May 1, 2024

Company name: Aozora Bank, Ltd.
Name of representative: Hideto Oomi, President and CEO
Listed exchange: TSE Prime Market, Code 8304
Contact: Masaharu Matsuura
Corporate Communication Division (Tel.: 03 6752 1111)

Reversal of Deferred Tax Assets and Related Revision to FY2023 Full-Year Earnings Forecast

TOKYO May 1, 2024 — Aozora Bank, Ltd. (‘Aozora’ or ‘the Bank’) today announced that it has made the decision to reverse a portion of its deferred tax assets in its FY2023 consolidated and non-consolidated financial statements following the revision of its period for estimated future taxable income, as described below.
As a result, the Bank is revising its FY2023 full-year earnings forecast, which was announced on February 1, 2024.
The revision of the forecast will have a negligible effect on the Bank’s capital adequacy ratio. The capital adequacy ratio (domestic standard) and CET1 ratio as of the end of March 2024 are expected to be approximately 9% and 7%, respectively, somewhat higher than the previously estimated levels of approximately 8.8% and 6.6%, respectively, that were announced on February 1, 2024. The reversal of deferred tax assets at this time will have the effect of reducing future tax expenses.
The reversal of deferred tax assets is expected to have no impact on FY2024 business results. The FY2024 earnings forecast will be announced at the same time as the FY2023 full-year financial results on May 13, 2024.

1. Reversal of Deferred Tax Assets

In accordance with the “Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance on Corporate Accounting Standard No. 26), the Bank has examined the recoverability of deferred tax assets based on discussions with its independent audit firm and made the decision to shorten the period for estimating future income for the determination of deferred tax assets as of March 31, 2024 while taking into consideration the current financial and economic environment. As a result, the Bank expects to reverse a portion of its deferred tax assets and record tax expenses associated with the reversal. (Please refer to page 6.)

2. Revision to FY2023 Earnings Forecast (April 1, 2023 – March 31, 2024)

Consolidated basis

(billion yen)	Ordinary profit	Profit attributable to owners of parent	Profit attributable to owners of parent per common share
Previous forecast	(49.0)	(28.0)	(239.76 yen)
Revised forecast	(55.0)	(49.8)	(426.32 yen)
Change	(6.0)	(21.8)	-
Percentage change	-	-	-

(Reference)

(billion yen)	Net revenue*	Of which customer-related business
Previous forecast	51.0	81.2
Revised forecast	51.0	81.0

* Net Revenue = (interest income – interest expenses) + (fees and commissions income – fees and commission expenses) + (gains on trading account transactions – losses on trading account transactions) + (other ordinary income – other ordinary expenses)

Non-consolidated basis

(billion yen)	Ordinary profit	Net income	Net income per common share
Previous forecast	(54.0)	(35.0)	(299.70 yen)
Revised forecast	(61.0)	(50.5)	(432.31 yen)
Change	(7.0)	(15.5)	-
Percentage change	-	-	-

3. Reasons for Revision to Earnings Forecast

The downward revision to the earnings forecast is mainly due to a 14.5 billion yen increase in tax expenses from the forecast announced on February 1, 2024 resulting from the reversal of deferred tax assets as described above. (For additional details, please refer to page 5.)

4. FY2023 Financial Results Outlook

Our customer-related business focusing on Aozora's Strategic Investments Business has been experiencing steady growth in line with our news release issued on February 1, 2024 and our consolidated net revenue for FY2023 is expected to reach 51.0 billion yen (including 81.0 billion yen of customer-related business).

For our U.S. non-recourse office loan portfolio, no newly classified NPLs ("In Danger of Bankruptcy borrowers") occurred during the fourth quarter, and workouts (collection of loans through disposal of properties, etc.) are steadily progressing. For April 2024, to date we have fully resolved two workout loans. Both workout loans were sold above the book value net of the provision made for each loan as of December 31, 2023 and we are expecting a reversal of reserves from both workouts. In FY2024, we will continue to focus upon workouts and reduce our loan exposures.
With regard to the restructuring of the securities portfolio, we proceeded with the timely disposal of securities during the fourth quarter as planned, resulting in unrealized losses of approximately 52.0 billion yen as of March 31, 2024, an improvement from the estimated 56.0 billion yen stated in the previous news release.
In addition, liquidity reserves were sufficient at approximately 1.4 trillion yen as of March 31, 2024, maintaining almost the same level as December 31, 2023.

