【*TRANSLATION*】
[NOTICE: This Document is a translation of the Japanese original for reference purposes only, and in the event of any discrepancy, the Japanese original shall prevail.]

Other matters subject to measures for electronic provision that are omitted from the printed convocation notice of the 91st Ordinary General Meeting of Shareholders

Notes to the Consolidated Financial Statements

Notes to the Non-Consolidated Financial Statements

(from April 1, 2023 to March 31, 2024)

Pursuant to laws and regulations, and the provision of the Bank's Articles of Incorporation, the above items are omitted from the document (that refers to matters subject to measures for electronic provision) provided to shareholders who have requested delivery of printed copies.
For the 91st Ordinary General Meeting of Shareholders, the document in which the above items are omitted from matters subject to measures for electronic provision is distributed to all shareholders, regardless of whether they have requested delivery of printed copies.

Aozora Bank, Ltd.

【Notes to the Consolidated Financial Statements】

Basic items for preparing consolidated financial statements

Accounting policies for preparing consolidated financial statements

1. Scope of consolidation

(1) Number of consolidated subsidiaries: 25

Names of principal companies:

GMO Aozora Net Bank, Ltd.
Aozora Loan Services Co., Ltd.
Aozora Securities Co., Ltd.
Aozora Regional Consulting Co., Ltd.
Aozora Investment Management Co., Ltd.
Aozora Real Estate Investment Advisors Co., Ltd.
ABN Advisors Co., Ltd.
Aozora Corporate Investment Co., Ltd.
Aozora Asia Pacific Finance Limited
Aozora Asia Pacific Limited
Aozora Europe Limited
Aozora North America, Inc.
AZB Funding
AZB Funding 2
AZB Funding 3
AZB Funding 4 Limited
AZB Funding 5
AZB Funding 6
AZB Funding 7
AZB Funding 8 Limited
AZB Funding 9 Limited
AZB Funding 10 Limited
AZB Funding 11 Limited
AZB Funding 12 Limited
Aozora APF（Ireland）Limited

Aozora Asia Pacific Limited was established and consolidated in the fiscal year ended March 31, 2024. Aozora GMAC Investment Limited was moved out of the scope of consolidation due to the distribution of residual assets from liquidation during the fiscal year ended March 31, 2024.

(2) Unconsolidated subsidiaries

Name of principal company:

Aozora Chiiki Saisei Co., Ltd.

The unconsolidated subsidiaries were excluded from the scope of consolidation, due to the immateriality of their assets, ordinary income, profit (to the extent of equity position) and retained earnings (to the extent of equity position). Their exclusion from the scope of consolidation would not impede reasonable judgment as to the financial condition or performance of the group.

2. Application of the equity method

(1) Unconsolidated subsidiaries accounted for by the equity method: none

(2) Affiliated companies accounted for by the equity method: 1

Name of principal company:

Orient Commercial Joint Stock Bank

(3) Unconsolidated subsidiaries not accounted for by the equity method:

Name of principal company:

Aozora Chiiki Saisei Co., Ltd.

(4) Affiliated companies not accounted for by the equity method:

Names of principal companies:

AJ Capital Co., Ltd.
AZ-Star Co., Ltd.
B Spark Inc.

The unconsolidated subsidiaries and affiliated companies, which were not accounted for by the equity method, were excluded from the scope of equity method, due to the immateriality of their profit (to the extent of equity position) and retained earnings (to the extent of equity position). Their exclusion from the application of the equity method would have no material effect on the consolidated financial statements.

(5) Companies not accounted for as an affiliated company even though Aozora Bank, Ltd. (‘the Bank’) and consolidated subsidiaries (together, ‘the Group’) owns over 20% to 50% of its voting rights:

CRE HOLDINGS SUB 1 LLC

The objective for the Group to own the voting rights is primarily to benefit from the appreciation of the investment resulting from growth or restructuring the investee's businesses and the investment meets the conditions of the Paragraph 24 of 'Implementation Guidance on Determining a Subsidiary and an Affiliate for Consolidated Financial Statements.’

3. Fiscal years of consolidated subsidiaries

Fiscal year ending dates of all consolidated subsidiaries are the same as closing date of the consolidated financial statements.

4. Amortization of goodwill

Goodwill is amortized over an appropriate period not to exceed 20 years under the straight-line method. Immaterial goodwill is accounted as expenses when incurred.

Amounts of less than one million yen are rounded down.

The definition of subsidiaries and affiliated companies is based on Article 2-8 of the Banking Act and Article 4-2 of the Order for Enforcement of the Banking Act.

Accounting policies

1. Trading account assets and liabilities; gain and loss on trading account transactions

Transactions involving short-term fluctuations and arbitrage opportunities in interest rates, currency exchange rates, market prices of financial instruments or other market indices (‘Trading transactions’) are recognized on a trade date basis and recorded in ‘Trading account assets’ or ‘Trading account liabilities’ on the consolidated balance sheet. Gains or losses (interest received/paid, dividend, gains/losses on sales, and valuation gains/losses) on trading transactions are recorded in ‘Gain on trading account transactions’ or ‘Loss on trading account transactions’ on the transaction date basis in the consolidated statement of operations.
‘Trading account assets’ and ‘Trading account liabilities’ are stated at their fair values.

2. Valuation of securities

(1) ‘Held-for-trading securities’ (except the positions booked in the ‘Trading account assets’ and ‘Trading account liabilities’) are stated at fair value. The cost of these securities is determined by the moving-average method. ‘Held-to-maturity securities’ are stated at amortized cost (using the straight-line method) computed under the moving average method. ‘Stocks in unconsolidated subsidiaries and affiliated companies’ which are not accounted for by the equity method are stated at acquisition costs (using the moving average method). ‘Available-for-sale securities (‘AFS securities’)’ (with the costs basically calculated based on the moving average method) are stated at fair value in principle, or non-marketable equity securities are stated at acquisition costs calculated based on the moving average method.

As for interests in investment business limited partnerships, associations under the Civil Code and silent partnerships, the Group, in principle, record net assets and net income of those partnerships as assets and profits or losses in proportion to our shares of interests based on their latest financial statements or interim financial statements.

The net unrealized gains or losses on AFS securities are included directly in net assets.

(2) Securities that are held as trust assets recorded in 'Money held in trust' are valued in the same manner as given in (1) above.

3. Accounting for derivatives

Derivative transactions, except for trading transactions, are stated at fair value.

4. Depreciation of fixed assets

(1) Tangible fixed assets (except for leased assets)

Depreciation of buildings of the Bank, including structures and equipment attached to buildings, is computed by the straight-line method, and that of others is computed by the declining-balance method.

The useful lives are primarily estimated as follows:

Buildings: 15～50 years
Other : 5～15 years

Depreciation of tangible fixed assets of consolidated subsidiaries is computed primarily under the declining-balance method based on their estimated useful lives.

(2) Intangible fixed assets (except for leased assets)

Amortization of intangible fixed assets is computed under the straight-line method. Development costs for internally used software are capitalized and amortized under the straight-line method over the useful lives (mainly 5～13 years) as determined by the Bank and its consolidated subsidiaries.

(3) Leased assets

Depreciation of 'Leased assets' in 'Tangible fixed assets' of the finance leases other than those that are deemed to transfer the ownership of leased property to the lessees is computed under the straight-line method over the lease term with zero residual value unless residual value is guaranteed by the corresponding lease contracts.

5. Deferred assets

Bond issuance costs in 'Other assets' is amortized using the straight-line method over the terms of corporate bonds.

6. Allowance for loan losses

The Bank's write-offs of loans and allowance for loan losses are provided as follows in accordance with the internal standards for write-offs and provisions.

Loans to borrowers who are assessed as 'Bankrupt' (in the process of legal proceedings for bankruptcy, special liquidation, etc.) or 'De facto bankrupt' (in serious financial difficulties and are not deemed to be capable of restructuring) under the Bank's self-assessment guidelines are written off to the amounts expected to be collected through the disposal of collateral or execution of guarantees, etc. The amounts deemed to be uncollectible and written off were 22,731 million yen at March 31, 2024.

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

For other loans, the Bank provides the expected loan loss for the average remaining period of loans (almost three to four years respectively), after classifying the loans into four groups of corporate loans in North

America/Europe, Asia, overseas real estate non-recourse loans and other loans, based on the characteristics of risk. The expected loan loss is determined based on the average rates of loan loss experience or bankruptcy over a certain period of time in the past, responding to the average remaining period with certain adjustments such as future prospects by considering the latest trend of loan loss experience. However, for borrowers with a large credit exposure that are categorized as ‘Need attention,’ under the internal credit rating system, the loan loss amount estimated by the DCF method is reflected as an addition to the allowance for loan losses determined based on the estimated loan loss ratio, if necessary. For certain borrowers other than those mentioned above that have a large credit exposure over a certain amount, an allowance is provided in addition to an amount determined based on an expected loan loss rate, according to the above method.

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

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

Based upon the borrower categories determined by the aforementioned process as of the consolidated balance sheet date, operating divisions and branches initially compute the amounts of write-offs and allowance, and the division in charge of asset assessment verifies the amounts and determines the final amounts.

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

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

Additional Information

For overseas real estate non-recourse loans, the Bank assumes a decrease in market liquidity mainly due to the deteriorating environment of the U.S. real estate market, and it will take approximately one to two years particularly for the U.S. office market to stabilize, considering the market trends.

In line with this, from the fiscal year ended March 31, 2024, for all borrowers of overseas real estate non-recourse loans that require careful monitoring in the future, the loan loss amount mainly estimated by the DCF method is reflected as an addition to the allowance for loan losses determined based on the estimated loan loss ratio. The estimated loan loss ratio to be applied to other overseas real estate non-recourse loans is calculated by classifying them to appropriately reflect the risk characteristics of the loan portfolio.

