

Summary of the Financial Statements for FY2017

May 14, 2018

Company name Aozora Bank, Ltd. Listed exchange Tokyo Stock Exchange
TSE code 8304
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Date of ordinary shareholders' meeting June 27, 2018 URL <http://www.aozorabank.co.jp/>
Dividend payable date June 28, 2018 TEL (03)6752-1111
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Reference Material Affirmative
Investor Meeting Affirmative

(Unit: JPY millions, rounded down)

1. Business highlights for the fiscal year ended March 31, 2018 (FY2017)

(1) Consolidated business results

(Note: Percentages show year-on-year rates of change)

	Ordinary income		Ordinary profit		Profit attributable to owners of parent	
	Million Yen	%	Million Yen	%	Million Yen	%
FY2017	148,819	10.5	57,984	12.0	43,064	(1.8)
FY2016	134,704	8.6	51,764	(7.1)	43,849	0.8

(Note) Comprehensive income JPY 38,609 million (9.5%) (FY2017) JPY 35,270 million (52.3%) (FY2016)

	Net income per common share (basic)	Net income per common share (diluted)	ROE	Ordinary profit per total assets	Ordinary profit per ordinary income
	Yen	Yen	%	%	%
FY2017	369.16	368.89	10.1	1.2	39.0
FY2016	375.93	375.70	10.7	1.1	38.4

(Ref.) Equities in earnings (losses) of affiliates None (FY2017) None (FY2016)

(Note) Aozora Bank, Ltd. (Aozora) consolidated every ten common shares into one common share on October 1, 2017. "Net income per common share (basic)" and "Net income per common share (diluted)" are presented as if the share consolidation was effective at the beginning of the previous accounting period.

(2) Consolidated financial condition

	Total assets	Total net assets	Net assets to total assets ratio	Net assets per common share
	Million Yen	Million Yen	%	Yen
Mar. 31, 2018	4,912,792	437,234	8.9	3,735.00
Mar. 31, 2017	4,586,007	420,345	9.1	3,586.16

(Ref.) Total net assets (less Share acquisition rights and Non-controlling interests) JPY 435,719 million (March 31, 2018)

JPY 418,289 million (March 31, 2017)

(Note) Net assets to total assets ratio = (Total net assets – Share acquisition rights - Non-controlling interests) / Total assets

(Note) Aozora 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.

(3) Consolidated Cash Flows

	Operating activities	Investing activities	Financing activities	Cash and cash equivalent at the end of the period
	Million Yen	Million Yen	Million Yen	Million Yen
FY2017	227,599	(211,578)	(21,990)	468,031
FY2016	33,243	(28,244)	(20,705)	474,001

2. Dividend

	Annual dividend					Total dividends (Annual)	Dividend ratio (Consolidated)	Dividends to net assets ratio (Consolidated)
	1Q end	2Q end	3Q end	Year-end	Annual			
	Yen	Yen	Yen	Yen	Yen	Million Yen	%	%
FY2016(common share)	4.00	4.00	5.00	5.70	18.70	21,811	49.7	5.3
FY2017(common share)	4.00	4.00	50.00	54.00	—	21,464	49.8	5.0
FY2018(common share) (Forecast)	—	—	—	—	184.00	—	49.9	—

(Note) On October 1, 2017, Aozora consolidated every ten common shares into one common share. The above dividend payments for the 1st quarter and the 2nd quarter of FY2017 are actual amounts before the share consolidation, and those for the 3rd quarter and year-end are actual amounts after the share consolidation. As total dividends cannot be calculated by simply adding together dividend payments for each quarter, the annual dividend for FY2017 is shown as "-". For more details on dividend payments for each quarter assuming that the share consolidation was effective at the beginning of the previous accounting period, please refer to "(Reference) Dividend payments per common share."

(Note) The dividend payment forecast for FY2018 was calculated by dividing the total dividend amount, which is set at 50% of Profit attributable to owners of parent for forecast FY2018, by the total number of common share issued, excluding treasury shares, as of March 31, 2018. Aozora will continue to pay dividends on a quarterly basis, although dividend payment forecast was announced only on an annual basis.

3. Consolidated earnings forecast for the year ending March 31, 2019 (FY2018)

(Note: Percentages show year-on-year rates of change)

	Ordinary profit		Profit attributable to owners of parent		Net income per common share
	Million Yen	%	Million Yen	%	Yen
FY2018 (Full Year)	58,500	0.9	43,000	(0.1)	368.59

* Notes

- (1) Changes in material subsidiaries during the term (changes in specified subsidiaries which affect the scope of consolidation) None
- (2) Changes in accounting policy, accounting estimates, or retrospective restatements
 - (a) Changes with revisions of accounting standards None
 - (b) Changes other than (a) above None
 - (c) Changes in accounting estimates None
 - (d) Retrospective restatements None

(3) The number of common shares issued

	Mar. 31, 2018	Mar. 31, 2017
(a) The number of common shares issued (including treasury shares)	118,289,418	118,289,418
(b) The number of treasury shares	1,631,067	1,649,530

	FY2017	FY2016
(c) The average number of common shares outstanding	116,654,120	116,639,752

(Note) Aozora consolidated every ten common shares into one common share on October 1, 2017. "The number of common shares issued", "The number of treasury shares" and "The average number of common shares outstanding" are presented as if the share consolidation was effective at the beginning of the previous accounting period.

(Summary of non-consolidated financial statements)

1. Business highlights for the fiscal year ended March 31, 2018 (FY2017)

(1) Business results

(Note: Percentages show year-on-year rates of change)

	Ordinary income		Ordinary profit		Profit	
	Million Yen	%	Million Yen	%	Million Yen	%
FY2017	143,932	10.5	56,948	13.7	42,015	(3.4)
FY2016	130,272	9.5	50,081	(8.0)	43,475	2.0

	Net income per common share (basic)	Net income per common share (diluted)
FY2017	Yen 360.17	Yen 359.90
FY2016	372.73	372.49

(Note) Aozora consolidated every ten common shares into one common share on October 1, 2017. "Net income per common share (basic)" and "Net income per common share (diluted)" are presented as if the share consolidation was effective at the beginning of the previous accounting period.

