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

**Aozora Reports Net Income of 43.8 billion for FY2016;
Increase of 0.3 billion compared to previous year, 102% of Forecast;
Announces FY2016 Dividend Payment, FY2017 Earnings and Dividend Forecast**

TOKYO May 15, 2017 – Aozora Bank, Ltd. (“Aozora” or “the Bank”), a leading Japanese commercial bank, today announced its financial results for FY2016, its FY2016 full-year dividend payment, as well as the Bank’s FY2017 earnings and dividend forecasts.

Financial results for FY2016

Aozora reported consolidated net income of 43.8 billion yen for FY2016. This result exceeded the full-year forecast of 43.0 billion yen.

Shinsuke Baba, Representative Director, President and Chief Executive Officer of Aozora Bank commented, “The banking sector continued to experience a difficult business environment due to ongoing uncertainty in global market conditions. In the face of these conditions, we were pleased to have exceeded our previous year’s earnings as well as our full-year earnings forecast for fiscal year 2016. This positive result was a product of several factors including our ongoing focus on disciplined balance sheet management and diversification of income sources. Today we also announced a full-year dividend of 18.70 yen per common share for fiscal year 2016, exceeding the forecast by 0.30 yen. The fourth quarter dividend payment will be 5.70 yen.”

Baba concluded, “Looking ahead, we remain committed to leveraging our expertise and the provision of differentiated services in order to 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 full-year results (Consolidated)

- Net revenue was 85.3 billion yen, a decrease of 6.1 billion yen, or 6.7% year on year, and business profit was 40.3 billion yen, a decrease of 8.3 billion yen, or 17.1% year on year. Net income was 43.8 billion yen, an increase of 0.3 billion yen, or 0.7%, exceeding the full-year forecast of 43.0 billion yen.
 - Net interest income was 45.6 billion yen, a decrease of 4.2 billion yen, or 8.4% year on year. The change was due to factors including a decline in average asset balances, while the yield on loans and securities increased as the Bank continued its disciplined approach to balance sheet management. The net interest margin was 1.28%.
 - Non-interest income was 39.6 billion yen, a decrease of 2.0 billion yen, or 4.8% year on year. The decline was mainly due to risk reduction measures taken by the Bank in the fourth quarter (Jan.-Mar.) of FY2016, including to its U.S. Treasury bond positions, in order to better secure future income. For FY2016, the Bank recorded strong earnings from the sale of investment products tailored to the needs of its financial institution customers, as well as from the sale in the fourth quarter (Jan.-Mar.) of financial products to the Bank’s mass affluent retail customers.
 - General and administrative expenses were 45.0 billion yen, a year on year increase of 2.2 billion yen, or 5.1%. The increase was mainly due to amortization expenses recognized as a result of the Bank’s new core banking system. The OHR (general and administrative expenses as a percentage of net revenue) was 52.8%.
 - Credit-related expenses were a net reversal of 11.1 billion yen, mainly due to the reversal of loan loss reserves as well as recoveries of written-off claims, and compares with the net reversal of 4.7 billion yen recorded in FY2015. In the fourth quarter (Jan.-Mar.), credit-related expenses were a net reversal of 6.7 billion yen.

- Total loans were 2,521.9 billion yen, an increase of 10.3 billion yen, or 0.4%, from March 31, 2016. Domestic loans decreased 31.2 billion yen as the Bank maintained its focus on balancing risk and return. Overseas loans increased 41.5 billion yen.
- The Bank continued its efforts to flexibly manage its funding position. Total core funding (deposits, negotiable certificates of deposit, debentures and bonds) was 3,099.4 billion yen, a decrease of 92.2 billion yen from March 31, 2016. The percentage of retail funding to total core funding was 59% and remained at an appropriate level.
- Non-performing claims as defined by the Financial Reconstruction Law (FRL) were 12.9 billion yen, a decrease of 10.1 billion yen, or 43.9%, from March 31, 2016. The FRL ratio declined by 0.40 points to 0.50%. The ratio of loan loss reserves to total loans on a consolidated basis remained high at 2.00%.
- The Bank's consolidated capital adequacy ratio (domestic standard) remained at an adequate level at 10.75% (preliminary basis).

