



[Translation]

May 13, 2024

To whom it may concern

Company name: Aozora Bank, Ltd.
Name of representative: Hideto Oomi, President and CEO
Listed exchange: TSE Prime Market, Code 8304
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**Notice Regarding Issuance of New Shares Through Third Party Allotment
Under the Capital and Business Alliance with Daiwa Securities Group Inc., and
Changes in the Major Shareholders, Largest Shareholder,
Which Is a Major Shareholder, and Other Associated Companies**

TOKYO May 13, 2024 — Aozora Bank, Ltd. (“Aozora” or the “Bank”) hereby announces that at the Board of Directors’ meeting held today, as stated in “Notice Regarding the Capital and Business Alliance of Daiwa Securities Group Inc. and Aozora Bank, Ltd.” dated today, the Bank has resolved to enter into a Capital and Business Alliance Agreement (the “Capital and Business Alliance Agreement”) with Daiwa Securities Group Inc. (“Daiwa Securities Group” or the “Allottee”) on a capital and business alliance (the “Capital and Business Alliance”), and to issue new shares (the “New Shares”) through third-party allotment to Daiwa Securities Group as the Allottee pursuant to the Capital and Business Alliance Agreement (the “Capital Increase Through Third Party Allotment,” together with the Capital and Business Alliance Agreement, the “Transaction”) (the “Resolution of Board of Directors”), the details of which are as described below.

In addition, in order to facilitate the Capital and Business Alliance, the Bank intends to appoint one person nominated by Daiwa Securities Group as a candidate for outside director of the Bank at the Ordinary General Meeting of Shareholders (to be held on June 25, 2024) (subject to completion of Daiwa Securities Group’s payment of the total paid-in amount for the Capital Increase Through Third Party Allotment to a payment handling financial institution). The Bank hereby further announces that, as a result of the above, the Bank will become an equity method affiliate of Daiwa Securities Group, and there will be changes in the Bank’s major shareholders, the largest shareholder, which is a major shareholder, and other associated companies.

The Capital Increase Through Third Party Allotment is subject to satisfaction of all the conditions precedent set forth in the Capital and Business Alliance Agreement, such as the effectuation of a Securities Registration Statement in accordance with the Financial Instruments and Exchange Act for the issuance of the Bank’s common shares and the permissions and approvals, etc. from the relevant authorities necessary for the Capital Increase Through Third Party Allotment (including the approval of Daiwa Securities Group Inc. as the bank’s major shareholder pursuant to Article 52-9, Paragraph 1 of the Banking Act) in accordance with the laws and regulations (the “Conditions Precedent”). Such permissions and approvals, etc. from the relevant authorities necessary for the Capital Increase Through Third Party Allotment will be disclosed promptly after they have been obtained.

I. Issuance of new shares through third-party allotment

1. Overview of offering

<Offering pertaining to issuance of shares>

(1)	Payment date	From May 29, 2024 to July 31, 2024 (scheduled)
(2)	Number of shares to be newly issued	21,500,000 common shares
(3)	Issue price	JPY 2,415.5 per share
(4)	Amount of fund to be raised	JPY 51,933,250,000
(5)	Method of offering or allotment (Allottee)	Through third-party allotment to Daiwa Securities Group
(6)	Others	The Capital Increase Through Third Party Allotment is subject to satisfaction of the Conditions Precedent.

(Note) The Capital Increase Through Third Party Allotment is subject to the satisfaction of all the Conditions Precedent. However, since it is not possible to determine the timing of the permissions and approvals, etc. from the relevant authorities, a payment period has been set and provided above as the payment date. At this point, the payment date for the Capital Increase Through Third Party Allotment is expected to be July 1, 2024.

2. Purpose and reason for offering

As stated in “Notice Regarding the Capital and Business Alliance of Daiwa Securities Group Inc. and Aozora Bank, Ltd.” dated today, the Capital Increase Through Third Party Allotment is implemented as part of the Capital and Business Alliance. Please also see “1. Purpose and reason for the Capital and Business Alliance” of the release.

In the Capital and Business Alliance, the Bank will work together with Daiwa Securities Group to achieve sustainable growth in their corporate value through creating new added value by combining the Bank Group’s “Aozora’s Strategic Investments Business” and Daiwa Securities Group’s “Wealth Management Business Model.”

The Aozora Group prioritizes resource allocation on “Aozora’s Strategic Investments Business” which focuses on long-term engagement with clients through investment and financing activities ranging from debt to equity with a view to growing together with clients, and aims to support clients in their three phases, “fostering”, “change” and “recovery”, through sincere dialogue and proposals and also “contribute to the development of society through the creation of new value-added financial services”.