5. Business Strategy for FY2024

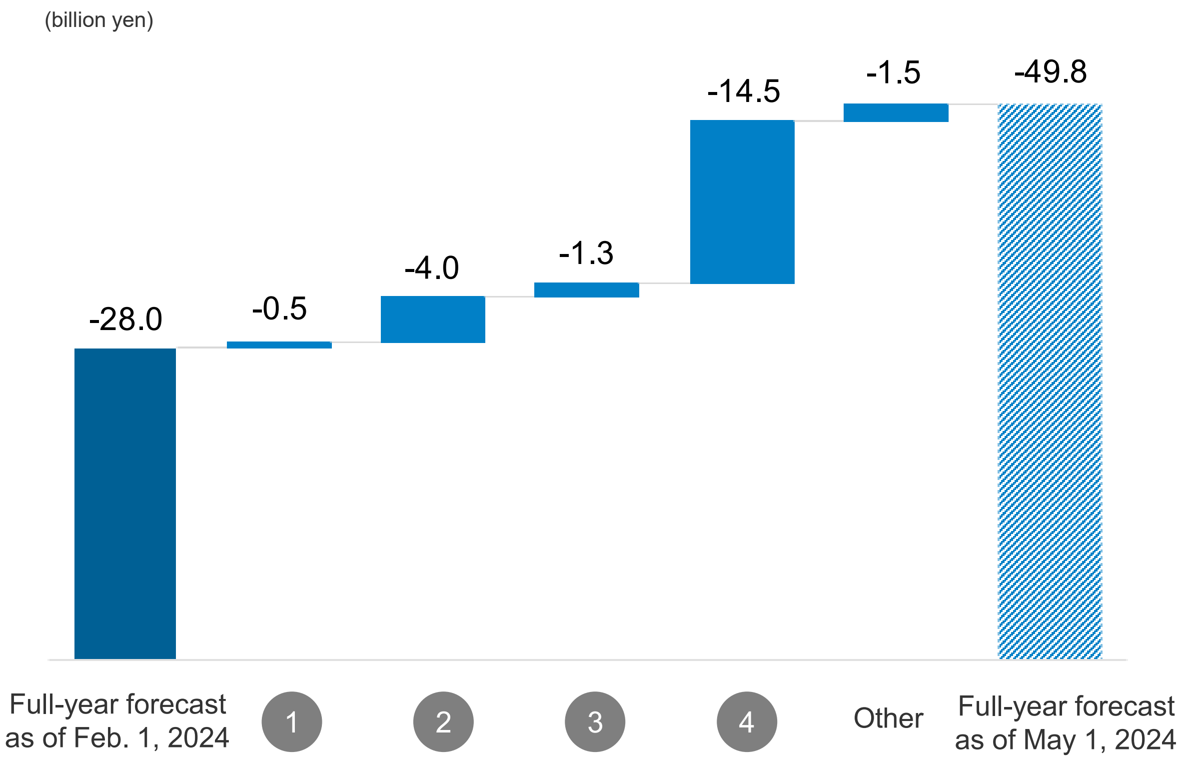
Our current plan of net revenue and profit attributable to owners of parent for FY2024 is in line with the release made on February 1, 2024.
Based on our capital policy of maintaining a proper balance among "stable shareholder returns" and "strategic investment," and "financial strength," we will strive to deliver a stable dividend by achieving steady growth in our customer-related business and maintaining a sufficient capital adequacy ratio.

Forecasts and other forward-looking statements in this document are based on information currently available to the Bank and certain assumptions that the Bank deems reasonable, and are not intended to be a promise by the Bank that they will be achieved. Actual results may differ materially due to various factors.

Supplementary Material

Factors causing changes from the revised FY2023 earnings forecast

Factors causing changes from the forecast (dated February 1, 2024) of profit attributable to owners of parent for FY2023



1 Differences in gains/losses on equity method investments

Vietnam-based Orient Commercial Joint Stock Bank (OCB), an equity method affiliate, revised its financial results ended December 31, 2023 (initially disclosed in January 2024, followed by the announcement of the revision in March 2024)

2 Increases in credit-related expenses

Loan loss reserves for foreign currency loans increased in yen terms (no increases on a foreign currency basis) mainly due to further weakening of yen from the end of December 2023

3 Extraordinary gains/losses

The recording of gains from the liquidation of a subsidiary was postponed to FY2024

4 Tax expenses

Reversal of deferred tax assets (see next page)

Reversal of deferred tax assets

As of December 31, 2023

Period for estimated future taxable income: 10 years

Tax losses were recorded in the 4Q of FY2024 as a result of loss cut associated with the restructuring of securities portfolio as well as liquidation of an overseas subsidiary

As of March 31, 2024

Shortened by 5 years

1 year in principle → 5 years

⇒ **Deferred tax assets corresponding to the shortened 5 years were reversed.**

Classification of companies with tax losses

Category	Period for estimated future taxable income	Requirements for applying exceptions	Category	Period for estimated future taxable income
Category 4	1 year	Stable taxable income for over 5 years can be reasonably explained	Category 2	No fixed period (10 years)
		Taxable income for the next 3–5 years can be reasonably explained	**Category 3**	3–5 years

The Bank decided to categorize itself as Category 3 by applying an exception to Category 4 as of March 31, 2024

1 Capital adequacy ratio slightly higher than the February 1 estimate

2 Expected reduction in tax expenses from FY2024 onwards

	Results as of End-Dec. 2023	End-Mar. 2024 estimate (as of Feb. 1, 2024)	End-Mar. 2024 estimate (as of May 1, 2024)
Capital adequacy ratio	9.34%	Approx. 8.8% →	Approx. 9%
CET 1 ratio (approximation)	6.6%	Approx. 6.6% →	Approx. 7%