Note: In this document, consolidated net income represents 'profit attributable to owners of parent'.

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. FY2016 Performance (April 1, 2016 to March 31, 2017)

Consolidated basis

(billion yen)	Net Revenue	Business Profit	Ordinary Profit	Net Income	Net Income per common share
FY2016 results (a)	85.3	40.3	51.8	43.8	37.59 yen
FY2015 results (b)	91.4	48.6	55.7	43.5	37.29 yen
Change (a) - (b)	-6.1	-8.3	-3.9	0.3	0.30 yen
Percentage change ((a)-(b)) / (b)	-6.7%	-17.1%	-7.0%	0.7%	0.8%
FY2016 full-year forecast (c)	92.0	47.0	53.0	43.0	36.86 yen
Achievement (a)/(c)	92.6%	85.6%	97.6%	101.9%	101.9%

Non-consolidated basis

(billion yen)	Net Revenue	Business Profit before general loan-loss reserve	Ordinary Profit	Net Income	Net Income per common share
FY2016 results (a)	80.2	39.2	50.1	43.5	37.27 yen
FY2015 results (b)	86.1	46.8	54.5	42.6	36.55 yen
Change (a) - (b)	-5.9	-7.6	-4.4	0.9	0.72 yen
Percentage change ((a)-(b)) / (b)	-6.9%	-16.2%	-8.1%	2.1%	2.0%
FY2016 full-year forecast (c)	86.0	45.0	51.0	41.0	35.15 yen
Achievement (a)/(c)	93.2%	87.2%	98.1%	106.0%	106.0%

3. FY2016 Dividend Payment

	Dividend per common share				
Record date	1 st quarter	2 nd quarter	3 rd quarter	Year-end	Total
Previous forecast				5.40 yen	18.40 yen
Year-end payment				5.70 yen	18.70 yen
Payments in FY2016	4.00 yen	4.00 yen	5.00 yen		
Payments in FY2015	4.00 yen	4.00 yen	5.00 yen	5.60 yen	18.60 yen

The total dividend per common share for FY2016 will be 18.70 yen (0.10 yen increase compared to FY2015) as a result of recording consolidated net income of 43.8 billion yen, exceeding the full-year forecast. The Bank previously announced a dividend forecast of 18.40 yen per common share for FY2016 based on a total dividend amount representing 50% of the consolidated net income forecast of 43.0 billion yen. The total dividend payment for the first three quarters was 13.00 yen. The fourth quarter dividend payment will be 5.70 yen.

4. Earnings Forecast for FY2017

Consolidated basis

(billion yen)	Net Revenue	Business Profit	Ordinary Profit	Net Income	Net Income per common share
FY2017 forecast (a)	92.0	46.0	56.5	43.0	36.86 yen
FY2016 results (b)	85.3	40.3	51.8	43.8	37.59 yen
Change (a) - (b)	6.7	5.7	4.7	-0.8	-0.73 yen
Percentage change ((a)-(b)) / (b)	7.9%	14.1%	9.1%	-1.8%	-1.9%
FY2015 results	91.4	48.6	55.7	43.5	37.29 yen

Non-consolidated basis

(billion yen)	Net Revenue	Business Profit before general loan-loss reserve	Ordinary Profit	Net Income	Net Income per common share
FY2017 forecast (a)	86.0	44.0	54.0	42.0	36.00 yen
FY2016 results (b)	80.2	39.2	50.1	43.5	37.27 yen
Change (a) - (b)	5.8	4.8	3.9	-1.5	-1.27 yen
Percentage change ((a)-(b)) / (b)	7.2%	12.2%	7.8%	-3.4%	-3.4%
FY2015 results	86.1	46.8	54.5	42.6	36.55 yen

5. FY2017 Dividend Forecast

	Full-year dividend per common share	
	Forecast	Dividend payment
FY2017	18.40 yen	—
FY2016	18.40 yen	18.70 yen
FY2015	18.40 yen	18.60 yen

The full-year dividend forecast per common share for FY2017 is based on the total dividend amount, which is 50% of the consolidated net income forecast for the full year divided by the total number of common shares issued, excluding treasury stock, as of March 31, 2017.

