

May 14, 2018

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 Earnings of 43.1 billion for FY2017, 100% of Forecast; Announces FY2017 Dividend Payment, FY2018 Earnings and Dividend Forecast

TOKYO May 14, 2018 – Aozora Bank, Ltd. (“Aozora” or “the Bank”), a leading Japanese commercial bank, today announced its financial results for FY2017, its FY2017 full-year dividend payment, as well as the Bank’s FY2018 earnings and dividend forecasts.

Financial results for FY2017

Shinsuke Baba, Representative Director, President and Chief Executive Officer of Aozora Bank commented, “Over the past year the global economy has registered some modest growth in the face of rising geopolitical risks and more restrictive monetary policies in Europe and the United States. Despite Japan’s ongoing economic recovery, the banking sector continued to face earnings pressure created by an extended period of low interest rates. In the face of these challenges, Aozora is pleased to report net revenue of 87.5 billion yen, an increase from the prior year, and full-year earnings equal to our forecast for fiscal year 2017 of 43.1 billion yen. These favorable results were the product of several factors including our ongoing focus on disciplined balance sheet management and the diversification of income sources. Today we also announced a full-year dividend of 184 yen per common share for fiscal year 2017, in line with the fiscal year 2017 dividend forecast. The fourth quarter dividend payment will be 54 yen.”

Baba concluded, “Aozora’s new mid-term plan for fiscal years 2018–2020 was also announced today. Looking ahead, our bank remains committed to offering differentiated and high-quality financial products and services to our customers by leveraging our core competencies and maintaining sound risk taking based on disciplined risk management and best practices. We firmly believe that these collective actions will serve to further enhance our corporate value. At this time I would like to express my gratitude to all of our stakeholders for their continued support.”

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

- For FY2017, net revenue was 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 0.3 billion yen, or 0.7%. Profit attributable to owners of parent was 43.1 billion yen, a decrease of 0.7 billion yen, or 1.6%, and met the full-year forecast of 43.0 billion yen.
 - Net interest income was 49.1 billion yen, an increase of 3.5 billion yen, or 7.7% year on year. The increase was primarily due to a modest expansion of the net interest margin, as well as an increase 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. The decline was mainly due to lower net trading revenues, while earnings from the Bank’s retail business and loan-related fee income were strong.
 - General and administrative expenses were 46.8 billion yen, a year on year increase of 1.8 billion yen, or 4.0%. The OHR (general and administrative expenses as a percentage of net revenue) was 53.6%.
 - Credit-related expenses were a net reversal of 8.7 billion yen, mainly due to the reversal of loan loss reserves, and compares with a net reversal of 11.1 billion yen recorded in FY2016.

- Total loans were 2,611.3 billion yen, an increase of 89.4 billion yen, or 3.5%, compared to March 31, 2017. Domestic loans decreased by 13.8 billion yen from March 31, 2017, reflecting the Bank's continued focus on balancing risk and return. Overseas loans increased by 103.1 billion yen from March 31, 2017 as a result of the Bank's selective loan origination.
- 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. The percentage of retail funding to total core funding was 56%.
- Non-performing claims as defined by the Financial Reconstruction Law (FRL) were 7.0 billion yen, a decrease of 5.9 billion yen, or 45.7%, from March 31, 2017. The FRL ratio declined by 0.24 points to 0.26%. The ratio of loan loss reserves to loan balance on a consolidated basis remained high at 1.66%.
- The Bank's consolidated capital adequacy ratio (domestic standard) as of March 31, 2018 remained at an adequate level at 10.39% (preliminary basis).

