May 16, 2019

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

Aozora Reports Net Earnings for FY2018; Announces FY2018 Dividend Payment, FY2019 Earnings and Dividend Forecast

TOKYO May 16, 2019 – Aozora Bank, Ltd. ("Aozora" or "the Bank"), a leading Japanese commercial bank, today announced its financial results for FY2018, its FY2018 full-year dividend payment, as well as the Bank's FY2019 earnings and dividend forecasts.

Financial results for FY2018

Shinsuke Baba, Representative Director, President and Chief Executive Officer of Aozora Bank commented, "During the second half of our fiscal year, financial markets experienced increased levels of volatility as the global economy faced growing uncertainty arising from several factors, including increasing trade disputes. In Japan, the banking sector continued to face challenging business conditions given the prolonged low interest rate environment. With these conditions in mind, our management team maintained its focus on disciplined balance sheet management and the diversification of income sources. However, due to lower than expected retail and financial institution transaction revenues, as well as the impact on our trading business from changes in the global financial markets in the second half of the year, net revenue was 83.8 billion yen and net earnings 36.1 billion yen, both short of the forecasted levels announced at the beginning of the year.

Due to the lower than anticipated results, we announced a full-year dividend of 154 yen per common share for Fiscal Year 2018, 30 yen less than our original forecast of 184 yen. The fourth quarter dividend payment will be 34 yen."

Baba concluded, "While we expect challenging business conditions to continue for some time, Aozora is committed to the recovery of our business and strengthening our future results through the execution of our highly efficient business model and flexible portfolio management, as well as delivering products and services that meet our customers' needs. Furthermore, we have set our fiscal year 2019 earnings forecast of net revenue at 88.0 billion yen, profit attributable to parent at 36.5 billion yen, and a full year dividend forecast of 156 yen per common share, 2 yen higher than this year's dividend payment.

Our management team remains committed to enhancing the performance of each business area through a selection and concentration strategy while striving to further increase our corporate value. We'll also remain focused on new business initiatives for future growth from a mid- to long-term perspective. At this time, I would like to express my gratitude to all of our stakeholders for their understanding and continued support."

1. Summary of the full-year results (Consolidated)

- For FY2018, net revenue was 83.8 billion yen, a decrease of 3.6 billion yen, or 4.2% year on year, and business profit was 34.4 billion yen, a decrease of 6.2 billion yen, or 15.3%. Profit attributable to owners of parent was 36.1 billion yen, a decrease of 6.9 billion yen, or 16.1%.
    - Net interest income was 50.2 billion yen, an increase of 1.2 billion yen, or 2.5% year on year as the Bank maintained its focus on risk and return. The increase was primarily due to higher average asset balances offsetting a slight narrowing in the net interest margin.
    - Non-interest income was 33.5 billion yen, a decrease of 4.8 billion yen, or 12.7% year on year. The decline was mainly due to lower net trading revenues on customer transactions as well as poor results in the Bank's trading activities. Gains on bond transactions increased compared to the previous year.
    - General and administrative expenses were 49.4 billion yen, a year-on-year increase of 2.5 billion yen, or 5.5%, mainly due to incremental expenses associated with the Bank's business areas of focus and new internet banking operations. As the Bank continued its focus on cost control, the actual expenses were lower than the full-year budget of 52.0 billion yen.

- Credit-related expenses were a net expense of 1.0 billion yen, mainly due to higher provisions to the general loan loss reserve as a result of loan originations, particularly in the fourth quarter, as well as to specific loan reserves, mainly for domestic loans, offsetting the reversal of general loan loss reserves reflecting lower loan-loss experience. Gains/losses on stock transactions were a gain of 13.2 billion yen due to the sale of Japanese equity ETFs and domestic equity investments.

- Total loans were 2,779.8 billion yen, an increase of 168.6 billion yen, or 6.5%, compared to March 31, 2018. Domestic loans increased by 49.0 billion yen from March 31, 2018, and overseas loans increased by 119.5 billion yen as a result of the Bank's selective approach to originations while carefully monitoring market trends.

