

January 31, 2018

Company name: Aozora Bank, Ltd.
Name of representative: Shinsuke Baba, President and CEO
Listed exchange: TSE, Code 8304
Contact: Hiroyuki Kajitani
Corporate Communication Division (Tel: 03 6752 1111)

**Aozora Reports Profit Attributable to Owners of Parent of 33.5 billion yen
for the First Nine Months of FY2017;
- Progress of 78% towards full-year forecast -**

TOKYO January 31, 2018 – Aozora Bank, Ltd. (“Aozora” or “the Bank”), a leading Japanese commercial bank, today announced its financial results for the first nine months of FY2017.

Financial Results for the first nine months of FY2017

In the first nine months of FY2017, Aozora reported consolidated net revenue of 69.4 billion yen, business profit of 35.4 billion yen, and profit attributable to owners of parent of 33.5 billion yen, representing progress of 75%, 77%, and 78%, respectively, towards the full-year forecasts.

Shinsuke Baba, Representative Director, President and Chief Executive Officer of Aozora Bank commented, “Overall economic conditions remained relatively stable, with the global economy registering some modest growth over the past year. In Europe and the U.S., markets continued the process of adjusting to the movement away from central bank accommodative monetary policies. In Japan, the banking sector continued to face the challenges posed by a prolonged period of low interest rates. In the case of Aozora, we were pleased to report strong net revenue, as well as net earnings representing progress of 78% towards our full-year earnings forecast for fiscal year 2017. This favorable result was the product of several factors including our ongoing focus on disciplined balance sheet management and the diversification of income sources. Today we also announced a third quarter dividend of 50 yen per common share.” (Note: the Bank consolidated every ten common shares into one common share on October 1, 2017)

Baba concluded, “Looking ahead, our bank remains focused on leveraging our expertise and providing differentiated services that further enhance Aozora’s corporate value. I would like to express my gratitude to all of our stakeholders for their continued support.”

1. Summary of the results for the first nine months (Consolidated)

- For the first nine months of FY2017 (Apr.-Dec.) net revenue was 69.4 billion yen, a decrease of 1.0 billion yen, or 1.4% year on year, and business profit was 35.4 billion yen, a decrease of 1.8 billion yen, or 4.8% year on year representing progress of 75.4% and 76.9%, respectively, towards the full-year forecasts. Profit attributable to owners of parent was 33.5 billion yen, a decrease of 2.1 billion yen, or 5.9% from the prior year and representing progress of 77.9% towards the full-year forecast of 43.0 billion yen.
- Net interest income was 37.8 billion yen, an increase of 3.7 billion yen, or 10.9% year on year. The increase was primarily due to an increase in the yield on loans and securities, reflecting the Bank’s continued disciplined approach to balance sheet management, as well as an increase in average asset balances.
- Non-interest income was 31.6 billion yen, a decrease of 4.7 billion yen, or 12.9% year on year. The decline was mainly due to lower gains/losses on bond transactions, while earnings from the Bank’s retail business were strong and loan-related fee income remained steady.
- General and administrative expenses were 34.0 billion yen, a year-on-year increase of 0.8 billion yen, or 2.4%. The OHR (general and administrative expenses as a percentage of net revenue) was 49%.
- Credit-related expenses were a net reversal of 3.9 billion yen, mainly due to the reversal of specific loan loss reserves in the first quarter in connection with the collection of non-performing claims. This result compares with the net reversal of 4.4 billion yen recorded in the first nine months of FY2016.

- Total loans were 2,626.5 billion yen, an increase of 104.6 billion yen, or 4.1%, from March 31, 2017. Domestic loans decreased by 8.8 billion yen from March 31, 2017, reflecting the Bank's continued focus on balancing risk and return. Overseas loans increased by 113.3 billion yen from March 31, 2017 as a result of the Bank's selective loan origination.
- The Bank continued to flexibly manage its funding position. Total core funding (deposits, negotiable certificates of deposit, debentures and bonds) was 3,205.9 billion yen, an increase of 106.5 billion yen, or 3.4%, from March 31, 2017. The percentage of retail funding to total core funding was 57%.
- Non-performing claims as defined by the Financial Reconstruction Law (FRL) were 6.0 billion yen, a decrease of 6.9 billion yen, or 53.5%, from March 31, 2017. The FRL ratio declined 0.28 points to 0.22%. The ratio of loan loss reserves to total loans on a consolidated basis remained high at 1.79%.
- Aozora will announce its December 31, 2017 consolidated capital adequacy ratio (domestic standard) at a later date. As of September 30, 2017, the ratio was 10.86% and is expected to remain at an adequate level.

