January 31, 2017

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# Aozora Reports Net Income of 35.6 billion for the First Nine Months of FY2016; Increase of 0.5 billion or 1.3% compared to previous year; Progress of 83% towards full-year forecast

**TOKYO January 31, 2017 –** Aozora Bank, Ltd. ("Aozora" or "the Bank"), a leading Japanese commercial bank, today announced its financial results for the first nine months of FY2016.

## Financial results for the first nine months of FY2016

In the first nine months of FY2016, Aozora reported consolidated net revenue of 70.4 billion yen, business profit of 37.2 billion yen, and net income of 35.6 billion yen, representing progress of 77%, 79%, and 83%, respectively, towards the full-year forecasts.

Shinsuke Baba, Representative Director, President and Chief Executive Officer of Aozora Bank commented, "The banking sector continues to operate under a difficult business environment due to ongoing uncertainty in the global market outlook. In the face of these conditions, we were pleased to report a favorable net revenue result, as well as achieving 83% of our net income forecast for the full year. These results were a product of several factors including our ongoing focus on disciplined balance sheet management and diversification of income sources. Today we also announced a third quarter dividend of 5.00 yen per common share. The dividend payment was 4.00 yen in both the first and second quarters."

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 results for the first nine months (Consolidated)

- For the first nine months of FY2016 (Apr.-Dec.) net revenue was 70.4 billion yen, an increase of 1.5 billion yen, or 2.2% year on year. Included in the nine month results was the favorable net revenue of 24.1 billion yen recorded in the third quarter (Oct.-Dec.). Business profit for the first nine months was 37.2 billion yen, a decrease of 1.3 billion yen, or 3.5%. The net revenue and business profit results represented progress of 77% and 79%, respectively, towards the full-year forecasts. Net income was 35.6 billion yen, an increase of 0.5 billion yen, or 1.3%, representing progress of 83% towards the full-year forecast of 43.0 billion yen.
  - Net interest income was 34.1 billion yen, a decrease of 4.7 billion yen, or 12.0% 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 36.3 billion yen, an increase of 6.2 billion yen, or 20.6% year on year, mainly reflecting strong earnings from the sale of investment products including derivative-related products and private placement investment trusts tailored to the needs of our financial institution customers.
  - General and administrative expenses were 33.2 billion yen, a year on year increase of 2.9 billion yen, or 9.5%. 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 47.1% and reflected the Bank's continued efforts to control costs.
  - Credit-related expenses were a net reversal of 4.4 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 1.9 billion yen recorded in the first nine months of FY2015.

- Total loans were 2,594.1 billion yen, an increase of 82.5 billion yen, or 3.3%, from March 31, 2016. Domestic loans increased 18.0 billion yen as the Bank maintained its focus on balancing risk and return, while overseas loans increased 64.5 billion yen.

- The Bank continued its efforts to flexibly manage its funding volume. Total core funding (deposits, negotiable certificates of deposit, debentures and bonds) was 3,214.8 billion yen, an increase of 23.2 billion yen from March 31, 2016, which was mainly due to an increase in the balance of long-term corporate deposits. The percentage of retail funding to total core funding was 57% and remained at an appropriate level.

- Non-performing claims as defined by the Financial Reconstruction Law (FRL) were 17.7 billion yen, a decrease of 5.3 billion yen, or 23.0%, from March 31, 2016. The FRL ratio declined by 0.23 points to 0.67%. The ratio of loan loss reserves to total loans on a consolidated basis remained high at 2.20%.

- Aozora will announce its December 31, 2016 consolidated capital adequacy ratio (domestic standard) at a later date. As of September 30, 2016, the ratio was 11.33% and is expected to remain at an adequate level.

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

## 2. FY2016 First Nine Months Performance (April 1, 2016 to December 31, 2016)

### Consolidated basis

| (billion yen) | Net Revenue | Business Profit | Ordinary Profit | Net Income | Net Income per common share |
|---|---|---|---|---|---|
| **FY2016 nine months (Apr.-Dec.) (a)** | 70.4 | 37.2 | 42.4 | 35.6 | 30.49 yen |
| **FY2015 nine months (Apr.-Dec.) (b)** | 68.9 | 38.6 | 43.1 | 35.1 | 30.09 yen |
| **Change (a) - (b)** | 1.5 | -1.3 | -0.7 | 0.5 | 0.40 yen |
| **Percentage change ((a)-(b)) / (b)** | 2.2% | -3.5% | -1.6% | 1.3% | 1.3% |
| **FY2016 full-year forecast (c)** | 92.0 | 47.0 | 53.0 | 43.0 | 36.86 yen |
| **Progress (a)/(c)** | 76.5% | 79.2% | 80.0% | 82.7% | 82.7% |