- Total core funding (deposits, negotiable certificates of deposit, debentures and bonds) was 3,514.6 billion yen, an increase of 286.1 billion yen, or 8.9%, from March 31, 2018. The percentage of retail funding to total core funding was 53%.

- Non-performing claims as defined by the Financial Reconstruction Law (FRL) were 15.6 billion yen, an increase of 8.6 billion yen from March 31, 2018. The FRL ratio increased by 0.29 points to 0.55%. The ratio of loan loss reserves to total loans on a consolidated basis remained high at 1.61%.

- The Bank's consolidated capital adequacy ratio (domestic standard) as of March 31, 2019 remained at an adequate level at 10.27% (preliminary basis).

Note: All amounts stated in 1 billion yen have been rounded down to the nearest 0.1 billion yen.

2. FY2019 Performance (April 1, 2018 to March 31, 2019)

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*1
FY2018 results (a)	83.8	34.4	47.7	36.1	309.67 yen
FY2017 results (b)	87.4	40.6	57.9	43.0	369.16 yen
Change (a) - (b)	-3.6	-6.2	-10.1	-6.9	-59.49 yen
Percentage change ((a)-(b)) / (b)	-4.2%	-15.3%	-17.6%	-16.1%	-16.1%
FY2018 full-year forecast (c)*2	83.0	33.0	47.0	36.0	308.55 yen
Progress (a)/(c)	101.0%	104.3%	101.7%	100.4%	100.4%

Non-consolidated basis

(billion yen)	Net revenue	Business profit before general loan-loss reserve	Ordinary profit	Profit	Profit per common share*1
FY2018 results (a)	78.3	37.4	51.3	38.0	326.06 yen
FY2017 results (b)	81.3	39.6	56.9	42.0	360.17 yen
Change (a) - (b)	-2.9	-2.1	-5.6	-3.9	-34.11 yen
Percentage change ((a)-(b)) / (b)	-3.6%	-5.5%	-9.9%	-9.5%	-9.5%
FY2018 full-year forecast (c)*2	78.0	36.0	49.0	36.0	308.55 yen
Progress (a)/(c)	100.5%	104.2%	104.8%	105.7%	105.7%

*1: 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 FY2017.

*2: Figures in “FY2018 full-year forecast” reflect the revisions to the earnings forecast announced on March 22, 2019.

3. FY2018 Dividend Payment

	Dividend per common share				
Record date	1st quarter	2nd quarter	3rd quarter	Year-end	Total
Previous forecast[*1]				34.00 yen	154.00 yen
Year-end payment				34.00 yen	154.00 yen
Payments in FY2018	40.00 yen	40.00 yen	40.00 yen		
Payments in FY2017	4.00 yen	4.00 yen	50.00 yen	54.00 yen	-[*2]

*1: Figures in “Previous forecast” reflect the revisions to the dividend forecast announced on March 22, 2019.

*2: The Bank consolidated every ten common shares into one common share on October 1, 2017. The FY2017 amounts in the first and second quarters above reflect the dividend before the consolidation and the amounts in the third quarter and year-end column reflect the dividend after consolidation. As the dividend from before the consolidation cannot be directly tabulated with those from after the consolidation, the total column for FY2017 is intentionally left blank.

The table below shows the pro-forma quarterly dividend as if the share consolidation had been effective at the beginning of FY2017.

[Ref.] Dividend per common share (post-consolidation)

	Dividend per common share				
Record date	1st quarter	2nd quarter	3rd quarter	Year-end	Total
Payments in FY2018	40.00 yen	40.00 yen	40.00 yen	34.00 yen	154.00 yen
Payments in FY2017	40.00 yen	40.00 yen	50.00 yen	54.00 yen	184.00 yen

4. Earnings Forecast for FY2019

Consolidated basis

(billion yen)	Net revenue	Business profit	Ordinary profit	Profit attributable to owners of parent	Per share
FY2019 forecast (a)	88.0	35.0	51.0	36.5	312.82 yen
FY2018 results (b)	83.8	34.4	47.7	36.1	309.67 yen
Change (a) - (b)	4.1	0.5	3.2	0.3	3.15 yen
Percentage change ((a)-(b)) / (b)	5.0%	1.7%	6.7%	1.0%	1.0%