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

2. FY2017 Performance (April 1, 2017 to March 31, 2018)

Consolidated basis

(billion yen)	Net revenue	Business profit	Ordinary profit	Profit attributable to owners of parent	Profit attributable to owners of parent per common share*
FY2017 results (a)	87.5	40.6	58.0	43.1	369.16 yen
FY2016 results (b)	85.3	40.3	51.8	43.8	375.93 yen
Change (a) - (b)	2.2	0.3	6.2	-0.7	-6.77 yen
Percentage change ((a)-(b)) / (b)	2.6%	0.7%	12.0%	-1.6%	-1.8%
FY2017 full-year forecast (c)	92.0	46.0	56.5	43.0	368.59 yen
Progress (a)/(c)	95.0%	88.3%	102.6%	100.1%	100.1%

Non-consolidated basis

(billion yen)	Net revenue	Business profit before general loan-loss reserve	Ordinary profit	Profit	Profit per common share*
FY2017 results (a)	81.3	39.7	56.9	42.0	360.17 yen
FY2016 results (b)	80.2	39.2	50.1	43.5	372.73 yen
Change (a) - (b)	1.1	0.5	6.8	-1.5	-12.56 yen
Percentage change ((a)-(b)) / (b)	1.4%	1.3%	13.6%	-3.4%	-3.4%
FY2017 full-year forecast (c)	86.0	44.0	54.0	42.0	360.02 yen
Progress (a)/(c)	94.5%	90.2%	105.4%	100.0%	100.0%

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

3. FY2017 Dividend Payment

	Dividend per common share				
Record date	1 st quarter	2 nd quarter	3 rd quarter	Year-end	Total
Previous forecast				54.00 yen	-
Year-end payment				54.00 yen	-
Payments in FY2017	4.00 yen	4.00 yen	50.00 yen		
Payments in FY2016	4.00 yen	4.00 yen	5.00 yen	5.70 yen	18.70 yen

The Bank consolidated every ten common shares into one common share on October 1, 2017. The 2017 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 following reference is a pro forma quarterly dividend payment table that calculates the dividend per common share as if the consolidation had been effective at the beginning of the previous accounting period.

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

	Dividend per common share				
Record date	1 st quarter	2 nd quarter	3 rd quarter	Year-end	Total
Payments in FY2017	40.00 yen	40.00 yen	50.00 yen	54.00 yen	184.00 yen
Payments in FY2016	40.00 yen	40.00 yen	50.00 yen	57.00 yen	187.00 yen

4. Earnings Forecast for FY2018

Consolidated basis

(billion yen)	Net Revenue	Business Profit	Ordinary Profit	Profit attributable to owners of parent	Per share
FY2018 forecast (a)	92.0	40.0	58.5	43.0	368.59yen
FY2017 results (b)	87.5	40.6	58.0	43.1	369.16yen
Change (a) - (b)	4.5	-0.6	0.5	-0.1	-0.57yen
Percentage change ((a)-(b)) / (b)	5.1%	-1.5%	0.9%	-0.2%	-0.2%

Non-consolidated basis

(billion yen)	Net Revenue	Business Profit before general loan-loss reserve	Ordinary Profit	Profit	Per share
FY2018 forecast (a)	84.0	41.0	59.0	42.0	360.02 yen
FY2017 results (b)	81.3	39.7	56.9	42.0	360.17 yen
Change (a) - (b)	2.7	1.3	2.1	0	-0.15 yen
Percentage change ((a)-(b)) / (b)	3.3%	3.3%	3.7%	0.0%	-0.0%

5. FY2018 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	
	Forecast	Dividend payment
FY2018	184.00 yen	—
FY2017	184.00 yen	184.00 yen

The full-year dividend forecast per common share for FY2018 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, 2018. While the dividend forecast is only disclosed on a full-year basis, the Bank intends to continue paying dividends on a quarterly basis.

Note: The Bank consolidated every ten common shares into one common share on October 1, 2017. Figures in "Full-year dividend per common share" are presented as if the share consolidation was effective at the beginning of FY2017.