The dividend forecast for FY2017 is only disclosed on a full-year basis. As was our practice in FY2016, the Bank will pay common share dividends on a quarterly basis.

I. Revenue and Expenses

(billion yen)	FY2015		FY2016		Change (B) – (A)		Page
	3 months Jan.-Mar.	Full-Year (A)	3 months Jan.-Mar.	Full-Year (B)	Amount	%	
Net revenue	22.5	91.4	14.9	85.3	-6.1	-6.7%	-
Net interest income	11.0	49.8	11.5	45.6	-4.2	-8.4%	6
Net interest margin	1.24%	1.31%	1.28%	1.28%	-0.03%	-	6
Non-interest income	11.5	41.6	3.3	39.6	-2.0	-4.8%	-
Net fees and commissions	2.8	11.5	2.5	9.3	-2.2	-19.1%	7
Net trading revenues	4.7	12.2	4.6	20.4	8.2	67.2%	7
Gains/losses on bond transactions	2.1	8.1	-3.0	2.4	-5.7	-70.4%	8
Net other ordinary income excluding gains/losses on bond transactions	1.9	9.8	-0.8	7.5	-2.3	-23.5%	8
General & administrative expenses	-12.5	-42.8	-11.8	-45.0	-2.2	-5.1%	9
Business profit	10.0	48.6	3.0	40.3	-8.3	-17.1%	-
Credit-related expenses	2.9	4.7	6.7	11.1	6.4	-	9
Ordinary profit	12.6	55.7	9.3	51.8	-3.9	-7.0%	-
Extraordinary profit/loss	-0.0	-0.0	-0.0	-0.0	0.0	-	-
Income before taxes and minority interests	12.6	55.7	9.3	51.8	-3.9	-7.0%	-
Taxes	-4.2	-12.2	-1.2	-8.1	4.1	-	9
Net income	8.4	43.5	8.3	43.8	0.3	0.7%	-

In FY2016, the Bank recorded consolidated net revenue of 85.3 billion yen, a decrease of 6.1 billion yen, or 6.7% year on year. In the fourth quarter (Jan.-Mar.), the Bank took risk reduction measures, including to its U.S. Treasury bond positions, in order to better secure future income.

Net interest income was 45.6 billion yen, a decrease of 4.2 billion yen, or 8.4% year on year. This change was due to factors including a decline in average asset balances, while the yield on loans and securities increased as the Bank continued its disciplined approach to balance sheet management. The net interest margin was 1.28%.

Non-interest income was 39.6 billion yen, a decrease of 2.0 billion yen, or 4.8% year on year. Net fees and commissions were 9.3 billion yen, a decrease of 2.2 billion yen, or 19.1% year on year. Net trading revenues were 20.4 billion yen, an increase of 8.2 billion yen, or 67.2%, mainly due to strong earnings from the sale of derivative-related products designed to meet the needs of our financial institution customers. Earnings from the sale of financial products to the Bank's mass affluent retail customers also increased compared to the previous year. Gains/losses on bond transactions were a gain of 2.4 billion yen, a decrease of 5.7 billion yen compared with FY2015, mainly reflecting risk reduction measures taken by the Bank, including to its U.S. Treasury bond positions. Net other ordinary income, excluding gains/losses on bond transactions, was 7.5 billion yen, a year on year decrease of 2.3 billion yen.

General and administrative expenses were 45.0 billion yen, an increase of 2.2 billion yen, or 5.1% year on year. The increase was mainly due to amortization expenses recognized as a result of the Bank's new core banking system. General and administrative expenses were in line with the full-year budget for FY2016 and reflected the Bank's continued efforts to control costs. The OHR (general and administrative expenses as a percentage of net revenue) was 52.8%.

Consolidated business profit was 40.3 billion yen, a decrease of 8.3 billion yen, or 17.1%.

Credit-related expenses were a net reversal of 11.1 billion yen, mainly due to the reversal of loan loss reserves as well as recoveries of written-off claims. Ordinary profit and pre-tax income were both 51.8 billion yen, a decrease of 3.9 billion yen, or 7.0%. Taxes were a net expense of 8.1 billion yen.