Note: All amounts stated in 1 billion yen have been rounded to the nearest 0.1 billion yen and "Change" represents the difference between the rounded amounts.

2. FY2017 First Nine Months Performance (April 1, 2017 to December 31, 2017)

Consolidated basis

(billion yen)	Net revenue	Business profit	Ordinary profit	Profit attributable to owners of parent	Profit attributable to owners of parent per common share*
FY2017 nine months (Apr.-Dec.) (a)	69.4	35.4	46.2	33.5	287.47 yen
FY2016 nine months (Apr.-Dec.) (b)	70.4	37.2	42.4	35.6	304.95 yen
Change (a) - (b)	-1.0	-1.8	3.8	-2.1	-17.48 yen
Percentage change ((a)-(b)) / (b)	-1.4%	-4.8%	9.0%	-5.9%	-5.7%
FY2017 full-year forecast (c)	92.0	46.0	56.5	43.0	368.59 yen
Progress (a)/(c)	75.4%	76.9%	81.7%	77.9%	77.9%

Non-consolidated basis

(billion yen)	Net revenue	Business profit before general loan-loss reserve	Ordinary profit	Profit	Profit per common share*
FY2017 nine months (Apr.-Dec.) (a)	64.9	34.5	45.2	32.7	280.16 yen
FY2016 nine months (Apr.-Dec.) (b)	67.0	36.7	41.3	35.8	306.52 yen
Change (a) - (b)	-2.1	-2.2	3.9	-3.1	-26.36 yen
Percentage change ((a)-(b)) / (b)	-3.1%	-6.0%	9.4%	-8.7%	-8.6%
FY2017 full-year forecast (c)	86.0	44.0	54.0	42.0	360.02 yen
Progress (a)/(c)	75.5%	78.4%	83.6%	77.8%	77.8%

* The Bank consolidated every ten common shares into one common share on October 1, 2017. Figures in "Profit attributable to owners of parent per common share" and "Profit per common share" are presented as if the share consolidation was effective at the beginning of the previous accounting period.

I. Revenue and Expenses

(billion yen)	FY2016		FY2017		Change (B) – (A)		Page
	3 months Oct.-Dec.	9 months Apr.-Dec. (A)	3 months Oct.-Dec.	9 months Apr.-Dec. (B)	Amount	%	
Net revenue	24.1	70.4	25.3	69.4	-1.0	-1.4%	-
Net interest income	11.7	34.1	12.8	37.8	3.7	10.9%	4
Net interest margin	1.29%	1.28%	1.31%	1.34%	0.06%	-	4
Non-interest income	12.4	36.3	12.5	31.6	-4.7	-12.9%	-
Net fees and commissions	1.8	6.8	2.7	8.5	1.7	25.0%	5
Net trading revenues	5.7	15.8	5.2	12.8	-3.0	-19.0%	5
Gains/losses on bond transactions	1.1	5.4	0.1	1.7	-3.7	-68.5%	6
Net other ordinary income excluding gains/losses on bond transactions	3.8	8.3	4.5	8.6	0.3	3.6%	6
General & administrative expenses	-11.0	-33.2	-11.3	-34.0	-0.8	-2.4%	6
Business profit	13.1	37.2	14.1	35.4	-1.8	-4.8%	-
Credit-related expenses	1.1	4.4	-1.6	3.9	-0.5	-	7
Gains/losses on stock transactions	0.0	0.4	3.3	7.4	7.0	-	7
Other gains/losses	0.4	0.4	0.0	-0.5	-0.9	-	-
Ordinary profit	14.6	42.4	15.8	46.2	3.8	9.0%	-
Extraordinary profit/loss	-0.0	-0.0	-	-0.0	0.0	-	-
Profit before income taxes	14.6	42.4	15.8	46.2	3.8	9.0%	-
Taxes	-4.9	-6.9	-5.6	-13.0	-6.1	-	7
Profit attributable to owners of parent	9.7	35.6	10.4	33.5	-2.1	-5.9%	-