(2) Financial condition

	Total assets	Total net assets	Net assets to total assets ratio	Net assets per common share
Mar. 31, 2018	Million Yen 4,907,226	Million Yen 429,092	% 8.7	Yen 3,675.35
Mar. 31, 2017	4,583,403	411,678	9.0	3,526.93

(Ref.) Total net assets (less Share acquisition rights): JPY 428,760 million (March 31, 2018) JPY 411,381 million (March 31, 2017)

(Note) Net assets to total assets ratio = (Total net assets - Share acquisition rights) / Total assets

(Note) Aozora 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.

2. Non-consolidated earnings forecast for the year ending March 31, 2019 (FY2018)

(Note: Percentages show year-on-year rates of change)

	Ordinary profit		Profit		Net income per common share
	Million Yen	%	Million Yen	%	Yen
FY2018 (Full Year)	59,000	3.6	42,000	0.0	360.02

* Summary of financial statements is out of scope of audit (by CPAs or audit firms).

* Notes and remarks for the proper use of earnings projection

The above earnings forecast involves certain risks and uncertainties since the calculations are based on management's assumptions and beliefs in light of information currently available. This should not be interpreted as a promise or guarantee that the forecast will be achieved. Please be aware that actual results may be materially different from the forecast presented herein due to various factors.

(Reference) Dividend payments per common share

Aozora consolidated every ten common shares into one common share on October 1, 2017.

Assuming that the share consolidation was effective at the beginning of the previous accounting period, dividend payments per common share are as follows.

	Annual dividend				
	1Q end	2Q end	3Q end	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
FY2016 (common share)	40.00	40.00	50.00	57.00	187.00
FY2017 (common share)	40.00	40.00	50.00	54.00	184.00
FY2018 (common share) (Forecast)	-	-	-	-	184.00

[Attachment]

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1. Overview of operating results

(1) Overview of operating results for FY2017

① Consolidated results of operations

Aozora reported net revenue of 87.5 billion yen, an increase of 2.2 billion yen, or 2.6% year on year, and business profit was 40.6 billion yen, an increase of 0.4 billion yen, or 0.9%. Profit attributable to owners of parent was 43.1 billion yen, a decrease of 0.8 billion yen, or 1.8%, and met the full-year forecast of 43.0 billion yen.

Net interest income was 49.1 billion yen, an increase of 3.4 billion yen, or 7.5% year on year. This change was due to factors including an increase in net interest margin and in average asset balances.

Non-interest income was 38.4 billion yen, a decrease of 1.2 billion yen, or 3.0% year on year. Net fees and commissions increased 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 other ordinary income, excluding gains/losses on bond transactions, also increased due to gains from limited partnerships. Net trading revenues and gains/losses on bond transactions decreased compared to the previous year.

General and administrative expenses were 46.8 billion yen, an increase of 1.8 billion yen, or 4.1% 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. The OHR (general and administrative expenses as a percentage of net revenue) was 53.6%.

Consolidated business profit was 40.6 billion yen, an increase of 0.4 billion yen, or 0.9%.

Credit-related expenses were a net reversal of 8.7 billion yen, mainly due to the reversal of loan loss reserves. Gains/losses on stock transactions were a gain of 8.0 billion yen. Ordinary profit and profit before income taxes were both 58.0 billion yen, an increase of 6.2 billion yen, or 12.0%.

Taxes (corporation tax, resident tax, business tax and deferred income taxes) were a net expense of 15.5 billion yen, compared with a net expense of 8.1 billion yen in FY2016.

As a result of the above factors, profit attributable to owners of parent was 43.1 billion yen, a decrease of 0.8 billion yen, or 1.8% year on year. Net income per share (basic) was 369.16 yen, as compared to 375.93 yen per share (basic) in FY2016.

The Bank has classified its Group's business operations into business groups based upon the nature of the customers served and products offered: Retail Banking Group ('RBG'), Institutional Banking Group ('IBG'), Specialized Banking Group ('SBG'), and Financial Markets Group ('FMG').

Profit / loss by segment for the year, which is calculated as net revenue minus general and administrative expenses by each segment, was: a profit of 2.2 billion yen (1.8 billion yen, for the previous year) for RBG, a profit of 13.3 billion yen (11.8 billion yen) for IBG, a profit of 14.3 billion yen (16.4 billion yen) for SBG and a profit of 12.0 billion yen (11.7 billion yen) for FMG.

② Outlook for the next term

The consolidated earnings forecast for the year ending March 2019 is 92.0 billion yen for net revenue, 40.0 billion yen for business profit, 58.5 billion yen for ordinary profit and 43.0 billion yen for profit attributable to owners of parent.

(2) Overview of financial condition for FY2017

① Assets, liabilities, and net assets

Total assets were 4,912.8 billion yen as of March 31, 2018, an increase of 326.8 billion yen, or 7.1%, compared to March 31, 2017. Loans and bills discounted were 2,611.3 billion yen, an increase of 89.4 billion yen, or 3.5%, from March 31, 2017. Domestic loans decreased 13.8 billion yen, while overseas loans increased 103.1 billion yen. Securities increased by 201.9 billion yen, or 21.5%, from March 31, 2017, to 1,139.8 billion yen.

Total liabilities were 4,475.6 billion yen, an increase of 309.9 billion yen, or 7.4%, compared to March 31, 2017. Total core funding (deposits, negotiable certificates of deposit, debentures and bonds) was 3,228.5 billion yen, an increase of 129.1 billion yen, or 4.2%, from March 31, 2017.