I. Revenue and Expenses

(billion yen)	FY2016		FY2017		Change (B) – (A)		Page
	3 months Jan.-Mar.	Full-year (A)	3 months Jan.-Mar.	Full-year (B)	Amount	%	
Net revenue	14.9	85.3	18.1	87.5	2.2	2.6%	-
Net interest income	11.5	45.6	11.3	49.1	3.5	7.7%	6
<i>Net interest margin</i>	<i>1.28%</i>	<i>1.28%</i>	<i>1.18%</i>	<i>1.30%</i>	<i>0.02%</i>	-	6
Non-interest income	3.3	39.6	6.8	38.4	-1.2	-3.0%	-
Net fees and commissions	2.5	9.3	2.9	11.4	2.1	22.6%	7
Net trading revenues	4.6	20.4	4.3	17.1	-3.3	-16.2%	7
Gains/losses on bond transactions	-3.0	2.4	-1.0	0.7	-1.7	-70.8%	8
Net other ordinary income excluding gains/losses on bond transactions	-0.8	7.5	0.6	9.3	1.8	24.0%	8
General & administrative expenses	-11.8	-45.0	-12.8	-46.8	-1.8	-4.0%	8
Business profit	3.0	40.3	5.2	40.6	0.3	0.7%	-
Credit-related expenses	6.7	11.1	4.9	8.7	-2.4	-	9
Gains/losses on stock transactions	0.0	0.5	0.6	8.0	7.5	-	9
Other gains/losses	-0.4	-0.1	1.1	0.6	0.7	-	-
Ordinary profit	9.3	51.8	11.8	58.0	6.2	12.0%	-
Extraordinary profit/loss	-0.0	-0.0	-0.0	-0.0	0.0	-	-
Profit before income taxes	9.3	51.8	11.8	58.0	6.2	12.0%	-
Taxes	-1.2	-8.1	-2.5	-15.5	-7.4	-	9
Profit attributable to owners of parent	8.3	43.8	9.5	43.1	-0.7	-1.6%	-

In FY2017, the Bank recorded consolidated net revenue of 87.5 billion yen, an increase of 2.2 billion yen, or 2.6% year on year.

Net interest income was 49.1 billion yen, an increase of 3.5 billion yen, or 7.7% 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 4.0% 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 0.3 billion yen, or 0.7%.

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 were a net expense of 15.5 billion yen.

As a result of the above factors, profit attributable to owners of parent was 43.1 billion yen, a decrease of 0.7 billion yen, or 1.6% year on year.

1. Net Revenue

(1) (i) Net Interest Income

(billion yen)	FY2016		FY2017		Change (B)–(A)
	3 months Jan.-Mar.	Full-year (A)	3 months Jan.-Mar.	Full-year (B)	
Net interest income (a)-(b)	11.5	45.6	11.3	49.1	3.5
Interest income (a)	17.7	67.2	19.6	79.2	12.0
Interest on loans and discounts	10.9	42.6	12.8	48.1	5.5
Interest and dividends on securities	6.5	23.6	6.4	29.2	5.6
Other interest income	0.3	1.0	0.4	1.9	0.9
Interest on swaps	-0.0	-	-	-	0.0
Interest expenses (b)	-6.2	-21.5	-8.3	-30.1	-8.6
Interest on deposits and NCDs	-1.3	-6.1	-1.6	-6.1	0.0
Interest on debentures and bonds	-0.2	-0.6	-0.3	-1.3	-0.7
Interest on borrowings and rediscount	-0.3	-0.9	-0.3	-1.3	-0.4
Other interest expenses	-1.1	-3.1	-1.9	-6.3	-3.2
Interest on swaps	-3.3	-10.7	-4.2	-15.2	-4.5

Net interest income was 49.1 billion yen, an increase of 3.5 billion yen, or 7.7% year on year. Interest income increased by 12.0 billion yen year on year due to an increase in interest on loans and discounts as a result of both higher yield and average loan balances compared to the previous year. Also contributing was an increase in interest and dividends on securities largely due to an increase in dividends on investment trusts and ETFs. Interest expenses increased by 8.6 billion yen year on year, largely the result of a rise in U.S. dollar interest rates.