In the first nine months of FY2017, the Bank recorded consolidated net revenue of 69.4 billion yen, a decrease of 1.0 billion yen, or 1.4% year on year. This result was favorably impacted by the relatively strong net revenue of 25.3 billion yen recorded in the third quarter (Oct.-Dec.).

Net interest income was 37.8 billion yen, an increase of 3.7 billion yen, or 10.9% year on year, due to an increase in the yield on loans and securities, reflecting the Bank's continued disciplined approach to balance sheet management, as well as an increase in average earning assets.

Non-interest income was 31.6 billion yen, a decrease of 4.7 billion yen, or 12.9% year on year. Net fees and commissions were 8.5 billion yen, an increase of 1.7 billion yen, or 25.0% year on year, mainly due to increases in fee income from loans as well as the sale of investment trusts and insurance to our mass affluent retail customers. Net trading revenues were 12.8 billion yen, a decrease of 3.0 billion yen, or 19.0% year on year. Gains/losses on bond transactions were a gain of 1.7 billion yen, a decrease of 3.7 billion yen, or 68.5% year on year. Net other ordinary income, excluding gains/losses on bond transactions, was 8.6 billion yen, an increase of 0.3 billion yen, or 3.6%, due to gains from limited partnerships.

General and administrative expenses were 34.0 billion yen, a year-on-year increase of 0.8 billion yen, or 2.4%, representing 73.9% of the full-year budget of 46.0 billion yen. The increase was mainly due to incremental staff for the Bank's Internet banking project as well as for other business areas of focus.

Consolidated business profit was 35.4 billion yen, a decrease of 1.8 billion yen, or 4.8% year on year.

Credit-related expenses were a net reversal of 3.9 billion yen, mainly due to the reversal of specific loan loss reserves resulting from the collection of non-performing claims in the first quarter (Apr.-Jun.). Gains/losses on stock transactions were a gain of 7.4 billion yen resulting from gains on the sale of prior years' overseas investments in the third quarter (Oct.-Dec.). Ordinary profit and profit before income taxes were both 46.2 billion yen, an increase of 3.8 billion yen, or 9.0% year on year. Taxes were a net expense of 13.0 billion yen.

As a result of the above factors, profit attributable to owners of parent was 33.5 billion yen, a decrease of 2.1 billion yen, or 5.9% year on year, representing progress of 77.9% towards the full-year forecast of 43.0 billion yen.

1. Net Revenue

(1) (i) Net Interest Income

(billion yen)	FY2016		FY2017		Change (B) – (A)
	3 months Oct.-Dec.	9 months Apr.-Dec. (A)	3 months Oct.-Dec.	9 months Apr.-Dec. (B)	
Net interest income (a)-(b)	11.7	34.1	12.8	37.8	3.7
Interest income (a)	17.5	49.4	20.8	59.6	10.2
Interest on loans and discounts	10.9	31.6	12.3	35.3	3.7
Interest and dividends on securities	6.5	17.1	8.1	22.8	5.7
Other interest income	0.2	0.7	0.4	1.5	0.8
Interest on swaps	-0.1	0.0	-	-	0.0
Interest expenses (b)	-5.8	-15.3	-7.9	-21.8	-6.5
Interest on deposits and NCDs	-1.4	-4.8	-1.6	-4.5	0.3
Interest on debentures and bonds	-0.1	-0.4	-0.3	-1.0	-0.6
Interest on borrowings and rediscount	-0.2	-0.7	-0.3	-1.0	-0.3
Other interest expenses	-1.0	-2.0	-1.8	-4.4	-2.4
Interest on swaps	-3.0	-7.4	-3.9	-11.0	-3.6

Net interest income was 37.8 billion yen, an increase of 3.7 billion yen, or 10.9% year on year. Interest income increased by 10.2 billion yen year on year due to an increase in interest on loans and discounts as a result of both higher yield and average loan balances compared to the previous year. Also contributing was an increase in interest and dividends on securities largely due to an increase in dividends on investment trusts and ETFs. Interest expenses increased by 6.5 billion yen year on year, largely the result of a rise in U.S. dollar interest rates.