Net assets were 437.2 billion yen, representing an increase of 16.9 billion yen, or 4.0%, from March 31, 2017. Net assets per common share were 3,735.00 yen, as compared to 3,586.16 yen per common share as of March 31, 2017.

② Cash flow

Cash flow from operating activities was a positive 227.6 billion yen mainly due to an increase in deposit and issuance of bonds payable. From investing activities, cash flow was a negative 211.6 billion yen mainly due to the purchase of securities. Cash flow from financing activities was a negative 22.0 billion yen mainly due to dividend payments. As a result, cash and cash equivalents as of March 31, 2018 were 468.0 billion yen, a decrease of 6.0 billion yen compared to the previous fiscal year end.

(Reference)

Summary of consolidated revenue and expenses

(JPY 100 million)

	FY2016	FY2017	Change
Net revenue ※1	853	875	22
Net interest income	456	491	34
Net fees and commissions	93	114	21
Net trading income	204	171	(33)
Gains/losses on bond transactions	24	7	(17)
Net other ordinary income excluding gains/losses on bond transactions	75	93	18
General and administrative expenses	(450)	(468)	(18)
Business profit ※2	403	406	4
Credit-related expenses	111	87	(23)
Gains/losses on stock transactions	5	80	75
Other	(1)	6	7
Ordinary profit	518	580	62
Extraordinary profit/loss	(0)	(0)	(0)
Profit before income taxes	518	580	62
Total income taxes	(81)	(155)	(74)
Profit	437	425	(12)
Loss attributable to non-controlling interests	2	6	4
Profit attributable to owners of parent	438	431	(8)

※1 Net revenue = (Interest income – Interest expenses) + (Fees and commissions income – Fees and commissions expenses) + (Trading income – Trading expenses) + (Other ordinary income – Other ordinary expenses)

※2 Business profit = Net revenue – General and administrative expenses

※3 Regardless of nature of accounts, income or profits are shown as positive and expenses or losses are shown as negative amount on the table above.

(3) Policy for appropriation of earnings and dividend for the year

For this fiscal year the Bank will pay a cash dividend of 54.00 yen (184.00 yen for the entire year, assuming that the share consolidation was effective at the beginning of this accounting period) per common share.

The Bank intends to maintain a relatively stable cash dividend with a target dividend payout ratio for common shares at 50% of profit attributable to owners of parent. The Bank will continue to make quarterly dividend payments.

(Note 1) Figures stated in 0.1 billion yen units are rounded to the nearest 0.1 billion yen.

(Note 2) Aozora consolidated every ten common shares into one common share on October 1, 2017.

Per share information is presented as if the share consolidation was effective at the beginning of the previous accounting period.

2. Management Policy

The Bank today announced its new three year plan which begins on April 1, 2018 and spans the fiscal years 2018 - 2020. Please refer to the news release ‘Mid-Term Plan FY2018-2020: *“Leveraging Core Competencies.”* ‘

3. Basic view on selection of Accounting Standards

The Bank's consolidated financial statements are prepared in accordance with accounting principals generally accepted in Japan (“J GAAP”), in order to ensure the comparability with other domestic banks.

In terms of the application of IFRS, the Bank will take appropriate actions in consideration of the Group's business operations, based on internal and external situations, etc.

4. Consolidated financial statements and main notes

(1) Consolidated balance sheet

(In millions of yen)

	As of March 31, 2017	As of March 31, 2018
Assets		
Cash and due from banks	573,048	543,173
Call loans and bills bought	8,637	26,567
Monetary claims bought	46,193	45,733
Trading assets	210,700	179,671
Money held in trust	31,269	30,815
Securities	937,949	1,139,803
Loans and bills discounted	2,521,874	2,611,278
Foreign exchanges	32,617	42,576
Other assets	187,143	246,703
Tangible fixed assets	23,257	24,628
Buildings, net	9,339	12,614
Land	9,235	9,235
Leased assets, net	325	170
Construction in progress	2,718	—
Other tangible fixed assets	1,638	2,608
Intangible fixed assets	13,601	16,907
Software	13,531	16,839
Other intangible fixed assets	69	68
Deferred debenture discounts	61	36
Net defined benefit asset	1,508	2,720
Deferred tax assets	20,769	18,541
Customers' liabilities for acceptances and guarantees	28,723	27,433
Allowance for loan losses	(50,627)	(43,495)
Allowance for investment loss	(721)	(302)
Total assets	4,586,007	4,912,792
Liabilities		
Deposits	2,718,589	2,846,878
Negotiable certificates of deposit	134,513	124,060
Debentures	120,660	64,710
Call money and bills sold	93,747	90,998
Payables under repurchase agreements	—	9,823
Payables under securities lending transactions	306,327	431,309
Trading liabilities	197,711	130,201
Borrowed money	276,624	315,250
Bonds payable	125,609	192,853
Other liabilities	148,733	227,275
Provision for bonuses	3,166	3,735
Provision for directors' bonuses	95	87
Net defined benefit liability	9,231	9,533
Provision for directors' retirement benefits	1	2
Provision for credit losses on off-balance-sheet instruments	1,553	994
Provision for contingent loss	360	391
Reserves under special laws	8	8
Deferred tax liabilities	4	10
Acceptances and guarantees	28,723	27,433
Total liabilities	4,165,661	4,475,557

(In millions of yen)

	As of March 31, 2017	As of March 31, 2018
Net assets		
Capital stock	100,000	100,000
Capital surplus	87,315	87,345
Retained earnings	221,940	243,190
Treasury shares	(3,387)	(3,351)
Total shareholders' equity	405,867	427,184
Valuation difference on available-for-sale securities	23,757	35,343
Deferred gains or losses on hedges	(11,052)	(25,581)
Foreign currency translation adjustment	(84)	(1,070)
Remeasurements of defined benefit plans	(199)	(156)
Total accumulated other comprehensive income	12,421	8,535
Share acquisition rights	296	331
Non-controlling interests	1,759	1,183
Total net assets	420,345	437,234
Total liabilities and net assets	4,586,007	4,912,792

