【*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 92nd Ordinary General Meeting of Shareholders

Business Report

Framework for Ensuring the Appropriateness of Business Operations

Consolidated Financial Statements and Non-Consolidated Financial Statements

Consolidated statement of changes in equity
Notes to the Consolidated Financial Statements
Non-consolidated statement of changes in equity
Notes to the Non-Consolidated Financial Statements

(from April 1, 2024 to March 31, 2025)

Aozora Bank, Ltd.

8. Framework for Ensuring the Appropriateness of Business Operations

The summary of “Internal Control Programs” is as follows:

Aozora Bank (hereinafter the Bank) determines the following basic policies concerning development of a system for appropriate business (internal control programs) of the Bank and the Bank’s subsidiaries based on the Companies Act and the Ordinance for Enforcement of the Companies Act.
The Bank will reorganize Audit & Compliance Committee into Risk Governance Committee as of July 1, 2025, to take over the function to oversee matters relating to internal control, and to further strengthen the supervision of risk governance and risk management, as a committee to deliberate in a specialized way on important matters thereof.

1. Ensure Execution of Fiduciary Responsibilities by Directors and Employees in compliance with Laws, Regulations and the Articles of Incorporation

(1) The Bank develops Internal Rules concerning a compliance system including Master Policy “Code of Conduct and Ethics” as a code of conduct for officers and employees of the Bank to fulfill their duties while complying with laws and regulations, and asks the officers and employees to submit “Annual Acknowledgment of Code of Conduct and Ethics”.

(2) The Bank appoints two or more Outside Directors who have knowledge and experience in the management and supervise the execution of operations by the Bank from an independent perspective for the purpose of ensuring management disciplines and improving a supervisory function of the Board of Directors.

(3) The Bank establishes Nomination & Remuneration Committee to deliberate appointment and remuneration of Directors and Executive Officers as well as Audit & Compliance Committee to assess matters concerning internal control. Both of the committees consists of mainly Outside Directors and deliberate such matters thoroughly and professionally as entrusted by the Board of Directors, and report the results of the deliberations to the Board of Directors.

(4) The Bank establishes a division controlling compliance risk management and puts in place a compliance risk management system through developing Internal Rules concerning compliance matters, providing compliance training programs, checking the compliance status as well as developing and implementing remedial actions. The division controlling compliance risk management annually develops, as “Compliance Program”, a specific action plan to put in place a compliance risk management system including responses to newly established and revised laws and regulations, development of Internal Rules and training programs and obtains approval by the Board of Directors. In addition, the division reports its progress to Audit & Compliance Committee and the Board of Directors on a regular basis.

(5) The Bank establishes a division controlling legal risk management in order to improve its legal risk management system through the development of Internal Rules concerning legal risk management, confirmation and dissemination of trends in revisions to laws and regulations, appropriate response to/ management of litigation and other disputes, and identification, analysis, evaluation and verification of legal risks in individual operations.

(6) The Bank establishes an Internal Audit Group which functions independently from all business groups. The Internal Audit Group audits the development and operation of the internal control system from an independent perspective based on the annual audit plan approved by the Board of Directors and periodically reports the status of internal audits to the Chief Executive Officer (CEO), Management Committee, Audit & Compliance Committee and the Board of Directors.

(7) In order to prevent, discover early and remedy scandals caused by violations of laws or illicit behaviors, the Bank maintains "Aozora Hotline Program", a whistle-blower system which enables officers and employees of the Bank (including officers and employees within one year of their retirement) directly report to in-house and outside special contacts when they learn any cases which violate or may violate laws and regulations or Internal Rules.

(8) The Bank develops a system necessary to remove any unjustified involvement by Anti-Social Elements and to eliminate or avoid all transactions with them including provision of funds. In addition, the Bank develops necessary systems to prevent money laundering, terrorist financing, and proliferation financing, and to comply with other economic sanctions under the Foreign Exchange and Foreign Trade Act.

(9) The Bank establishes a customer protection system (management of customer explanation, customer support, customer information, outsourcing and prevention of conflict of interests) to protect customers and to improve customers' conveniences. In addition, in order to provide products and other services that contribute to the best interests of its customers, the Bank establishes a system for customer-oriented business management.

(10) The Bank establishes a system necessary to prevent insider trading and unfair transactions by individual officers and employees where customer information is used by such officers and employees.

(11) The Bank develops a system necessary to comply with bribery prevention-related laws and regulations as well as prevent corruption.

2. Ensure Efficient Execution of Duties & Responsibilities by Directors

To ensure prompt decision-making on business execution, the Bank establishes Management Committee consisting of members appointed by the Board of Directors from among Directors and Executive Officers and delegates the business execution-related authorities to such Committee. In addition, Management Committee establishes various committees consisting of committee members having professional expertise, experiences and judgment as its lower organizations and delegates its authorities to them.

3. Safekeeping and Management of Information regarding Execution of Fiduciary Responsibilities of Directors

Based on laws, regulations and various Internal Rules for document management, the Bank appropriately manages and keeps the information on execution of Directors' responsibilities including the minutes of the Board Meeting and other various important committees.

4. Internal Rules and Structure to Manage Risk of Loss

(1) The types and levels of risks (risk appetite) to be accepted to realize the business strategy and financial plan shall be positioned as the framework for management control, discussed by the Board of Directors based on the Risk Appetite Statement, and reflected in the mid-term plan and each annual business plan. In addition, the Bank defines a basic policy and a management procedure for risks recognized by the Bank and the Bank's Subsidiaries in Master Policy "Comprehensive Risk Management". Further, the Bank classifies risks arising from operations into a market risk, a credit risk, a liquidity risk and an operational risk (including system risk to respond to cyber security and crisis & disaster risk) and develops Internal Rules defining basic policies by risk category.

(2) Each division in charge by risk category periodically reports the risk management status to Management Committee, Audit & Compliance Committee and the Board of Directors.