(1) (ii) Net Interest Margin

	FY2016		FY2017		Change (B) – (A)
	3 months Oct.-Dec.	9 months Apr.-Dec. (A)	3 months Oct.-Dec.	9 months Apr.-Dec. (B)	
Yield on total investments (a)	1.89%	1.81%	2.08%	2.06%	0.25%
Yield on loans	1.71%	1.67%	1.88%	1.83%	0.16%
Yield on securities	2.59%	2.45%	2.87%	2.87%	0.42%
Yield on funding (b)	0.60%	0.53%	0.77%	0.72%	0.19%
Net interest margin (a)-(b)	1.29%	1.28%	1.31%	1.34%	0.06%

The yield on total investments increased by 25 bps year on year. The change was due to an increase in the yield on loans as the Bank continued its disciplined approach to balance sheet management, as well as an increase in the yield on securities, mainly due to an increase in dividends on investment trusts and ETFs. Funding costs increased by 19 bps over the prior year due to an increase in U.S. dollar interest rates, the impact of which exceeded the decline in yen funding costs. As a result of these factors, the net interest margin expanded 6 bps to 1.34%.

(2) Net Fees and Commissions

(billion yen)	FY2016		FY2017		Change (B) – (A)
	3 months Oct.-Dec.	9 months Apr.-Dec. (A)	3 months Oct.-Dec.	9 months Apr.-Dec. (B)	
Net fees and commissions (a)-(b)	1.8	6.8	2.7	8.5	1.7
Fees and commissions received (a)	2.2	7.7	3.1	9.6	1.9
Loan business-related and deposits	1.0	3.8	1.2	4.3	0.5
Securities-related and agency	0.9	2.7	1.4	3.8	1.1
Others	0.3	1.2	0.5	1.5	0.3
Fees and commissions payments (b)	-0.3	-0.9	-0.4	-1.1	-0.2

Net fees and commissions were 8.5 billion yen, an increase of 1.7 billion yen, or 25.0% year on year. The increase was mainly due to increases in fee income from loans as well as the sale of investment trusts and insurance to our mass affluent retail customers.

Earnings from the sale of financial products (investment trusts, insurance, and structured bonds) to our mass affluent retail customers were 6.3 billion yen, a year-on-year increase of 1.7 billion yen. Committed to providing customer-oriented services, the Bank will continue its efforts aimed at enhancing its investment product line-up in order to meet the needs of its customers while strengthening the consultative skills of its sales staff.

[Ref.] Earnings from Financial Product Sales to Retail Customers

(billion yen)	FY2016		FY2017		Change (B) – (A)
	3 months Oct.-Dec.	9 months Apr.-Dec. (A)	3 months Oct.-Dec.	9 months Apr.-Dec. (B)	
Earnings from the sale of investment trusts, insurance and structured bonds	1.8	4.6	2.7	6.3	1.7

Note: Earnings from the sale of structured bonds are recorded as net trading revenues.

(3) Net Trading Revenues

(billion yen)	FY2016		FY2017		Change (B) – (A)
	3 months Oct.-Dec.	9 months Apr.-Dec. (A)	3 months Oct.-Dec.	9 months Apr.-Dec. (B)	
Net trading revenues	5.7	15.8	5.2	12.8	-3.0
Income on trading-related financial derivatives transactions	3.8	12.7	1.7	6.1	-6.6
Others	1.9	3.1	3.4	6.7	3.6

Net trading revenues were 12.8 billion yen, a decrease of 3.0 billion yen, or 19.0% year on year. Earnings from the sale of derivative-related products to our financial institution customers remained favorable, although representing a decline from the especially strong level of the previous year.