7. Allowance for investment loss

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

8. Provision for bonuses

Provision for bonuses that is provided for future bonus payments to employees, is maintained at the amount accrued at the consolidated balance sheet date, based on the estimated future payments.

9. Provision for bonuses for directors (and other officers)

Provision for bonuses for directors (and other officers) that is provided for future bonus payments to directors, is maintained at the amount accrued at the consolidated balance sheet date, based on the estimated future payments.

10. Provision for credit losses on off-balance-sheet instruments

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

11. Reserves under special laws

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

12. Accounting method of retirement benefits

Retirement benefit liability is recorded based on the benefit formula attribution of the projected benefit obligations over the service period of employees, deemed accrued at the consolidated balance sheet date.

Unrecognized prior service cost is amortized using the straight-line method over a certain period of time within the average remaining service period of employees.

Unrecognized actuarial gain and loss are amortized using the straight-line method over a certain period of time (5 years) within the average remaining service period of employees commencing from the next fiscal year after incurrence.

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

13. Assets and liabilities denominated in foreign currencies

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

Assets and liabilities denominated in foreign currencies held by consolidated subsidiaries are translated into Japanese yen at the exchange rates as of their respective balance sheets dates.

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

14. Hedge accounting

(1) Hedge accounting for interest rate risk

The Bank applies deferral hedge accounting to hedges of interest rate risk associated with financial assets and liabilities, principally by portfolio hedging, in accordance with 'Accounting and Auditing Treatments on the Application of Accounting Standards for Financial Instruments in the Banking Industry' (the Japanese Institute of Certified Public Accountants ('JICPA') Industry Committee Practical Guideline No.24, March 17, 2022), or by individual hedging.

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

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

(2) Hedge accounting for foreign currency risk

The Bank applies deferral hedge accounting to hedges of foreign currency risk associated with foreign currency-denominated financial assets and liabilities in accordance with 'Accounting and Auditing Treatments for Foreign Currency Transactions in the Banking Industry' (the JICPA Industry Committee Practical Guideline No.25, October 8, 2020). In accordance with the JICPA Industry Committee Practical Guideline No. 25, the Bank designates certain currency swaps and foreign exchange swaps for the purpose of funding foreign currencies as hedges for the exposure to changes in foreign exchange rates associated with foreign currency-denominated assets or liabilities when the foreign currency positions on the hedged assets or liabilities are expected to exceed the corresponding foreign currency positions on the hedging instruments. Hedge effectiveness is reviewed by comparing the total currency position of the hedged items with that of the hedging instruments by currency.

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

(3) Hedges of securities price fluctuation risk

The Bank designates available-for-sale securities (stock, etc.) for price fluctuation risk of stocks and available-for-sale securities (debt securities, etc.) for price fluctuation risk of listed investment trusts as hedged items and total return swaps as hedging instruments, and applies individual deferral hedge accounting.

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

(4) Intercompany and Intracompany Derivative Transactions

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

15. Application of the Group Relief System

The Bank and some of its domestic consolidated subsidiaries have applied the group relief system.

Significant accounting estimates

Among items recorded in the consolidated financial statements for the year ended March 31, 2024 with accounting estimates, item significantly affect the consolidated financial statements for the year ending March 31, 2025 are described below:

1. Allowance for loan losses

(1) Amounts recorded in the consolidated financial statements for the year ended March 31, 2024

Allowance for loan losses: 87,929 million yen

(2) Information contributing to understanding of the detail of the significant accounting estimates related to recognized item

1) Determination method

The determination method of the allowance for loan losses is described in‘6. Allowance for loan losses’ of ‘Accounting policies.’

2) Major assumptions

(a) Outlook of future business performance of borrowers in determination of borrower category

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

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

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

For overseas real estate non-recourse loans, the Bank assumes a decrease in market liquidity mainly due to the deteriorating environment of the U.S. real estate market, and it will take approximately one to two years particularly for the U.S. office market to stabilize, considering the market trends. For non-recourse loans backed by underperforming office properties in the U.S. due to the changes in working styles in post-COVID-19 period, in order to prepare for the full-scale disposal of these properties, for cases where there is a possibility to debt recovery in the future, the Bank evaluates the property considering estimated disposal price taking into account the risk of price decline over the next one to two years and determines individual borrower category considering the possibility of the debt recovery through the disposal of properties in the future, etc. The allowance for loan losses is made based on the estimated disposal price assuming the risk of price decline.

3) Effect over the consolidated financial statements for the year ending March 31, 2025

In case the assumptions used for the original estimation change due to fluctuations in business performance, of individual borrower or changes in the U.S. real estate market, the allowance for loan losses can be significantly affected in the consolidated financial statements for the year ending March 31, 2025.

2. Recoverability of deferred tax assets

(1) Amounts recorded in the consolidated financial statements for the year ended March 31, 2024

Deferred tax assets: 44,580 million yen

(2) Information contributing to understanding of the detail of the significant accounting estimates related to recognized item

1) Determination method

Deferred tax assets are recorded by estimating future taxable income in accordance with the corporate category based on the " Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No.26), and determining the recoverability of deferred tax assets as a result of scheduling of deductible temporary differences and tax loss carryforwards.

2) Major assumptions

Estimates of future taxable income are based on the group’s business plan, which takes into account the past performance of each business, the current business environment and business policies. Major assumptions are the outlook for profitability and credit-related expenses of customer-related businesses and the outlook for interest rates after the lifting of the negative interest rate policy.

3) Effect over the consolidated financial statements for the year ending March 31, 2025

In case the assumptions used for the original estimates change, due to future changes in the financial and economic environment, the deferred tax assets can be significantly affected in the consolidated financial statements for the year ending March 31, 2025.

3. Determination regarding recognition of impairment loss of fixed assets

(1) Amounts recorded in the consolidated financial statements for the year ended March 31, 2024

For the application of impairment accounting, the Bank identifies GMO Aozora Net Bank, Ltd. (hereafter referred to as 'GMO Aozora' in '3. Determination regarding recognition of impairment loss of fixed assets'), which is a consolidated subsidiary, as one of asset grouping unit, and considers determination of recoverability of GMO Aozora's fixed assets as a significant accounting estimate.

The Bank recorded GMO Aozora’s fixed assets of 9,602 million yen (tangible fixed assets 566 million yen, intangible fixed assets 9,036 million yen) in the consolidated financial statements for the year ended March 31, 2024.

(2) Information contributing to understanding of the detail of the significant accounting estimates related to recognized item

1) Determination method

The Bank has determined that GMO Aozora's fixed assets have an indication of impairment loss because the profit or loss arising from the business activities is continuously negative. However, except for the fixed assets which will be taken over as a result of business succession, no impairment loss is recorded because the total undiscounted future cash flows exceeded the carrying amount of the assets.

2) Major assumptions

For determination of recoverability of GMO Aozora's fixed assets, undiscounted future cash flows are estimated based on GMO Aozora's Mid-term plan, and major assumptions are the number of corporate accounts, number of exchange transactions, amount of debit card transactions, and outstanding loan balance which future increases based on the trend of actual performance in the most recent fiscal year are taken into consideration.

3) Effect over the consolidated financial statements for the year ending March 31, 2025

If major assumptions in GMO Aozora's Mid-term plan change due to changes in financial and economic conditions and the total amount of undiscounted cash flows falls below the carrying amount of the assets, the Bank may recognize an impairment loss in the consolidated financial statements for the following fiscal year. An impairment loss is calculated by deducting the recoverable value from the carrying amount of fixed assets.

Notes

(Consolidated balance sheet)

1. Securities include stocks in unconsolidated subsidiaries and affiliated companies, which amount to 65,125 million yen.

2. No securities were loaned under unsecured loan contracts for consumption, for use or for lease contracts.
   Of unsecured securities borrowed, securities purchased under resale agreements, securities borrowed under lending agreements with cash collateral and securities received as collateral on derivative transactions which can be sold or re-pledged, none of the securities were re-pledged, re-loaned and held in hand as of the consolidated balance sheet date.

3. Non-performing loans ('NPLs') based on the Banking Act and the Financial Reconstruction Act are as follows. NPLs include corporate bonds in securities (limited to those for which payment of principal and interest is guaranteed in whole or in part, and the issuance of such bonds is through private placement of securities (Article 2, Paragraph 3 of the Financial Instruments and Exchange Act)), loans and bills discounted, foreign exchanges, accrued interest and suspense payables in other assets, customers' liabilities for acceptances and guarantees and securities in the case of loaned securities in the notes to the consolidated balance sheet (limited to only those subject to a usage and lending or lending agreement).

Bankrupt and similar credit	18	million yen
Doubtful credit	118,572	
Special attention credit	12,514	
Loans overdue for three months or more	6,361	
Restructured loans	6,153	
Subtotal	131,105	
Normal credit	3,996,188	
Total credit	4,127,294	

'Bankrupt and similar credit' refers to the credit of borrowers who have filed for bankruptcy, corporate reorganization, composition, etc., as well as those borrowers who are in an equivalent situation.

'Doubtful credit' refers to the credit with serious doubt concerning the recovery of principal and receiving of interest as contract provisions because the borrower's financial condition and business results have worsened although they have not reached the point of management collapse, excluding loans to 'Bankrupt and similar credit.'

'Loans overdue for three months or more' refers to those loans excluding loans to 'Bankrupt and similar credit' and 'Doubtful credit' for which principal or interest remains unpaid for at least three months.

'Restructured loans' refers to those loans excluding loans to 'Bankrupt and similar credit', 'Doubtful credit' and 'Loans overdue for three months or more' for which agreement was made to provide reduction or a moratorium on interest payments, or concessions in the borrower's favor on interest or principal payments or to waive claims in order to support the borrowers' recovery from financial difficulties.