As a result of the above factors, consolidated net income was 43.8 billion yen, an increase of 0.3 billion yen, or 0.7% year on year, exceeding the full-year forecast of 43.0 billion yen.

1. Net Revenue

(1)①Net Interest Income

(billion yen)	FY2015		FY2016		Change (B) – (A)
	3 months Jan.-Mar.	Full-Year (A)	3 months Jan.-Mar.	Full-Year (B)	
Net interest income (a)-(b)	11.0	49.8	11.5	45.6	-4.2
Interest income (a)	15.4	65.2	17.7	67.2	2.0
Interest on loans and discounts	10.8	43.4	10.9	42.6	-0.8
Interest and dividends on securities	4.3	20.1	6.5	23.6	3.5
Other interest income	0.3	1.5	0.3	1.0	-0.5
Interest on swaps	0.1	0.3	-0.0	-	-0.3
Interest expenses (b)	-4.4	-15.4	-6.2	-21.5	-6.1
Interest on deposits and NCDs	-2.0	-8.3	-1.3	-6.1	2.2
Interest on debentures and bonds	-0.2	-0.6	-0.2	-0.6	0.0
Interest on borrowings and rediscount	-0.2	-0.9	-0.3	-0.9	0.0
Other interest expenses	-0.5	-1.4	-1.1	-3.1	-1.7
Interest on swaps	-1.5	-4.1	-3.3	-10.7	-6.6

(1)②Net Interest Margin

	FY2015		FY2016		Change (B) – (A)
	3 months Jan.-Mar.	Full-Year (A)	3 months Jan.-Mar.	Full-Year (B)	
Yield on total investments (a)	1.69%	1.69%	1.92%	1.84%	0.15%
Yield on loans	1.70%	1.63%	1.73%	1.68%	0.05%
Yield on securities	1.90%	2.01%	2.60%	2.49%	0.48%
Yield on funding (b)	0.45%	0.38%	0.64%	0.56%	0.18%
Net interest margin (a)-(b)	1.24%	1.31%	1.28%	1.28%	-0.03%

Net interest income was 45.6 billion yen, a decrease of 4.2 billion yen, or 8.4% year on year. Interest income increased 2.0 billion yen mainly due to an increase in the yield on total investments, while average asset balances declined as compared to the previous year. Interest expenses increased 6.1 billion yen mainly as a result of increased U.S. dollar funding costs. In the fourth quarter (Jan.-Mar.), net interest income increased as compared to the previous year.

The yield on total investments increased 15 bps year on year to 1.84% due to an increase in the yield on loans and securities as the Bank continued its disciplined approach to balance sheet management. Funding costs increased 18 bps to 0.56% mainly due to an increase in U.S. dollar funding costs, the impact of which exceeded the decline in yen funding costs. The net interest margin was 1.28%.

Although U.S. interest rates increased during FY2016, the increase in market interest rates had little impact on net earnings as the majority of foreign currency-denominated loans are on a floating rate basis. While U.S. dollar funding premiums have settled recently, the Bank will continue to monitor market trends.

(2) Net Fees and Commissions

(billion yen)	FY2015		FY2016		Change (B) – (A)
	3 months Jan.-Mar.	Full-Year (A)	3 months Jan.-Mar.	Full-Year (B)	
Net fees and commissions (a)-(b)	2.8	11.5	2.5	9.3	-2.2
Fees and commissions received (a)	3.2	12.5	2.9	10.5	-2.0
Loan business-related and deposits	1.4	5.0	1.4	5.2	0.2
Securities-related and agency	1.2	5.6	1.0	3.7	-1.9
Others	0.6	1.9	0.5	1.7	-0.2
Fees and commissions payments (b)	-0.3	-1.0	-0.3	-1.3	-0.3

Net fees and commissions were 9.3 billion yen, a decrease of 2.2 billion yen, or 19.1% year on year. The change was mainly due to a decline in earnings from the sale of investment trusts and insurance. Loan-related fee income increased as compared to FY2015.