In addition, along with the structural reform of the retail business, the Aozora Group is committed to providing excellent services in order to expand its stable funding base.

The Bank has been previously considering alliances with several external partners. In May 2023, the Bank established a dedicated team in order to expedite the process of consideration and for the purpose of developing new business, including verification, analysis, and proposal of a business portfolio, inorganic investments, and alliances with other companies, and after considering various possibilities for capital alliances with several external partners, the Bank decided to execute the Capital and Business Alliance Agreement with Daiwa Securities Group Inc.

By the collaboration between the Bank Group and Daiwa Securities Group, both of which have different strengths and management resources, both companies will aim to dramatically improve their consulting and solution capabilities for issues faced by their individual and corporate clients, and to increase the added value provided to their clients.

The Capital and Business Alliance will enable the Bank Group to facilitate further restructuring of its retail business and to accelerate the growth of “Aozora’s Strategic Investments Business”

through capital reinforcement. While both companies have already decided the specific areas of the collaboration shall be (i) wealth management, (ii) real estate-related business, (iii) M&A, and (iv) growth company support, both companies will continue to discuss expanding the collaboration in a wide range of areas, which the Bank expects will contribute to further accelerating the enhancement of the Bank's corporate value.

The Bank took drastic measures to address the issues with its balance sheet for the fiscal year ended March 31, 2024, including (i) real estate non-recourse loans for U.S. offices and (ii) restructuring of the securities portfolio, and the Bank greatly reduced future risks. With respect to the capital adequacy ratio as of March 31, 2024, the Bank ensured sufficient levels, i.e., the domestic standard of 9.23% and the CET1 ratio of 7.1%. However, the Bank considers it important to ensure a higher capital level from the perspective of ensuring capital for the growth of "Aozora's Strategic Investments Business" in the future and further enhancing its financial soundness. The Capital and Business Alliance will be effective in further strengthening its capital adequacy.

3. Amount, use, and scheduled time of expenditure of funds to be raised

(1) Amount of funds to be raised

(1)	Total paid-in amount	JPY 51,933,250,000
(2)	Estimated amount of issuance expenses	JPY 540,000,000
(3)	Estimated amount of net proceeds	JPY 51,393,250,000

(Notes) 1. Consumption tax and other related taxes are not included in the estimated amount of issuance expenses.

2. The estimated amount of issuance expenses are the total amount of the registration fees, advisory fees to Mitsubishi UFJ Morgan Stanley Securities Co., Ltd., attorney fees, and expenses for preparing the securities registration statement.

(2) Specific use of funds to be raised

The estimated amount of net proceeds to be raised through the Capital Increase Through Third Party Allotment (approximately JPY 51,393 million) will be fully applied to the redemption of corporate bonds. The scheduled time of expenditure is as below:

Specific use	Amount (JPY million)	Scheduled time of expenditure
Redemption of corporate bonds	51,393	September 2024

(Note) The funds to be raised will be managed in the form of cash or cash equivalents until actual expenditure.

The details of the corporate bonds to be redeemed are as below.

	Time of issuance	Amount of issuance
(1)	September 2021	USD 300 million
(2)	September 2021	JPY 10,000 million

4. Rationality of use of funds

As described in "3. Amount, use, and scheduled time of expenditure of funds to be raised," "(2) Specific use of funds to be raised" above, the funds to be raised through the Capital Increase Through Third Party Allotment will be applied to redemption of the corporate bonds. The Bank believes that reinforcement of capital through the Capital Increase Through Third Party Allotment will allow the Bank to accumulate risk assets in each area of "Aozora's Strategic Investments Business," on which the Bank Group is currently focusing, including domestic corporate, buyout finance, debt for REIT, real estate-related equity, and venture debt, and thereby the Bank will be

able to contribute to the growth of the Japanese economy and to speedily enhance its corporate value and the interests of its existing shareholders.

5. Rationality of terms and conditions for issuance

(1) Basis for calculation of the paid-in amount and the specific details thereof

The Bank determined the paid-in amount to be JPY 2,415.5, which is the closing price of the Bank's common shares on Tokyo Stock Exchange, Inc. (the "TSE") on the business day (May 10, 2024) immediately preceding the date of the Resolution of the Board of Directors (the "Resolution Date of Board of Directors"). The Bank used the closing price on the business day immediately preceding the Resolution Date of Board of Directors. This is because generally, the market price at the point in time closest to the time of calculation reflects the Bank's earnings trend and financial conditions as of the time of calculation most appropriately, and taking into account the explanation received from Mitsubishi UFJ Morgan Stanley Securities Co., Ltd., which is the Bank's financial advisor, there were no particular circumstances in which it is suspected that the closing price of the Bank's shares on the business day immediately preceding the Resolution Date of Board of Directors does not reflect the Bank's objective corporate value.