'Normal credit' refers to credit to borrowers whose financial condition and business results have no particular problem and which are not categorized in any of the above categories.

Allowance for loan losses is not deducted from the amounts of loans stated above.

4. In accordance with the JICPA Industry Committee Practical Guideline No.24, bills discounted are accounted for as financial transactions. The Bank has the right to sell or re-pledge bank acceptance bought, commercial bills discounted, documentary bills and foreign exchanges bought without restrictions, etc. Face value of these bills amounted to 6,457 million yen.

5. The following assets were pledged as collateral:

Assets pledged as collateral		
Securities	300,286	million yen
Loans and bills discounted	459,489	
Collateralized debts		
Securities sold under repurchase agreements	29,903	million yen
Cash collateral received for securities lent	260,689	
Borrowed money	100,000	

In addition, securities of 29,309 million yen, loans and bills discounted of 144 million yen and foreign exchanges of 15,146 million yen are pledged as collateral for foreign and domestic exchange transactions, derivative transactions, etc. or as substitute for margin money for futures transactions.

‘Other assets’ include margin deposits for futures transactions of 962 million yen, cash collateral paid for financial instruments of 141,751 million yen and guarantee deposits, etc. of 79,350 million yen.

6. Overdraft contracts and contracts for loan commitments are those by which the Group is bound to extend loans up to a prearranged amount, upon the request of customers, unless the customer is in breach of contract conditions. The unutilized balances of these contracts amounted to 506,660 million yen, including 395,517 million yen of one year or less.

Since these commitments are expected to expire without being drawn upon, the total amount of unused commitments does not necessarily represent actual future cash flow requirements. These commitments include clauses under which the Group can reject an application from customers or reduce the contract amounts in the event that economic conditions change, the Group need to secure claims, or other events occur. In addition, the Group may request the customers to pledge collateral such as premises and securities at the time of the contracts, and take necessary measures such as monitoring customers’ financial positions, revising contracts when such need arises and securing claims after the contracts are made.

7. Accumulated depreciation of tangible fixed assets totals 27,218 million yen.

8. Deferred gains on tangible fixed assets deductible for tax purposes amounted to 429 million yen.

(Consolidated statement of operations)

1. ‘Other’ in ‘Other income’ includes gain on sale of stocks and other securities of 10,278 million yen and equity in earnings of associates of 2,342 million yen. ‘Other’ in ‘Other expenses’ includes write-off of loans of 683 million yen, loss on sale of stocks and other securities of 8,187 million yen, loss on devaluation of stocks and other securities of 455 million yen and loss on disposition of loans of 1,081 million yen.
2. ‘Reversal of foreign currency translation adjustments’ included in ‘Extraordinary income’ is recorded because a foreign subsidiary was excluded from consolidation due to the distribution of residual assets from liquidation.

(Consolidated statement of changes in equity)

1. Types and number of outstanding stock and treasury shares (Unit: thousands of shares)

		Number of shares at the beginning of the period	Number of shares increased during the period	Number of shares decreased during the period	Number of shares at the end of the period	Note
Outstanding stock						
	Common stock	118,289	―	―	118,289	
	Total	118,289	―	―	118,289	
Treasury shares						
	Common stock	1,508	0	41	1,467	(Note)
	Total	1,508	0	41	1,467	

(Note) The increase is due to buybacks of shares constituting less than one trade unit, and the decrease is due to exercise of share acquisition rights.

2. Share acquisition rights

All share acquisition rights are stock options and the amount as of March 31, 2024 is 532 million yen.

3. Information on dividends

(1) Cash dividends paid during the fiscal year ended March 31, 2024

Resolution	Type of shares	Dividend (Millions of yen)	Source of dividends	Dividend per share (Yen)	Record date	Effective date
Board of directors meeting on 2023/5/17	Common stock	4,671	Retained earnings	40	2023/3/31	2023/6/23
Board of directors meeting on 2023/8/2	Common stock	4,438	Retained earnings	38	2023/6/30	2023/9/15
Board of directors meeting on 2023/11/13	Common stock	4,439	Retained earnings	38	2023/9/30	2023/12/15

(2) Cash dividends with record dates that belong to the fiscal year ended March 31, 2024 and effective dates that come after the end of the fiscal year

None

(Financial instruments)

1. Overview of financial instruments

(1) Basic policy for financial instruments

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

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

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

(2) Main items of financial instruments and related risks

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

Loans are subject to credit risk which includes the risk of default caused by deteriorated credit of the borrowers. Loans to the 10 largest borrowers of the Bank accounted for about 13% of the total outstanding balance of loans as of March 31, 2024. A default by any of the borrowers with large credit exposures or a material change in our relationship with any of them could negatively affect the business results and financial condition of the Group. Also, the proportion of loans to real estate businesses and the coverage ratio of loans collateralized by real estate properties are material in the loan portfolio of the Group. Therefore, in the event that the real estate market or the real estate industry were to become stagnant, the quality of the loans protected by real estate collateral would deteriorate; the creditworthiness of the borrowers in the industry would be undermined; or the cash flows from the underlying properties of real estate nonrecourse loans would be negatively affected. In such cases, the Group might need to provide an additional allowance for loan losses or incur additional credit costs. Also, in addition to credit risk and interest rate risk, overseas loan exposures are subject to various risks, including those related to transactions arising from foreign exchange fluctuations, and risks involved with environmental changes, whether social, political and/or the economic environment.

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

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

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

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

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

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

Concerning derivative transactions for the purpose of optimizing ALM, the Bank uses the deferral method of hedge accounting. The hedging instruments, hedged items, hedged policy and the effectiveness of hedging are described in '14. Hedge accounting' of 'Accounting policies.'

The Bank applies deferral hedge accounting and fair value hedge accounting to hedges of foreign currency risk associated with foreign currency-denominated financial assets and liabilities. The hedging instruments, hedged items, hedged policy and the effectiveness of hedging are described in '14. Hedge accounting' of 'Accounting policies.'

(3) Risk management system concerning financial instruments

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

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

1) Credit risk management

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

(a) Approval authority for individual credit undertaking

Credit and investment transactions are approved under the authority of the Credit Committee or the Investment Committee consisting of Representative Directors, the Chief Risk Officer ('CRO'), the Chief Credit Risk Officer ('CCRO'), etc., and proposals are discussed at and reported to each Committee. The approval authorities of the Credit Committee and the Investment Committee are partly delegated to the CCRO, furthermore the approval authority delegated to the CCRO from each Committee is redelegated to the credit functions or to business front office functions to a certain extent.

(b) Credit rating system

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

(c) Quantification of credit risk

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

(d) Credit portfolio management

Concerning credit portfolio management, the Group examines the credit portfolio through the calculation and analysis of Expected Loss (EL) and UL assuming the occurrence of stress scenarios, such as the downgrading of credit ratings and declining real estate prices.

Credit concentration risk for a borrower group is managed by the maximum amount control and Credit Guidelines for each Risk Grade. The Group also manages the concentration risk for specific portfolios by the exposure limits for countries, corporates and real estate finances in North America and the credit risk limits for real estate industry.

2) Market risk management

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

(a) Quantification of market risk

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

The assumptions for computing VaR include a holding period in accordance with each business and product (a period of 10, 20 and 60 days respectively), a 99% confidence interval, an observation period of 2 years for the trading account, and 5 years for the banking account in principle. The Group conducts back testing to verify the reliability of VaR by comparing daily computed VaR with daily gains or losses. To complement VaR, the Group regularly conducts stress testing to assess the potential impact of volatile market movements that could exceed statistical estimates. The results of the stress testing are reported to the ALM Committee, etc.

(b) Quantitative information of market risk

(i) Financial instruments held for trading purposes

The VaR of financial instruments (trading account securities, derivatives, etc.) held for trading purposes by the Bank is 2,117 million yen as of March 31, 2024. Market risk in the financial instruments held for trading purposes by certain consolidated subsidiaries is immaterial.

The back testing of the VaR calculated with internal models over the 244 business days from April 1, 2023 to March 31, 2024, resulted in no business days with actual daily losses beyond VaR. This result supports the reliability of the Bank’s internal models which have captured market risks with sufficient accuracy. However, the VaR represents the market risks arising with a certain probability using a statistical methodology based on historical market movements. It may not be able to capture the risks arising under drastic market movements beyond normal estimates.

(ii) Financial instruments held for other than trading purposes

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

The VaR of financial instruments held for other than trading purposes by the Bank is 5,181 million yen as of March 31, 2024. Market risks in the financial instruments held for other than trading purposes by certain consolidated subsidiaries are immaterial. The VaR represents the market risks arising with a certain probability using a statistical methodology based on historical market movements. It may not be able to capture the risks arising under drastic market movements beyond normal estimates.

(c) Procedures for market risk management

The Group documents its handling of products, risk management methods and market price valuation methods under market risk management. The compliance with limits of risks and losses, etc., allocated to the front office, business units and divisions, is monitored by the Risk Management Division, which is independent from the front offices in terms of organization and human resources. The Risk Management Division monitors the market risk and profit/loss on a daily basis for trading operations, and on a daily or monthly basis for banking operations, and they report on them directly to the CRO and Executive Officer(s) in charge of the front offices. The Risk Management Division also makes periodic reports to the Board of Directors, the MC and the ALM Committee. In the event a large loss is reported in excess of the maximum expected loss amount computed in advance, a cause analysis is conducted. Also, a discussion point, which is positioned as cross-section risk management between market risk and credit risk, is set up by asset class in order to strengthen the monitoring function for price fluctuation risks.