(2) Consolidated statement of income and Consolidated statement of comprehensive income
(Consolidated statement of income)

(In millions of yen)

	FY2016 (from Apr. 1, 2016 to Mar. 31, 2017)	FY2017 (from Apr. 1, 2017 to Mar. 31, 2018)
Ordinary income	134,704	148,819
Interest income	67,154	79,177
Interest on loans and discounts	42,557	48,103
Interest and dividends on securities	23,593	29,193
Interest on call loans and bills bought	1	4
Interest on receivables under resale agreements	(0)	—
Interest on receivables under securities borrowing transactions	0	—
Interest on deposits with banks	276	595
Other interest income	723	1,280
Fees and commissions	10,547	12,817
Trading income	20,433	17,094
Other ordinary income	22,442	19,688
Other income	14,125	20,041
Reversal of allowance for loan losses	9,732	7,094
Recoveries of written off claims	2,158	1,855
Reversal of provision for credit losses on off-balance-sheet instruments	—	557
Other	2,234	10,532
Ordinary expenses	82,939	90,835
Interest expenses	21,507	30,122
Interest on deposits	6,096	6,077
Interest on negotiable certificates of deposit	30	8
Interest on debentures	437	232
Interest on call money and bills sold	917	1,272
Interest on payables under repurchase agreements	—	37
Interest on payables under securities lending transactions	2,198	4,944
Interest on borrowings and rediscounts	935	1,273
Interest on bonds	132	1,037
Other interest expenses	10,759	15,239
Fees and commissions payments	1,256	1,421
Other ordinary expenses	12,540	9,755
General and administrative expenses	44,363	46,268
Other expenses	3,271	3,267
Transfer to provision for credit losses on off-balance-sheet instruments	158	—
Other	3,112	3,267
Ordinary profit	51,764	57,984
Extraordinary losses	1	21
Loss on disposal of non-current assets	1	21
Transfer to reserve for financial products transaction liabilities	0	—
Profit before income taxes	51,762	57,962
Income taxes - current	9,458	14,191
Income taxes - deferred	(1,379)	1,274
Total income taxes	8,079	15,465
Profit	43,683	42,496
Loss attributable to non-controlling interests	(165)	(567)
Profit attributable to owners of parent	43,849	43,064

(Consolidated statement of comprehensive income)

(In millions of yen)

	FY2016 (from Apr. 1, 2016 to Mar. 31, 2017)	FY2017 (from Apr. 1, 2017 to Mar. 31, 2018)
Profit	43,683	42,496
Other comprehensive income	(8,412)	(3,887)
Valuation difference on available-for-sale securities	7,498	11,585
Deferred gains or losses on hedges	(15,490)	(14,529)
Foreign currency translation adjustment	(81)	(986)
Remeasurements of defined benefit plans, net of tax	(338)	42
Comprehensive income	35,270	38,609
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	35,437	39,178
Comprehensive income attributable to non-controlling interests	(166)	(568)

(3) Consolidated statement of changes in net assets

For the fiscal year ended March 31, 2017

(In millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	100,000	87,313	199,785	(3,388)	383,710
Changes of items during period					
Dividends of surplus			(21,694)		(21,694)
Profit attributable to owners of parent			43,849		43,849
Purchase of treasury shares				(0)	(0)
Disposal of treasury shares		1		1	3
Net changes of items other than shareholders' equity					
Total changes of items during period	—	1	22,154	0	22,157
Balance at end of current period	100,000	87,315	221,940	(3,387)	405,867

	Accumulated other comprehensive income					Share acquisition rights	Non-controlling interests	Total net assets
	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 current period	16,258	4,438	(3)	139	20,833	182	772	405,498
Changes of items during period								
Dividends of surplus								(21,694)
Profit attributable to owners of parent								43,849
Purchase of treasury shares								(0)
Disposal of treasury shares								3
Net changes of items other than shareholders' equity	7,499	(15,490)	(81)	(338)	(8,411)	114	987	(7,310)
Total changes of items during period	7,499	(15,490)	(81)	(338)	(8,411)	114	987	14,846
Balance at end of current period	23,757	(11,052)	(84)	(199)	12,421	296	1,759	420,345

For the fiscal year ended March 31, 2018

(In millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	100,000	87,315	221,940	(3,387)	405,867
Changes of items during period					
Dividends of surplus			(21,813)		(21,813)
Profit attributable to owners of parent			43,064		43,064
Purchase of treasury shares				(4)	(4)
Disposal of treasury shares		30		40	70
Net changes of items other than shareholders' equity					
Total changes of items during period	—	30	21,250	35	21,317
Balance at end of current period	100,000	87,345	243,190	(3,351)	427,184

	Accumulated other comprehensive income					Share acquisition rights	Non-controlling interests	Total net assets
	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 current period	23,757	(11,052)	(84)	(199)	12,421	296	1,759	420,345
Changes of items during period								
Dividends of surplus								(21,813)
Profit attributable to owners of parent								43,064
Purchase of treasury shares								(4)
Disposal of treasury shares								70
Net changes of items other than shareholders' equity	11,585	(14,529)	(986)	42	(3,886)	35	(576)	(4,428)
Total changes of items during period	11,585	(14,529)	(986)	42	(3,886)	35	(576)	16,888
Balance at end of current period	35,343	(25,581)	(1,070)	(156)	8,535	331	1,183	437,234

(4) Consolidated statement of cash flows

(In millions of yen)