The paid-in amount above will be a discount of 1.89% (rounded to two decimal places, the same applies below) against the average closing price of JPY 2,462 (rounded to the nearest whole number, the same applies below) for the one month (from April 11, 2024 to May 10, 2024) prior to the business day immediately preceding the Resolution Date of Board of Directors, a discount of 1.37% against the average closing price of JPY 2,449 for the three months (from February 13, 2024 to May 10, 2024) prior to the same date, and a discount of 11.55% against the average closing price of JPY 2,731 for the six months prior to the same date (from November 13, 2023 to May 10, 2024).

The paid-in amount above is compliant with "Rules Concerning Handling of Allotment of New Shares to Third Party, Etc." provided by the Japan Securities Dealers Association, and the Bank has determined that such amount is not particularly favorable to the Allottee.

The Bank has obtained the opinion of all of its Audit & Supervisory Board Members (two of all three of whom are outside auditors) that the determination of the Bank's Board of Directors that the paid-in amount for the Capital Increase Through Third Party Allotment is not "particularly favorable" pursuant to Article 199, Paragraph 3 of the Companies Act, is reasonable.

(2) Grounds for determining the volume of issuance and the scale of share dilution are reasonable

The number of the Bank's common shares to be issued by the Capital Increase Through Third Party Allotment is 21,500,000 shares (215,000 voting rights), which is equivalent to 18.18% (voting ratio: 18.45%; rounded to two decimal places) of the total number of 118,289,418 issued shares (1,165,303 voting rights) as of March 31, 2024 and will result in certain dilution.

However, as the Capital Increase Through Third Party Allotment will be implemented as part of the Capital and Business Alliance, and the strengthening of the alliance with Daiwa Securities Group through the Capital Increase Through Third Party Allotment will contribute to the enhancement of the Bank's corporate value and the interests of its existing shareholders over the medium- to long-term, the Bank believes that the volume of issuance and the scale of share dilution through the Capital Increase Through Third Party Allotment are reasonable.

6. Reasons for selecting allottee and other related matters

(1) Overview of the Allottee

(1)	Trade name	Daiwa Securities Group Inc.
(2)	Address	1-9-1, Marunouchi, Chiyoda-ku, Tokyo
(3)	Name and title of representative	Akihiko Ogino, President and CEO
(4)	Business	Control and management of group company business promotion activities
(5)	Capital	¥247.3 billion
(6)	Date established	April 26, 1999
(7)	Number of issued shares	1,569,378,772 shares
(8)	Fiscal year	March 31
(9)	Number of employees	14,889 (consolidated) (As of March 31, 2024)
(10)	Major customers	-
(11)	Major banks	Sumitomo Mitsui Banking Corporation, Sumitomo Mitsui Trust Bank, Limited, Mizuho Bank, Ltd., MUFG Bank, Ltd.
(12)	Major shareholders and shareholding ratio (As of March 31, 2024)	The Master Trust Bank of Japan, Ltd. (Trust Account) 16.45%
		Custody Bank of Japan, Ltd. (Trust Account) 5.16%
		Taiyo Life Insurance Company 2.93%
		Barclays Securities Japan Limited 2.42%
		Nippon Life Insurance Company 2.22%
		JAPAN POST HOLDINGS Co., Ltd. 2.14%
		STATE STREET BANK WEST CLIENT - TREATY 505234 (Standing proxy: Mizuho Bank, Ltd.) 2.12%
		JP MORGAN CHASE BANK 385781 (Standing proxy: Mizuho Bank, Ltd.) 1.37%
		Daiwa's Employee Stock Ownership Association 1.36%
		The Nomura Trust and Banking Co., Ltd. (Investment Trust Account) 1.23%
(13)	Relationship between the Bank and the Allottee	
	Capital relationship	No applicable relationships, except for the shares temporarily held by Daiwa Securities Group's subsidiary for purposes related to securities business.
	Personnel relationship	N/A. Daiwa Securities Group will nominate one candidate to be presented as a candidate for outside director of the Bank at the Bank's General Meeting of Shareholders (scheduled to be held on June 25, 2024).
	Transaction relationship	The Bank sells financial instruments provided by Daiwa Securities Group, and Daiwa Securities Co. Ltd. ("Daiwa Securities") sells financial instruments provided by the Bank Group; however, there is no noteworthy business relationship. The Bank and Daiwa Securities Group also engage in banking transactions.
	Applicable status of related parties	N/A

(14) Consolidated business achievements and financial status for the last 3 years			
Fiscal terms	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2024
Net assets	1,639,888	1,675,489	1,788,658
Total assets	27,531,089	26,413,248	32,027,299
Net assets per share (JPY)	925.81	968.93	1,086.20
Operating revenue	619,471	866,090	1,277,482
Operating income	115,534	66,273	153,705
Ordinary income	135,821	86,930	174,587
Net income attributable to owners of the parent	94,891	63,875	121,557
Net income per share (JPY)	63.06	43.53	84.94
Dividend per share (JPY)	33.00	23.00	44.00

(The unit is JPY 1 million; however, except as otherwise noted.)