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

3) Funding liquidity risk management

The Financial Management Division centrally monitors the funding liquidity risk of yen- and foreign currency-denominated funds and takes all possible measures to ensure that the Bank holds a sufficient level of assets such as cash deposits and securities with high liquidity to properly meet its contractual obligations. The Financial Management Division also plans for the sources and uses of funds both annually and monthly, and reports the cash flow status directly to senior management on a daily basis. In order to prepare for funding liquidity risk, the Financial Management Division conducts a funding simulation to confirm that the Bank has sufficient cash on hand to maintain its asset size and collateral for settlement as well as a drill to confirm response procedures.

4) Operational risk management

The Group recognizes operations risk, legal risk, compliance risk and system risk in handling financial instruments as operational risk, and manages it comprehensively. Actual loss events that have already occurred are gathered by the Risk Management Division. Potential risks that would lead to actual loss events are identified and assessed through risk control self-assessment, etc.

5) Comprehensive risk management

The Group establishes a basic policy on comprehensive risk management. The basic policy sets forth the scope of target risk categories, such as credit risk, market risk and operational risk, and their definitions. The policy also defines the risk management procedures which consist of the identification, assessment, monitoring and control of the target risks. The Group is committed to managing risks in compliance with this basic policy, and is always endeavoring to improve the risk management system. In the framework of comprehensive risk management, the Group specifies every risk in a comprehensive manner, ensures that these risks are controlled within allowable limits with reference to the Group’s capital through implementation of integrated stress testing together with liquidity risk, etc., and aims at securing an adequate level of profit well balanced with the corresponding risks.

(4) Supplemental explanation for fair value of financial instruments

Since the calculations for the fair value of financial instruments are based on certain conditions and assumptions, calculated prices would differ if different conditions and assumptions are adopted.

2. Matters concerning fair value of financial instruments and breakdown by level within fair value hierarchy

Consolidated balance sheet amounts, fair values of financial instruments, their difference and fair values by level within fair value hierarchy are as follows.

The amounts shown in the following tables do not include non-marketable equity securities and investments in partnerships (see Note 3).

The fair values of financial instruments are classified into the following three levels based on the observability and significance of the inputs used in the fair value measurement.

Level 1 : Fair value determined based on quoted prices for the asset or liability in an active market among the observable inputs to the fair value measurement

Level 2 : Fair value determined based on observable inputs to the fair value measurement other than Level 1 inputs

Level 3 : Fair value determined based on significant unobservable inputs to the fair value measurement

If multiple inputs with a significant impact on the fair value measurement are used, the financial instrument is classified into the lowest priority level of fair value measurement in which each input belongs.

(1) Assets and liabilities of financial instruments measured at fair value

(Millions of yen)

	Consolidated balance sheet amounts			
	Level 1	Level 2	Level 3	Total
Monetary claims bought	—	—	20,060	20,060
Trading account assets	—	—	—	—
Securities				
Available-for-sale	346,966	538,166	34,902	920,034
Japanese stocks	27,808	1,072	—	28,881
Japanese national government bonds	52,528	—	—	52,528
Japanese local government bonds	—	29,080	—	29,080
Japanese short-term corporate bonds	—	—	—	—
Japanese corporate bonds	—	93,733	13,817	107,551
Foreign bonds	205,331	267,545	21,084	493,961
Other (*1)	61,297	146,733	0	208,030
Assets total	346,966	538,166	54,962	940,094
Derivatives (*2)(*3)				
Interest rate contracts	0	40,124	3	40,127
Foreign exchange contracts	—	(63,164)	—	(63,164)
Equity contracts	(41)	—	—	(41)
Bond contracts	0	(303)	—	(302)
Commodity derivatives	—	595	—	595
Credit derivatives	—	1,405	—	1,405
Derivatives total	(40)	(21,342)	3	(21,380)

*1. In accordance with the Paragraph 24-3 and 24-9 of the ‘Implementation Guidance on Accounting Standard for Fair Value Measurement’ (ASBJ Guidance No. 31, issued on June 17, 2021), investment trusts where the net asset value is deemed to be the fair value are not included in the balance of the above table. The consolidated balance sheet amounts of investment trusts to which the treatment in Paragraph 24-3 and 24-9 are applied are 4,809 million yen and 41,503 million yen.

Reconciliation between the beginning and ending balance of investment trusts to which the treatment in Paragraph 24-9 is applied

(Millions of yen)

April 1, 2023	Included in earnings of the period (Note)	Included in other comprehensive income	Net amount of purchase, sale, redemption	The amount to which the net asset value of the investment trusts is deemed to be the fair value	The amount to which the net asset value of the investment trusts is not deemed to be the fair value	March 31, 2024	Net unrealized gains (losses) on investment trusts held at consolidated balance sheet date included in earnings of the period
54,184	4,603	(3,955)	(13,328)	―	―	41,503	1,222

(Note) Included in ‘Other ordinary income’ in the consolidated statement of operations.
As for investment trusts to which the treatment in Paragraph 24-3 is applied, notes (3) and (4) in Paragraph 24-7 are omitted due to immaterial total amount recorded on the consolidated balance sheet amounts.

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

*3. As for derivative transactions for which hedge accounting is applied, negative 42,832 million yen is recorded on the consolidated balance sheet.
These are currency swaps, etc. designated as hedging instruments in order to offset market fluctuations of foreign currency-denominated loans, etc., which are hedged items, and deferral hedge accounting is mainly applied.

(2) Assets and liabilities of financial instruments not measured at fair value

‘Cash and due from banks’, ‘Call loans and bills bought’, ‘Securities purchased under resale agreements’, ‘Cash collateral provided for securities borrowed’, ‘Foreign exchange’, 'Negotiable certificates of deposit', ‘Call money and bills sold’, ‘Securities sold under repurchase agreements’, and ‘Cash collateral received for securities lent’ are omitted from the following tables, since these instruments are mostly with short maturities (one year or less), and the fair value of these instruments is approximately equal to the book value.

(Millions of yen)

	Fair value				Consolidated balance sheet amounts	Difference
	Level 1	Level 2	Level 3	Total		
Monetary claims bought (*1)	―	―	53,635	53,635	48,008	5,626
Money held in trust	―	3,351	11,140	14,491	12,963	1,528
Loans and bills discounted (*2)	―	665,653	3,403,429	4,069,083	3,984,065	85,018
Assets total	―	669,005	3,468,205	4,137,211	4,045,037	92,173
Deposits (excluding negotiable certificates of deposit)	―	3,308,898	2,327,470	5,636,368	5,634,992	1,376
Borrowed money	―	―	563,143	563,143	563,300	(156)
Bonds payable	―	178,310	―	178,310	181,397	(3,086)
Liabilities total	―	3,487,208	2,890,613	6,377,822	6,379,689	(1,867)

*1. Allowance for loan losses provided to ‘Monetary claims bought’ is directly deducted from the consolidated balance sheet amounts due to immateriality.

*2. General allowance for loan losses and specific allowance for loan losses provided to ‘Loans and bills discounted’ are deducted by 87,229 million yen.

(Notes)

1. Description of the valuation techniques and inputs used to measure fair value

(1) Monetary claims bought

Fair value of trust beneficiary rights, recorded as monetary claims bought which meet the criteria of securities for the purpose of accounting treatment, is measured using the same method as described in (4) Securities, below. The fair value is mainly determined as the present value of estimated future cash flows, discounted by the market interest rates, less accrued interest and is classified as Level 3. The estimated future cash flows are calculated by adjusting contractual payment of principal and interest and reflecting Probability of Default (PD) and Loss Given Default (LGD). PD is based on the internal credit ratings and LGD is based on the situations of underlying assets and collateral.

Fair value of monetary claims bought other than the above is measured using the same techniques as described in (5) Loans and bills discounted, below and is classified as Level 3.

(2) Trading account assets

Fair value of trading securities is measured using the same techniques as described in either (4) Securities or (9) Derivatives, below and is classified as each level based on the type of the securities.

(3) Money held in trust

Fair value of securities held as trust assets in individually operated money trusts whose main purpose is to manage securities is measured using the same techniques as described in (4) Securities, below and is classified as each level based on the type of the securities.

Fair value of monetary claims held as trust assets is measured using the same techniques as described in (5) Loans and bills discounted, below and is classified as either Level 2 or Level 3.

Notes on money held in trust by purpose of holding are described in '(Money Held in Trust).'

(4) Securities

Fair value of stocks is valued at market prices quoted at exchanges and is mainly classified as Level 1 based on market activity.

Bonds that have a market price announced by certain industry associations or provided by information vendors are valued at those prices. Fair value of Japanese national government bonds etc. is classified as Level 1. Fair value of other bonds is classified as Level 2. Fair value of bonds that do not have a market price announced by certain industry associations or provided by information vendors is mainly determined as the present value of estimated future cash flows, discounted by the market interest rates, less accrued interest and is classified as Level 3. The estimated future cash flows are calculated by adjusting contractual payment of principal and interest and reflecting PD and LGD. PD is based on the internal credit ratings and LGD is based on the situations of underlying assets and collateral.

Fair value of investment trusts with market prices quoted at exchanges is valued at the price and is classified as Level 1 or Level 2 based on market activity. In addition, fair value of investment trusts with no market prices is valued at the net asset value and classified as Level 2 if there are no material restrictions on cancellation or repurchase requests that would require compensation for the risk from market participants.

Notes on securities by purpose of holding are described in '(Securities).'

(5) Loans and bills discounted

Fair value of loans and bills discounted is mainly determined as the present value of estimated future cash flows, discounted by the market interest rates, less accrued interest and is classified as Level 3. The estimated future cash flows are calculated by adjusting contractual payment of principal and interest and reflecting PD and LGD. PD is based on the internal credit ratings and LGD is based on the situations of underlying assets and collateral. Concerning compound financial instruments to which bifurcation accounting is applied, the contractual payments of principal and interest for the calculations are those of the host contracts where embedded derivatives are separated under bifurcation accounting. As for loans that are quantitatively insignificant, the book value is deemed as fair value.