	FY2016 (from Apr. 1, 2016 to Mar. 31, 2017)	FY2017 (from Apr. 1, 2017 to Mar. 31, 2018)
Cash flows from operating activities		
Profit before income taxes	51,762	57,962
Depreciation	4,161	3,779
Increase (decrease) in allowance for loan losses	(10,746)	(7,117)
Increase (decrease) in allowance for investment loss	244	(418)
Increase (decrease) in provision for bonuses	(22)	572
Increase (decrease) in provision for directors' bonuses	19	(8)
Decrease (increase) in net defined benefit asset	(1,266)	(1,198)
Increase (decrease) in net defined benefit liability	491	349
Increase (decrease) in provision for directors' retirement benefits	(1)	0
Net change in provision for credit losses on off-balance-sheet instruments	158	(557)
Gain on fund management	(67,154)	(79,177)
Financing expenses	21,507	30,122
Loss (gain) related to securities	(2,862)	(8,670)
Loss (gain) on money held in trust	(646)	(746)
Foreign exchange losses (gains)	4,846	56,603
Loss (gain) on disposal of non-current assets	1	21
Net decrease (increase) in trading assets	126,673	31,028
Net increase (decrease) in trading liabilities	(72,157)	(67,509)
Net decrease (increase) in loans and bills discounted	(12,497)	(114,567)
Net increase (decrease) in deposit	8,057	128,289
Net increase (decrease) in negotiable certificates of deposit	(87,087)	(10,453)
Net increase (decrease) in debentures	(98,805)	(55,950)
Net increase (decrease) in borrowed money (excluding subordinated borrowings)	68,575	38,625
Net decrease (increase) in deposit (excluding deposit paid to Bank of Japan)	(42,184)	23,248
Net decrease (increase) in call loans	(19,919)	(17,469)
Net decrease (increase) in receivables under securities borrowing transactions	67,895	—
Net increase (decrease) in call money	3,478	7,075
Net increase (decrease) in payables under securities lending transactions	42,806	124,981
Net decrease (increase) in foreign exchanges - assets	(8,396)	(9,958)
Increase (decrease) in straight bonds - issuance and redemption	85,609	67,243
Proceeds from fund management	65,523	74,815
Payments for finance	(23,194)	(30,327)
Other, net	(69,006)	(288)
Subtotal	35,865	240,299
Income taxes (paid) refund	(2,621)	(12,700)
Net cash provided by (used in) operating activities	33,243	227,599

(In millions of yen)

	FY2016 (from Apr. 1, 2016 to Mar. 31, 2017)	FY2017 (from Apr. 1, 2017 to Mar. 31, 2018)
Cash flows from investing activities		
Purchase of securities	(743,860)	(658,522)
Proceeds from sales of securities	636,756	395,714
Proceeds from redemption of securities	91,963	57,986
Increase in money held in trust	(91,701)	(96,547)
Decrease in money held in trust	87,189	97,715
Purchase of tangible fixed assets	(3,790)	(2,370)
Purchase of intangible assets	(4,773)	(5,565)
Proceeds from sales of tangible fixed assets	0	10
Payments for asset retirement obligations	(27)	—
Net cash provided by (used in) investing activities	(28,244)	(211,578)
Cash flows from financing activities		
Repayments of lease obligations	(164)	(164)
Proceeds from share issuance to non-controlling shareholders	1,160	—
Cash dividends paid	(21,694)	(21,813)
Dividends paid to non-controlling interests	(6)	(8)
Purchase of treasury shares	(0)	(4)
Proceeds from sales of treasury shares	0	0
Net cash provided by (used in) financing activities	(20,705)	(21,990)
Net increase (decrease) in cash and cash equivalents	(15,705)	(5,970)
Cash and cash equivalents at beginning of period	489,707	474,001
Cash and cash equivalents at end of period	474,001	468,031

(5) Notes to consolidated financial statements

(Information on going concern assumption)

None

(Segment information)

1. Description of reportable segments

(1) Identification of operating segments

The Bank has classified its Group's business operations into business groups based upon the nature of the customers served and products offered: Retail Banking Group ('RBG'), Institutional Banking Group ('IBG'), Specialized Banking Group ('SBG'), and Financial Markets Group ('FMG').

Financial information for these groups is regularly reported to the Management Committee, which is comprised of members from amongst the Executive Officers who are approved and appointed by the Board of Directors, and is utilized for management decisions on the allocation of resources, an evaluation of the performance of each business group, and so on.

The Bank has designated these business groups as operating segments and reportable segments for the purpose of the disclosures contained herein.

(2) Services provided by each reportable segment

RBG offers financial services to retail customers. RBG's major services are the sale of investment products, including deposits, investment trusts and insurance, and other financial services.

IBG offers financial services to corporate customers, public sector customers and financial institutions. Major services offered by IBG are loans and deposits, acquisition finance, sale of financial products, financing through securitization, privately placed bonds and M&A advisory.

SBG offers financial services that require specialized expertise such as corporate restructuring finance, real estate finance and overseas loans and investments.

FMG engages in offering derivatives and foreign exchange products to customers, trading derivatives and foreign exchange products, as well as ALM operations.

2. Methods of measurement for the amounts of revenues, profit (loss), assets and liabilities by reportable segments

Revenues, profit (loss), assets and liabilities of reportable segments are recognized and measured in accordance with accounting policies applied to consolidated financial statements.

The Bank calculates its net interest income from funding and investing across reportable segments based on i) the internal transfer rates determined by the average rate of funding by the currency and by contractual term, and ii) the allocation ratio determined by the Bank based on the value of compensation for funding activities.

Fixed assets are not allocated to reportable segments, while the associated expenses are allocated to specific reportable segments and included in the segments' expenses.