### Non-consolidated basis

| (billion yen) | Net Revenue | Business Profit before general loan-loss reserve | Ordinary Profit | Net Income | Net Income per common share |
|---|---|---|---|---|---|
| **FY2016 nine months (Apr.-Dec.) (a)** | 67.0 | 36.7 | 41.3 | 35.8 | 30.65 yen |
| **FY2015 nine months (Apr.-Dec.) (b)** | 65.0 | 37.3 | 41.9 | 34.2 | 29.31 yen |
| **Change (a) - (b)** | 2.0 | -0.7 | -0.6 | 1.6 | 1.34 yen |
| **Percentage change ((a)-(b)) / (b)** | 3.0% | -1.7% | -1.5% | 4.6% | 4.6% |
| **FY2016 full-year forecast (c)** | 86.0 | 45.0 | 51.0 | 41.0 | 35.15 yen |
| **Progress (a)/(c)** | 77.8% | 81.4% | 80.9% | 87.2% | 87.1% |

## Ⅰ. Revenue and Expenses

| (billion yen) | FY2015 3 months Oct.-Dec. | FY2015 9 months Apr.-Dec. (A) | FY2016 3 months Oct.-Dec. | FY2016 9 months Apr.-Dec. (B) | Change (B)－(A) Amount | Change (B)－(A) % | Page |
|---|---|---|---|---|---|---|---|
| **Net revenue** | **22.4** | **68.9** | **24.1** | **70.4** | **1.5** | **2.2%** | **-** |
| Net interest income | 13.4 | 38.8 | 11.7 | 34.1 | -4.7 | -12.0% | 4 |
| *Net interest margin* | *1.41%* | *1.33%* | *1.29%* | *1.28%* | *-0.05%* | - | 4 |
| Non-interest income | 9.0 | 30.1 | 12.4 | 36.3 | 6.2 | 20.6% | - |
| Net fees and commissions | 2.9 | 8.6 | 1.8 | 6.8 | -1.9 | -21.7% | 5 |
| Net trading revenues | 2.4 | 7.5 | 5.7 | 15.8 | 8.3 | 109.9% | 5 |
| Net other ordinary income | 3.7 | 13.9 | 4.9 | 13.7 | -0.2 | -1.5% | - |
| Gains/losses on bond transactions | 1.5 | 6.0 | 1.1 | 5.4 | -0.6 | -9.9% | 6 |
| Net other ordinary income excluding gains/losses on bond transactions | 2.2 | 7.9 | 3.8 | 8.3 | 0.4 | 4.9% | 6 |
| General & administrative expenses | -10.4 | -30.3 | -11.0 | -33.2 | -2.9 | -9.5% | 7 |
| **Business profit** | **12.0** | **38.6** | **13.1** | **37.2** | **-1.3** | **-3.5%** | **-** |
| Credit-related expenses | 0.0 | 1.9 | 1.1 | 4.4 | 2.6 | - | 7 |
| **Ordinary profit** | **13.5** | **43.1** | **14.6** | **42.4** | **-0.7** | **-1.6%** | **-** |
| Extraordinary profit/loss | -0.0 | -0.0 | -0.0 | -0.0 | 0.0 | - | - |
| **Income before taxes and minority interests** | **13.5** | **43.1** | **14.6** | **42.4** | **-0.7** | **-1.6%** | **-** |
| Taxes | -2.6 | -8.0 | -4.9 | -6.9 | 1.1 | - | 7 |
| **Net income** | **10.8** | **35.1** | **9.7** | **35.6** | **0.5** | **1.3%** | **-** |

For the first nine months of FY2016, the Bank recorded consolidated net revenue of 70.4 billion yen, an increase of 1.5 billion yen, or 2.2% year on year. This result included the favorable net revenue of 24.1 billion yen recorded in the third quarter (Oct.-Dec.) following the steady results achieved in the first half of FY2016.

Net interest income was 34.1 billion yen, a decrease of 4.7 billion yen, or 12.0% 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%. In the third quarter (Oct.-Dec.), net interest income was 11.7 billion yen and showed an improving trend.