Fair value of loans and bills discounted that have a price provided by information vendors is classified as Level 2 or Level 3.

The Group changed the valuation techniques applied to certain of its loans and bills discounted holdings during the period due to the availability of new information provided by information vendors.

As for loans to ‘Bankrupt’ borrowers, ‘De facto bankrupt’ borrowers and ‘In danger of bankruptcy’ borrowers, the collectable amount through the disposal of collateral or the execution of guarantees, or the present value of estimated future cash flows, etc., is deemed as the fair value and is classified as Level 3.

(6) Deposits

Fair value of deposits on demand is deemed as the payment amount if demanded on the consolidated balance sheet date (book value) and is classified as Level 2. Fair value of time deposits is principally determined as the present value of contractual payments of principal and interest less accrued interest and is classified as Level 3. The discount rate is the market interest rate, adjusted with average funding spreads of the Group observed within a specified period preceding the consolidated balance sheet date. Concerning compound financial instruments to which bifurcation accounting is applied, the contractual payments of principal and interest for the calculations are those of the host contracts where embedded derivatives are bifurcated under bifurcation accounting.

(7) Borrowed money

Since the fair value of borrowed money with short maturities is approximately equal to the book value, the fair value is deemed as the book value and is classified as Level 3. Other than that, the fair value is measured using the same techniques as for time deposits described in (6) Deposits above and is classified as Level 3. Concerning compound financial instruments to which bifurcation accounting is applied, the contractual payments of principal and interest for the calculations are those of the host contracts where embedded derivatives are bifurcated under bifurcation accounting.

(8) Bonds payable

Fair value of bonds payable is mainly measured using a market price announced by certain industry associations or provided by information vendors and is classified as Level 2.

(9) Derivatives

Fair value of listed derivatives is based on their closing prices. Fair value of over-the-counter derivative transactions is based on the discounted cash flow method or option pricing models, etc., using inputs such as interest rate, foreign exchange rate, volatility, etc. Fair value of over-the-counter derivative transactions is measured with adjustment of the counterparties’ credit risk or the Group’s own credit risk (Credit Value Adjustment or Debit Value Adjustment). Fair value of listed derivative transactions is mainly classified as Level 1. Fair value of over-the-counter derivative transactions is classified as Level 2 if observable inputs are available or impact of unobservable inputs to the fair values is not significant. If impact of unobservable inputs to the fair values is significant, it is classified as Level 3.

2. Information about assets and liabilities measured at fair value and classified as Level 3

(1) Quantitative Information on significant unobservable inputs

	Valuation technique	Significant unobservable inputs	Range	Weighted average
Monetary claims bought	Discounted cash flow method	Probability of default	0.0%－0.1%	0.1%
		Recovery rate	55.0%	55.0%
Securities	Discounted cash flow method	Probability of default	0.0%－9.7%	1.1%
		Credit Spread	0.4%	0.4%
		Recovery rate	55.0%－60.0%	56.9%
Derivatives				
Interest rate contracts	Option pricing model	Correlation between interest rates	1.1%	－
		Correlation between interest rate and foreign exchange rate	(15.9%)－5.0%	－

(2) Reconciliation between the beginning and ending balance, and net unrealized gains (losses) recognized in earnings of the period

(Millions of yen)

	April 1, 2023	Included in earnings of the period (*1)	Included in other comprehensive income	Net amount of purchase, sale, issuance and settlement	Transfers into Level 3	Transfers out of Level 3	March 31, 2024	Net unrealized gains (losses) on assets and liabilities held at consolidated balance sheet date included in earnings of the period (*1)
Monetary claims bought	31,597	－	(58)	(11,479)	－	－	20,060	－
Trading account assets	55	3	－	(59)	－	－	－	－
Securities								
Available-for-sale								
Japanese short-term corporate bonds	10,999	6	－	(11,006)	－	－	－	－
Japanese corporate bonds	16,135	0	(80)	(2,236)	－	－	13,817	－
Foreign bonds	21,193	－	(109)	－	－	－	21,084	－
Other	0	－	－	(0)	－	－	0	－
Derivatives (*2)								
Interest rate contracts	9	(5)	－	－	－	－	3	(5)
Equity contracts	7,811	(9,918)	－	2,107	－	－	－	－
Commodity derivatives	0	(0)	－	－	－	－	－	－

*1. Included in consolidated statement of operations.

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

(3) Description of the fair value valuation process

The Financial Control Division of the Group establishes policies and procedures for the calculation of fair value and procedures for the use of valuation models, and the front division develops valuation models in accordance with such policies and procedures. The Risk Management Division verifies the reasonableness of the fair value valuation models, the inputs used, and the calculated fair values. In addition, the Financial Control Division classifies the fair value level based on the results of such verifications. If quoted prices obtained from third parties are used, those values are verified by using appropriate methods such as confirming the valuation techniques and inputs used, and comparing the fair value with that of similar financial instruments.

(4) Description of the sensitivity of the fair value to changes in significant unobservable inputs

Probability of default

Probability of default is an estimate of the likelihood that the default event will occur, and the Group will be unable to collect the contractual amounts. A significant increase (decrease) in the default rate would result in a significant decrease (increase) in a fair value.

Credit spread

Credit spread is an additional risk premium required for the financial assets relative to the yield on risk-free assets in the secondary market. A significant increase (decrease) in the credit spread would result in a significant decrease (increase) in a fair value.

Recovery rate

Recovery rate is an estimated proportion of the total outstanding balance of a bond or loan that is expected to be collected in a liquidation scenario. Recovery rate would affect estimation of future cash flows to a certain extent. A significant increase (decrease) in the recovery rate would result in a significant increase (decrease) in a fair value.

Correlation

Correlation is an indicator of the relation of variables such as interest rate, foreign exchange rate, stock price and commodity price. Correlation is estimated based on actual results in the past and is mainly used in valuation technique of complex derivatives. A significant change in correlation would generally result in a significant increase or decrease in a fair value according to the contractual terms of the financial instrument.

3. Consolidated balance sheet amounts of non-marketable equity securities and Investments in partnerships are as follows and are not included in 'Securities' in the above tables of 'Matters concerning fair value of financial instruments and breakdown by level within fair value hierarchy'.

(Millions of yen)

	Consolidated balance sheet amounts
Non-marketable equity securities (*1)(*3)	11,035
Investments in partnerships (*2)	178,151

(*1) Non-marketable equity securities include unlisted stocks, etc. and those fair value is not disclosed in accordance with the Paragraph 5 of ‘Implementation Guidance on Disclosures about Fair Value of Financial Instruments’ (ASBJ Guidance No.19, issued on March 31, 2020).

(*2) Fair value of investments in partnerships is not disclosed in accordance with the Paragraph 24-16 of ‘Implementation Guidance on Accounting Standard for Fair Value Measurement‘ (ASBJ Guidance No. 31, issued on June 17, 2021).

(*3) The Group wrote off unlisted stocks, etc. in the amount of 380 million yen during the fiscal year ended March 31, 2024.

(Securities)

Securities include 'Securities', negotiable certificates of deposit in 'Cash and due from banks', trading securities and trading account securities for hedging classified as 'Trading account assets', and a part of trust beneficiary rights classified as 'Monetary claims bought'.

1. Trading securities (As of March 31, 2024)

None

2. Held-to-maturity bonds (As of March 31, 2024)

None

3. Available-for-sale securities (As of March 31, 2024)

	Type of securities	Amount on consolidated balance sheet (Millions of yen)	Acquisition cost (Millions of yen)	Difference (Millions of yen)
Securities for which the amount on consolidated balance sheet exceeds the acquisition cost	Stocks	26,398	11,196	15,202
	Bonds	33,650	33,349	300
	Government bonds	-	-	-
	Local government bonds	2,210	2,202	7
	Short-term corporate bonds	-	-	-
	Corporate bonds	31,440	31,146	293
	Others	149,945	139,370	10,574
	Foreign bonds	72,487	71,020	1,466
	Others	77,457	68,349	9,107
	Subtotal	209,994	183,917	26,077
Securities for which the amount on consolidated balance sheet does not exceed the acquisition cost	Stocks	2,482	2,898	(415)
	Bonds	155,509	158,657	(3,147)
	Government bonds	52,528	54,708	(2,180)
	Local government bonds	26,870	27,089	(219)
	Short-term corporate bonds	-	-	-
	Corporate bonds	76,111	76,859	(748)
	Others	628,420	709,705	(81,284)
	Foreign bonds	421,473	483,586	(62,112)
	Others	206,946	226,118	(19,171)
	Subtotal	786,413	871,261	(84,847)
Total		996,407	1,055,178	(58,770)

4. Held-to-maturity bonds sold during the fiscal year (from April 1, 2023 to March 31, 2024)

None

5. Available-for-sale securities sold during the fiscal year (from April 1, 2023 to March 31, 2024)

	Proceeds (Millions of yen)	Gains on sale (Millions of yen)	Losses on sale (Millions of yen)
Stocks	26,314	8,065	84
Bonds	122,960	2	42
Government bonds	115,009	-	19
Local government bonds	6,358	1	15
Short-term corporate bonds	-	-	-
Corporate bonds	1,592	0	7
Others	586,616	13,406	34,804
Foreign bonds	79,523	173	12,000
Others	507,092	13,232	22,804
Total	735,892	21,474	34,931

6. Change in holding purpose of securities

None

7. Securities incurred impairment losses

Except for non-marketable equity securities and investments in partnerships, all types of securities other than those held for trading are written down if a substantial decline in the fair value of such securities is deemed to be significant and other than temporary, subject to impairment criteria with respect to the borrower's category for the issuer of securities, unless there is strong evidence that the fair value will recover quickly and substantially.