3. Revenues, profit (loss), assets and liabilities by reportable segment

FY2016 (From April 1, 2016 to March 31, 2017)

(In millions of yen)

	RBG	IBG	SBG	FMG	Total
Consolidated net revenue	11,411	26,971	31,713	15,716	85,813
General and administrative expenses	9,635	15,184	15,324	4,005	44,149
Segment profit	1,776	11,787	16,389	11,710	41,663
Segment assets	12,349	1,222,415	1,578,850	1,595,351	4,408,965
Segment liabilities	1,830,039	1,354,510	66,272	817,452	4,068,273

Notes

(1) Due to the nature of the banking business, the Bank uses “consolidated net revenue” as a substitute for “sales” as would be used by non-financial service companies. Consolidated net revenue represents the total of net interest income, net fees and commissions, net trading income and net other ordinary income. The Bank oversees its revenue by reportable segment using consolidated net revenue. The Bank offsets interest income and interest expense for the management purpose, therefore, revenue in transactions between reportable segments is not disclosed.

(2) Depreciation expenses are included in the general and administrative expenses of each reportable segment but are not disclosed as a separate item, because in the calculation process of the segment profit (loss), a part of depreciation expenses is allocated to each reportable segment, aggregated with other general and administrative expenses. Therefore, depreciation expenses by reportable segment are not managed separately. The amount of depreciation expense for this period is 4,161 million yen.

FY2017 (From April 1, 2017 to March 31, 2018)

(In millions of yen)

	RBG	IBG	SBG	FMG	Total
Consolidated net revenue	12,759	28,335	29,935	16,473	87,503
General and administrative expenses	10,517	15,004	15,644	4,494	45,661
Segment profit	2,242	13,330	14,290	11,979	41,842
Segment assets	15,295	1,212,342	1,720,676	1,736,513	4,684,826
Segment liabilities	1,812,641	1,478,461	60,493	972,418	4,324,013

Notes

(1) Due to the nature of the banking business, the Bank uses “consolidated net revenue” as a substitute for “sales” as would be used by non-financial service companies. Consolidated net revenue represents the total of net interest income, net fees and commissions, net trading income and net other ordinary income. The Bank oversees its revenue by reportable segment using consolidated net revenue. The Bank offsets interest income and interest expense for the management purpose, therefore, revenue in transactions between reportable segments is not disclosed.

(2) Depreciation expenses are included in the general and administrative expenses of each reportable segment but are not disclosed as a separate item, because in the calculation process of the segment profit (loss), a part of depreciation expenses is allocated to each reportable segment, aggregated with other general and administrative expenses. Therefore, depreciation expenses by reportable segment are not managed separately. The amount of depreciation expense for this period is 3,779 million yen.

4. Reconciliation between total segment amounts and the consolidated financial statements

(1) Reconciliation between total consolidated net revenue of reportable segments and the consolidated net revenue in the consolidated financial statement of income

(In millions of yen)

Items	FY2016 (March 31, 2017)	FY2017 (March 31, 2018)
Total consolidated net revenue of reportable segments	85,813	87,503
Variances resulting from differences in the basis of revenue and expense recognition and measurement	(540)	(24)
Net revenue derived from the consolidated statement of income	85,273	87,479

(2) Reconciliation between total segment profits and the consolidated statement of income

(In millions of yen)

Items	FY2016 (March 31, 2017)	FY2017 (March 31, 2018)
Total segment profits	41,663	41,842
Variances resulting from differences in the basis of revenue and expense recognition and measurement	(1,391)	(1,211)
Amortization of actuarial differences on retirement benefit plans, etc.	637	579
Credit-related expenses, etc.	11,079	8,748
Gains (losses) on sales of stocks and other securities	474	8,015
Others	(699)	9
Ordinary profit in the consolidated statement of income	51,764	57,984

(Note)

Credit-related expenses, etc., represent the total of write-offs of loans, provision of allowance for loan losses and losses on disposition of non-performing loans.

(3) Reconciliation between total segment assets and total assets on the consolidated balance sheet

(In millions of yen)

Items	FY2016 (March 31, 2017)	FY2017 (March 31, 2018)
Total segment assets	4,408,965	4,684,826
Allowance for loan losses	(50,627)	(43,495)
Assets not allocated to reportable segments	227,670	271,462
Total assets on the consolidated balance sheet	4,586,007	4,912,792

(Note)

As of March 31, 2017, assets not allocated to reportable segments include foreign exchange of 32,617 million, other assets of 121,944 million yen, fixed assets of 36,859 million yen and deferred tax assets of 20,769 million yen. As of March 31, 2018, assets not allocated to reportable segments include foreign exchange of 42,576 million yen, other assets of 147,166 million yen, fixed assets of 41,536 million yen and deferred tax assets of 18,541 million yen.

(4) Reconciliation between total segment liabilities and total liabilities on the consolidated balance sheet

(In millions of yen)

Items	FY2016 (March 31, 2017)	FY2017 (March 31, 2018)
Total segment liabilities	4,068,273	4,324,013
Liabilities not allocated to reportable segments	97,388	151,544
Total liabilities on the consolidated balance sheet	4,165,661	4,475,557

(Note)

As of March 31, 2017, liabilities not allocated to reportable segments include other liabilities of 80,815 million yen and net defined benefit liability of 9,231 million yen. As of March 31, 2018, liabilities not allocated to reportable segments include other liabilities of 134,804 million yen and net defined benefit liability of 9,533 million yen.

(Per share information)

	FY 2016 (From April 1, 2016 to March 31, 2017)	FY 2017 (From April 1, 2017 to March 31, 2018)
Net assets per share	3,586.16 yen	3,735.00 yen
Net income per share	375.93 yen	369.16 yen
Diluted net income per share	375.70 yen	368.89 yen

(Note 1) Aozora consolidated every ten common shares into one common share on October 1, 2017. "Net assets per share", "Net income per share" and "Diluted net income per share" are presented as if the share consolidation was effective at the beginning of the previous accounting period.