Earnings from the sale of financial products to our mass affluent retail customers were 7.4 billion yen, a year on year increase of 0.4 billion yen, mainly reflecting favorable earnings from the sale of structured bonds. The Bank is committed to providing customer-oriented services and will continue its efforts to enhance its investment product line-up in response to the needs of its customers, as well as strengthen the consultative skills of its sales staff, in order to contribute to stable asset growth for our customers.

【Ref. 】 Earnings from Financial Product Sales to Retail Customers

(billion yen)	FY2015		FY2016		Change (B) – (A)
	3 months Jan.-Mar.	Full-Year (A)	3 months Jan.-Mar.	Full-Year (B)	
Earnings related to the sale of investment trusts, insurance and structured bonds	1.6	7.0	2.9	7.4	0.4

Note: Earnings related to the sale of investment trusts and insurance are recorded as net fees and commissions, and earnings related to the sale of structured bonds are recorded as trading revenues.

(3) Net Trading Revenues

(billion yen)	FY2015		FY2016		Change (B) – (A)
	3 months Jan.-Mar.	Full-Year (A)	3 months Jan.-Mar.	Full-Year (B)	
Net trading revenues	4.7	12.2	4.6	20.4	8.2
Income on trading-related financial derivatives transactions	4.3	10.1	2.3	15.0	4.9
Others	0.4	2.1	2.4	5.5	3.4

Net trading revenues were 20.4 billion yen, an increase of 8.2 billion yen, or 67.2% year on year. The Bank recorded strong earnings from the sale of derivative-related products designed to meet the asset management needs of our financial institution customers as well as the sale of structured bonds to our mass affluent retail customers.

(4) Gains/Losses on Bond Transactions

(billion yen)	FY2015		FY2016		Change (B) – (A)
	3 months Jan.-Mar.	Full-Year (A)	3 months Jan.-Mar.	Full-Year (B)	
Gains/losses on bond transactions	2.1	8.1	-3.0	2.4	-5.7
Japanese government bonds	-0.0	0.7	-	-	-0.7
Foreign government bonds and mortgage bonds	1.2	4.2	-4.0	-0.2	-4.4
Others	0.9	3.2	1.0	2.6	-0.6

Gains/losses on bond transactions were a gain of 2.4 billion yen, a decline of 5.7 billion yen as compared to FY2015, and included gains on the sale of J-REITs. The decline mainly reflected risk reduction measures taken by the Bank in the fourth quarter (Jan.-Mar.) of FY2016, including to its U.S. Treasury bond positions, in order to better secure future income amid ongoing uncertainty in global market conditions.

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

(billion yen)	FY2015		FY2016		Change (B) – (A)
	3 months Jan.-Mar.	Full-Year (A)	3 months Jan.-Mar.	Full-Year (B)	
Net other ordinary income excluding gains/losses on bond transactions	1.9	9.8	-0.8	7.5	-2.3
Gains from limited partnerships	1.5	8.2	1.3	8.2	0.0
Real estate-related	0.5	1.4	0.8	2.7	1.3
Distressed loan-related	0.6	4.0	0.7	4.0	0.0
Others (Buyout, etc.)	0.4	2.8	-0.3	1.5	-1.3

Net other ordinary income, excluding gains/losses on bond transactions, was 7.5 billion yen, a decrease of 2.3 billion yen, or 23.5% year on year. Gains from limited partnerships were 8.2 billion yen, which were the same as the previous year and mainly reflected the solid results recorded in the Bank's distressed loan business. This result also included favorable gains recognized from the Bank's real estate-related limited partnerships.

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

(billion yen)	FY2015		FY2016		Change (B) – (A)
	3 months Jan.-Mar.	Full-Year (A)	3 months Jan.-Mar.	Full-Year (B)	
G&A expenses	-12.5	-42.8	-11.8	-45.0	-2.2
Personnel	-5.8	-21.1	-6.0	-21.9	-0.8
Non-personnel expense	-5.6	-18.8	-5.1	-19.6	-0.8
Tax	-1.1	-2.9	-0.8	-3.5	-0.6

General and administrative expenses were 45.0 billion yen, an increase of 2.2 billion yen, or 5.1% year on year. The increase was mainly due to amortization expenses recognized as a result of the Bank's new core banking system, as well as some incremental personnel expenses in the Bank's focus business areas. General and administrative expenses were in line with the full-year budget for FY2016 and reflected the Bank's continued efforts to control costs. The OHR (general and administrative expenses as a percentage of net revenue) was 52.8%.