In this fiscal year, the Group wrote off stocks included in marketable available-for-sale securities in the amount of 75 million yen.

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

'In danger of bankruptcy' 'De facto bankrupt' 'Bankrupt' … If fair value declines from cost
'Need attention' … If fair value declines more than 30% from cost
'Normal' … If fair value declines more than 50% from cost

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

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

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

(Money held in trust)

1. Money held in trust for trading purpose (As of March 31, 2024)

	Amount on consolidated balance sheet (Millions of yen)	Net unrealized gains and losses recorded in the consolidated statement of operations during the current fiscal year (Millions of yen)
Money held in trust for trading purpose	12,963	-

2. Money held in trust for held-to-maturity purpose (As of March 31, 2024)

None

3. Other money held in trust (other than held-for-trading and held-to-maturity) (As of March 31, 2024)

None

(Revenue recognition)

1. Detailed information on revenues from contracts with customers (from April 1, 2023 to March 31, 2024)

(Millions of yen)

Category	Fiscal year ended March 31, 2024
Ordinary income	246,299
Fees and commissions (including trust fees)	26,165
Loan business and deposit related	8,409
Securities and agency related	6,250
Others	11,506

(Note) Of fees and commissions (including trust fees), revenues from loan business and deposit related are mainly recorded in Institutional Banking Group and Structured Finance Group, and revenues from securities and agency related are mainly recorded in Customer Relation Group. The above table also includes revenues based on ASBJ Statement No. 10 'Accounting Standard for Financial Instruments' and other guidance.

(Per share information)

1. Net assets per common share is 3,285.94 yen.
2. Net loss attributable to owners of parent per common share is 427.22 yen.
3. Diluted net income attributable to owners of parent per common share: Not applicable.

(Note) Diluted net income attributable to owners of parent per common share is not described because of net loss per common share although there are dilutive shares.

（Material subsequent event）

The Bank has resolved to enter into a capital and business alliance agreement with Daiwa Securities Group Inc. and to issue new shares through third-party allotment to Daiwa Securities Group Inc. as the planned allottee at the Board of Directors' meeting held on May 13, 2024.

As a result, Daiwa Securities Group Inc. plans to subscribe for a third-party allotment of new shares to be issued by the Bank and acquire 21,500,000 of the Bank's common shares (the ratio of the total number of issued shares after the third-party allotment is 15.38%).

< Outline of pertaining to issuance of shares >

(1)	Number of shares to be newly issued	21,500,000 common shares
(2)	Issue price	JPY 2,415.5 per share
(3)	Amount of proceeds to be raised	JPY 51,933,250,000
(4)	Amount to be incorporated in stated capital	JPY 1,207.75 per share
(5)	Total amount to be incorporated in stated capital	JPY 25,966,625,000
(6)	Method of subscription or allotment	Through third-party allotment
(7)	Allottee	Daiwa Securities Group Inc.
(8)	Specific use of funds to be raised	Redemption of corporate bonds
(9)	Subscription period	From May 29, 2024 to July 31, 2024 (scheduled)
(10)	Payment period	From May 29, 2024 to July 31, 2024 (scheduled)
(11)	Others	The Capital Increase Through Third Party Allotment is subject to satisfaction of all the conditions precedent set forth in the Capital and Business Alliance Agreement, such as the effectuation of a Securities Registration Statement in accordance with the Financial Instruments and Exchange Act for the issuance of the Bank's common shares and the permissions and approvals, etc. from the relevant authorities necessary for the Capital Increase Through Third Party Allotment (including the approval of Daiwa Securities Group Inc. as the bank's major shareholder pursuant to Article 52-9, Paragraph 1 of the Banking Act) in accordance with the laws and regulations.

【Notes to the Non-Consolidated Financial Statements】

Amounts of less than one million yen are rounded down.

Significant accounting policies

1. Trading account assets and liabilities; gain and loss on trading account transactions

Transactions involving short-term fluctuations and arbitrage opportunities in interest rates, currency exchange rates, market prices of financial instruments or other market indices (‘Trading transactions’) are recognized on a trade date basis and recorded in ‘Trading account assets’ or ‘Trading account liabilities’ on the balance sheet. Gains or losses (interest received/paid, dividend, gains/losses on sales, and valuation gains/losses) on trading transactions are recorded in ‘Gain on trading account transactions’ or ‘Loss on trading account transactions’ on the transaction date basis in the statement of operations.

‘Trading account assets’ and ‘Trading account liabilities’ are stated at their fair values.

2. Valuation of securities

(1) ‘Held-for-trading securities’ (except the positions booked in the ‘Trading account assets’ and ‘Trading account liabilities’) are stated at fair value. The cost of these securities is determined by the moving-average method. ‘Held-to-maturity securities’ are stated at amortized cost (using the straight-line method) computed under the moving average method. ‘Stocks in subsidiaries and affiliated companies’ are stated at acquisition costs (using the moving average method). ‘Available-for-sale securities (‘AFS securities’)’ (with the costs basically calculated on the moving average method) are stated at fair value in principle, or non-marketable equity securities are stated at acquisition costs calculated on the moving average method.

As for interests in investment business limited partnerships, associations under the Civil Code and silent partnerships, Aozora Bank, Ltd. (‘the Bank’), in principle, record net assets and net income of those partnerships as assets and profits or losses in proportion to the Bank’s shares of interests based on their latest financial statements or interim financial statements.

The net unrealized gains or losses on AFS securities are included directly in net assets.

(2) Securities that are held as trust assets recorded in ‘Money held in trust’ are valued in the same manner as given in (1) above.

3. Accounting for derivatives

Derivative transactions, except for trading transactions, are stated at fair value.

4. Depreciation of fixed assets

(1) Tangible fixed assets (except for leased assets)

Depreciation of buildings, including structures and equipment attached to buildings, is computed by the straight-line method, and that of others is computed by the declining-balance method.

The useful lives are primarily estimated as follows:

Buildings: 15～50 years
Other : 5～15 years

(2) Intangible fixed assets (except for leased assets)

Amortization of intangible fixed assets is computed under the straight-line method. Development costs for internally used software are capitalized and amortized under the straight-line method over the useful lives (mainly 5～13 years) as determined by the Bank.

(3) Leased assets

Depreciation of ‘Leased assets’ in ‘Tangible fixed assets’ of the finance leases other than those that are deemed to transfer the ownership of leased property to the lessees is computed under the straight-line method over the lease term with zero residual value unless residual value is guaranteed by the corresponding lease contracts.

5. Deferred assets

‘Bond issuance costs’ in ‘Other assets’ is amortized using the straight-line method over the terms of corporate bonds.

6. Assets and liabilities denominated in foreign currencies

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

7. Provisions

(1) Allowance for loan losses

The Bank’s write-offs of loans and allowance for loan losses are provided as follows in accordance with the internal standards for write-offs and provisions.

Loans to borrowers who are assessed as ‘Bankrupt’ (in the process of legal proceedings for bankruptcy, special liquidation, etc.) or ‘De facto bankrupt’ (in serious financial difficulties and are not deemed to be capable of restructuring) under the Bank’s self-assessment guidelines are written off to the amounts expected to be collected through the disposal of collateral or execution of guarantees, etc. The amounts deemed to be uncollectible and written off were 18,553 million yen at March 31, 2024.

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

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

All loans are monitored in line with an internal self-assessment standard, etc., on an ongoing basis. Operating divisions or branches review internal credit ratings of borrowers (‘Borrower Ratings’) which are defined in line with ‘borrower categories’ and those ratings are then approved by the divisions in charge of credit. The division in charge of asset assessment, which is independent of operating divisions or branches and the divisions in charge of credit, reviews the appropriateness of internal credit ratings on a sample basis.

Based upon the borrower categories determined by the aforementioned process as of the balance sheet date, operating divisions and branches initially compute the amounts of write-offs and allowance, and the division in charge of asset assessment verifies the amounts and determines the final amounts.

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

Additional Information

For overseas real estate non-recourse loans, the Bank assumes a decrease in market liquidity mainly due to the deteriorating environment of the U.S. real estate market, and it will take approximately one to two years particularly for the U.S. office market to stabilize, considering the market trends.

In line with this, from the fiscal year ended March 31, 2024, for all borrowers of overseas real estate non-recourse loans that require careful monitoring in the future, the loan loss amount mainly estimated by the DCF method is reflected as an addition to the allowance for loan losses determined based on the estimated loan loss ratio. The estimated loan loss ratio to be applied to other overseas real estate non-recourse loans is calculated by classifying them to appropriately reflect the risk characteristics of the loan portfolio.

(2) Allowance for investment loss

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

(3) Provision for bonuses

Provision for bonuses that is provided for future bonus payments to employees, is maintained at the amount accrued at the balance sheet date, based on the estimated future payments.

(4) Provision for bonuses for directors (and other officers)

Provision for bonuses for directors (and other officers) that is provided for future bonus payments to directors, is maintained at the amount accrued at the balance sheet date, based on the estimated future payments.

(5) Provision for retirement benefits

Provision for retirement benefits, including prepaid pension costs, is provided for payment of retirement benefits to employees, in the amount deemed accrued at the balance sheet date, based on the projected retirement benefit obligation and the fair value of plan assets at the fiscal year-end.

Retirement benefit liability is recorded based on the benefit formula attribution of the projected benefit obligations over the service period of employees, deemed accrued at the balance sheet date.

Unrecognized prior service cost is amortized using the straight-line method over a certain period of time within the average remaining service period of employees.

Unrecognized actuarial gain and loss are amortized using the straight-line method over a certain period of time (5 years) within the average remaining service period of employees commencing from the next fiscal year after incurrence.