(3) Internal Audit Group audits effectiveness and appropriateness of the risk management system and reports the results to Chief Executive Officer (CEO), Management Committee, Audit & Compliance Committee and the Board of Directors. In addition, such Group shares information as necessary with ASB Members, Audit & Supervisory Board and Accounting Auditors for cooperative purposes.

5. Ensure Appropriate Operations of the Bank and the Bank's Subsidiaries

(1) The Bank defines the basic policies for management/control, compliance, and risk management systems of the Bank's subsidiaries in Master Policy "Management of Group Companies" to ensure appropriate and effective operation of the business in the Bank and the Bank's Subsidiaries.

(2) The Bank and the Bank's Subsidiaries have established an integrated internal control system for the Bank and the Bank's subsidiaries while respecting their independence and autonomy. In addition, in conformance with applicable laws and restrictions, the Bank ensures that the Bank's policies and procedures including the "Code of Conduct and Ethics" are fully understood by the Bank's subsidiaries.

(3) The Bank and the Bank’s subsidiaries have established systems to control conflicts of interest and to prevent unreasonable damage to customers’ interest as well as a system to cause the terms of transactions between the Bank and the Bank’s Subsidiaries and between the Bank’s Subsidiaries to comply with the Arm’s Length Rule.
(4) To ensure credibility and appropriateness of the financial reporting of the Bank and the Bank’s subsidiaries on a consolidated basis, the Bank develops a system for proper internal control over financial reporting by establishing Procedure “Internal Control over Financial Reporting”.
(5) The Bank secures human resources necessary for business operations at the Bank and the Bank's subsidiaries through recruitment and training of human resources.
(6) To the extent of not violating laws and regulations, Internal Audit Group audits business activities of each of the Bank’s subsidiaries.

6. Ensure Effective Auditing by ASB Members

(1) The Bank has established Office of Audit & Supervisory Board (“ASB”) to support its members’ duties and appropriately allocates employees to support such activities. The authority to give instructions to such employees belongs to ASB Members and such employees are interviewed and evaluated by the Standing ASB Member. In addition, decisions on transfer, promotion, compensation and punishment of such employees require the consent by the Standing ASB Member.
(2) ASB Members may directly require the officers and employees of the Bank and the Bank’s subsidiaries to make a report as necessary (including implementation status of the Hot Line program and details of whistle blowers’ reports).
(3) Officers and employees of the Bank and the Bank’s subsidiaries immediately make a report to ASB Members whenever they find violations against laws and regulations at the Bank or the Bank’s subsidiaries or any event which may cause a serious damage to the Bank or the Bank’s subsidiaries. The officers and employees who report to ASB Members will not be unfairly treated due to any such reporting, which is clearly stated in HR Rules and other Internal Rules.
(4) Officers and employees cooperate with ASB Members when auditing based on an audit plan annually developed by Audit & Supervisory Board (including a budget).
(5) ASB Members may get advice as needed from external professionals including attorneys and certified accountants about auditing for effective audits.
(6) The Bank incurs the various costs for execution of the ASB Members’ responsibilities (including the expense related to Paragraph (5) above).

(Summary of Framework for Ensuring the Appropriateness of Business Operations)

The following is a summary of the operational status of the Bank's basic policy for the development of Internal Control Programs:

1. Framework for Ensuring that Directors and Employees Perform Their Duties in Accordance with Laws, Regulations and the Articles of Incorporation
   - The Bank has decided upon a "Code of Conduct and Ethics", which stipulates laws and regulations that officers and employees must comply with while carrying out reasonable and necessary corporate activities in conformance with social norms and common sense. All officers and employees of the Aozora Bank Group must submit an "Annual Acknowledgment of the Code of Conduct and Ethics" to indicate that they have understood and will comply with the "Code of Conduct and Ethics".
   - The Bank nominates several candidates, with consideration for independence, for outside directors, who are then approved and appointed at the General Meeting of Shareholders. Four of the nine directors are independent outside directors as of the end of this fiscal year. The Nomination and Remuneration Committee, where the majority of the members are outside directors, and the Audit and Compliance Committee, which comprises outside directors, complement the supervisory function and fulfill check-and-balance function for Representative Directors and Executive Officers, by checking and verifying responsible matters from various professional standpoints, being entrusted by the Board of Directors.
   - The Bank has established a Compliance Management Division which is in charge of compliance risk management for the entire Aozora Bank Group. The Division has developed a set of internal policies based on the laws and regulations, etc. which must be complied with, and made efforts to develop and produce its compliance risk management framework by conducting training and making it known to maintain and improve the understanding and awareness of compliance issues among the Bank's officers and employees. Moreover, the Division develops an annual "Compliance Program", which is designed to be a concrete action plan for achieving the objectives of the compliance risk management framework, and delivers semiannual reports regarding the progress of the Program to the Management Committee, the Audit and Compliance Committee and the Board of Directors.
   - With respect to training and announcements based on the plan set at the beginning of the year, the Bank provides them by incorporating urgent topics such as points to note from a compliance perspective, insider trading prevention, information management, financial crime prevention, etc. from the aspects of not only business such as the promotion of collaboration with Daiwa Securities Group, Aozora's strategic investment banking business and customer-oriented business management but also an external environment such as the highly stable number of financial crime victims. Further, the Bank has created an environment that enables employees to attend these training and awareness programs from home or a remote environment as well as learning by video materials.
   - The Bank has established a Legal Division that is in charge of legal risk management for the entire Aozora Bank Group. The Division strives to establish and maintain an appropriate legal risk management system through the development of internal rules to manage legal risk, research and dissemination of information about recent changes to legislation, appropriate response to, and management of, litigation and other disputes, and identification, analysis, evaluation and verification of legal risks in individual operations. In addition, the status of legal risk management (including the status of litigation and other disputes) is reported to the Management Committee every quarter, and to the Board of Directors and the Audit and Compliance Committee every six months.
   - The Internal Audit Division conducts an internal audit based on the Annual Internal Audit Plan approved by the Board of Directors each fiscal year. The Division reports monthly to the Chief Executive Officer (CEO) and the Management Committee, as well as semi-annually to the Audit & Compliance Committee, the Board of Directors and quarterly to the Audit & Supervisory Board (ASB).
   - The Aozora Bank Group has established a whistle-blowing system, the Aozora Hotline Program, which is designed to prevent, aid in the early discover of, and take corrective action against the violation of laws and other misconduct. Every officer and employee (including those who left Aozora or Aozora Group within one year) can report any inappropriate activity which violate or may violate internal rules, laws, regulations, or other norms directly to the in-house and outside (a law firm) channels for whistle-blowers. The Division delivers a semiannual report on the operational status of the "Aozora Hotline Program" and the number of whistle-blowing cases to the Management Committee, the Audit and Compliance Committee and the Board of Directors.
   - The Bank has affirmed its position against anti-social elements in its "Procedure for the Elimination of Anti-Social Elements", and established various systems to eliminate intervention by and prevent business relationships with anti-social elements. The Bank has positioned the prevention of money laundering and financing for terrorism/measures against financial crimes such as Proliferation Financing and responses to economic sanctions under the Foreign Exchange and Foreign Trade Law as critical business challenges, has put a management framework into place and has maintained it.