3. Credit-Related Expenses

(billion yen)	FY2015		FY2016		Change (B) – (A)
	3 months Jan.-Mar.	Full-Year (A)	3 months Jan.-Mar.	Full-Year (B)	
Credit-related expenses	2.9	4.7	6.7	11.1	6.4
Write-off of loans	-0.1	-0.2	-0.1	-0.2	0.0
Reserve for possible loan losses	2.5	1.3	6.4	9.7	8.4
Specific reserve for possible loan losses	-1.0	-1.5	1.4	4.0	5.5
General reserve for possible loan losses	3.5	2.8	5.1	5.8	3.0
Gains/losses on disposition of loans	-0.0	-0.1	0.0	-0.5	-0.4
Recoveries of written-off claims	0.0	3.4	0.8	2.2	-1.2
Reserve for credit losses on off-balance-sheet instruments	0.5	0.3	-0.5	-0.2	-0.5

Credit-related expenses were a net reversal of 11.1 billion yen, mainly due to the reversal of loan loss reserves as well as recoveries of written-off claims. This result compares with a net reversal of 4.7 billion yen in FY2015. In the fourth quarter (Jan.-Mar.), credit-related expenses were a net reversal of 6.7 billion yen. The ratio of loan loss reserves to total loans remained high at 2.00% and incorporates the Bank's mid- to long-term perspective on the conservative allocation of reserves.

4. Taxes

(billion yen)	FY2015		FY2016		Change (B) – (A)
	3 months Jan.-Mar.	Full-Year (A)	3 months Jan.-Mar.	Full-Year (B)	
Taxes	-4.2	-12.2	-1.2	-8.1	4.1

Taxes were a net expense of 8.1 billion yen, compared with a net expense of 12.2 billion yen in FY2015. As a result of a change in the Bank's accounting classification for the calculation of deferred tax assets to Category 2 under Japanese tax rules, in the first quarter the Bank fully recognized the total amount of future deductible temporary differences.

II. Balance Sheet

(billion yen)	Mar. 31, 2016 (A)	Dec. 31, 2016	Mar. 31, 2017 (B)	Change (B) — (A)		Page
				Amount	%	
Total assets	4,592.9	4,797.4	4,586.0	-6.9	-0.2%	-
Loan and bills discounted	2,511.6	2,594.1	2,521.9	10.3	0.4%	11
Securities	923.5	1,079.2	937.9	14.4	1.6%	12
Cash and due from banks	546.3	590.4	573.0	26.7	4.9%	-
Trading assets	337.4	228.2	210.7	-126.7	-37.6%	-
Others	274.1	305.5	342.4	68.3	24.9%	-
Total liabilities	4,187.4	4,388.1	4,165.7	-21.7	-0.5%	-
Deposits and negotiable certificates of deposit	2,932.1	2,989.7	2,853.1	-79.0	-2.7%	11
Debentures, Bonds	259.5	225.1	246.3	-13.2	-5.1%	11
Borrowed money	208.0	257.7	276.6	68.6	33.0%	-
Payables under securities lending transactions	263.5	368.0	306.3	42.8	16.2%	-
Trading liabilities	269.9	229.4	197.7	-72.2	-26.8%	-
Others	254.4	318.2	285.6	31.2	12.3%	-
Total net assets	405.5	409.3	420.3	14.8	3.6%	-
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	199.8	219.5	221.9	22.1	11.1%	-
Treasury stock	-3.4	-3.4	-3.4	0.0	0.0%	-
Valuation difference on available-for-sale securities	16.3	10.7	23.8	7.5	46.0%	-
Others	5.5	-4.8	-9.3	-14.8	-	-
Total liabilities and net assets	4,592.9	4,797.4	4,586.0	-6.9	-0.2%	-

Total assets were 4,586.0 billion yen as of March 31, 2017, a decrease of 6.9 billion yen, or 0.2%, compared to March 31, 2016. Loans were 2,521.9 billion yen, an increase of 10.3 billion yen, or 0.4%, from March 31, 2016. Domestic loans decreased 31.2 billion yen, while overseas loans increased 41.5 billion yen. Securities increased by 14.4 billion yen, or 1.6%, from March 31, 2016, to 937.9 billion yen.