Non-consolidated basis

(billion yen)	Net revenue	Business profit before general loan-loss reserve	Ordinary profit	Profit	Per share
FY2019 forecast (a)	80.5	37.5	52.0	36.5	312.82 yen
FY2018 results (b)	78.3	37.4	51.3	38.0	326.06 yen
Change (a) - (b)	2.1	0.0	0.6	-1.5	-13.24 yen
Percentage change ((a)-(b)) / (b)	2.7%	0.0%	1.3%	-4.1%	-4.1%

5. FY2019 Dividend Forecast

Management’s intent is to maintain a relatively stable cash dividend with a target dividend payout ratio of 50%.

	Full-year dividend per common share
FY2019 Forecast	**156.00 yen**
FY2018 Payment	**154.00 yen**

The full-year dividend forecast per common share for FY2019 is based on the total dividend amount, which is 50% of the consolidated earnings forecast for the full year divided by the total number of common shares issued, excluding treasury stock, as of March 31, 2019. While the dividend forecast is only disclosed on a full-year basis, the Bank intends to continue paying dividends on a quarterly basis.

I. Revenue and Expenses

(billion yen)	FY2017 3 months Jan.-Mar.	FY2017 Full-year (A)	FY2018 3 months Jan.-Mar.	FY2018 Full-year (B)	Change (B)－(A) Amount	Change (B)－(A) %	Page
Net revenue	**18.0**	**87.4**	**21.0**	**83.8**	**-3.6**	**-4.2%**	**-**
Net interest income	11.2	49.0	10.3	50.2	1.2	2.5%	7
Net interest margin	*1.18%*	*1.30%*	*1.04%*	*1.25%*	*-0.05%*	-	7
Non-interest income	6.8	38.4	10.6	33.5	-4.8	-12.7%	-
Net fees and commissions	2.8	11.3	5.1	12.9	1.5	13.6%	8
Net trading revenues	4.2	17.0	2.8	8.3	-8.7	-51.2%	8
Gains/losses on bond transactions	-1.0	0.6	0.7	4.9	4.2	649.4%	9
Net other ordinary income excluding gains/losses on bond transactions	0.6	9.2	1.8	7.3	-1.9	-20.7%	9
General & administrative expenses	-12.8	-46.8	-13.5	-49.4	-2.5	-5.5%	9
Business profit	**5.2**	**40.6**	**7.5**	**34.4**	**-6.2**	**-15.3%**	**-**
Credit-related expenses	4.8	8.7	-2.7	-1.0	-9.7	-	10
Gains/losses on stock transactions	0.5	8.0	2.0	13.2	5.2	-	10
Other gains/losses	1.1	0.5	-1.0	1.1	0.5	-	-
Ordinary profit	**11.8**	**57.9**	**5.8**	**47.7**	**-10.1**	**-17.6%**	**-**
Extraordinary profit/loss	-0.0	-0.0	-0.0	-0.0	0.0	-	-
Profit before income taxes	**11.8**	**57.9**	**5.8**	**47.7**	**-10.1**	**-17.5%**	**-**
Taxes	-2.4	-15.4	-0.1	-13.7	1.6	-	10
Profit attributable to owners of parent	**9.5**	**43.0**	**6.4**	**36.1**	**-6.9**	**-16.1%**	**-**

In FY2018, the Bank recorded consolidated net revenue of 83.8 billion yen, a decrease of 3.6 billion yen, or 4.2% year on year.

Net interest income was 50.2 billion yen, an increase of 1.2 billion yen, or 2.5% year on year. The increase was primarily due to higher average asset balances offsetting a slight narrowing in the net interest margin.

Non-interest income was 33.5 billion yen, a decrease of 4.8 billion yen, or 12.7% year on year. Net fees and commissions increased by 1.5 billion yen, or 13.6% year on year, due to growth in loan-related fees, while gains on bond transactions increased by 4.2 billion yen, or 649.4% year on year. Net trading revenues decreased by 8.7 billion yen, or 51.2% year on year, and net other ordinary income decreased by 1.9 billion yen, or 20.7% year on year.