(Note 2) Basis of calculation for Net assets per share is shown below.

		FY 2016 (As of March 31, 2017)	FY 2017 (As of March 31, 2018)
Net assets	Million yen	420,345	437,234
Deductions from net assets	Million yen	2,056	1,514
Non-controlling interests	Million yen	1,759	1,183
Share acquisition rights	Million yen	296	331
Net assets available to common stock	Million yen	418,289	435,719
Number of common stock at the end of fiscal year for calculation of Net assets per share	Thousand shares	116,639	116,658

(Note 3) Basis of calculation of Net income per share and Diluted net income per share is shown below.

		FY 2016 (From April 1, 2016 to March 31, 2017)	FY 2017 (From April 1, 2017 to March 31, 2018)
Net income per share			
Profit attributable to owners of parent	Million yen	43,849	43,064
Not available to common stockholders	Million yen	–	–
Profit attributable to owners of parent available to common stock	Million yen	43,849	43,064
Average number of common stock	Thousand shares	116,639	116,654
Diluted net income per share			
Adjustments for profit attributable to owners of parent	Million yen	–	–
Number of common stock to increase	Thousand shares	73	85
Share acquisition rights	Thousand shares	73	85

(Material subsequent event)

None

5. Non-consolidated financial statements

(1) Non-consolidated balance sheet

(In millions of yen)

	As of March 31, 2017	As of March 31, 2018
Assets		
Cash and due from banks	532,532	503,885
Cash	13,909	17,388
Due from banks	518,623	486,496
Call loans	8,637	26,567
Monetary claims bought	16,795	19,246
Trading assets	210,698	179,646
Derivatives of trading securities	1,388	6,187
Securities related to trading transactions	2,008	—
Derivatives of securities related to trading transactions	1,299	1,518
Trading-related financial derivatives	206,001	171,940
Money held in trust	10,008	11,868
Securities	1,010,660	1,209,919
Government bonds	8,020	8,020
Local government bonds	26,652	32,445
Corporate bonds	27,829	33,601
Stocks	80,587	103,107
Other securities	867,571	1,032,744
Loans and bills discounted	2,538,325	2,624,742
Bills discounted	500	177
Loans on bills	28,641	18,669
Loans on deeds	2,341,726	2,444,621
Overdrafts	167,457	161,272
Foreign exchanges	32,617	42,576
Due from foreign banks (our accounts)	32,617	42,576
Other assets	187,459	246,858
Prepaid expenses	680	697
Accrued income	9,066	11,952
Initial margins of futures markets	540	540
Variation margins of futures markets	87	879
Derivatives other than for trading - assets	65,198	99,536
Cash collateral paid for financial instruments	81,999	72,933
Bond issuance cost	365	405
Other	29,521	59,912
Tangible fixed assets	23,137	23,916
Buildings, net	9,293	12,462
Land	9,235	9,235
Leased assets, net	325	170
Construction in progress	2,706	—
Other tangible fixed assets	1,576	2,048
Intangible fixed assets	12,465	12,549
Software	12,397	12,482
Other intangible fixed assets	67	67
Deferred debenture discounts	61	36
Debenture issuance cost	61	36
Prepaid pension cost	1,372	2,571
Deferred tax assets	21,222	19,028
Customers' liabilities for acceptances and guarantees	28,556	27,353
Allowance for loan losses	(50,427)	(43,236)
Allowance for investment loss	(721)	(302)
Total assets	4,583,403	4,907,226

(In millions of yen)

	As of March 31, 2017	As of March 31, 2018
Liabilities		
Deposits	2,731,921	2,856,291
Current deposits	24,858	26,471
Ordinary deposits	465,521	443,616
Deposits at notice	3,640	1,305
Time deposits	2,218,514	2,281,160
Other deposits	19,385	103,737
Negotiable certificates of deposit	134,513	124,060
Debentures	120,660	64,710
Debenture issuance	120,660	64,710
Call money	93,747	90,998
Payables under repurchase agreements	—	9,823
Payables under securities lending transactions	306,327	431,309
Trading liabilities	197,711	130,201
Derivatives of trading securities - assets	1,101	—
Derivatives of securities related to trading transactions	3,269	3,944
Trading-related financial derivatives	193,341	126,257
Borrowed money	275,537	313,660
Borrowings from other banks	275,537	313,660
Bonds payable	125,609	192,853
Other liabilities	143,802	223,271
Income taxes payable	7,003	8,236
Accrued expenses	8,112	8,280
Unearned revenue	301	358
Variation margins of futures markets	28	6
Derivatives other than for trading - liabilities	67,918	92,470
Cash collateral received for financial instruments	45,673	82,354
Lease obligations	335	171
Asset retirement obligations	1,614	1,888
Other	12,813	29,505
Provision for bonuses	3,039	3,531
Provision for directors' bonuses	85	77
Provision for retirement benefits	8,694	9,015
Provision for credit losses on off-balance-sheet instruments	1,519	975
Acceptances and guarantees	28,556	27,353
Total liabilities	4,171,725	4,478,133
Net assets		
Capital stock	100,000	100,000
Capital surplus	87,315	87,345
Legal capital surplus	87,313	87,313
Other capital surplus	1	32
Retained earnings	214,892	235,094
Legal retained earnings	12,686	12,686
Other retained earnings	202,206	222,407
Retained earnings brought forward	202,206	222,407
Treasury shares	(3,387)	(3,351)
Total shareholders' equity	398,820	419,088
Valuation difference on available-for-sale securities	23,613	35,253
Deferred gains or losses on hedges	(11,052)	(25,581)
Total valuation and translation adjustments	12,561	9,672
Share acquisition rights	296	331
Total net assets	411,678	429,092
Total liabilities and net assets	4,583,403	4,907,226