- With the heightened risks of money laundering etc. amid the multiple measures which the Bank provides with improved convenience in non-face-to-face transactions reflecting various customer needs, the Bank has been working on maintenance/enhancement of its fraud detection system through cross-referencing with various lists and transaction monitoring on a daily basis.
- The Bank has developed internal rules for determining specific countermeasures for ensuring proper customer protection based on its “Customer Protection” Master Policy, which stipulates its basic policy on customer protection and initiatives for improving customer convenience. The Director in charge of customer protection management, who is appointed by the Board of Directors, supervises overall customer protection management. The Customer Protection Committee, which comprises members including the Executive Officer in charge of compliance and governance, holds meetings once a month to review the framework for customer protection.
- While seeking to improve its services to respond to growing needs for cashless/non-face-to-face transactions, the Bank is also working on its system contributing to the protection of customers including verification of the standards for linking customer bank accounts to other accounts at fund transfer service providers and tightened security in personal authentification of debit cards.
- In order to prevent insider trading by its officers and employees, the Bank has established and maintained a system in which the Compliance Management Division centralizes all important information collected by the Bank and strictly controls all confidential insider information.
- The Bank has established Procedure “Anti-Bribery”, has put in place a structure and is continuously making it known in order to comply with anti-bribery laws and regulations in each country and prevent any corruption.

2. Ensure Efficient Execution of Duties and Responsibilities by the Directors
   - The Management Committee is comprised of Executive Officers (including Representative Directors) appointed by the Board of Directors. The Management Committee convenes on a weekly basis and determines important matters related to the Bank’s daily operations, in accordance with the policies set forth by the Board of Directors. The Management Committee has the following sub-committees to which it delegates authority: the Asset and Liability Management Committee, the Integrated Risk Committee, the Credit Committee, the Investment Committee, the CAPEX Committee, the Customer Protection Committee and the Sustainability Committee. Sub-committees comprise members with substantive knowledge and experience in various aspects of the Bank’s business operations, as well as sound decision-making capabilities.

3. Safekeeping and Management of Records regarding Execution of Fiduciary Responsibilities of Directors
   - The Bank appropriately manages and keeps important documents such as the minutes of the Board of Directors Meeting, the Management Committees and other various committees and the relevant written approval documents for the mandatory period, based on laws, regulations and internal rules.

4. Internal Rules and Framework for Managing Risk of Loss
   - A risk appetite framework, risk appetite and a risk appetite statement (“RAS”) are determined at the Board of Directors with recommendations from the Audit & Compliance Committee. At the Board of Directors, the consistency with RAS is checked when a business plans or a mid-term plan is determined, and important matters relating to the management of the risk appetite framework, including the reviewing of risk appetite and RAS during a fiscal year, are discussed and determined.
   - For the implementation of appropriate risk management, the Bank has established committees such as the Asset and Liability Committee and the Integrated Risk Committee and the responsible departments to control the risks, to specify, evaluate and control the risks. The Bank appoints the Chief Risk Officer (CRO) from amongst Executive Officers as a responsible person for risk management.
   - The Bank has set the basic policies and rules that stipulate the scope of risks to be controlled, their definitions, risk characteristics and evaluations, monitoring and control. Each risk management division controls the risks in an appropriate manner within the framework.

- Aozora has established a framework in which the IT Control Division headed by the Chief Technology Officer (CTO), who is responsible for cybersecurity, is designated as the control division for overall system risks. The Cyber Security Office, a dedicated cybersecurity departmentformed within the IT Control Division and staffed with specially trained personnel, manages systems development, monitoring, and emergency responses. In addition, we have established a Cyber Security Incident Response Team (Aozora CSIRT), which spans across Aozora's related groups/divisions and Group companies. By sharing cybersecurity trends and risks inherent in the Bank as well as conducting ongoing cybersecurity training, the entire Group remains prepared for emergency situations.
- In the event of a crisis including large-scale disasters such as earthquakes occurring directly beneath the Tokyo metropolitan area, system failures and the spread of infectious diseases, the Bank secures operational resilience through such measures as specifying business operations to be prioritized, setting the degree of resilience such as Recovery Time Objective, developing Business Continuity Plan (BCP) and verifying effectiveness by taking measures including trainings.
- The Management Committee, the Audit & Compliance Committee and Board of Directors timely receive risk control reports from the risk management divisions in order to flexibly manage the risks in an appropriate manner.
- The Internal Audit Division conducts audits of the effectiveness and legitimacy of risk controls, and reports the results to the Chief Executive Officer (CEO) and the Management Committee monthly, to the Audit & Compliance Committee and the Board of Directors semi-annually, to the ASB quarterly.
  The Internal Audit Division is always cooperating with the Accounting Auditors through joint audit activities including the ASB Members.