General and administrative expenses were 49.4 billion yen, a year-on-year increase of 2.5 billion yen, or 5.5%, mainly due to incremental expenses associated with the Bank's business areas of focus and new internet banking operations.

Consolidated business profit was 34.4 billion yen, a decrease of 6.2 billion yen, or 15.3%.

Credit-related expenses were a net expense of 1.0 billion yen, mainly due to higher provisions to the general loan loss reserve as a result of loan originations, as well as to specific loan reserves, mainly for domestic loans, offsetting the reversal of general loan loss reserves. Gains/losses on stock transactions were a gain of 13.2 billion yen. Ordinary profit was 47.7 billion yen, a decrease of 10.1 billion yen, or 17.6%. Taxes were a net expense of 13.7 billion yen.

As a result of the above factors, profit attributable to owners of parent was 36.1 billion yen, a decrease of 6.9 billion yen, or 16.1% year on year.

1. Net Revenue

(1) (i) Net Interest Income

(billion yen)		FY2017 3 months Jan.-Mar.	FY2017 Full-year (A)	FY2018 3 months Jan.-Mar.	FY2018 Full-year (B)	Change (B)－(A)
Net interest income	(a)-(b)	11.2	49.0	10.3	50.2	1.2
Interest income	(a)	19.6	79.1	23.5	97.4	18.2
Interest on loans and discounts		12.8	48.1	15.6	59.1	11.0
Interest and dividends on securities		6.3	29.1	7.3	36.1	6.9
Other interest income		0.4	1.8	0.5	2.0	0.2
Interest on swaps		-	-	-	-	-
Interest expenses	(b)	-8.3	-30.1	-13.1	-47.1	-17.0
Interest on deposits and NCDs		-1.6	-6.0	-1.8	-7.3	-1.3
Interest on debentures and bonds		-0.2	-1.2	-0.6	-1.9	-0.7
Interest on borrowings and rediscount		-0.3	-1.2	-0.2	-1.1	0.1
Other interest expenses		-1.8	-6.2	-3.3	-10.8	-4.5
Interest on swaps		-4.2	-15.1	-7.0	-25.7	-10.5

Net interest income was 50.2 billion yen, an increase of 1.2 billion yen, or 2.5% year on year. Interest income increased by 18.2 billion yen year on year due to an increase in interest on loans and discounts as a result of higher yields on overseas loans resulting from rising U.S. dollar interest rates as well as higher average loan balances. Also contributing was an increase in interest and dividends on securities largely due to an increase in dividends on ETFs. Interest expenses increased by 17.0 billion yen year on year, largely the result of a rise in U.S. dollar interest rates.

(1) (ii) Net Interest Margin

		FY2017 3 months Jan.-Mar.	FY2017 Full-year (A)	FY2018 3 months Jan.-Mar.	FY2018 Full-year (B)	Change (B)－(A)
Yield on total investments	(a)	1.99%	2.04%	2.28%	2.36%	0.32%
Yield on loans		1.96%	1.86%	2.34%	2.21%	0.35%
Yield on securities		2.32%	2.73%	2.44%	3.02%	0.29%
Yield on funding	(b)	0.81%	0.74%	1.24%	1.11%	0.37%
Net interest margin	(a)-(b)	1.18%	1.30%	1.04%	1.25%	-0.05%

The yield on total investments increased by 32 bps year on year. The change was due to an increase in the yield on loans reflecting an increase in U.S. dollar interest rates as the Bank maintained its focus on risk and return, as well as an increase in the yield on securities, mainly due to an increase in dividends on ETFs. Funding costs increased by 37 bps over the prior year due to an increase in U.S. dollar interest rates. As a result of these factors, the net interest margin declined by 5 bps to 1.25%.