Non-interest income increased 6.2 billion yen, or 20.6% year on year, to 36.3 billion yen, as a result of the Bank's continued efforts to diversify its income sources. Net fees and commissions were 6.8 billion yen, a decrease of 1.9 billion yen, or 21.7% year on year. Net trading revenues were 15.8 billion yen, an increase of 8.3 billion yen, or 109.9%, mainly due to strong earnings from the sale of derivative-related products tailored to the needs of our financial institution customers. Gains/losses on bond transactions were a gain of 5.4 billion yen, a decrease of 0.6 billion yen compared with the first nine months of FY2015. Net other ordinary income, excluding gains/losses on bond transactions, was 8.3 billion yen, a year on year increase of 0.4 billion yen, reflecting strong gains from limited partnerships.

General and administrative expenses were 33.2 billion yen, an increase of 2.9 billion yen, or 9.5% year on year. 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 47.1% and reflected the Bank's continued efforts to control costs.

Consolidated business profit was 37.2 billion yen, a decrease of 1.3 billion yen, or 3.5%.

Credit-related expenses were a net reversal of 4.4 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 42.4 billion yen, a decrease of 0.7 billion yen, or 1.6%. Taxes were a net expense of 6.9 billion yen.

As a result of the above factors, consolidated net income was 35.6 billion yen, an increase of 0.5 billion yen, or 1.3% year on year, representing progress of 83% towards the full-year forecast of 43.0 billion yen.

### 1. Net Revenue

(1)①Net Interest Income

| (billion yen) | | FY2015 3 months Oct.-Dec. | FY2015 9 months Apr.-Dec.(A) | FY2016 3 months Oct.-Dec. | FY2016 9 months Apr.-Dec. (B) | Change (B)－(A) |
|---|---|---|---|---|---|---|
| Net interest income | (a)-(b) | 13.4 | 38.8 | 11.7 | 34.1 | -4.7 |
| Interest income | (a) | 17.3 | 49.8 | 17.5 | 49.4 | -0.4 |
| Interest on loans and discounts | | 10.9 | 32.6 | 10.9 | 31.6 | -1.0 |
| Interest and dividends on securities | | 6.2 | 15.7 | 6.5 | 17.1 | 1.4 |
| Other interest income | | 0.2 | 1.2 | 0.2 | 0.7 | -0.5 |
| Interest on swaps | | 0.1 | 0.2 | -0.1 | 0.0 | -0.2 |
| Interest expenses | (b) | -3.9 | -11.1 | -5.8 | -15.3 | -4.3 |
| Interest on deposits and NCDs | | -2.1 | -6.3 | -1.4 | -4.8 | 1.5 |
| Interest on debentures and bonds | | -0.2 | -0.5 | -0.1 | -0.4 | 0.1 |
| Interest on borrowings and rediscount | | -0.2 | -0.7 | -0.2 | -0.7 | 0.0 |
| Other interest expenses | | -0.4 | -1.0 | -1.0 | -2.0 | -1.0 |
| Interest on swaps | | -1.1 | -2.6 | -3.0 | -7.4 | -4.8 |

(1)②Net Interest Margin

| | | FY2015 3 months Oct.-Dec. | FY2015 9 months Apr.-Dec. (A) | FY2016 3 months Oct.-Dec. | FY2016 9 months Apr.-Dec. (B) | Change (B)－(A) |
|---|---|---|---|---|---|---|
| Yield on total investments | (a) | 1.79% | 1.69% | 1.89% | 1.81% | 0.12% |
| Yield on loans | | 1.65% | 1.61% | 1.71% | 1.67% | 0.06% |
| Yield on securities | | 2.39% | 2.04% | 2.59% | 2.45% | 0.41% |
| Yield on funding | (b) | 0.38% | 0.36% | 0.60% | 0.53% | 0.17% |
| Net interest margin | (a)-(b) | 1.41% | 1.33% | 1.29% | 1.28% | -0.05% |

Net interest income was 34.1 billion yen, a decrease of 4.7 billion yen, or 12.0% year on year. Interest income decreased 0.4 billion yen, reflecting a decrease in interest on loans which was mainly due to a decline in average asset balances. Interest and dividends on securities increased year on year. Interest expenses increased 4.3 billion yen mainly as a result of increased U.S. dollar funding costs.