5. Framework for Ensuring the Appropriateness of Business Operations of the Bank and Subsidiaries
   - Based on the Bank's Master Policy entitled "Management of Group Companies" which encompasses management, compliance and risk management frameworks, Executive Officers responsible for business promotion of the group subsidiaries supervise management of the subsidiaries in collaboration with the relevant divisions, while each risk management division directly manages the relevant risk of the subsidiaries. The Bank and its subsidiaries have signed a "Master Advisory and Corporate Governance Agreement", which defines specific issues agreed upon by the Bank and the subsidiaries for which the subsidiaries must consult with in advance or report to the Bank and other compliance requirements to ensure effectiveness of management.
   - In order to avoid any infringement upon customers' interests in favor of the interests of the Bank and third parties, the Bank has developed a "Management of Conflict of Interest and Compliance with Arm's Length Rule" Procedure so as to properly manage any transactions between the Bank or its subsidiaries and customers, which may result in conflicts of interest and ensure that terms and conditions of such transactions do not infringe upon the arm's length rule. The Customer Protection Committee, which comprises the Executive Officer in charge of compliance and governance, verifies semi-annually the management of conflicts of interests.
   - The Bank is committed to developing and maintaining a proper internal control system in line with the Procedure "Internal Control Over Financial Reporting" to ensure the appropriateness and reliability of financial reporting of the Bank and the Bank's subsidiaries on a consolidated basis. The Bank also evaluates the effectiveness of internal control for financial reporting and discloses the internal control report annually.
   - In order to secure the necessary talent for business continuity and corporate value enhancement within our bank group, we strategically hire a certain number of new graduates every year and provide long-term development opportunities. We also actively engage in career hiring to acquire professionals with expertise in specific areas. Additionally, we have established Aozora Career Building Support Programs such as training programs, initiatives to expand experience areas, and self-development support menus, aiming to cultivate individuals who can withstand changes in the business environment.
   - The Internal Audit Division conducts internal audits on the Bank and the subsidiaries in accordance with the Master Policy "Internal Audit" and the Procedure "Supervision and Governance of Group Companies."

6. Framework for Ensuring the Effectiveness of Audit by ASB members

- The Bank has assigned a full-time general manager and staff to establish the Office of Audit & Supervisory Board (OASB). Under the supervision of the ASB members and ASB, the OASB is in charge of supporting the ASB members and administering the ASB meetings.
- The OASB and its General Manager report directly to the full-time ASB member on a day-to-day basis. Their performance reviews are conducted by the full-time ASB member, and decisions on such matters as personnel and performance appraisals require the consent of the full-time ASB member (and the ASB, if necessary).
- All directors and employees of the Bank and the subsidiaries can report directly to the ASB members and the ASB about important issues on management and business operations, including internal audit results and inside information reported through the whistle blowing system, and other issues which the ASB members consider necessary. They are not subject to disadvantageous treatment due to such reporting.
- The directors and employees cooperate in attendance and reporting to the ASB Meeting based on the audit plan.
- The Bank reimburses for any expenses incurred by the ASB members and the ASB in the ordinary course of their audits, including fees for external professionals, such as lawyers, which they consider necessary for an effective and professional audit.

Consolidated statement of changes in equity

(For the fiscal year ended March 31, 2025)

(Millions of yen)

	Shareholders' equity				
	Share Capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	100,000	87,498	228,444	(3,015)	412,928
Changes during period					
Issuance of new shares	25,966	25,966			51,933
Dividends of surplus			(7,478)		(7,478)
Net income attributable to owners of parent			20,518		20,518
Purchase of treasury shares				(0)	(0)
Disposal of treasury shares		18		121	139
Net changes in items other than shareholders' equity					
Total changes during period	25,966	25,984	13,040	120	65,112
Balance at end of period	125,966	113,483	241,485	(2,894)	478,040

	Accumulated other comprehensive income					Share acquisition rights	Non-controlling interests	Total equity
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at beginning of period	(45,803)	4,332	10,137	2,277	(29,056)	532	6,673	391,078
Changes during period								
Issuance of new shares								51,933
Dividends of surplus								(7,478)
Net income attributable to owners of parent								20,518
Purchase of treasury shares								(0)
Disposal of treasury shares								139
Net changes in items other than shareholders' equity	6,270	(3,814)	(532)	8	1,932	(31)	1,593	3,494
Total changes during period	6,270	(3,814)	(532)	8	1,932	(31)	1,593	68,607
Balance at end of period	(39,532)	517	9,604	2,286	(27,123)	501	8,267	459,685

【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: 24

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 Limited
Aozora Europe Limited
Aozora North America, Inc.
AZB Funding 12 Limited

Aozora Asia Pacific Finance Limited was excluded from the scope of consolidation as a subsidiary because the business transfer and distribution of residual assets of Aozora Asia Pacific Finance Limited had been completed during the fiscal year ended March 31, 2025.

(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:

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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 income.

'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. Share issuance costs in ‘Other assets’ is amortized using the straight-line method over three years.

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 24,356 million yen at March 31, 2025.

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 particularly U.S. office market will stabilize during the FY2025, considering the market trends.

In line with this, 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.

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 ('fair value hedges') and portfolio hedges to fix cash flows ('cash flows hedges') are applied by grouping hedging instruments (such as interest rate swaps) and hedged items (such as loans or deposits) 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.

Accounting Pronouncements not yet implemented

'Accounting Standard for Leases' (ASBJ Statement No.34, issued on September 13

, 2024), 'Implementation Guidance on Accounting Standard for Leases' (ASBJ Guidance No.33, issued on September 13, 2024), etc.

1. Summaries

Accounting standards that provide for the recognition of assets and liabilities for all leases held by lessees, taking into account international accounting standards.

2. Effective date

The Group plans to apply this standard and Implementation Guidance from the beginning of the fiscal year starting on April 1,2027.

3. Impact when applied

Its impact is being assessed.