- (Note) 1. The shareholding ratio is the ratio of the number of shares held to the total number of shares issued excluding treasury stock.
2. Since the Allottee, Daiwa Securities Group, is listed on the TSE Prime Market and the Premier Market of Nagoya Stock Exchange, Inc., the Bank has confirmed on the website of the TSE the basic approach to eliminating anti-social forces and the status of its development as described in “Corporate Governance Report” (last updated on January 9, 2024) submitted by Daiwa Securities Group to the TSE. Based on the results of this confirmation, the Bank has determined that the Allottee, as well as its officers and major shareholders, have no relationship with anti-social forces. In addition, in the Capital and Business Alliance Agreement executed with the Allottee, the Bank has received representation and warranties that the Allottee is not an anti-social force and has no relationship with an anti-social force.

(2) Reasons for selecting the Allottee

As Daiwa Securities Group has served as the Bank’s lead managing underwriter for many years, and it understands and appreciates the Bank’s value, Daiwa Securities Group and the Bank have previously discussed the possibility of various forms of collaboration. In order to resolve the issues that the Bank is currently facing, not only a business alliance but also a capital alliance to reinforce the Bank’s capital are necessary; as a result of the discussions with Daiwa Securities Group, the Bank has determined that the capital and business alliance with Daiwa Securities Group will be beneficial for the Bank to speedily achieve enhancement of the Bank’s corporate value over the medium- to long-term.

Daiwa Securities is an independent securities company with solid earnings, and the comprehensive alliance in the retail area will allow the Bank to provide high value-added consulting services and a wide range of financial instruments that meet clients’ needs, and will contemplate a reduction in the costs of development and maintenance of systems.

In addition, in expanding “Aozora’s Strategic Investments Business” focused on real estate, M&A, buyout finance, venture debt, etc., the Bank believes that the collaboration with Daiwa Securities Group’s global investment banking business, which has more than 700 M&A bankers worldwide and a strong presence in fund procurement in direct financing, is an effective option.

The Bank selected Daiwa Securities Group as the Allottee as the Bank determined that implementation of the Capital Increase Through Third Party Allotment as part of the Capital and Business Alliance to build a cooperative relationship with Daiwa Securities Group will contribute to the enhancement of the Bank’s corporate value and the interests of its existing shareholders over the medium- to long-term.

(3) Holding policy of the Allottee

The Bank has orally confirmed that Daiwa Securities Group intends to hold the Bank's shares in the medium- to long-term as the Bank's capital and business alliance partner.

The Bank intends to obtain written confirmation from Daiwa Securities Group that if Daiwa Securities Group transfers all or part of the Bank's common shares issued through the Capital Increase Through Third Party Allotment within two years from the payment date, Daiwa Securities Group will report the contents of such transfer to the Bank in writing, the Bank will report the contents of such report to the TSE, and Daiwa Securities Group agrees that the contents of such report will be made available for public inspection.

(4) Details confirmed on the existence of property required for payment by the Allottee

As a result of confirming Daiwa Securities Group's cash and deposits (JPY 4,576,632 million) stated in the consolidated balance sheet in the Financial Summary (Consolidated) for the nine months period ended December 31, 2023 <Under Japanese GAAP> (submitted on February 13, 2024), the Bank has determined that there are no issues with the property required for payment of the total paid-in amount for the shares to be issued through the Capital Increase Through Third Party Allotment.