(1) (ii) Net Interest Margin

	FY2016		FY2017		Change (B)–(A)
	3 months Jan.-Mar.	Full-year (A)	3 months Jan.-Mar.	Full-year (B)	
Yield on total investments (a)	1.92%	1.84%	1.99%	2.04%	0.20%
Yield on loans	1.73%	1.68%	1.96%	1.86%	0.18%
Yield on securities	2.60%	2.49%	2.32%	2.73%	0.24%
Yield on funding (b)	0.64%	0.56%	0.81%	0.74%	0.18%
Net interest margin (a)-(b)	1.28%	1.28%	1.18%	1.30%	0.02%

The yield on total investments increased by 20 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 investment trusts and ETFs. Funding costs increased by 18 bps over the prior year due to an increase in U.S. dollar interest rates, the impact of which exceeded the decline in yen funding costs. As a result of these factors, the net interest margin rose modestly by 2 bps to 1.30%.

(2) Net Fees and Commissions

(billion yen)	FY2016		FY2017		Change (B) – (A)
	3 months Jan.-Mar.	Full-year (A)	3 months Jan.-Mar.	Full-year (B)	
Net fees and commissions (a)-(b)	2.5	9.3	2.9	11.4	2.1
Fees and commissions received (a)	2.9	10.5	3.2	12.8	2.3
Loan business-related and deposits	1.4	5.2	1.5	5.8	0.6
Securities-related and agency	1.0	3.7	1.3	5.1	1.4
Others	0.5	1.7	0.5	2.0	0.3
Fees and commissions payments (b)	-0.3	-1.3	-0.4	-1.4	-0.1

Net fees and commissions were 11.4 billion yen, an increase of 2.1 billion yen, or 22.6% year on year. The increase was mainly due to increases in fee income from loans as well as the sale of investment trusts and insurance to our mass affluent retail customers.

Earnings from the sale of financial products (investment trusts, insurance, and structured bonds) to our mass affluent retail customers were 8.6 billion yen, a year-on-year increase of 1.2 billion yen. Committed to providing customer-oriented services, the Bank will continue its efforts aimed at enhancing its investment product line-up in order to meet the needs of its customers while strengthening the consultative skills of its sales staff.

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

(billion yen)	FY2016		FY2017		Change (B) – (A)
	3 months Jan.-Mar.	Full-year (A)	3 months Jan.-Mar.	Full-year (B)	
Earnings from the sale of investment trusts, insurance and structured bonds	2.9	7.4	2.3	8.6	1.2

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

(3) Net Trading Revenues

(billion yen)	FY2016		FY2017		Change (B) – (A)
	3 months Jan.-Mar.	Full-year (A)	3 months Jan.-Mar.	Full-year (B)	
Net trading revenues	4.6	20.4	4.3	17.1	-3.3

Net trading revenues were 17.1 billion yen, a decrease of 3.3 billion yen, or 16.2% year on year. Earnings from the sale of derivative-related products to our financial institution customers remained favorable, although representing a decline from the especially strong level of the previous year.

(4) Gains/Losses on Bond Transactions

(billion yen)	FY2016		FY2017		Change (B) – (A)
	3 months Jan.-Mar.	Full-year (A)	3 months Jan.-Mar.	Full-year (B)	
Gains/losses on bond transactions	-3.0	2.4	-1.0	0.7	-1.7
Japanese government bonds	-	-	-	0.1	0.1
Foreign government bonds and mortgage bonds	-4.0	-0.2	-1.3	-1.7	-1.5
Others	1.0	2.6	0.3	2.2	-0.4

Gains/losses on bond transactions were a gain of 0.7 billion yen, a decline of 1.7 billion yen as compared to FY2016, and included gains on the sale of foreign currency ETFs and REITs. The decline mainly reflected risk reduction measures taken by the Bank, including to its U.S. Treasury and mortgage bond positions.