Significant accounting estimates

Among items recorded in the consolidated financial statements for the year ended March 31, 2025 with accounting estimates, item significantly affect the consolidated financial statements for the year ending March 31, 2026 are described below:

1. Allowance for loan losses

(1) Amounts recorded in the consolidated financial statements for the year ended March 31, 2025

Allowance for loan losses: 71,025 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 particularly U.S office market will stabilize during the FY2025, 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 the post-COVID-19 period, in order to prepare for the disposal of these properties, for cases where there is a possibility of debt recovery in the future, the Bank evaluates the property considering the risk of price decline during the FY2025 and determines individual borrower category considering the possibility of the debt recovery through the disposal of properties. The allowance for loan losses is made based on the estimated disposal price assuming the price decline risk.

3) Effect over the consolidated financial statements for the year ending March 31, 2026

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, 2026.

2. Recoverability of deferred tax assets

(1) Amounts recorded in the consolidated financial statements for the year ended March 31, 2025

Deferred tax assets: 51,583 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 each unit under the new Mid-term Business Plan and the outlook for the interest rate policy by the Bank of Japan.

3) Effect over the consolidated financial statements for the year ending March 31, 2026

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, 2026.

Notes

(Consolidated balance sheet)

1. Securities include stocks in unconsolidated subsidiaries and affiliated companies, which amount to 68,731 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	-	million yen
Doubtful credit	76,241	
Special attention credit	15,472	
Loans overdue for three months or more	6,088	
Restructured loans	9,383	
Subtotal	91,713	
Normal credit	4,176,195	
Total credit	4,267,908	

'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 3,353 million yen.

5. The following assets were pledged as collateral:

Assets pledged as collateral		
Securities	383,811	million yen
Loans and bills discounted	673,214	
Collateralized debts		
Securities sold under repurchase agreements	27,924	million yen
Cash collateral received for securities lent	345,719	
Borrowed money	247,700	

In addition, securities of 122,771 million yen, loans and bills discounted of 377 million yen and foreign exchanges of 14,953 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 115,837 million yen and guarantee deposits, etc. of 43,923 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 549,101 million yen, including 446,025 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 27,909 million yen.

(Consolidated statement of income)

1. 'Other' in 'Other income' includes gain on sale of stocks and other securities of 3,833 million yen and equity in earnings of associates of 2,265 million yen. 'Other' in 'Other expenses' includes write-off of loans of 6,215 million yen, loss on sale of stocks and other securities of 289 million yen, loss on devaluation of stocks and other securities of 288 million yen and loss on disposition of loans of 357 million yen.
2. 'Reversal of foreign currency translation adjustment' included in 'Extraordinary income' is recorded due to the exclusion of a foreign subsidiary from consolidation, after it has been transformed to be dissolved in line with the transfer of business and distribution of residual assets.
3. 'Other' included in 'Extraordinary losses' represents the estimated losses associated with system malfunctions at GMO Aozora Net Bank, Ltd.

(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	21,500	—	139,789	(Note1)
	Total	118,289	21,500	—	139,789	
Treasury shares						
	Common stock	1,467	0	58	1,408	(Note2)
	Total	1,467	0	58	1,408	

(Notes)1. The increase is due to the issuance of new shares through a third-party allotment.
2. 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, 2025 is 501 million yen.

3. Information on dividends

(1) Cash dividends paid during the fiscal year ended March 31, 2025

Resolution	Type of shares	Dividend (Millions of yen)	Source of dividends	Dividend per share (Yen)	Record date	Effective date
Board of Directors' meeting on 2024/8/2	Common stock	2,219	Retained earnings	19	2024/6/30	2024/9/17
Board of Directors' meeting on 2024/11/15	Common stock	2,629	Retained earnings	19	2024/9/30	2024/12/16
Board of Directors' meeting on 2025/2/3	Common stock	2,629	Retained earnings	19	2024/12/31	2025/3/17

(2) Cash dividends with record dates that belong to the fiscal year ended March 31, 2025 and effective dates that come after the end of the fiscal year

Resolution	Type of shares	Dividend (Millions of yen)	Source of dividends	Dividend per share (Yen)	Record date	Effective date
Board of Directors' meeting on 2025/5/14	Common stock	3,044	Retained earnings	22	2025/3/31	2025/6/25

(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 Group holds financial assets, such as loans and securities, and raises funds from sources such as deposits and bonds payable. Since the major operation of the Group is the handling of financial instruments involving credit risk and/or market risk, it seeks to avoid the occurrence of unexpected losses by properly managing various risks relating to financial instruments.

Also, the Group intends to stabilize and optimize profitability by maintaining an appropriate level of interest rate risk associated with assets and liabilities of the Group, 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 Group accounted for about 20% of the total outstanding balance of loans as of March 31, 2025. 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, there is a possibility that an additional allowance for loan losses or credit costs may arise. Also, in addition to credit risk and interest rate risk, overseas loan exposures are subject to various risks, including foreign exchange fluctuation risk, and risks relating to the changes in the market 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 Group 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 Group 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 Group 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 Group 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 Group 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 credit risk, market 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 Group is composed of 'Obligor Rating', 'Facility Rating' and 'Expected Loss Grade'. 'Obligor Rating' is given, in principle, to all customers for whom the Group is undertaking credit risk, and this rating represents the degree of creditworthiness of the borrower. 'Facility Rating' represents the degree of credit cost of a credit transaction in consideration of Obligor Rating and transaction conditions such as a tenor of credit facility, guarantee and collateral. Also, 'Expected Loss Grade' represents the degree of credit cost of a credit transaction which relies on cash flow arising from specified underlying assets such as real estate nonrecourse loans, securitization of monetary claims and structured bonds in senior/junior tranches. As for the credit rating processes, rating recommendations are given by the respective business divisions/branches at inception, and the recommendation is then approved by the Credit Divisions. Credit ratings are subject to review on a regular basis based on the updated financial results of each respective borrower, and on an as-needed basis whenever there is a symptom of a material change in the creditworthiness of any borrower. As for the credit rating given by business divisions/branches and the Credit Divisions, the Asset Assessment Division, which is an independent division for verification of ratings, reviews the appropriateness of credit ratings on a sample basis. Also, the Group examines its credit rating system itself through benchmarking (comparative verification of our ratings with those assigned by external agencies) 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.