7. Major shareholders and the shareholding ratio after the offering

Before the offering (as of March 31, 2024)		After the offering	
The Master Trust Bank of Japan, Ltd. (Trust Account)	12.12%	Daiwa Securities Group Inc.	15.54%
Aya Nomura (Standing proxy: Mita Securities Co., Ltd.)	6.77%	The Master Trust Bank of Japan, Ltd. (Trust Account)	10.23%
The Nomura Trust and Banking Co., Ltd. (Trust Account 2052255)	3.00%	Aya Nomura (Standing proxy: Mita Securities Co., Ltd.)	5.72%
CITY INDEX ELEVENTH CO., Ltd.	2.24%	The Nomura Trust and Banking Co., Ltd. (Trust Account 2052255)	2.53%
Custody Bank of Japan, Ltd. (Trust Account)	2.01%	CITY INDEX ELEVENTH CO., Ltd.	1.89%
BNY GCM CLIENT ACCOUNT JPRD AC ISG (FE-AC) (Standing proxy: MUFG Bank, Ltd.)	1.81%	Custody Bank of Japan, Ltd. (Trust Account)	1.70%
JPMorgan Securities Japan Co., Ltd.	0.55%	BNY GCM CLIENT ACCOUNT JPRD AC ISG (FE-AC) (Standing proxy: MUFG Bank, Ltd.)	1.53%
BNYM SA/NV FOR BNYM FOR BNY GCM CLIENT ACCOUNTS M LSCB RD (Standing proxy: MUFG Bank, Ltd.)	0.52%	JPMorgan Securities Japan Co., Ltd.	0.47%
JP JPMSE LUX RE NOMURA INT PLC 1 EQ CO (Standing proxy: MUFG Bank, Ltd.)	0.51%	BNYM SA/NV FOR BNYM FOR BNY GCM CLIENT ACCOUNTS M LSCB RD (Standing proxy: MUFG Bank, Ltd.)	0.44%
BNYMSANV RE GCLB RE JP RD LMGC (Standing proxy: Citibank, N.A., Tokyo Branch)	0.48%	JP JPMSE LUX RE NOMURA INT PLC 1 EQ CO (Standing proxy: MUFG Bank, Ltd.)	0.43%

- (Notes) 1. The shareholding ratio before the offering is calculated based on the number of issued shares (excluding treasury shares) as of March 31, 2024, and the shareholding ratio after the offering is calculated by adding the total number of the New Shares to the total number of issued shares (excluding treasury shares) as of March 31, 2024.
2. While the Bank holds 1,467,109 treasury shares as of March 31, 2024, the Bank is excluded from the major shareholders above.

8. Future expectations

The impact of the Capital and Business Alliance and the Capital Increase Through Third Party Allotment on the business performance for the fiscal year ending March 31, 2025, has not been incorporated into the consolidated business forecast for the year ending March 31, 2025, in the “Summary of the Financial Statements for FY2024 [JGAAP] (Consolidated)” released today. Although the Bank believes that the Capital and Business Alliance and the Capital Increase Through Third Party Allotment will contribute to improving the Bank’s corporate value, the specific impact on the business performance during and after the fiscal year ending March 31, 2025, is

currently under scrutiny and will be disclosed promptly if any event that may have a material impact on the business performance is found as the two companies discuss the details of the business alliance.

9. Disclosure regarding the procedures under the Code of Corporate Conduct

There is no requirement for the receipt of an independent third-party opinion or the procedures for shareholder approval under Article 432 of the Securities Listing Regulations promulgated by the TSE, since the Capital Increase Through Third Party Allotment (i) will result in dilution of less than 25% and (ii) does not cause any change in controlling shareholders. However, from the viewpoint of ensuring the enhancement of the Bank's corporate value and the interests of its general shareholders, the Bank decided to obtain an opinion on the necessity and appropriateness of the Capital Increase Through Third Party Allotment and the fairness of the procedures from a special committee composed of four independent outside directors of the Bank, Mr. Ippei Murakami, Ms. Sakie Tachibana Fukushima, Mr. Hideyuki Takahashi, and Mr. Hideaki Saito, whose independence from the Bank and the outcome of the Transaction is ensured, in accordance with the compliance matters under the Code of Corporate Conduct pertaining to the Capital Increase Through Third Party Allotment.

(Overview of the special committee's opinions)

1. Conclusion

The committee has found that the Capital Increase Through Third Party Allotment is necessary and appropriate. In addition, the committee has found that the fairness of the procedures for the Capital Increase Through Third Party Allotment is ensured.

2. Reasons

(1) Necessity of the Capital Increase Through Third Party Allotment

As stated below, as implementing the Capital Increase Through Third Party Allotment will resolve the Bank's management issues and will enable the Bank to speedily achieve enhancement of its corporate value and the interests of its existing shareholders over the medium- to long-term, the committee has found that the Capital Increase Through Third Party Allotment is necessary.