(6) Provision for credit losses on off-balance-sheet instruments

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

8. Hedge accounting

(1) Hedge accounting for interest rate risk

The Bank applies deferral hedge accounting to hedges of interest rate risk associated with financial assets and liabilities, principally by portfolio hedging, in accordance with 'Accounting and Auditing Treatments on the Application of Accounting Standards for Financial Instruments in the Banking Industry' (the Japanese Institute of Certified Public Accountants ('JICPA') Industry Committee Practical Guideline No.24, March 17, 2022), or by individual hedging.

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

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

(2) Hedge accounting for foreign currency risk

The Bank applies deferral hedge accounting to hedges of foreign currency risk associated with foreign currency-denominated financial assets and liabilities in accordance with 'Accounting and Auditing Treatments for Foreign Currency Transactions in the Banking Industry' (the JICPA Industry Committee Practical Guideline No.25, October 8, 2020). In accordance with the JICPA Industry Committee Practical Guideline No. 25, the Bank designates certain currency swaps and foreign exchange swaps for the purpose of funding foreign currencies as hedges for the exposure to changes in foreign exchange rates associated with foreign currency-denominated assets or liabilities when the foreign currency positions on the hedged assets or liabilities are expected to exceed the corresponding foreign currency positions on the hedging instruments. Hedge effectiveness is reviewed by comparing the total currency position of the hedged items with that of the hedging instruments by currency.

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

(3) Hedges of securities price fluctuation risk

The Bank designates available-for-sale securities (stock, etc.) for price fluctuation risk of stocks and available-for-sale securities (debt securities, etc.) for price fluctuation risk of listed investment trusts as hedged items and total return swaps as hedging instruments and applies individual deferral hedge accounting.

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

(4) Intracompany Derivative Transactions

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

9. Application of the Group Relief System

The Bank applies the group relief system with the Bank as a parent company.

Significant accounting estimates

Among items recorded in the non-consolidated financial statements for the year ended March 31, 2024 with accounting estimates, item significantly affect the non-consolidated financial statements for the year ending March 31, 2025 are described below:

1. Allowance for loan losses

(1) Amounts recorded in the non-consolidated financial statements for the year ended March 31, 2024

Allowance for loan losses: 87,371 million yen

(2) Information contributing to understanding of the detail of the significant accounting estimates related to recognized item

It is described in ‘Notes to the Consolidated Financial Statements.’

2. Recoverability of deferred tax assets

(1) Amounts recorded in the non-consolidated financial statements for the year ended March 31, 2024

Deferred tax assets: 44,783 million yen

(2) Information contributing to understanding of the detail of the significant accounting estimates related to recognized item

It is described in ‘Notes to the Consolidated Financial Statements.’

Notes

(Balance sheet)

1. Stocks (or investments) in subsidiaries and affiliated companies total 72,193 million yen.

2. No securities were loaned under unsecured loan contracts for consumption, for use or for lease contracts.
   Of unsecured securities borrowed, securities purchased under resale agreements, securities borrowed under lending agreements with cash collateral and securities received as collateral on derivative transactions which can be sold or re-pledged, none of the securities were re-pledged, re-loaned and held in hand as of the balance sheet date.

3. Non-performing loans ('NPLs') based on the Banking Act and the Financial Reconstruction Act are as follows. NPLs include corporate bonds in securities (limited to those for which payment of principal and interest is guaranteed in whole or in part, and the issuance of such bonds is through private placement of securities (Article 2, Paragraph 3 of the Financial Instruments and Exchange Act)), loans and bills discounted, foreign exchanges, accrued interest and suspense payables in other assets, customers' liabilities for acceptances and guarantees and securities in the case of loaned securities in the notes to the non-consolidated balance sheet (limited to only those subject to a usage and lending or lending agreement).

Bankrupt and similar credit	18	million yen
Doubtful credit	118,292	
Special attention credit	12,149	
Loans overdue for three months or more	6,361	
Restructured loans	5,788	
Subtotal	130,459	
Normal credit	3,818,635	
Total credit	3,949,094	

   'Bankrupt and similar credit' refers to the credit of borrowers who have filed for bankruptcy, corporate reorganization, composition, etc., as well as those borrowers who are in an equivalent situation.
   'Doubtful credit' refers to the credit with serious doubt concerning the recovery of principal and receiving of interest as contract provisions because the borrower's financial condition and business results have worsened although they have not reached the point of management collapse, excluding loans to 'Bankrupt and similar credit.'
   'Loans overdue for three months or more' refers to those loans excluding loans to 'Bankrupt and similar credit' and 'Doubtful credit' for which principal or interest remains unpaid for at least three months.
   'Restructured loans' refers to those loans excluding loans to 'Bankrupt and similar credit', 'Doubtful credit' and 'Loans overdue for three months or more' for which agreement was made to provide reduction or a moratorium on interest payments, or concessions in the borrower's favor on interest or principal payments or to waive claims in order to support the borrowers' recovery from financial difficulties.
   'Normal credit' refers to credit to borrowers whose financial condition and business results have no particular problem and which are not categorized in any of the above categories.
   Allowance for loan losses is not deducted from the amounts of loans stated above.

4. In accordance with the JICPA Industry Committee Practical Guideline No.24, bills discounted are accounted for as financial transactions. The Bank has the right to sell or re-pledge bank acceptance bought, commercial bills discounted, documentary bills and foreign exchanges bought without restrictions, etc. Face value of these bills amounted to 6,457 million yen.

5. The following assets were pledged as collateral:

Assets pledged as collateral		
Securities	300,286	million yen
Loans and bills discounted	264,970	

Collateralized debts		
Securities sold under repurchase agreements	29,903	million yen
Cash collateral received for securities lent	260,689	
Borrowed money	100,000	

In addition, securities of 19,311 million yen and foreign exchanges of 15,146 million yen are pledged as collateral for foreign and domestic exchange transactions, derivative transactions, etc. or as substitute for margin money for futures transactions.

'Other' in 'Other assets' includes guarantee deposits, etc. of 29,809 million yen.

6. Overdraft contracts and contracts for loan commitments are those by which the Bank is bound to extend loans up to a prearranged amount, upon the request of customers, unless the customer is in breach of contract conditions. The unutilized balance of these contracts amounted to 780,838 million yen, including 669,866 million yen of one year or less.

   Since these commitments are expected to expire without being drawn upon, the total amount of unused commitments does not necessarily represent actual future cash flow requirements. These commitments include clauses under which the Bank can reject an application from customers or reduce the contract amounts in the event that economic conditions change, the Bank needs to secure claims, or other events occur. In addition, the Bank may request the customers to pledge collateral such as premises and securities at the time of the contracts, and take necessary measures such as monitoring customers' financial positions, revising contracts when such needs arises and securing claims after the contracts are made.

7. Accumulated depreciation of tangible fixed assets totals 25,893 million yen.

8. Deferred gains on tangible fixed assets deductible for tax purposes amounted to 429 million yen.

9. Monetary claims against subsidiaries and affiliated companies total 1,116,320 million yen.

10. Monetary liabilities against subsidiaries and affiliated companies total 20,825 million yen.

(Statement of operations)

1. Revenues from transactions with subsidiaries and affiliated companies 69,478 million yen
   Interest income earned 61,219
   Fees and commissions earned 2,875
   Other ordinary income and other income earned 5,383
   Expenses from transactions with subsidiaries and affiliated companies 2,636 million yen
   Interest expenses incurred 717
   Fees and commissions incurred 179
   Other ordinary expenses and other expenses incurred 1,739
   Other transactions with subsidiaries and affiliated companies (such as asset transfer) 7,564 million yen

2. The material transactions with related parties are as follows.

(1) Parent company and major shareholders, etc.

None

(2) Subsidiaries and affiliates, etc.

Category	Company Name	Equity ratio	Relationship with related parties	Nature of Transaction	Transaction Amount (Millions of yen)	Account Name	Balance (Millions of yen)
Subsidiary	AZB Funding 4 Limited (Note 1)	—	Lending	Lending (Note 2) Received interest (Note 2)	17,529 4,431	Loans and bills discounted (Loans on deeds) Accrued income	79,575 908
Subsidiary	AZB Funding 11 Limited (Note 1)	—	Lending	Lending (Note 2) Received interest (Note 2)	53,425 16,148	Loans and bills discounted (Loans on deeds) Accrued income	288,241 3,115
Subsidiary	AZB Funding 12 Limited (Note 1)	—	Lending	Lending (Note 2) Received interest (Note 2)	138,603 28,033	Loans and bills discounted (Loans on deeds) Accrued income	478,995 7,345

(Notes) 1. AZB Funding 4 Limited, AZB Funding 11 Limited and AZB Funding 12 Limited are special purpose entities which were established for the purpose of acquisition and management of overseas loan assets.
2. The Bank extends loans to AZB Funding 4 Limited, AZB Funding 11 Limited and AZB Funding 12 Limited which are collateralized by the loan assets held by these entities. Out of income earned from the loan assets, these subsidiaries pay base interest based on the floating market interest rates, as well as residual interest based on their performance. As of the fiscal year end, all profits and losses belong to the Bank due to the fact that these entities make all their borrowing from the Bank.

(3) Companies of the same parent company, etc.

None

(4) Directors, corporate auditors and their close family members, etc.

None

3. Included in ‘Extraordinary income’, ‘Gain on liquidation of subsidiaries and associates’ is recorded as the distribution of residual assets from the overseas subsidiaries and ‘Gain on capital reduction of subsidiaries and associates’ is recorded as the difference between the capital reduction amount of overseas subsidiaries and the book value of the investment, which mainly results form exchange rate fluctuations.