Total liabilities were 4,165.7 billion yen, a decrease of 21.7 billion yen, or 0.5%, compared to March 31, 2016. The Bank continued its efforts to flexibly manage its funding position. Total core funding (deposits, negotiable certificates of deposit, debentures and bonds) was 3,099.4 billion yen, a decrease of 92.2 billion yen, or 2.9%, from March 31, 2016.

Net assets were 420.3 billion yen, representing an increase of 14.8 billion yen, or 3.6%, in comparison with March 31, 2016.

Net assets per common share were 358.61 yen, as compared to 346.83 yen per common share as of March 31, 2016.

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

(billion yen)	Mar. 31, 2016 (A)	Dec. 31, 2016	Mar. 31, 2017 (B)	Change (B)–(A)
Total core funding	3,191.6	3,214.8	3,099.4	-92.2

Funding sources by product

(billion yen)	Mar. 31, 2016 (A)	Dec. 31, 2016	Mar. 31, 2017 (B)	Change (B)–(A)
Deposits/NCDs	2,932.1	2,989.7	2,853.1	-79.0
Debentures/Bonds	259.5	225.1	246.3	-13.2

Funding sources by customer

(billion yen)	Mar. 31, 2016 (A)	Dec. 31, 2016	Mar. 31, 2017 (B)	Change (B)–(A)
Retail	1,995.5	1,843.9	1,829.4	-166.1
Corporate	616.0	732.0	610.5	-5.5
Financial Institutions	580.1	638.9	659.4	79.3

Note: Corporate includes public entities

The Bank continued its efforts to flexibly manage its funding position. Total core funding (deposits, negotiable certificates of deposit, debentures and bonds) was 3,099.4 billion yen, a decrease of 92.2 billion yen, or 2.9%, from March 31, 2016. The percentage of retail funding to total core funding remained at an appropriate level at 59%.

While the market availability of foreign currency funding remains stable, the Bank is making ongoing efforts to further diversify and strengthen its funding base. In addition to the Bank's continued focus on enhancing long-term funding, in March 2017 the Bank issued foreign currency-denominated bonds for the first time.

As of March 31, 2017, the Bank maintained adequate liquidity reserves of 626.7 billion yen.

2. Loans

(billion yen)	Mar. 31, 2016 (A)	Dec. 31, 2016	Mar. 31, 2017 (B)	Change (B)–(A)
Loans	2,511.6	2,594.1	2,521.9	10.3
Domestic loans	1,683.1	1,701.1	1,651.9	-31.2
Overseas loans	828.5	893.1	870.0	41.5
U.S. dollar basis (\$ million)	\$7,353	\$7,663	\$7,755	\$402

Note: Overseas loans with no final risk residing in Japan

Loans were 2,521.9 billion yen, an increase of 10.3 billion yen, or 0.4%, from March 31, 2016.

Domestic loans decreased 31.2 billion yen as the Bank maintained its focus on balancing risk and return. Overseas loans increased 41.5 billion yen (an increase of 402 million on a U.S. dollar basis) as a result of the Bank's selective origination of real estate non-recourse loans and corporate loans, mainly in North America where the risk-return profiles remain attractive.