- With respect to the capital adequacy ratio as of March 31, 2024, the Bank ensured the domestic standard of 9.23% and the CET1 ratio of 7.1%; however, it is important to ensure a higher capital level from the perspective of ensuring capital for the significant growth of "Aozora's Strategic Investments Business" in the future and further enhancing its financial soundness. In addition, restructuring of the retail business and expanding of its stable funding base are the Bank's urgent management issues. The committee considers that building a cooperative structure with Daiwa Securities Group by forming a business alliance in each area, including (i) wealth management, (ii) real estate-related business, (iii) M&A, and (iv) growth company support, which are the areas of the initial collaboration under the Capital and Business Alliance, and expanding the collaboration into other areas in the future, will contribute to the restructuring of the retail business and the expansion of Aozora's Strategic Investments Business.
- In addition, as the reinforcement of its equity capital through the Capital Increase Through Third Party Allotment will allow the Bank to allocate capital to Aozora's Strategic Investments Business and to further accumulate risk assets in Aozora's Strategic Investments Business, the committee considers that the Capital Increase Through Third Party Allotment will contribute to the growth of Aozora's Strategic Investments Business.
- Moreover, the Capital and Business Alliance will convert the Bank into Daiwa Securities Group's equity method affiliate, as a result of which, it is expected that the Bank will benefit from the effect of the group's credit enhancement. In addition, as the Capital and Business Alliance will allow the Bank to create a structure to provide a wide range of products and services to its retail clients and to strengthen its brand power, the Capital

and Business Alliance will contribute to resolving the Bank's issue of expanding its stable funding base.

- The Capital and Business Alliance Agreement sets forth a certain provision to avoid restricting the Bank's management autonomy even though the Bank becomes Daiwa Securities Group's equity method affiliate, and the top management of both companies have acknowledged the policy to ensure the Bank's autonomy in its management and business operations, including forming a collaboration with a third party other than Daiwa Securities Group with the aim of realizing its future vision.
- While the Bank is planning to apply all funds to be raised through the Capital Increase Through Third Party Allotment to redemption of the corporate bonds the due date of which will arrive in September 2024, the more substantial use of such fund is to allocate more capital to Aozora's Strategic Investments Business by reinforcing its capital through the Capital Increase Through Third Party Allotment. The committee considers that this will allow the Bank to further accumulate risk assets for each area, including domestic corporate, buyout finance, debt for REIT, real estate-related equity, and venture debt, and that the Bank will be able to aim for further growth of "Aozora's Strategic Investments Business."

(2) Appropriateness of the Capital Increase Through Third Party Allotment

As stated below, the committee has found that the Capital Increase Through Third Party Allotment is reasonable because funding through the Capital Increase Through Third Party Allotment, the allottee, and the terms and conditions for issuance can be considered reasonable.

A. Appropriateness of funding through Capital Increase Through Third Party Allotment

As stated below, funding through Capital Increase Through Third Party Allotment is considered reasonable when compared to other funding methods.

- Funding through deposit, negotiable deposit, corporate bond, and financial market does not contribute to improvement of the capital adequacy ratio, and a capital increase through public offering, allotment to shareholders, and rights offering tend to require more time and comparatively higher costs than those of a capital increase through third-party allotment. As for funding through share option, the actual amount raised may be lower than the amount initially assumed.
- The committee considers that compared to the aforementioned funding methods other than a capital increase through third-party allotment, the Capital Increase Through Third Party Allotment will enable reliable and speedy reinforcement of capital. The committee also considers that strengthening the business portfolio through the business alliance with Daiwa Securities Group as well as the capital increase will be a more desirable option from the perspective of enhancing the Bank's corporate value and the interests of shareholders over the medium- to long-term.
- In addition, the Bank's common shares will be diluted as a result of the Capital Increase Through Third Party Allotment; however, as the Capital and Business Alliance with Daiwa Securities Group will allow the Bank to speedily achieve enhancement of the Bank's corporate value and the interests of its shareholders over the medium- to long-term, the committee considers that the Capital Increase Through Third Party Allotment will consequently contribute to improvement of the interests of the existing shareholders.

B. Appropriateness of the allottee

As stated below, the reasons that the Bank selected Daiwa Securities Group as the allottee are reasonable. Furthermore, regarding the method to confirm whether Daiwa Securities Group has funds necessary to pay-in for the Capital Increase Through Third Party Allotment, there is no unreasonable point in particular. Therefore, Daiwa Securities Group can be considered reasonable as the allottee.

- As Daiwa Securities has served as the Bank's lead managing underwriter for many years, and it understands and appreciates the Bank's value, Daiwa Securities Group and the

Bank have previously discussed the possibility of various forms of collaboration. In order to resolve the issues that the Bank is currently facing, not only a business alliance but also a capital alliance to reinforce the Bank's capital are necessary. As a result of the discussions with Daiwa Securities Group, the Bank has determined that the capital and business alliance with Daiwa Securities Group will be beneficial for the Bank to speedily achieve enhancement of the Bank's corporate value over the medium- to long-term.