(4) Gains/Losses on Bond Transactions

(billion yen)	FY2016		FY2017		Change (B) – (A)
	3 months Oct.-Dec.	9 months Apr.-Dec. (A)	3 months Oct.-Dec.	9 months Apr.-Dec. (B)	
Gains/losses on bond transactions	1.1	5.4	0.1	1.7	-3.7
Japanese government bonds	-	-	0.1	0.1	0.1
Foreign government bonds and mortgage bonds	0.6	3.8	-0.8	-0.3	-4.1
Others	0.5	1.6	0.8	1.9	0.3

Gains/losses on bond transactions were a gain of 1.7 billion yen, largely due to gains from the sale of foreign currency ETFs and REITs.

(5) Net Other Ordinary Income Excluding Gains/Losses on Bond Transactions

(billion yen)	FY2016		FY2017		Change (B) – (A)
	3 months Oct.-Dec.	9 months Apr.-Dec. (A)	3 months Oct.-Dec.	9 months Apr.-Dec. (B)	
Net other ordinary income excluding gains/losses on bond transactions	3.8	8.3	4.5	8.6	0.3
Incl. Gains from limited partnerships	2.7	6.9	5.1	9.2	2.3
Real estate-related	1.4	2.0	0.9	3.2	1.2
Distressed loan-related	1.0	3.2	1.0	3.0	-0.2
Others (buyout, etc.)	0.3	1.7	3.2	3.0	1.3

Net other ordinary income, excluding gains/losses on bond transactions, was 8.6 billion yen, an increase of 0.3 billion yen, or 3.6% year on year. Gains from limited partnerships were 9.2 billion yen, an increase of 2.3 billion yen year on year, mainly supported by strong performance in real estate-related limited partnerships and earnings from the Bank's distressed loan business, as well as gains associated with the listing of a buyout-related investment in the third quarter (Oct.-Dec.).

2. General and Administrative Expenses (G&A Expenses)

(billion yen)	FY2016		FY2017		Change (B) – (A)
	3 months Oct.-Dec.	9 months Apr.-Dec. (A)	3 months Oct.-Dec.	9 months Apr.-Dec. (B)	
G&A expenses	-11.0	-33.2	-11.3	-34.0	-0.8
Personnel expense	-5.4	-15.9	-5.6	-16.9	-1.0
Non-personnel expense	-4.7	-14.6	-4.8	-14.2	0.4
Tax	-0.8	-2.7	-0.9	-2.9	-0.2

General and administrative expenses were 34.0 billion yen, an increase of 0.8 billion yen, or 2.4% year on year. The increase was mainly due to increased personnel expenses associated with incremental staff for the Bank's Internet banking project as well as for other business areas of focus. General and administrative expenses for the first nine months were in line with expectations and represented 73.9% of the full-year budget of 46.0 billion yen. The OHR was 49%.

3. Credit-Related Expenses

(billion yen)	FY2016		FY2017		Change (B) – (A)
	3 months Oct.-Dec.	9 months Apr.-Dec. (A)	3 months Oct.-Dec.	9 months Apr.-Dec. (B)	
Credit-related expenses	1.1	4.4	-1.6	3.9	-0.5
Write-off of loans	-0.0	-0.1	-0.1	-0.2	-0.1
Reserve for possible loan losses	0.1	3.3	-1.5	3.4	0.1
Specific reserve for possible loan losses	1.3	2.6	-0.3	3.1	0.5
General reserve for possible loan losses	-1.2	0.7	-1.2	0.3	-0.4
Gains/losses on disposition of loans	-0.0	-0.5	-	-	0.5
Recoveries of written-off claims	0.6	1.3	0.8	1.4	0.1
Reserve for credit losses on off-balance-sheet instruments	0.4	0.3	-0.7	-0.7	-1.0

Credit-related expenses were a net reversal of 3.9 billion yen, mainly due to the first quarter reversal of specific loan loss reserves resulting from the collection of non-performing claims. This result compares with a net reversal of 4.4 billion yen recorded for the same period in the previous year. In the third quarter (Oct.-Dec.) credit-related expenses were a net expense of 1.6 billion yen due to an increase in the general reserve for possible loan losses associated with the Bank's loan growth. The ratio of loan loss reserves to total loans remained high at 1.79% and reflects the Bank's mid- to long-term perspective on the conservative allocation of reserves.