The Group also controls credit concentration risk by setting a guideline value for credit exposure for each country, region, industry or rating assigned to a customer.

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, 60 and 250 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 1,007 million yen as of March 31, 2025. 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, 2024 to March 31, 2025, resulted in one business day 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 7,690 million yen as of March 31, 2025. Market risks in the financial instruments held for other than trading purposes by certain consolidated subsidiaries are immaterial. However, as financial instruments held for trading purposes, 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 reports 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 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 on hand 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 the Chief Financial Officer ('CFO'), the CRO, and related Executive Officer(s) 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 them 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	—	—	11,383	11,383
Securities				
Available-for-sale	514,566	543,403	28,563	1,086,533
Japanese stocks	25,694	1,317	—	27,012
Japanese national government bonds	128,590	—	—	128,590
Japanese local government bonds	—	33,700	—	33,700
Japanese corporate bonds	—	94,549	8,598	103,147
Foreign bonds	294,223	256,798	19,965	570,987
Other (*1)	66,058	157,036	0	223,095
Assets total	514,566	543,403	39,946	1,097,916
Derivatives (*2)(*3)				
Interest rate contracts	(2)	35,807	1	35,807
Foreign exchange contracts	—	25,076	—	25,076
Equity contracts	1,050	—	—	1,050
Bond contracts	29	(239)	—	(209)
Commodity derivatives	—	563	—	563
Credit derivatives	—	997	—	997
Derivatives total	1,077	62,206	1	63,286

*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 4,608 million yen and 39,537 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, 2024	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, 2025	Net unrealized gains (losses) on investment trusts held at consolidated balance sheet date included in earnings of the period
41,503	1,411	(828)	(2,549)	—	—	39,537	(61)

(Note) Included in 'Other ordinary income' in the consolidated statement of income.
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, 28,928 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)	―	―	52,873	52,873	47,135	5,738
Money held in trust	―	3,751	10,303	14,055	12,728	1,326
Loans and bills discounted (*2)	―	643,054	3,561,682	4,204,736	4,136,263	68,472
Assets total	―	646,806	3,624,858	4,271,665	4,196,127	75,537
Deposits (excluding negotiable certificates of deposit)	―	2,970,085	2,621,908	5,591,993	5,598,301	(6,307)
Borrowed money	―	―	726,324	726,324	726,300	24
Bonds payable	―	125,040	―	125,040	124,640	399
Liabilities total	―	3,095,125	3,348,232	6,443,358	6,449,242	(5,883)

*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 70,300 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 (3) 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 (4) Loans and bills discounted, below and is classified as Level 3.

(2) 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 (3) 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 (4) 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).'

(3) 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).'

(4) 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.

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.

(5) 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.

(6) 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 (5) 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.

(7) 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.

(8) 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%－0.0%	0.0%
		Recovery rate	55.0%	55.0%
Securities	Discounted cash flow method	Probability of default	0.0%－4.5%	0.4%
		Recovery rate	55.0%－60.0%	56.5%
Derivatives				
Interest rate contracts	Option pricing model	Correlation between interest rates	0.8%	－
		Correlation between interest rate and foreign exchange rate	(10.0%)－2.0%	－

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

(Millions of yen)

	April 1, 2024	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, 2025	Net unrealized gains (losses) on assets and liabilities held at consolidated balance sheet date included in earnings of the period (*1)
Monetary claims bought	20,060	–	(46)	(8,630)	–	–	11,383	–
Securities								
Available-for-sale								
Japanese corporate bonds	13,817	–	(91)	(5,127)	–	–	8,598	–
Foreign bonds	21,084	–	(119)	(1,000)	–	–	19,965	–
Other	0	–	–	–	–	–	0	–
Derivatives (*2)								
Interest rate contracts	3	(1)	–	–	–	–	1	(1)

*1. Included in consolidated statement of income.

*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.

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)	11,368
Investments in partnerships (*2)	177,902

(*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 153 million yen during the fiscal year ended March 31, 2025.

(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, 2025)

None

2. Held-to-maturity bonds (As of March 31, 2025)

None

3. Available-for-sale securities (As of March 31, 2025)

	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	22,973	9,928	13,044
	Bonds	73,334	73,128	205
	Government bonds	53,929	53,925	4
	Local government bonds	138	138	0
	Corporate bonds	19,266	19,065	200
	Others	169,227	159,603	9,624
	Foreign bonds	89,267	87,103	2,164
	Others	79,960	72,500	7,459
	Subtotal	265,535	242,661	22,874
Securities for which the amount on consolidated balance sheet does not exceed the acquisition cost	Stocks	4,038	4,507	(468)
	Bonds	192,104	198,959	(6,855)
	Government bonds	74,660	79,465	(4,804)
	Local government bonds	33,562	34,287	(724)
	Corporate bonds	83,881	85,206	(1,325)
	Others	683,384	753,534	(70,149)
	Foreign bonds	481,719	533,566	(51,846)
	Others	201,664	219,967	(18,303)
	Subtotal	879,527	957,000	(77,473)
Total		1,145,063	1,199,661	(54,598)

4. Held-to-maturity bonds sold during the fiscal year (from April 1, 2024 to March 31, 2025)

None

5. Available-for-sale securities sold during the fiscal year (from April 1, 2024 to March 31, 2025)

	Proceeds (Millions of yen)	Gains on sale (Millions of yen)	Losses on sale (Millions of yen)
Stocks	6,824	3,833	286
Bonds	220,161	43	81
Government bonds	217,213	43	56
Local government bonds	49	-	0
Corporate bonds	2,897	-	24
Others	71,634	3,715	1,151
Foreign bonds	10,839	269	600
Others	60,794	3,445	551
Total	298,619	7,592	1,519

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 a total of 277 million yen, which was comprised of 135 million yen for stocks and 142 million yen for corporate bonds.