(2) Non-consolidated statement of income

(In millions of yen)

	FY2016 (from Apr. 1, 2016 to Mar. 31, 2017)	FY2017 (from Apr. 1, 2017 to Mar. 31, 2018)
Ordinary income	130,272	143,932
Interest income	66,018	77,128
Interest on loans and discounts	41,514	46,180
Interest and dividends on securities	23,534	29,156
Interest on call loans	1	4
Interest on receivables under resale agreements	(0)	—
Interest on receivables under securities borrowing transactions	0	—
Interest on deposits with banks	243	507
Other interest income	723	1,280
Fees and commissions	12,359	14,329
Fees and commissions on domestic and foreign exchanges	161	153
Other fees and commissions	12,198	14,175
Trading income	17,300	14,284
Gains on trading account securities transactions	208	5,391
Income from securities and derivatives related to trading transactions	2,113	1,361
Income from trading-related financial derivatives transactions	14,978	7,530
Other ordinary income	21,822	19,227
Gains on sales of bonds	7,276	3,530
Gains on redemption of bonds	—	0
Income from derivatives other than for trading or hedging	1,333	352
Other	13,212	15,343
Other income	12,770	18,963
Reversal of allowance for loan losses	8,874	7,167
Recoveries of written off claims	1,911	1,712
Reversal of provision for credit losses on off-balance-sheet instruments	—	544
Gain on sales of stocks and other securities	474	8,015
Gain on money held in trust	120	114
Other	1,389	1,408
Ordinary expenses	80,191	86,984
Interest expenses	21,494	30,095
Interest on deposits	6,097	6,077
Interest on negotiable certificates of deposit	30	8
Interest on debentures	437	232
Interest on call money	917	1,272
Interest on payables under repurchase agreements	—	37
Interest on payables under securities lending transactions	2,198	4,944
Interest on borrowings and rediscounts	921	1,245
Interest on bonds	132	1,037
Interest on interest swaps	8,098	9,877
Other interest expenses	2,660	5,361
Fees and commissions payments	3,136	3,853
Fees and commissions on domestic and foreign exchanges	93	101
Other fees and commissions	3,043	3,752
Other ordinary expenses	12,661	9,699
Loss on foreign exchange transactions	5,125	4,042
Loss on sales of bonds	4,364	2,759

(In millions of yen)

	FY2016 (from Apr. 1, 2016 to Mar. 31, 2017)	FY2017 (from Apr. 1, 2017 to Mar. 31, 2018)
Loss on redemption of bonds	524	116
Loss on devaluation of bonds	—	0
Amortization of debenture issuance cost	56	25
Amortization of bond issuance cost	88	190
Other	2,502	2,564
General and administrative expenses	40,342	41,060
Other expenses	2,556	2,274
Written-off of loans	385	461
Transfer to provision for credit losses on off- balance-sheet instruments	120	—
Losses on devaluation of stocks and other securities	365	0
Other	1,685	1,813
Ordinary profit	50,081	56,948
Extraordinary losses	1	21
Loss on disposal of non-current assets	1	21
Profit before income taxes	50,079	56,926
Income taxes - current	9,064	13,542
Income taxes - deferred	(2,461)	1,368
Total income taxes	6,603	14,910
Profit	43,475	42,015

(3) Non-consolidated statement of changes in net assets

For the fiscal year ended March 31, 2017

(In millions of yen)

	Shareholders' equity								
	Capital stock	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 current period	100,000	87,313	—	87,313	12,686	180,425	193,112	(3,388)	377,037
Changes of items during period									
Dividends of surplus						(21,694)	(21,694)		(21,694)
Profit						43,475	43,475		43,475
Purchase of treasury shares								(0)	(0)
Disposal of treasury shares			1	1				1	3
Net changes of items other than shareholders' equity									
Total changes of items during period	—	—	1	1	—	21,780	21,780	0	21,783
Balance at end of current period	100,000	87,313	1	87,315	12,686	202,206	214,892	(3,387)	398,820

	Valuation and translation adjustments			Subscription rights to shares	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments		
Balance at beginning of current period	16,084	4,438	20,523	182	397,742
Changes of items during period					
Dividends of surplus					(21,694)
Profit					43,475
Purchase of treasury shares					(0)
Disposal of treasury shares					3
Net changes of items other than shareholders' equity	7,528	(15,490)	(7,961)	114	(7,847)
Total changes of items during period	7,528	(15,490)	(7,961)	114	13,935
Balance at end of current period	23,613	(11,052)	12,561	296	411,678

For the fiscal year ended March 31, 2018

(In millions of yen)

	Shareholders' equity								
	Capital stock	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 current period	100,000	87,313	1	87,315	12,686	202,206	214,892	(3,387)	398,820
Changes of items during period									
Dividends of surplus						(21,813)	(21,813)		(21,813)
Profit						42,015	42,015		42,015
Purchase of treasury shares								(4)	(4)
Disposal of treasury shares			30	30				40	70
Net changes of items other than shareholders' equity									
Total changes of items during period	—	—	30	30	—	20,201	20,201	35	20,268
Balance at end of current period	100,000	87,313	32	87,345	12,686	222,407	235,094	(3,351)	419,088

	Valuation and translation adjustments			Subscription rights to shares	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments		
Balance at beginning of current period	23,613	(11,052)	12,561	296	411,678
Changes of items during period					
Dividends of surplus					(21,813)
Profit					42,015
Purchase of treasury shares					(4)
Disposal of treasury shares					70
Net changes of items other than shareholders' equity	11,640	(14,529)	(2,888)	35	(2,853)
Total changes of items during period	11,640	(14,529)	(2,888)	35	17,414
Balance at end of current period	35,253	(25,581)	9,672	331	429,092

(4) Notes to non-consolidated financial statements

(Information on going concern assumption)

None