4. Gains/losses on Stock Transactions

(billion yen)	FY2016		FY2017		Change (B) – (A)
	3 months Oct.-Dec.	9 months Apr.-Dec. (A)	3 months Oct.-Dec.	9 months Apr.-Dec. (B)	
Gains/losses on stock transactions	0.0	0.4	3.3	7.4	7.0

Gains/losses on stock transactions were a gain of 7.4 billion yen mainly due to gains from selling domestic equity ETFs in the first half (Apr.-Sep.), as well as gains in the third quarter (Oct.-Dec.) on sales of prior years' overseas investments associated with an initial public offering.

5. Taxes

(billion yen)	FY2016		FY2017		Change (B) – (A)
	3 months Oct.-Dec.	9 months Apr.-Dec. (A)	3 months Oct.-Dec.	9 months Apr.-Dec. (B)	
Taxes	-4.9	-6.9	-5.6	-13.0	-6.1

Taxes were a net expense of 13.0 billion yen. In the first quarter of FY2016, the Bank adopted the accounting classification "Category 2" for the calculation of deferred tax assets in compliance with Japanese accounting standards.

II. Balance Sheet

(billion yen)	Mar. 31, 2017 (A)	Sept.30, 2017	Dec. 31, 2017 (B)	Change (B) — (A)		Page
				Amount	%	
Total assets	4,586.0	4,816.2	4,916.9	330.9	7.2%	-
Loan and bills discounted	2,521.9	2,555.8	2,626.5	104.6	4.1%	9
Securities	937.9	1,163.5	1,172.6	234.7	25.0%	10
Cash and due from banks	573.0	561.3	553.2	-19.8	-3.5%	-
Trading assets	210.7	181.7	167.5	-43.2	-20.5%	-
Others	342.4	354.0	397.2	54.8	16.0%	-
Total liabilities	4,165.7	4,379.9	4,469.3	303.6	7.3%	-
Deposits and negotiable certificates of deposit	2,853.1	2,899.6	2,955.8	102.7	3.6%	9
Debentures, Bonds	246.3	249.2	250.1	3.8	1.5%	9
Borrowed money	276.6	299.4	303.1	26.5	9.6%	-
Payables under securities lending transactions	306.3	452.4	440.5	134.2	43.8%	-
Trading liabilities	197.7	162.3	144.2	-53.5	-27.1%	-
Others	285.6	317.0	375.7	90.1	31.5%	-
Total net assets	420.3	436.2	447.6	27.3	6.5%	-
Capital stock	100.0	100.0	100.0	0.0	0.0%	-
Capital surplus	87.3	87.3	87.3	0.0	0.0%	-
Retained earnings	221.9	233.8	239.5	17.6	7.9%	-
Treasury stock	-3.4	-3.3	-3.4	0.0	-	-
Valuation difference on available-for-sale securities	23.8	37.8	51.8	28.0	117.6%	-
Others	-9.3	-19.3	-27.7	-18.4	-	-
Total liabilities and net assets	4,586.0	4,816.2	4,916.9	330.9	7.2%	-

Total assets were 4,916.9 billion yen as of December 31, 2017, an increase of 330.9 billion yen, or 7.2%, compared to March 31, 2017. Loans were 2,626.5 billion yen, an increase of 104.6 billion yen, or 4.1%, from March 31, 2017. Domestic loans decreased by 8.8 billion yen, while overseas loans increased by 113.3 billion yen. Securities increased by 234.7 billion yen, or 25.0%, from March 31, 2017, to 1,172.6 billion yen.

Total liabilities were 4,469.3 billion yen, an increase of 303.6 billion yen, or 7.3%, compared to March 31, 2017. Total core funding (deposits, negotiable certificates of deposit, debentures and bonds) increased by 106.5 billion yen, or 3.4%, from March 31, 2017, to 3,205.9 billion yen.

Total net assets were 447.6 billion yen, representing an increase of 27.3 billion yen, or 6.5%, from March 31, 2017.