(2) Net Fees and Commissions

(billion yen)		FY2017 3 months Jan.-Mar.	FY2017 Full-year (A)	FY2018 3 months Jan.-Mar.	FY2018 Full-year. (B)	Change (B)－(A)
Net fees and commissions	(a)-(b)	2.8	11.3	5.1	12.9	1.5
Fees and commissions received	(a)	3.2	12.8	5.6	14.6	1.7
Loan business-related and deposits		1.4	5.7	3.9	8.4	2.6
Securities-related and agency		1.2	5.0	0.9	4.0	-1.0
Others		0.4	1.9	0.7	2.1	0.1
Fees and commissions payments	(b)	-0.3	-1.4	-0.4	-1.6	-0.2

Net fees and commissions were 12.9 billion yen, an increase of 1.5 billion yen, or 13.6% year on year. The increase was mainly due to increases in loan related fees, offset in part by lower sales of financial products to our mass affluent retail customers compared to the previous year.

Earnings from the sale of financial products (investment trusts, insurance, and structured bonds) to our mass affluent retail customers were 5.6 billion yen, a year-on-year decrease of 2.9 billion yen. While insurance sales remained stable, uncertainties in the market contributed to a significant decrease in earnings from the sale of investment trusts and structured bonds.

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

(billion yen)	FY2017 3 months Jan.-Mar.	FY2017 Full-year (A)	FY2018 3 months Jan.-Mar.	FY2018 Full-year (B)	Change (B)－(A)
Earnings from the sale of investment trusts, insurance and structured bonds	2.2	8.5	1.1	5.6	-2.9

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

(3) Net Trading Revenues

(billion yen)	FY2017 3 months Jan.-Mar.	FY2017 Full-year (A)	FY2018 3 months Jan.-Mar.	FY2018 Full-year (B)	Change (B)－(A)
Net trading revenues	4.2	17.0	2.8	8.3	-8.7

Net trading revenues were 8.3 billion yen, a decrease of 8.7 billion yen, or 51.2% year on year. This decline was mainly due to lower than expected earnings from the sale of derivative-related products to our financial institution customers and the sale of structured bonds to our retail customers, as well as poor results in the Bank’s trading activities amid increased levels of volatility in the global financial markets during the third quarter.

(4) Gains/Losses on Bond Transactions

(billion yen)	FY2017		FY2018		Change (B) －(A)
	3 months Jan.-Mar.	Full-year (A)	3 months Jan.-Mar.	Full-year (B)	
Gains/losses on bond transactions	-1.0	0.6	0.7	4.9	4.2
Japanese government bonds	-	0.1	-	0.0	-0.1
Foreign government bonds and mortgage bonds	-1.3	-1.6	0.4	1.0	2.7
Others	0.3	2.2	0.2	3.8	1.5

Gains/losses on bond transactions were a gain of 4.9 billion yen, as compared to 0.6 billion yen in FY2017, mainly due to gains on the sale of REITs.

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

(billion yen)	FY2017		FY2018		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	0.6	9.2	1.8	7.3	-1.9
Incl. Gains from limited partnerships	1.8	11.0	2.5	9.7	-1.2
Real estate-related	0.3	3.4	0.5	2.5	-0.9
Distressed loan-related	0.2	3.2	1.3	4.6	1.3
Others (buyout, etc.)	1.2	4.3	0.6	2.6	-1.6

Net other ordinary income, excluding gains/losses on bond transactions, was 7.3 billion yen, a decrease of 1.9 billion yen, or 20.7% year on year. While gains from limited partnerships decreased by 1.2 billion yen compared to the strong result recorded in the prior year, which included gains on the sale of large-lot real estate and buyout-related investments, distressed loan-related gains were favorable, contributing to the FY2018 result of 9.7 billion yen.

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

(billion yen)	FY2017		FY2018		Change (B)－(A)
	3 months Jan.-Mar.	Full-year (A)	3 months Jan.-Mar.	Full-year (B)	
G&A expenses	-12.8	-46.8	-13.5	-49.4	-2.5
Personnel expense	-6.6	-23.5	-6.3	-24.0	-0.4
Non-personnel expense	-5.3	-19.5	-6.5	-22.6	-3.0
Tax	-0.8	-3.7	-0.5	-2.8	0.9

General and administrative expenses were 49.4 billion yen, an increase of 2.5 billion yen, or 5.5%, compared to the previous year. The increase was mainly due to incremental expenses associated with the Bank's business areas of focus and new internet banking operations. The level of expenses was below the full-year budget of 52.0 billion yen as the Bank continued its focus on cost control. The Overhead Ratio (OHR) was 59.0%.