The yield on total investments increased 12 bps year on year to 1.81% 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 17 bps to 0.53% 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%, as compared to 1.27% for the first half of FY2016.

(2) Net Fees and Commissions

| (billion yen) | | FY2015 3 months Oct.-Dec. | FY2015 9 months Apr.-Dec. (A) | FY2016 3 months Oct.-Dec. | FY2016 9 months Apr.-Dec. (B) | Change (B)－(A) |
|---|---|---|---|---|---|---|
| Net fees and commissions | (a)-(b) | 2.9 | 8.6 | 1.8 | 6.8 | -1.9 |
| Fees and commissions received | (a) | 3.1 | 9.4 | 2.2 | 7.7 | -1.7 |
| Loan business-related and deposits | | 1.1 | 3.7 | 1.0 | 3.8 | 0.1 |
| Securities-related and agency | | 1.4 | 4.4 | 0.9 | 2.7 | -1.7 |
| Others | | 0.5 | 1.3 | 0.3 | 1.2 | -0.1 |
| Fees and commissions payments | (b) | -0.3 | -0.7 | -0.3 | -0.9 | -0.2 |

Net fees and commissions were 6.8 billion yen, a decrease of 1.9 billion yen, or 21.7% year on year, mainly due to a decline in earnings from the sale of investment trusts and insurance. Loan-related fee income remained unchanged compared to the first nine months of FY2015.

Amid ongoing uncertainty in global markets, earnings from the Bank's retail-related business (earnings from the sale of investment trusts, insurance and structured bonds) to our mass affluent retail customers were 4.6 billion yen, a year on year decrease of 0.8 billion yen. In accordance with our basic policy on fiduciary duties, the Bank 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 Retail-Related Business

| (billion yen) | FY2015 3 months Oct.-Dec. | FY2015 9 months Apr.-Dec. (A) | FY2016 3 months Oct.-Dec. | FY2016 9 months Apr.-Dec. (B) | Change (B)－ (A) |
|---|---|---|---|---|---|
| Earnings related to the sale of investment trusts, insurance and structured bonds | 1.6 | 5.4 | 1.8 | 4.6 | -0.8 |

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 3 months Oct.-Dec. | FY2015 9 months Apr.-Dec. (A) | FY2016 3 months Oct.-Dec. | FY2016 9 months Apr.-Dec. (B) | Change (B)－(A) |
|---|---|---|---|---|---|
| Net trading revenues | 2.4 | 7.5 | 5.7 | 15.8 | 8.3 |
| Income on trading-related financial derivatives transactions | 1.9 | 5.8 | 3.8 | 12.7 | 6.9 |
| Others | 0.6 | 1.7 | 1.9 | 3.1 | 1.4 |

Net trading revenues were 15.8 billion yen, an increase of 8.3 billion yen, or 109.9% year on year. In the third quarter (Oct.-Dec.), net trading revenues were 5.7 billion yen. The Bank recorded strong earnings from the sale of derivative-related products tailored to 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 |
|---|---|---|---|---|---|
| | 3 months Oct.-Dec. | 9 months Apr.-Dec. (A) | 3 months Oct.-Dec. | 9 months Apr.-Dec. (B) | (B) −(A) |
| Gains/losses on bond transactions | 1.5 | 6.0 | 1.1 | 5.4 | -0.6 |
| Japanese government bonds | -0.0 | 0.7 | - | - | -0.7 |
| Foreign government bonds and mortgage bonds | 0.7 | 3.0 | 0.6 | 3.8 | 0.8 |
| Others | 0.8 | 2.3 | 0.5 | 1.6 | -0.7 |

Gains/losses on bond transactions were a gain of 5.4 billion yen, compared with a gain of 6.0 billion yen in the first nine months of FY2015. Contributing to this result were gains on the sale of foreign government bonds and J-REITs.