(Statement of changes in equity)

1. Types and numbers of treasury shares (Unit: thousands of shares)

		Number of shares at the beginning of the period	Number of shares increased during the period	Number of shares decreased during the period	Number of shares at the end of the period	Notes
Treasury shares						
	Common stock	1,508	0	41	1,467	(Note)
	Total	1,508	0	41	1,467	

(Note) The increase is due to buybacks of shares constituting less than one trade unit, and the decrease is due to exercise of share acquisition rights.

(Securities)

Securities include ‘Government bonds’, ‘Local government bonds’, ‘Short-term corporate bonds’, ‘Corporate bonds’, ‘Stocks’, ‘Other securities’, negotiable certificates of deposit in ‘Due from banks’, ‘Trading securities’, ‘Trading account securities for hedging’ and a part of trust beneficiary rights classified as ‘Monetary claims bought’.

1. Trading securities (As of March 31, 2024)

None

2. Held-to-maturity bonds (As of March 31, 2024)

None

3. Stocks in subsidiaries and affiliated companies (As of March 31, 2024)

	Amount on balance sheet (Millions of yen)	Market price (Millions of yen)	Difference (Millions of yen)
Stocks in affiliated companies	17,178	28,108	10,929

(Note) Amount on balance sheet of non-marketable equity securities that are not included in the above table.

	Amount on balance sheet (Millions of yen)
Stocks in subsidiaries	21,186
Stocks in affiliated companies	129

4. Available-for-sale securities (As of March 31, 2024)

	Type of securities	Amount on balance sheet (Millions of yen)	Acquisition cost (Millions of yen)	Difference (Millions of yen)
Securities for which the amount on balance sheet exceeds the acquisition cost	Stocks	26,398	11,196	15,202
	Bonds	33,650	33,349	300
	Government bonds	-	-	-
	Local government bonds	2,210	2,202	7
	Short-term corporate bonds	-	-	-
	Corporate bonds	31,440	31,146	293
	Others	149,945	139,370	10,574
	Foreign bonds	72,487	71,020	1,466
	Others	77,457	68,349	9,107
	Subtotal	209,994	183,917	26,077
Securities for which the amount on balance sheet does not exceed the acquisition cost	Stocks	2,482	2,898	(415)
	Bonds	124,420	127,465	(3,045)
	Government bonds	42,530	44,706	(2,175)
	Local government bonds	10,193	10,332	(138)
	Short-term corporate bonds	-	-	-
	Corporate bonds	71,697	72,427	(730)
	Others	628,420	709,705	(81,284)
	Foreign bonds	421,473	483,586	(62,112)
	Others	206,946	226,118	(19,171)
	Subtotal	755,323	840,068	(84,745)
Total		965,318	1,023,986	(58,667)

(Note) Amount on balance sheet of non-marketable equity securities and investments in partnerships that are not included in the above table.

	Amount on balance sheet (Millions of yen)
Non-marketable equity securities (*1)	10,631
Investment in partnerships(*2)	178,237

(*1) Non-marketable equity securities include unlisted stocks, etc. and those fair value is not disclosed in accordance with the Paragraph 5 of ‘Implementation Guidance on Disclosures about Fair Value of Financial Instruments’ (ASBJ Guidance No.19, issued on March 31, 2020).

(*2) Fair value of investments in partnerships is not disclosed in accordance with the Paragraph 24-16 of ‘Implementation Guidance on Accounting Standard for Fair Value Measurement’ (ASBJ Guidance No.31, issued on June 17, 2021).

5. Held-to-maturity bonds sold during the fiscal year (from April 1, 2023 to March 31, 2024)

None

6. Available-for-sale securities sold during the fiscal year (from April 1, 2023 to March 31, 2024)

	Proceeds (Millions of yen)	Gains on sale (Millions of yen)	Losses on sale (Millions of yen)
Stocks	26,314	8,065	84
Bonds	122,960	2	42
Government bonds	115,009	-	19
Local government bonds	6,358	1	15
Short-term corporate bonds	-	-	-
Corporate bonds	1,592	0	7
Others	586,616	13,406	34,804
Foreign bonds	79,523	173	12,000
Others	507,092	13,232	22,804
Total	735,892	21,474	34,931

7. Change in holding purpose of securities

None

8. Securities incurred impairment losses

Except for non-marketable equity securities and investments in partnerships, all types of securities other than those held for trading are written down if a substantial decline in the fair value of such securities is deemed to be significant and other than temporary, subject to impairment criteria with respect to the borrower's category for the issuer of securities, unless there is strong evidence that the fair value will recover quickly and substantially.

In this fiscal year, the Bank wrote off stocks included in marketable available-for-sale securities in the amount of 75 million yen.

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

'In danger of bankruptcy' 'De facto bankrupt' 'Bankrupt' … If fair value declines from cost
'Need attention' … If fair value declines more than 30% from cost
'Normal' … If fair value declines more than 50% from cost

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

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

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

(Money held in trust)

1. Money held in trust for trading purpose (As of March 31, 2024)

	Amount on non-consolidated balance sheet (Millions of yen)	Net unrealized gains and losses recorded in non-consolidated statement of operations during the current fiscal year (Millions of yen)
Money held in trust for trading purpose	5,367	-

2. Money held in trust for held-to-maturity purpose (As of March 31, 2024)

None

3. Other money held in trust (other than held-for-trading and held-to-maturity) (As of March 31, 2024)

None

(Deferred taxes)

Tax effects of significant temporary differences which resulted in deferred tax assets and liabilities as of March 31, 2024 were as follows:

Deferred tax assets		
Provision of allowance for loan losses	26,831	million yen
Provision for retirement benefits	3,212	
Depreciation expense	1,842	
Write-offs for securities	4,237	
Valuation difference on available-for-sale securities	18,584	
Write-offs of loans	75	
Tax loss carryforwards(Note 2)	18,824	
Other	10,612	
Subtotal	84,220	
Less valuation allowance for tax loss carryforwards(Note 2)	(5,605)	
Less valuation allowance for temporary differences	(29,466)	
Less valuation allowance(Note 1)	(35,072)	
Deferred tax assets total	49,147	
Deferred tax liabilities		
Valuation difference on available-for-sale securities	260	
Deferred gains or losses on hedges	1,911	
Asset retirement obligation expense	378	
Prepaid pension costs	1,734	
Other	79	
Deferred tax liabilities total	4,364	
Net deferred tax assets	44,783	million yen

(Note 1) The increase in the valuation allowance from the previous fiscal year is primarily due to a change in the Bank's classification of companies for deciding the recoverability of deferred tax assets.

(Note 2) Expiration of tax loss carryforwards and relating deferred tax assets

FY2023 (As of March 31, 2024)

(Millions of yen)

	1 year or less	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 4 years	Over 4 years to 5 years	Over 5 years	Total
Deferred tax assets relating to tax loss carryforwards(*1)	―	―	―	―	―	18,824	18,824
Less valuation allowance for tax loss carryforwards	―	―	―	―	―	(5,605)	(5,605)
Net deferred tax assets relating to tax loss carryforwards	―	―	―	―	―	13,218	(*2) 13,218

(*1) The amount of tax loss carryforwards is multiplied by the effective statutory tax rate.

(*2) Of the tax loss carryforward of ¥18,824 million (multiplied by the effective statutory tax rate), the Group recorded deferred tax assets of ¥13,218 million as of March 31, 2024. The Bank expects to record taxable income in the future, and therefore has decided that part of tax loss carryforwards will be recoverable.

(Note 3) The Bank applies the group relief system. In addition, the accounting and disclosure of corporate tax, local corporate tax and tax effect accounting is in accordance with the 'Practical Solution on the Accounting and Disclosure under the Group Relief System' (ASBJ PITF No.42 August 12, 2021).

(Per share information)

1. Net assets per common share is 2,940.12 yen.
2. Net loss per common share is 434.82 yen.
3. Diluted net income per common share: Not applicable.

(Note) Diluted net income per common share is not described because of net loss per common share although there are dilutive shares.

（Material subsequent event）

The Bank has resolved to enter into a capital and business alliance agreement with Daiwa Securities Group Inc. and to issue new shares through third-party allotment to Daiwa Securities Group Inc. as the planned allottee at the Board of Directors’ meeting held on May 13, 2024.

As a result, Daiwa Securities Group Inc. plans to subscribe for a third-party allotment of new shares to be issued by the Bank and acquire 21,500,000 of the Bank's common shares (the ratio of the total number of issued shares after the third-party allotment is 15.38%).

< Outline of pertaining to issuance of shares >

(1)	Number of shares to be newly issued	21,500,000 common shares
(2)	Issue price	JPY 2,415.5 per share
(3)	Amount of proceeds to be raised	JPY 51,933,250,000
(4)	Amount to be incorporated in stated capital	JPY 1,207.75 per share
(5)	Total amount to be incorporated in stated capital	JPY 25,966,625,000
(6)	Method of subscription or allotment	Through third-party allotment
(7)	Allottee	Daiwa Securities Group Inc.
(8)	Specific use of funds to be raised	Redemption of corporate bonds
(9)	Subscription period	From May 29, 2024 to July 31, 2024 (scheduled)
(10)	Payment period	From May 29, 2024 to July 31, 2024 (scheduled)
(11)	Others	The Capital Increase Through Third Party Allotment is subject to satisfaction of all the conditions precedent set forth in the Capital and Business Alliance Agreement, such as the effectuation of a Securities Registration Statement in accordance with the Financial Instruments and Exchange Act for the issuance of the Bank’s common shares and the permissions and approvals, etc. from the relevant authorities necessary for the Capital Increase Through Third Party Allotment (including the approval of Daiwa Securities Group Inc. as the bank’s major shareholder pursuant to Article 52-9, Paragraph 1 of the Banking Act) in accordance with the laws and regulations.