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, 2025)

	Amount on consolidated balance sheet (Millions of yen)	Net unrealized gains and losses recorded in the consolidated statement of income during the current fiscal year (Millions of yen)
Money held in trust for trading purpose	12,728	-

2. Money held in trust for held-to-maturity purpose (As of March 31, 2025)

None

3. Other money held in trust (other than held-for-trading and held-to-maturity) (As of March 31, 2025)

None

(Deferred taxes)

1. Adjustments to Deferred Tax Assets and Deferred Tax Liabilities due to Change in Corporate Tax Rate

As the ‘Partial Revision of Income Tax Act, etc.’ (Act no.13, 2025) passed the Diet on March 31, 2025, the ‘Special Corporation Tax for Defense’ will be imposed from the fiscal years beginning on or after April 1, 2026.

As a result, the effective tax rate used in the calculation of deferred tax assets and deferred tax liabilities for temporary differences, etc. that are expected to be realized in the fiscal years beginning on or after April 1, 2026 was increased from the previous 30.62% to 31.52%.

Due to this revision of the tax rate, deferred tax assets increased by 1,318 million yen, deferred tax liabilities increased by 131 million yen, valuation difference on available-for-sale securities increased by 447 million yen, deferred gains or losses on hedges decreased by 32 million yen, remeasurements of defined benefit plans decreased by 30 million yen, and income taxes-deferred decreased by 802 million yen.

(Revenue recognition)

1. Detailed information on revenues from contracts with customers (from April 1, 2024 to March 31, 2025)

(Millions of yen)

Category	Fiscal year ended March 31, 2025
Ordinary income	231,460
Fees and commissions (including trust fees)	31,511
Loan business and deposit related	9,795
Securities and agency related	8,152
Others	13,563

(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 and revenues from others are mainly recorded in GMO Aozora Net Bank. 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 3,258.51 yen.
2. Net income attributable to owners of parent per common share is 154.26 yen.
3. Diluted

Non-consolidated statement of changes in equity

(For the fiscal year ended March 31, 2025 (92nd fiscal year))

(Millions of yen)

	Shareholders' equity								
	Share Capital	Capital surplus			Retained earnings			Treasury shares	Total shareholders' equity
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings: Retained earnings brought forward	Total retained earnings		
Balance at beginning of period	100,000	87,313	185	87,498	12,686	187,724	200,411	(3,015)	384,894
Changes during period									
Issuance of new shares	25,966	25,966		25,966					51,933
Dividends of surplus						(7,478)	(7,478)		(7,478)
Net income						15,698	15,698		15,698
Purchase of treasury shares								(0)	(0)
Disposal of treasury shares			18	18				121	139
Net changes in items other than shareholders' equity									
Total changes during period	25,966	25,966	18	25,984	-	8,219	8,219	120	60,292
Balance at end of period	125,966	113,280	203	113,483	12,686	195,944	208,631	(2,894)	445,186

(Millions of yen)

	Valuation and translation adjustments			Share acquisition rights	Total equity
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments		
Balance at beginning of period	(45,754)	4,332	(41,422)	532	344,004
Changes during period					
Issuance of new shares					51,933
Dividends of surplus					(7,478)
Net income					15,698
Purchase of treasury shares					(0)
Disposal of treasury shares					139
Net changes in items other than shareholders' equity	6,275	(3,814)	2,461	(31)	2,430
Total changes during period	6,275	(3,814)	2,461	(31)	62,722
Balance at end of period	(39,478)	517	(38,961)	501	406,726

【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 income.

‘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. Share issuance costs in 'Other' is amortized using the straight-line method over three years.

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 18,629 million yen at March 31, 2025.

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.

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

All loans are monitored in 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 particularly U.S. office market will stabilize during the FY2025, considering the market trends.

In line with this, 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.

(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 ('fair value hedges') and portfolio hedges to fix cash flows ('cash flows hedges') are applied by grouping hedging instruments (such as interest rate swaps) and hedged items (such as loans or deposits) 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, 2025 with accounting estimates, items significantly affect the non-consolidated financial statements for the year ending March 31, 2026 are described below:

1. Allowance for loan losses

(1) Amounts recorded in the non-consolidated financial statements for the year ended March 31, 2025

Allowance for loan losses: 69,850 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, 2025

Deferred tax assets: 52,039 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 73,839 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	-	million yen
Doubtful credit	75,558	
Special attention credit	15,413	
Loans overdue for three months or more	6,088	
Restructured loans	9,325	
Subtotal	90,972	
Normal credit	3,834,605	
Total credit	3,925,578	

'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 3,353 million yen.

5. The following assets were pledged as collateral:

Assets pledged as collateral		
Securities	383,811	million yen
Loans and bills discounted	327,346	
Collateralized debts		
Securities sold under repurchase agreements	27,924	million yen
Cash collateral received for securities lent	345,719	
Borrowed money	247,700	

In addition, securities of 52,219 million yen and foreign exchanges of 14,953 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 22,822 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 574,073 million yen, including 471,102 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 need arises and securing claims after the contracts are made.

7. Accumulated depreciation of tangible fixed assets totals 26,418 million yen.

8. Monetary claims against subsidiaries and affiliated companies total 1,046,396 million yen.

9. Monetary liabilities against subsidiaries and affiliated companies total 29,406 million yen.

(Statement of income)

1. Revenues from transactions with subsidiaries and affiliated companies 66,537 million yen
   - Interest income earned 59,122
   - Fees and commissions earned 2,887
   - Other ordinary income and other income earned 4,527

   Expenses from transactions with subsidiaries and affiliated companies 2,019 million yen
   - Interest expenses incurred 637
   - Fees and commissions incurred 242
   - Other ordinary expenses and other expenses incurred 1,139