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

| (billion yen) | FY2015 | | FY2016 | | Change |
|---|---|---|---|---|---|
| | 3 months Oct.-Dec. | 9 months Apr.-Dec. (A) | 3 months Oct.-Dec. | 9 months Apr.-Dec. (B) | (B) −(A) |
| Net other ordinary income excluding gains/losses on bond transactions | 2.2 | 7.9 | 3.8 | 8.3 | 0.4 |
| Gains from limited partnerships | 1.7 | 6.7 | 2.7 | 6.9 | 0.3 |
| Real estate-related | 0.4 | 0.9 | 1.4 | 2.0 | 1.1 |
| Distressed loan-related | 1.0 | 3.5 | 1.0 | 3.2 | -0.2 |
| Others (Buyout, etc.) | 0.3 | 2.3 | 0.3 | 1.7 | -0.6 |
| Gains on distressed loans (Aozora Loan Services) | 0.3 | 0.6 | 0.2 | 0.6 | 0.0 |
| Others | 0.1 | 0.7 | 0.9 | 0.8 | 0.1 |

Net other ordinary income, excluding gains/losses on bond transactions, was 8.3 billion yen, an increase of 0.4 billion yen, or 4.9% year on year. This result included gains from limited partnerships of 6.9 billion yen which were mainly due to the solid results recorded in the Bank's distressed loan business. Also contributing were the favorable gains recognized from the Bank's real estate-related limited partnerships. In the third quarter (Oct.-Dec.), gains from limited partnerships were 2.7 billion yen.

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

| (billion yen) | FY2015 | | FY2016 | | Change (B)−(A) |
|---|---|---|---|---|---|
| | 3 months Oct.-Dec. | 9 months Apr.-Dec. (A) | 3 months Oct.-Dec. | 9 months Apr.-Dec. (B) | |
| G&A expenses | -10.4 | -30.3 | -11.0 | -33.2 | -2.9 |
| Personnel | -5.2 | -15.3 | -5.4 | -15.9 | -0.6 |
| Non-personnel expense | -4.7 | -13.2 | -4.7 | -14.6 | -1.4 |
| Tax | -0.6 | -1.8 | -0.8 | -2.7 | -0.9 |

General and administrative expenses were 33.2 billion yen, an increase of 2.9 billion yen, or 9.5% 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 for the first nine months represented 73.7% of the full-year budget of 45.0 billion yen and reflected the Bank's continued efforts to control costs. Supported by growth in net revenue, the OHR (general and administrative expenses as a percentage of net revenue) was 47.1% despite the increase in general and administrative expenses. In the third quarter (Oct.-Dec.), the OHR was 45.5%.

### 3. Credit-Related Expenses

| (billion yen) | FY2015 | | FY2016 | | Change (B)−(A) |
|---|---|---|---|---|---|
| | 3 months Oct.-Dec. | 9 months Apr.-Dec. (A) | 3 months Oct.-Dec. | 9 months Apr.-Dec. (B) | |
| Credit-related expenses | 0.0 | 1.9 | 1.1 | 4.4 | 2.6 |
| Write-off of loans | -0.1 | -0.1 | -0.0 | -0.1 | 0.1 |
| Reserve for possible loan losses | -1.1 | -1.2 | 0.1 | 3.3 | 4.5 |
| Specific reserve for possible loan losses | 0.3 | -0.5 | 1.3 | 2.6 | 3.1 |
| General reserve for possible loan losses | -1.4 | -0.7 | -1.2 | 0.7 | 1.3 |
| Gains/losses on disposition of loans | - | -0.1 | -0.0 | -0.5 | -0.4 |
| Recoveries of written-off claims | 1.2 | 3.4 | 0.6 | 1.3 | -2.0 |
| Reserve for credit losses on off-balance-sheet instruments | 0.1 | -0.2 | 0.4 | 0.3 | 0.5 |

Credit-related expenses were a net reversal of 4.4 billion yen and were mainly due to the reversal of loan loss reserves as well as recoveries of written-off claims, and compares with a net reversal of 1.9 billion yen in the first nine months of FY2015. In the third quarter (Oct.-Dec.), credit-related expenses were a net reversal of 1.1 billion yen. The ratio of loan loss reserves to total loans remained high at 2.20% 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 Oct.-Dec. | 9 months Apr.-Dec. (A) | 3 months Oct.-Dec. | 9 months Apr.-Dec. (B) | |
| Taxes | -2.6 | -8.0 | -4.9 | -6.9 | 1.1 |

Taxes were a net expense of 6.9 billion yen, compared with a net expense of 8.0 billion yen in the first nine months of 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. The full-year tax expense forecast of 10.0 billion and estimated effective tax rate of 20% remain unchanged.

