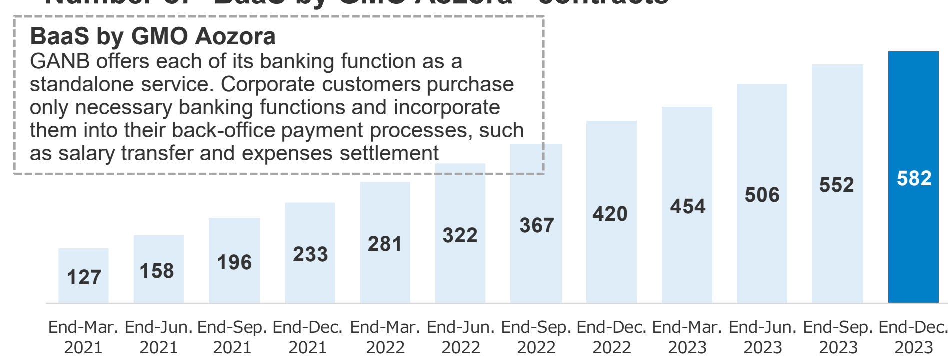
Number of corporate accounts



Number of transfer transactions



Number of "BaaS by GMO Aozora" contracts



Aozora Group companies / consolidated, non-consolidated difference

(billion yen)

(A) Non-consolidated net income	**-21.0**
(B) Profit attributable to owners of parent	**-14.7**
(B) - (A) (a + b) Difference	**6.3**

Breakdown of the difference

(a) Consolidated subsidiaries/affiliates **4.0**

	Share of Earnings*1	Net Revenue	Net Income
GMO Aozora Net Bank, Ltd.	50.0% *2	3.9	-2.7
Aozora Loan Services Co., Ltd.	67.6%	1.0	0.0
Aozora Securities Co., Ltd.	100.0%	0.2	-0.5
Aozora Regional Consulting Co., Ltd.	100.0%	0.0	0.0
Aozora Investment Management Co., Ltd.	100.0%	1.2	0.5
Aozora Real Estate Investment Advisors Co., Ltd.	100.0%	0.1	0.0
ABN Advisors Co., Ltd.	100.0%	0.4	-0.0
Aozora Corporate Investment Co., Ltd.	100.0%	0.3	0.1
Aozora Asia Pacific Finance Limited	100.0%	1.4	0.9
Aozora Europe Limited	100.0%	0.5	0.1
Aozora North America, Inc.	100.0%	3.5	1.7
Other	-	2.1	1.4
Orient Commercial Joint Stock Bank	15.0%	-	2.2 *3

(b) Consolidation adjustments **2.2**

Gains/losses attributable to non-controlling interests (GMO Aozora Net Bank, Ltd.)	-	1.3
Other	-	0.9

*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

AOZORA BANK, LTD.

Corporate Communication Division

TEL: 03-6752-1218

Mail: azbk001@aozorabank.co.jp

URL: https://www.aozorabank.co.jp