- Daiwa Securities is an independent securities company with solid earnings, and the Capital and Business Alliance, which will realize a comprehensive alliance in the retail area with Daiwa Securities Group, will allow the Bank to provide high value-added consulting services and a wide range of financial instruments that meet clients' needs. It will also contribute to a reduction in the costs of development and maintenance of systems. Accordingly, the committee considers that the collaboration with Daiwa Securities Group's global investment banking business will be an effective option in expanding "Aozora's Strategic Investments Business."
- In addition, as a result of confirming Daiwa Securities Group's operating revenue, total assets, net assets, cash and deposits stated in the Financial Summary (Consolidated) for the nine-month period ended December 31, 2023 <Under Japanese GAAP> submitted by Daiwa Securities Group on February 13, 2024, the Bank has confirmed that Daiwa Securities Group has cash and deposits necessary and sufficient to make a payment for the Capital Increase Through Third Party Allotment.

C. Appropriateness of the terms and conditions for issuance

Regarding the paid-in amount for the New Shares, the Bank will use the closing price of the Bank's common shares on the TSE on the business day immediately preceding the Resolution Date of Board of Directors as the basis for calculation. Generally, it is considered that the market price as of the point in time closest to the time of calculation most appropriately reflects the Bank's performance trend and financial conditions as of the time of calculation, and in this project, there are no particular circumstances in which it is suspected that the closing price on the business day immediately preceding the Resolution Date of Board of Directors does not reflect the Bank's objective corporate value. Furthermore, the issuance value in the Capital Increase Through Third Party Allotment is compliant with "Rules Concerning Handling of Allotment of New Shares to Third Party, Etc." provided by the Japan Securities Dealers Association.

In light of the above, the committee considers that the issuance value above is not particularly favorable to the scheduled allottee.

In addition, the Capital Increase Through Third Party Allotment will result in dilution of the share value of the Bank's common shares; however, with respect to the feasibility of each measure covered by the Capital and Business Alliance, the committee confirmed the reasonableness from a qualitative perspective and simulated the profitability and financial indices from a quantitative perspective, and it confirmed that the Capital and Business Alliance will enhance the Bank's corporate value from a medium-term perspective when compared to where the Capital and Business Alliance is not implemented.

As a result of the verification and confirmation above, the committee has found that the Capital and Business Alliance will contribute to enhancement of the Bank's corporate value and the interests of its existing shareholders over the medium- to long-term, and that the volume of issuance and the scale of share dilution through the Capital Increase Through Third Party Allotment are reasonable.

(3) Fairness of the procedures for the Capital Increase Through Third Party Allotment

The Bank's Board of Directors established the committee composed of four independent outside directors of the Bank whose independence from Daiwa Securities Group and the outcome of the Transaction is ensured. The Bank's Board of Directors consulted the committee on the necessity and appropriateness of the Capital Increase Through Third Party Allotment and the fairness of the

procedures for the Capital Increase Through Third Party Allotment. In doing so, the Bank's Board of Directors decided to make a decision on the Capital Increase Through Third Party Allotment by fully respecting the committee's determination.

Thereafter, in the process of considering the Capital Increase Through Third Party Allotment, the committee submitted to the Bank's executives a wide range of questions and recommendations, and carefully considered and discussed the necessity and appropriateness of the Capital Increase Through Third Party Allotment and the fairness of the procedures therefor, obtaining professional advice and opinions from each of the Bank's advisors in a timely manner.

Accordingly, the committee determined that a structure to objectively consider and discuss the necessity and appropriateness of the Capital Increase Through Third Party Allotment, and the fairness of the procedures therefor, was ensured.

10. Operating results and equity finance for the most recent three years

(1) Operating results for most recent three years

	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2024
Consolidated ordinary revenue	134,737	183,292	246,299
Consolidated ordinary income	46,294	7,356	(54,816)
Net income attributable to owners of the parent	35,004	8,719	(49,904)
Net income per share (JPY)	299.81	74.67	(427.22)
Dividend per share (JPY)	149.00	154.00	76.00
Net assets per share (JPY)	4,222.79	3,751.95	3,285.94

(Notes) 1. The unit is JPY 1 million; however, except as otherwise noted.

2. With respect to the figures for the fiscal year ended March 31, 2024, as the audit by an auditing firm under Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act has not been completed, the Bank has not received the audit report.