3. Securities

(billion yen)	Book Value				Unrealized Gains/Losses			
	Mar. 31, 2016 (A)	Dec. 31, 2016	Mar. 31, 2017 (B)	Change (B) – (A)	Mar. 31, 2016 (A)	Dec. 31, 2016	Mar. 31, 2017 (B)	Change (B) – (A)
JGBs	28.3	8.1	8.1	-20.2	-0.0	-0.0	-0.0	0.0
Municipal bonds	15.1	24.1	26.7	11.6	0.3	0.2	0.1	-0.2
Corporate bonds	34.1	35.2	28.4	-5.7	0.3	0.1	0.1	-0.2
Equities	42.2	54.0	63.1	20.9	23.5	34.9	43.9	20.4
Foreign bonds	374.5	450.7	343.9	-30.6	1.8	-18.0	-12.9	-14.7
Foreign government bonds	227.5	246.8	174.2	-53.3	1.6	-13.4	-9.2	-10.8
Mortgage bonds	107.5	164.4	117.1	9.6	-0.0	-4.8	-4.1	-4.1
Others	39.5	39.5	52.7	13.2	0.3	0.2	0.4	0.1
Others	429.4	507.1	467.8	38.4	-2.8	5.9	8.4	11.2
ETFs	213.1	303.3	276.2	63.1	-3.0	0.4	4.1	7.1
Investment in limited partnerships	75.3	74.7	65.6	-9.7	1.1	0.8	0.8	-0.3
REIT	51.0	60.6	61.1	10.1	3.2	3.4	2.8	-0.4
Investment trusts	69.2	51.6	48.6	-20.6	-4.5	1.0	0.3	4.8
Others	20.7	16.8	16.3	-4.4	0.3	0.3	0.5	0.2
Total	923.5	1,079.2	937.9	14.4	23.0	23.1	39.7	16.7

Ref: Incl. unrealized gains/losses on hedging instruments

29.4 16.0 25.3 -4.1

Securities were 937.9 billion yen as of March 31, 2017, an increase of 14.4 billion yen, or 1.6%, compared to March 31, 2016. In FY2016, ETFs were increased while foreign government bonds, JGBs and investment trusts were reduced. In the fourth quarter (Jan.-Mar.) of FY2016, foreign bonds decreased 106.8 billion yen. This decrease was mainly due to risk reduction measures taken by the Bank, including to its U.S. Treasury bond positions, in order to better secure future income amid ongoing uncertainty in global market conditions.

Interest and dividends on securities were 23.6 billion yen and gains on bond transactions were 2.4 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.

Total unrealized gains increased 16.7 billion yen from March 31, 2016 to 39.7 billion yen.

The Bank's Japanese equity ETF position is fully hedged, as is a portion of equities. Total unrealized gains, including unrealized gains/losses on hedging instruments, were 25.3 billion yen. In the fourth quarter (Jan.-Mar.), total unrealized gains increased 9.3 billion yen as a result of risk reduction measures taken by the Bank.

III. Disclosed Claims under the Financial Reconstruction Law

(Non-consolidated)

(billion yen)		Mar. 31, 2016 (A)	Dec. 31, 2016	Mar. 31, 2017 (B)	Change (B)–(A)
	Bankrupt and similar credit	0.1	0.0	0.0	-0.1
	Doubtful credit	19.0	16.3	11.5	-7.5
	Special attention credit	3.8	1.4	1.4	-2.4
FRL credit, total (a)		23.0	17.7	12.9	-10.1
Normal credit (b)		2,528.2	2,619.2	2,558.9	30.7
Total credit (c)=((a)+(b))		2,551.1	2,636.8	2,571.8	20.7
FRL credit ratio (a)/(c)		0.90%	0.67%	0.50%	-0.40%

Non-performing claims as defined by the Financial Reconstruction Law (FRL) were 12.9 billion yen, a decrease of 10.1 billion yen, or 43.9%, from March 31, 2016. The decline was mainly due to the collection of claims, including doubtful and special attention credits. The FRL ratio declined by 0.40 points to 0.50%. The percentage of FRL claims covered by reserves, collateral and guarantees was 100.0% as of March 31, 2017. The ratio of loan loss reserves to total loans on a consolidated basis remained high at 2.00% as of March 31, 2017.

IV. Capital Adequacy Ratio (Preliminary)

(billion yen)		Mar. 31, 2016 (A)	Dec. 31, 2016	Mar. 31, 2017 (B)	Change (B)–(A)
Capital adequacy ratio		11.03%	10.70%	10.75%	-0.28%
Regulatory capital		417.1	442.6	439.8	22.7
Risk assets		3,778.3	4,133.9	4,087.4	309.1

Aozora's consolidated capital adequacy ratio (domestic standard) remained at an adequate level at 10.75% (preliminary basis). For reference purposes, the Bank's CET1 ratio was approximately 9.5%.

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.