3. Credit-Related Expenses

(billion yen)	FY2017		FY2018		Change (B)−(A)
	3 months Jan.-Mar.	Full-year (A)	3 months Jan.-Mar.	Full-year (B)	
Credit-related expenses	4.8	8.7	-2.7	-1.0	-9.7
Write-off of loans	-0.0	-0.2	-0.0	-0.2	0.0
Reserve for possible loan losses	3.7	7.0	-2.2	-1.6	-8.7
Specific reserve for possible loan losses	-2.2	0.8	-3.7	-4.1	-5.0
General reserve for possible loan losses	5.9	6.2	1.5	2.5	-3.6
Gains/losses on disposition of loans	-0.4	-0.4	-0.2	-0.3	0.1
Recoveries of written-off claims	0.4	1.8	0.0	1.0	-0.7
Reserve for credit losses on off-balance-sheet instruments	1.2	0.5	-0.2	0.1	-0.4

Credit-related expenses were a net expense of 1.0 billion yen, mainly due to higher provisions to the general loan loss reserve as a result of loan originations, particularly in the fourth quarter, as well as to specific loan reserves, mainly for domestic loans, offsetting the reversal of general loan loss reserves reflecting lower loan-loss experience. This result compares with a net reversal of 8.7 billion yen recorded in the previous year. The ratio of loan loss reserves to total loans remained high at 1.61% and reflected the Bank's mid- to long-term perspective on the conservative allocation of reserves.

4. Gains/losses on Stock Transactions

(billion yen)	FY2017		FY2018		Change (B)−(A)
	3 months Jan.-Mar.	Full-year (A)	3 months Jan.-Mar.	Full-year (B)	
Gains/losses on stock transactions	0.5	8.0	2.0	13.2	5.2

Gains/losses on stock transactions were a gain of 13.2 billion yen mainly due to gains from the sale of Japanese equity ETFs and a portion of domestic equity investments.

5. Taxes

(billion yen)	FY2017		FY2018		Change (B)−(A)
	3 months Jan.-Mar.	Full-year (A)	3 months Jan.-Mar.	Full-year (B)	
Taxes	-2.4	-15.4	-0.1	-13.7	1.6

Taxes were a net expense of 13.7 billion yen. The effective tax rate was 28.8%.

II. Balance Sheet

(billion yen)	Mar. 31, 2018 (A)	Dec.31, 2018	Mar. 31, 2019 (B)	Change (B)−(A) Amount	%	Page
Total assets	**4,912.7**	**5,045.8**	**5,255.0**	**342.2**	**7.0%**	**-**
Loan and bills discounted	2,611.2	2,686.9	2,779.8	168.6	6.5%	12
Securities	1,139.8	1,209.0	1,240.8	101.0	8.9%	13
Cash and due from banks	543.1	554.4	618.7	75.5	13.9%	-
Trading assets	179.6	178.8	199.9	20.2	11.3%	-
Others	438.8	416.6	415.6	-23.1	-5.3%	-
Total liabilities	**4,475.5**	**4,626.6**	**4,806.3**	**330.7**	**7.4%**	**-**
Deposits and negotiable certificates of deposit	2,970.9	3,101.8	3,230.7	259.7	8.7%	12
Debentures, Bonds	257.5	291.9	283.9	26.3	10.2%	12
Borrowed money	315.2	311.6	320.5	5.3	1.7%	-
Payables under securities lending transactions	431.3	437.8	450.8	19.5	4.5%	-
Trading liabilities	130.2	157.2	177.7	47.5	36.5%	-
Others	370.2	326.1	342.4	-27.8	-7.5%	-
Total net assets	**437.2**	**419.1**	**448.7**	**11.4**	**2.6%**	**-**
Capital stock	100.0	100.0	100.0	-	0.0%	-
Capital surplus	87.3	87.3	87.3	0.0	0.0%	-
Retained earnings	243.1	257.2	259.0	15.8	6.5%	-
Treasury stock	-3.3	-3.3	-3.3	0.0	-	-
Valuation difference on available-for-sale securities	35.3	-7.0	23.5	-11.8	-33.5%	-
Others	-25.2	-15.1	-17.8	7.4	-	-
Total liabilities and net assets	**4,912.7**	**5,045.8**	**5,255.0**	**342.2**	**7.0%**	**-**