Net assets per common share were 3,822.18 yen, as compared to 3,586.16 yen as of March 31, 2017.

Note: The Bank consolidated every ten common shares into one common share on October 1, 2017. "Net assets per common share" is presented as if the share consolidation was effective at the beginning of the previous accounting period.

1. Funding (Deposits/NCDs and Debentures/Bonds)

(billion yen)	Mar. 31, 2017 (A)	Sept. 30, 2017	Dec. 31, 2017 (B)	Change (B) – (A)
Total core funding	3,099.4	3,148.8	3,205.9	106.5

Funding sources by product

(billion yen)	Mar. 31, 2017 (A)	Sept. 30, 2017	Dec. 31, 2017 (B)	Change (B) – (A)
Deposits/NCDs	2,853.1	2,899.6	2,955.8	102.7
Debentures/Bonds	246.3	249.2	250.1	3.8

Funding sources by customer

(billion yen)	Mar. 31, 2017 (A)	Sept. 30, 2017	Dec. 31, 2017 (B)	Change (B) – (A)
Retail	1,829.4	1,822.3	1,820.5	-8.9
Corporate	610.5	559.7	592.0	-18.5
Financial Institutions	659.4	766.8	793.4	134.0

Note: Corporate includes public entities.

The Bank continued to flexibly manage its funding position in light of its asset requirements. Total core funding (deposits, negotiable certificates of deposit, debentures and bonds) was 3,205.9 billion yen, an increase of 106.5 billion yen, or 3.4%, from March 31, 2017. The percentage of retail funding to total core funding was 57%.

As of December 31, 2017, the Bank maintained adequate liquidity reserves of 607.6 billion yen.

2. Loans

(billion yen)	Mar. 31, 2017 (A)	Sept. 30, 2017	Dec. 31, 2017 (B)	Change (B) – (A)
Loans	2,521.9	2,555.8	2,626.5	104.6
Domestic loans	1,651.9	1,619.7	1,643.1	-8.8
Overseas loans	870.0	936.0	983.3	113.3
U.S. dollar basis (\$ million)	\$7,755	\$8,303	\$8,698	\$943

Note: Overseas loans refer to those with no final risk residing in Japan.

Loans were 2,626.5 billion yen, an increase of 104.6 billion yen, or 4.1%, from March 31, 2017.

Reflecting the Bank's continued focus on balancing risk and return, domestic loans decreased by 8.8 billion yen from March 31, 2017. On a quarterly basis, domestic loans increased by 23.4 billion yen in the third quarter (Oct.-Dec.) marking the second straight quarterly increase.

For the first nine months, overseas loans increased by 113.3 billion yen (an increase of 943 million on a U.S. dollar basis). The increase was the result of the Bank's selective origination of corporate loans and real estate non-recourse loans, mainly in North America where the risk-return profiles remain relatively attractive.

3. Securities

(billion yen)	Book Value				Unrealized Gains/Losses			
	Mar. 31, 2017(A)	Sept. 30, 2017	Dec. 31, 2017 (B)	Change (B) – (A)	Mar. 31, 2017(A)	Sept. 30, 2017	Dec.31, 2017 (B)	Change (B) – (A)
JGBs	8.1	8.1	8.0	-0.1	-0.0	-0.0	0.0	0.0
Municipal bonds	26.7	31.2	33.5	6.8	0.1	0.1	0.1	0.0
Corporate bonds	28.4	35.0	37.7	9.3	0.1	0.1	0.1	0.0
Equities	63.1	78.4	88.9	25.8	43.9	59.2	69.4	25.5
Foreign bonds	343.9	531.9	507.4	163.5	-12.9	-9.9	-9.9	3.0
Foreign government bonds	174.2	285.5	250.6	76.4	-9.2	-8.7	-9.3	-0.1
Mortgage bonds	117.1	152.4	162.0	44.9	-4.1	-3.4	-3.9	0.2
Others	52.7	94.0	94.8	42.1	0.4	2.1	3.3	2.9
Others	467.8	478.9	497.1	29.3	8.4	9.4	19.6	11.2
ETFs	276.2	280.7	275.4	-0.8	4.1	4.5	5.2	1.1
Investment in limited partnerships	65.6	62.3	60.7	-4.9	0.8	0.7	1.2	0.4
REIT	61.1	57.5	62.7	1.6	2.8	1.9	2.5	-0.3
Investment trusts	48.6	61.9	74.5	25.9	0.3	1.8	4.6	4.3
Others	16.3	16.6	23.7	7.4	0.5	0.5	6.1	5.6
Total	937.9	1,163.5	1,172.6	234.7	39.7	58.9	79.4	39.7