   Other transactions with subsidiaries and affiliated companies (such as asset transfer) 2,466 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 (Note 2)	Lending (Figures in parentheses represent loan collection)	532	Loans and bills discounted (Loans on deeds)	80,107
				Received interest	4,731	Accrued income	819
Subsidiary	AZB Funding 11 Limited (Note 1)	—	Lending (Note 2)	Lending (Figures in parentheses represent loan collection)	(19,880)	Loans and bills discounted (Loans on deeds)	268,361
				Received interest	17,404	Accrued income	2,404
Subsidiary	AZB Funding 12 Limited (Note 1)	—	Lending (Note 2)	Lending (Figures in parentheses represent loan collection)	34,017	Loans and bills discounted (Loans on deeds)	513,013
				Received interest	32,341	Accrued income	6,403

(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

(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	1,467	0	58	1,408	(Note)
	Total	1,467	0	58	1,408	

(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, 2025)

None

2. Held-to-maturity bonds (As of March 31, 2025)

None

3. Stocks in subsidiaries and affiliated companies (As of March 31, 2025)

	Amount on balance sheet (Millions of yen)	Market price (Millions of yen)	Difference (Millions of yen)
Stocks in affiliated companies	17,178	23,919	6,740

(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	23,702
Stocks in affiliated companies	129

4. Available-for-sale securities (As of March 31, 2025)

	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	22,973	9,928	13,044
	Bonds	29,397	29,195	202
	Government bonds	9,993	9,991	1
	Local government bonds	138	138	0
	Corporate bonds	19,266	19,065	200
	Others	169,227	159,603	9,624
	Foreign bonds	89,267	87,103	2,164
	Others	79,960	72,500	7,459
	Subtotal	221,599	198,727	22,871
Securities for which the amount on balance sheet does not exceed the acquisition cost	Stocks	4,038	4,507	(468)
	Bonds	165,488	172,210	(6,721)
	Government bonds	64,677	69,474	(4,797)
	Local government bonds	16,929	17,529	(599)
	Corporate bonds	83,881	85,206	(1,325)
	Others	683,384	753,534	(70,149)
	Foreign bonds	481,719	533,566	(51,846)
	Others	201,664	219,967	(18,303)
	Subtotal	852,911	930,251	(77,340)
Total		1,074,510	1,128,979	(54,468)

(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)	10,969
Investment in partnerships(*2)	181,604

(*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, 2024 to March 31, 2025)

None

6. Available-for-sale securities sold during the fiscal year (from April 1, 2024 to March 31, 2025)

	Proceeds (Millions of yen)	Gains on sale (Millions of yen)	Losses on sale (Millions of yen)
Stocks	6,824	3,833	286
Bonds	217,263	43	57
Government bonds	217,213	43	56
Local government bonds	49	-	0
Corporate bonds	-	-	-
Others	71,634	3,715	1,151
Foreign bonds	10,839	269	600
Others	60,794	3,445	551
Total	295,721	7,592	1,495

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 a total of 277 million yen, which was comprised of 135 million yen for stocks and 142 million yen for corporate bonds.

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, 2025)

	Amount on non-consolidated balance sheet (Millions of yen)	Net unrealized gains and losses recorded in non-consolidated statement of income during the current fiscal year (Millions of yen)
Money held in trust for trading purpose	5,216	-

2. Money held in trust for held-to-maturity purpose (As of March 31, 2025)

None

3. Other money held in trust (other than held-for-trading and held-to-maturity) (As of March 31, 2025)

None

(Deferred taxes)

1. Tax effects of significant temporary differences which resulted in deferred tax assets and liabilities as of March 31, 2025 were as follows:

Deferred tax assets		
Provision of allowance for loan losses	22,102	million yen
Provision for retirement benefits	3,201	
Depreciation expense	1,888	
Write-offs for securities	4,419	
Valuation difference on available-for-sale securities	18,128	
Write-offs of loans	77	
Tax loss carryforwards(Note 2)	17,713	
Other	15,273	
Subtotal	82,805	
Less valuation allowance for tax loss carryforwards(Note 2)	(1,886)	
Less valuation allowance for temporary differences	(25,261)	
Less valuation allowance(Note 1)	(27,148)	
Deferred tax assets total	55,657	
Deferred tax liabilities		
Valuation difference on available-for-sale securities	798	
Deferred gains or losses on hedges	274	
Asset retirement obligation expense	373	
Prepaid pension costs	2,096	
Other	73	
Deferred tax liabilities total	3,617	
Net deferred tax assets	52,039	million yen

(Note 1) The decrease in the valuation allowance from the previous fiscal year is primarily due to an increase in taxable income and a decrease in valuation difference on available-for-sale securities.

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

FY2024 (As of March 31, 2025)

(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)	—	—	—	—	—	17,713	17,713
Less valuation allowance for tax loss carryforwards	—	—	—	—	—	(1,886)	(1,886)
Net deferred tax assets relating to tax loss carryforwards	—	—	—	—	—	15,826	(*2) 15,826

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

(*2) Of the tax loss carryforward of ¥17,713 million (multiplied by the effective statutory tax rate), the Bank recorded deferred tax assets of ¥15,826 million as of March 31, 2025. 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).

2. Adjustments to Deferred Tax Assets and Deferred Tax Liabilities due to Change in Corporate Tax Rate

As the 'Partial Revision of Income Tax Act, etc.' (Act no.13, 2025) passed the Diet on March 31, 2025, the 'Special Corporation Tax for Defense' will be imposed from the fiscal years beginning on or after April 1, 2026. As a result, the effective tax rate used in the calculation of deferred tax assets and deferred tax liabilities for temporary differences, etc. that are expected to be realized in the fiscal years beginning on or after April 1, 2026 was increased from the previous 30.62% to 31.52%. Due to this revision of the tax rate, deferred tax assets increased by 1,323 million yen, deferred tax liabilities increased by 106 million yen, valuation difference on available-for-sale securities increased by 447 million yen, deferred gains or losses on hedges decreased by 32 million yen, and income taxes-deferred decreased by 802 million yen.

(Per share information)

1. Net assets per common share is 2,935.55 yen.
2. Net income per common share is 118.02 yen.
3. Diluted net income per common share: 117.83yen.