Total assets were 5,255.0 billion yen as of March 31, 2019, an increase of 342.2 billion yen, or 7.0%, compared to March 31, 2018.

Loans were 2,779.8 billion yen, an increase of 168.6 billion yen, or 6.5%, from March 31, 2018. Domestic loans increased 49.0 billion yen, while overseas loans increased 119.5 billion yen. Securities increased by 101.0 billion yen, or 8.9%, from March 31, 2018, to 1,240.8 billion yen.

Total liabilities were 4,806.3 billion yen, an increase of 330.7 billion yen, or 7.4%, compared to March 31, 2018. Total core funding (deposits, negotiable certificates of deposit, debentures and bonds) was 3,514.6 billion yen, an increase of 286.1 billion yen, or 8.9%, from March 31, 2018.

Net assets were 448.7 billion yen, representing an increase of 11.4 billion yen, or 2.6%, from March 31, 2018.

Net assets per common share were 3,844.08 yen, as compared to 3,735.00 yen per common share as of March 31, 2018.

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

(billion yen)	Mar. 31, 2018 (A)	Dec. 31, 2018	Mar. 31, 2019 (B)	Change (B)−(A)
Total core funding	3,228.5	3,393.7	3,514.6	286.1

Funding sources by product

(billion yen)	Mar. 31, 2018 (A)	Dec. 31, 2018	Mar. 31, 2019 (B)	Change (B)−(A)
Deposits/NCDs	2,970.9	3,101.8	3,230.7	259.7
Debentures/Bonds	257.5	291.9	283.9	26.3

Funding sources by customer

(billion yen)	Mar. 31, 2018 (A)	Dec. 31, 2018	Mar. 31, 2019 (B)	Change (B)−(A)
Retail	1,811.3	1,798.6	1,852.2	40.9
Corporate	581.1	649.3	689.6	108.4
Financial Institutions	835.9	945.7	972.7	136.7

Note: Corporate includes public entities.

Total core funding (deposits, negotiable certificates of deposit, debentures and bonds) was 3,514.6 billion yen, an increase of 286.1 billion yen, or 8.9%, from March 31, 2018. The percentage of retail funding to total core funding was 53%.

For foreign currency funding, the Bank is making ongoing efforts to further diversify and strengthen its funding base, including issuing U.S. dollar foreign currency bonds.

As of March 31, 2019, the Bank maintained adequate liquidity reserves of 667.8 billion yen.

2. Loans

(billion yen)	Mar. 31, 2018 (A)	Dec. 31, 2018	Mar. 31, 2019 (B)	Change (B)−(A)
Loans	2,611.2	2,686.9	2,779.8	168.6
Domestic loans	1,638.1	1,640.2	1,687.2	49.0
Overseas loans	973.1	1,046.6	1,092.6	119.5
U.S. dollar basis ($ million)	$9,157	$9,435	$9,844	$686

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

Loans were 2,779.8 billion yen, an increase of 168.6 billion yen, or 6.5%, from March 31, 2018.

Domestic loans increased by 49.0 billion yen from March 31, 2018 as the Bank maintained its focus on disciplined balance sheet management.

Overseas loans increased by 119.5 billion yen, or $686 million on a U.S. dollar basis from March 31, 2018. The increase was the result of the Bank's selective origination of corporate loans, mainly in North America where the risk-return profiles remain relatively attractive, while carefully monitoring market trends.