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

(billion yen)	FY2016		FY2017		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	-0.8	7.5	0.6	9.3	1.8
Incl. Gains from limited partnerships	1.3	8.2	1.9	11.1	2.9
Real estate-related	0.8	2.7	0.3	3.5	0.8
Distressed loan-related	0.7	4.0	0.3	3.3	-0.7
Others (buyout, etc.)	-0.3	1.5	1.3	4.3	2.8

Net other ordinary income, excluding gains/losses on bond transactions, was 9.3 billion yen, an increase of 1.8 billion yen, or 24.0% year on year. Gains from limited partnerships were 11.1 billion yen, an increase of 2.9 billion yen year on year, mainly supported by strong performance in real estate-related and distressed loan-related limited partnerships, as well as gains associated with the listing of a buyout-related investment in the third quarter (Oct.-Dec.).

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

(billion yen)	FY2016		FY2017		Change (B) – (A)
	3 months Jan.-Mar.	Full-year (A)	3 months Jan.-Mar.	Full-year (B)	
G&A expenses	-11.8	-45.0	-12.8	-46.8	-1.8
Personnel expense	-6.0	-21.9	-6.7	-23.6	-1.7
Non-personnel expense	-5.1	-19.6	-5.3	-19.6	0.0
Tax	-0.8	-3.5	-0.8	-3.7	-0.2

General and administrative expenses were 46.8 billion yen, an increase of 1.8 billion yen, or 4.0% 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 was 53.6%.

3. Credit-Related Expenses

(billion yen)	FY2016		FY2017		Change (B) – (A)
	3 months Jan.-Mar.	Full-year (A)	3 months Jan.-Mar.	Full-year (B)	
Credit-related expenses	6.7	11.1	4.9	8.7	-2.4
Write-off of loans	-0.1	-0.2	-0.1	-0.3	-0.1
Reserve for possible loan losses	6.4	9.7	3.7	7.1	-2.6
Specific reserve for possible loan losses	1.4	4.0	-2.2	0.8	-3.2
General reserve for possible loan losses	5.1	5.8	6.0	6.2	0.4
Gains/losses on disposition of loans	0.0	-0.5	-0.5	-0.5	0.0
Recoveries of written-off claims	0.8	2.2	0.5	1.9	-0.3
Reserve for credit losses on off-balance-sheet instruments	-0.5	-0.2	1.2	0.6	0.8

Credit-related expenses were a net reversal of 8.7 billion yen, mainly due to the reversal of loan loss reserves and recoveries of written-off claims. This result compares with a net reversal of 11.1 billion yen recorded in the previous year. The ratio of loan loss reserves to total loans was 1.66% and reflects the Bank's mid- to long-term perspective on the conservative allocation of reserves.

4. Gains/losses on Stock Transactions

(billion yen)	FY2016		FY2017		Change (B) – (A)
	3 months Jan.-Mar.	Full-year (A)	3 months Jan.-Mar.	Full-year (B)	
Gains/losses on stock transactions	0.0	0.5	0.6	8.0	7.5

Gains/losses on stock transactions were a gain of 8.0 billion yen mainly due to gains from selling a portion of domestic equity ETFs, as well as gains in the third quarter (Oct.-Dec.) on the sale of a prior year's overseas investment associated with an initial public offering.

5. Taxes

(billion yen)	FY2016		FY2017		Change (B) – (A)
	3 months Jan.-Mar.	Full-year (A)	3 months Jan.-Mar.	Full-year (B)	
Taxes	-1.2	-8.1	-2.5	-15.5	-7.4

Taxes were a net expense of 15.5 billion yen. The effective tax rate was 26.7%.