(2) The total number of issued shares and dilutive shares (as of May 13, 2024)

	Number of shares	Ratio to total number of issued shares
Number of issued shares	118,289,418 shares	100%
Number of dilutive shares at current conversion price (exercise price)	-	-
Number of dilutive shares at minimum conversion price (exercise price)	-	-
Number of dilutive shares at maximum conversion price (exercise price)	-	-

(3) Recent share prices

(i) Share prices for the recent three years

	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2024
Opening	JPY 2,522	JPY 2,573	JPY 2,428
High	JPY 2,852	JPY 2,825	JPY 3,301
Low	JPY 2,276	JPY 2,302	JPY 2,020
Closing	JPY 2,589	JPY 2,399	JPY 2,473

(ii) Share prices for the recent six months

	December 2023	January 2024	February	March	April	May
Opening	JPY 3,060	JPY 3,059	JPY 2,597.5	JPY 2,740	JPY 2,477.5	JPY 2,454
High	JPY 3,132	JPY 3,301	JPY 2,962.5	JPY 2,769.5	JPY 2,522	JPY 2,542
Low	JPY 3,022	JPY 3,046	JPY 2,020	JPY 2,415.5	JPY 2,378	JPY 2,403
Closing	JPY 3,063	JPY 3,257	JPY 2,748.5	JPY 2,473	JPY 2,454	JPY 2,415. 5

(Note) The share price for May 2024 is as of May 10, 2024.

(iii) Share price on the business day immediately preceding the date of the resolution of issuance

	May 10, 2024
Opening	JPY 2,424
High	JPY 2,437
Low	JPY 2,406
Closing	JPY 2,415.5

(4) Equity finance in the recent three years

N/A

11. Overview of the issuance

(1)	Number of shares to be newly issued	21,500,000 common shares
(2)	Issue price	JPY 2,415.5 per share
(3)	Amount of proceeds to be raised	JPY 51,933,250,000
(4)	Amount to be incorporated in stated capital	JPY 1,207.75 per share
(5)	Total amount to be incorporated in stated capital	JPY 25,966,625,000
(6)	Method of subscription or allotment	Through third-party allotment
(7)	Allottee	Daiwa Securities Group Inc.
(8)	Subscription period	From May 29, 2024 to July 31, 2024 (scheduled)
(9)	Payment period	From May 29, 2024 to July 31, 2024 (scheduled)
(10)	Others	The Capital Increase Through Third Party Allotment is subject to the satisfaction of the Conditions Precedent.

II. Change in the major shareholders, largest shareholder, which is a major shareholder, and other associated companies

1. Reason for the change

The Allottee will hold 15.58% of voting rights of the Bank as a result of the Capital Increase Through Third Party Allotment, and accordingly, the Allottee is expected to newly become a major shareholder and the largest shareholder, which is a major shareholder, of the Bank. In addition to the Capital Increase Through Third Party Allotment, the Allottee is expected to newly become an associated company of the Bank if one candidate nominated by the Allottee is appointed as an outside director of the Bank at the Bank's Ordinary General Meeting of Shareholders to be held on June 25, 2024.

2. Overview of the shareholder to be changed

For an overview of the Allottee, which is expected to newly become a major shareholder, the largest shareholder, which is a major shareholder, and an associated company of the Bank through the Capital Increase Through Third Party Allotment, please see "I. Issuance of new shares through third-party allotment," "6. Reasons for selecting allottee and other related matters," "(1) Overview of the Allottee" above.

3. Number of voting rights owned (number of shares owned) by Daiwa Securities Group and the ratio to the total number of voting rights of shareholders, before and after the change

	Attribution	Number of voting rights (ownership ratio of voting rights, number of shares owned)			Rank in major shareholders
		Portion directly owned	Portion subject to aggregation	Total	
Before change (As of March 31, 2024)	-	-	-	-	-
After change	Major shareholder, the largest shareholder, which is a major shareholder, and an associated company	215,000 voting rights (15.58%, 21,500,000 shares)	-	215,000 voting rights (15.58%, 21,500,000 shares)	First

(Notes) 1. The ownership ratio of voting rights after the change is calculated based on the number of voting rights of all shareholders (215,000 voting rights), to which the number of voting rights to be increased by the Capital Increase Through Third Party Allotment (1,380,303 voting rights) is added.

2. The ownership ratio of voting rights is rounded off to two decimal places.

3. "Rank in major shareholders" is based on the shareholder register as of March 31, 2024.

4. Scheduled date of the change

The changes in the major shareholders and the largest shareholder, which is a major shareholder, are expected to occur on the payment date for the New Shares pertaining to the Capital Increase Through Third Party Allotment (any day from May 29, 2024 to July 31, 2024). The changes in other associated companies are expected to occur if the payment for the Capital

Increase Through Third Party Allotment is completed and if one candidate nominated by Daiwa Securities Group is appointed as an outside director of the Bank at the Bank's General Meeting of Shareholders (to be held on June 25, 2024).

5. Change in unlisted parent companies, etc., subject to disclosure

N/A

6. Future expectations

As described in "II. Issuance of new shares through third-party allotment," "8. Future expectations" above.

End