3. Securities

(billion yen)	Book Value				Unrealized Gains/Losses			
	Mar. 31, 2018(A)	Dec. 31, 2018	Mar. 31, 2019 (B)	Change (B) - (A)	Mar. 31, 2018(A)	Dec. 31, 2018	Mar.31, 2019 (B)	Change (B) – (A)
JGBs	8.0	13.0	5.0	-3.0	0.0	0.0	0.0	-0.0
Municipal bonds	32.4	29.9	31.8	-0.6	0.1	0.1	0.2	0.1
Corporate bonds	34.2	43.2	50.4	16.2	0.1	0.2	0.3	0.1
Equities	84.7	67.0	66.5	-18.1	65.2	45.3	48.5	-16.7
Foreign bonds	484.0	527.5	568.4	84.3	-16.9	-19.0	-8.5	8.4
Foreign government bonds	228.0	249.4	261.4	33.3	-11.7	-9.4	-5.3	6.3
Mortgage bonds	159.6	179.2	193.9	34.3	-7.1	-7.2	-4.3	2.7
Others	96.3	98.8	113.0	16.6	1.8	-2.3	1.1	-0.7
Others	496.3	528.1	518.6	22.2	9.8	-28.8	-2.5	-12.3
ETFs	257.3	257.8	254.3	-3.0	-1.3	-25.9	-10.4	-9.1
Investment in limited partnerships	62.4	67.8	69.9	7.4	0.9	0.3	0.2	-0.7
REIT	73.6	72.3	65.1	-8.4	3.0	3.4	5.3	2.3
Investment trusts	79.9	116.0	117.3	37.4	0.8	-11.7	-2.5	-3.3
Others	22.9	14.0	11.9	-11.0	6.3	4.9	4.9	-1.4
Total	1,139.8	1,209.0	1,240.8	101.0	58.4	-2.1	37.9	-20.5

Total unrealized gains, including unrealized gains/losses on hedging instruments	22.7	-22.4	14.3	-8.4

Securities were 1,240.8 billion yen as of March 31, 2019, an increase of 101.0 billion yen, or 8.9%, compared to March 31, 2018.

Total unrealized gains improved since the end of 2018 and were 37.9 billion yen as of March 31, 2019. A portion of the Bank's equity position is hedged. Total unrealized gains, including unrealized gains/losses on hedging instruments, were 14.3 billion yen, an 8.4 billion yen decrease compared to March 31, 2018. Aozora remains committed to maintaining its focus on disciplined risk management while carefully monitoring market trends.

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

(billion yen)		Mar. 31, 2018 (A)	Dec. 31, 2018	Mar. 31, 2019 (B)	Change (B)－(A)
	Bankrupt and similar credit	0.1	-	-	-0.1
	Doubtful credit	4.6	6.1	14.2	9.5
	Special attention credit	2.1	2.1	1.4	-0.7
FRL credit, total	(a)	6.9	8.2	15.6	8.6
Normal credit	(b)	2,653.5	2,737.4	2,805.0	151.4
Total credit	(c)=((a)+(b))	2,660.4	2,745.7	2,820.6	160.1
FRL credit ratio	(a)/(c)	0.26%	0.30%	0.55%	0.29%

Non-performing claims as defined by the Financial Reconstruction Law (FRL) were 15.6 billion yen, an increase of 8.6 billion yen from March 31, 2018. The FRL ratio increased by 0.29 points to 0.55%. The percentage of FRL claims covered by reserves, collateral and guarantees was 93.6%. The ratio of loan loss reserves to total loans remained high at 1.61% on a consolidated basis.

IV. Capital Adequacy Ratio (Preliminary)

(billion yen)	Mar. 31, 2018 (A)	Dec. 31, 2018	Mar. 31, 2019 (B)	Change (B)－(A)
Capital adequacy ratio	10.39%	10.15%	10.27%	-0.12%
Regulatory capital	450.9	464.6	461.8	10.8
Risk assets	4,339.7	4,576.7	4,493.1	153.4

Aozora's consolidated capital adequacy ratio (domestic standard) remained at an adequate level at 10.27% (preliminary basis). For reference purposes, the Bank's CET1 ratio (Tier 1 Common Capital Ratio) was approximately 9.2%.

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.