II. Balance Sheet

(billion yen)	Mar. 31, 2017 (A)	Dec.31, 2017	Mar. 31, 2018 (B)	Change (B) — (A)		Page
				Amount	%	
Total assets	4,586.0	4,916.9	4,912.8	326.8	7.1%	-
Loan and bills discounted	2,521.9	2,626.5	2,611.3	89.4	3.5%	11
Securities	937.9	1,172.6	1,139.8	201.9	21.5%	12
Cash and due from banks	573.0	553.2	543.2	-29.8	-5.2%	-
Trading assets	210.7	167.5	179.7	-31.0	-14.7%	-
Others	342.4	397.2	438.9	96.5	28.2%	-
Total liabilities	4,165.7	4,469.3	4,475.6	309.9	7.4%	-
Deposits and negotiable certificates of deposit	2,853.1	2,955.8	2,970.9	117.8	4.1%	11
Debentures, Bonds	246.3	250.1	257.6	11.3	4.6%	11
Borrowed money	276.6	303.1	315.3	38.7	14.0%	-
Payables under securities lending transactions	306.3	440.5	431.3	125.0	40.8%	-
Trading liabilities	197.7	144.2	130.2	-67.5	-34.1%	-
Others	285.6	375.7	370.3	84.7	29.7%	-
Total net assets	420.3	447.6	437.2	16.9	4.0%	-
Capital stock	100.0	100.0	100.0	0.0	0.0%	-
Capital surplus	87.3	87.3	87.3	0.0	0.0%	-
Retained earnings	221.9	239.5	243.2	21.3	9.6%	-
Treasury stock	-3.4	-3.4	-3.4	0.0	-	-
Valuation difference on available-for-sale securities	23.8	51.8	35.3	11.5	48.3%	-
Others	-9.3	-27.7	-25.3	-16.0	-	-
Total liabilities and net assets	4,586.0	4,916.9	4,912.8	326.8	7.1%	-

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 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.

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

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

(billion yen)	Mar. 31, 2017 (A)	Dec. 31, 2017	Mar. 31, 2018 (B)	Change (B) – (A)
Total core funding	3,099.4	3,205.9	3,228.5	129.1

Funding sources by product

(billion yen)	Mar. 31, 2017 (A)	Dec. 31, 2017	Mar. 31, 2018 (B)	Change (B) – (A)
Deposits/NCDs	2,853.1	2,955.8	2,970.9	117.8
Debentures/Bonds	246.3	250.1	257.6	11.3

Funding sources by customer

(billion yen)	Mar. 31, 2017 (A)	Dec. 31, 2017	Mar. 31, 2018 (B)	Change (B) – (A)
Retail	1,829.4	1,820.5	1,811.4	-18.0
Corporate	610.5	592.0	581.1	-29.4
Financial Institutions	659.4	793.4	836.0	176.6

Note: Corporate includes public entities.

The Bank continued to flexibly manage its funding position in light of its asset requirements. Total core funding (deposits, negotiable certificates of deposit, debentures and bonds) was 3,228.5 billion yen, an increase of 129.1 billion yen, or 4.2%, from March 31, 2017. The percentage of retail funding to total core funding was 56%.

As of March 31, 2018, the Bank maintained adequate liquidity reserves of 606.7 billion yen.

2. Loans

(billion yen)	Mar. 31, 2017 (A)	Dec. 31, 2017	Mar. 31, 2018 (B)	Change (B) – (A)
Loans	2,521.9	2,626.5	2,611.3	89.4
Domestic loans	1,651.9	1,643.1	1,638.1	-13.8
Overseas loans	870.0	983.3	973.1	103.1
U.S. dollar basis (\$ million)	\$7,755	\$8,698	\$9,157	\$1,402

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

Loans were 2,611.3 billion yen, an increase of 89.4 billion yen, or 3.5%, from March 31, 2017.

Reflecting the Bank's continued focus on balancing risk and return, domestic loans decreased by 13.8 billion yen from March 31, 2017.

Overseas loans increased by 103.1 billion yen from March 31, 2017. The increase was the result of the Bank's selective origination of corporate loans and real estate non-recourse loans, mainly in North America where the risk-return profiles remain relatively attractive.