Total unrealized gains, including unrealized gains/losses on hedging instruments	25.3	29.6	38.5	13.2
--	------	------	------	------

Securities were 1,172.6 billion yen as of December 31, 2017, an increase of 234.7 billion yen, or 25.0%, compared to March 31, 2017. Foreign bonds increased by 163.5 billion yen. The Bank increased its foreign bond position which had been reduced in the fourth quarter of last fiscal year (Jan.-Mar.).

Total unrealized gains increased by 39.7 billion yen to 79.4 billion yen as of December 31, 2017 as compared with March 31, 2017. The Bank's Japanese equity ETF position is hedged, as is a portion of equities. Total unrealized gains, including unrealized gains/losses on hedging instruments, were 38.5 billion yen, an increase of 13.2 billion yen from March 31, 2017.

For the first nine months of FY2017, interest and dividends on securities were 22.8 billion yen, gains on bond transactions were 1.7 billion yen and gains on stock transactions were 7.4 billion yen. These results reflected the Bank's ongoing efforts to secure stable income through a focus on diversification and efficient asset allocation in its investment portfolio.

III. Disclosed Claims under the Financial Reconstruction Law (Non-consolidated)

	(billion yen)	Mar. 31, 2017 (A)	Sept. 30, 2017	Dec. 31, 2017 (B)	Change (B) – (A)
	Bankrupt and similar credit	0.0	0.2	0.4	0.4
	Doubtful credit	11.5	1.8	3.4	-8.1
	Special attention credit	1.4	2.2	2.2	0.8
FRL credit, total	(a)	12.9	4.1	6.0	-6.9
Normal credit	(b)	2,558.9	2,601.6	2,687.8	128.9
Total credit	(c)=(a)+(b)	2,571.8	2,605.7	2,693.7	121.9
FRL credit ratio	(a)/(c)	0.50%	0.15%	0.22%	-0.28%

Non-performing claims as defined by the Financial Reconstruction Law (FRL) were 6.0 billion yen, a decrease of 6.9 billion yen, or 53.5%, from March 31, 2017. The decline was mainly due to the collection of doubtful credit claims. The FRL ratio declined 0.28 points to 0.22%. The percentage of FRL claims covered by reserves, collateral and guarantees was 88.9%. The ratio of loan loss reserves to total loans remained high at 1.79% on a consolidated basis.

Aozora Bank, Ltd. is a leading provider of lending, securitization, business and asset revitalization, asset management, loan syndication and investment advisory services to financial institutions, corporate and retail customers. Originally established in 1957 as the Nippon Fudosan Bank, Ltd., the Bank changed its name to Aozora Bank, Ltd. in 2001. Aozora is proud of its heritage and the long-term relationships it has developed with corporate, financial and individual customers over the years. Building on this heritage, Aozora has created a strong customer-oriented and performance-based culture that will contribute to both innovative business solutions for customers and sustainable earnings growth for investors and shareholders.

News and other information about Aozora Bank, Ltd. is available at <http://www.aozorabank.co.jp/english/>

Forward-Looking Statements

This announcement contains forward-looking statements regarding the Bank's financial condition and results of operations. These forward-looking statements, which include the Bank's views and assumptions with respect to future events, involve certain risks and uncertainties. Actual results may differ from forecasts due to changes in economic conditions and other factors, including the effects of changes in general economic conditions, changes in interest rates, stock markets and foreign currency, and any ensuing decline in the value of our securities portfolio, incurrence of significant credit-related costs and the effectiveness of our operational, legal and other risk management policies.