3. Securities

(billion yen)	Book Value				Unrealized Gains/Losses			
	Mar. 31, 2017(A)	Dec. 31, 2017	Mar. 31, 2018 (B)	Change (B) - (A)	Mar. 31, 2017(A)	Dec. 31, 2017	Mar.31, 2018 (B)	Change (B) - (A)
JGBs	8.1	8.0	8.0	-0.1	-0.0	0.0	0.0	0.0
Municipal bonds	26.7	33.5	32.4	5.7	0.1	0.1	0.1	0.0
Corporate bonds	28.4	37.7	34.2	5.8	0.1	0.1	0.1	0.0
Equities	63.1	88.9	84.7	21.6	43.9	69.4	65.3	21.4
Foreign bonds	343.9	507.4	484.0	140.1	-12.9	-9.9	-17.0	-4.1
Foreign government bonds	174.2	250.6	228.1	53.9	-9.2	-9.3	-11.7	-2.5
Mortgage bonds	117.1	162.0	159.6	42.5	-4.1	-3.9	-7.1	-3.0
Others	52.7	94.8	96.4	43.7	0.4	3.3	1.9	1.5
Others	467.8	497.1	496.4	28.6	8.4	19.6	9.9	1.5
ETFs	276.2	275.4	257.4	-18.8	4.1	5.2	-1.3	-5.4
Investment in limited partnerships	65.6	60.7	62.5	-3.1	0.8	1.2	1.0	0.2
REIT	61.1	62.7	73.6	12.5	2.8	2.5	3.0	0.2
Investment trusts	48.6	74.5	79.9	31.3	0.3	4.6	0.8	0.5
Others	16.3	23.7	23.0	6.7	0.5	6.1	6.4	5.9
Total	937.9	1,172.6	1,139.8	201.9	39.7	79.4	58.5	18.8

Total unrealized gains, including unrealized gains/losses on hedging instruments	25.3	38.5	22.7	-2.6
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Securities were 1,139.8 billion yen as of March 31, 2018, an increase of 201.9 billion yen, or 21.5%, compared to March 31, 2017. This was mainly due to an increase in foreign bonds as a result of the Bank's rebuilding of its U.S. Treasury and mortgage bond positions.

Compared with March 31, 2017, total unrealized gains increased by 18.8 billion yen to 58.5 billion yen as of March 31, 2018. The Bank's Japanese equity ETF position is hedged, as is a portion of equities. Total unrealized gains, including unrealized gains/losses on hedging instruments, were 22.7 billion yen.

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

(billion yen)	Mar. 31, 2017 (A)	Dec. 31, 2017	Mar. 31, 2018 (B)	Change (B)–(A)
Bankrupt and similar credit	0.0	0.4	0.2	0.2
Doubtful credit	11.5	3.4	4.6	-6.9
Special attention credit	1.4	2.2	2.2	0.8
FRL credit, total (a)	12.9	6.0	7.0	-5.9
Normal credit (b)	2,558.9	2,687.8	2,653.5	94.6
Total credit (c)=((a)+(b))	2,571.8	2,693.7	2,660.5	88.7
FRL credit ratio (a)/(c)	0.50%	0.22%	0.26%	-0.24%

Non-performing claims as defined by the Financial Reconstruction Law (FRL) were 7.0 billion yen, a decrease of 5.9 billion yen, or 45.7%, from March 31, 2017. The decline was mainly due to the collection of doubtful claims. The FRL ratio declined by 0.24 points to 0.26%. The percentage of FRL claims covered by reserves, collateral and guarantees was 83.6%. The ratio of loan loss reserves to total loans remained high at 1.66% on a consolidated basis.

IV. Capital Adequacy Ratio (Preliminary)

(billion yen)	Mar. 31, 2017 (A)	Dec. 31, 2017	Mar. 31, 2018 (B)	Change (B)–(A)
Capital adequacy ratio	10.75%	10.74%	10.39%	-0.36%
Regulatory capital	439.8	459.3	451.0	11.2
Risk assets	4,087.4	4,275.5	4,339.7	252.3

Aozora's consolidated capital adequacy ratio (domestic standard) remained at an adequate level at 10.39% (preliminary basis). For reference purposes, the Bank's CET1 ratio (Tier 1 Common Capital Ratio) was approximately 9.1%.

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.