## Ⅱ. Balance Sheet

| (billion yen) | | Mar. 31, 2016 (A) | Sept. 30, 2016 | Dec. 31, 2016 (B) | Change (B)－(A) Amount | % | Page |
|---|---|---|---|---|---|---|---|
| **Total assets** | | **4,592.9** | **4,575.1** | **4,797.4** | **204.5** | **4.5%** | **-** |
| | Loan and bills discounted | 2,511.6 | 2,475.4 | 2,594.1 | 82.5 | 3.3% | 9 |
| | Securities | 923.5 | 925.6 | 1,079.2 | 155.7 | 16.9% | 10 |
| | Cash and due from banks | 546.3 | 595.3 | 590.4 | 44.2 | 8.1% | - |
| | Trading assets | 337.4 | 356.5 | 228.2 | -109.2 | -32.4% | - |
| | Others | 274.1 | 222.2 | 305.5 | 31.4 | 11.4% | - |
| **Total liabilities** | | **4,187.4** | **4,150.4** | **4,388.1** | **200.7** | **4.8%** | **-** |
| | Deposits and negotiable certificates of deposit | 2,932.1 | 2,876.8 | 2,989.7 | 57.5 | 2.0% | 9 |
| | Debentures, Bonds | 259.5 | 235.5 | 225.1 | -34.4 | -13.2% | 9 |
| | Borrowed money | 208.0 | 224.4 | 257.7 | 49.7 | 23.9% | - |
| | Payables under securities lending transactions | 263.5 | 269.3 | 368.0 | 104.5 | 39.6% | - |
| | Trading liabilities | 269.9 | 252.8 | 229.4 | -40.5 | -15.0% | - |
| | Others | 254.4 | 291.6 | 318.2 | 63.8 | 25.1% | - |
| **Total net assets** | | **405.5** | **424.7** | **409.3** | **3.8** | **0.9%** | **-** |
| | Capital stock | 100.0 | 100.0 | 100.0 | - | - | - |
| | Capital surplus | 87.3 | 87.3 | 87.3 | 0.0 | 0.0% | - |
| | Retained earnings | 199.8 | 214.4 | 219.5 | 19.7 | 9.9% | - |
| | Treasury stock | -3.4 | -3.4 | -3.4 | 0.0 | 0.0% | - |
| | Valuation difference on available-for-sale securities | 16.3 | 24.2 | 10.7 | -5.6 | -34.4% | - |
| | Others | 5.5 | 2.1 | -4.8 | -10.3 | - | - |
| **Total liabilities and net assets** | | **4,592.9** | **4,575.1** | **4,797.4** | **204.5** | **4.5%** | **-** |

Total assets were 4,797.4 billion yen as of December 31, 2016, an increase of 204.5 billion yen, or 4.5%, compared to March 31, 2016. Loans were 2,594.1 billion yen, an increase of 82.5 billion yen, or 3.3%, from March 31, 2016. Domestic loans increased 18.0 billion yen. On a yen basis, overseas loans increased 64.5 billion yen. Securities increased by 155.7 billion yen, or 16.9%, from March 31, 2016, to 1,079.2 billion yen.

Total liabilities were 4,388.1 billion yen, an increase of 200.7 billion yen, or 4.8%, compared to March 31, 2016. The Bank continued its efforts to flexibly manage its funding volume. Total core funding (deposits, negotiable certificates of deposit, debentures and bonds) increased 23.2 billion yen, or 0.7%, from March 31, 2016, to 3,214.8 billion yen, mainly due to an increase in the balance of long-term corporate deposits.

Net assets were 409.3 billion yen, representing an increase of 3.8 billion yen, or 0.9%, in comparison with March 31, 2016.

Net assets per common share were 349.02 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) | Sept. 30, 2016 | Dec. 31, 2016 (B) | Change (B)−(A) |
|---|---|---|---|---|
| Total core funding | 3,191.6 | 3,112.3 | 3,214.8 | 23.2 |

Funding sources by product

| (billion yen) | Mar. 31, 2016 (A) | Sept. 30, 2016 | Dec. 31, 2016 (B) | Change (B)−(A) |
|---|---|---|---|---|
| Deposits/NCDs | 2,932.1 | 2,876.8 | 2,989.7 | 57.5 |
| Debentures/Bonds | 259.5 | 235.5 | 225.1 | -34.4 |

Funding sources by customer

| (billion yen) | Mar. 31, 2016 (A) | Sept. 30, 2016 | Dec. 31, 2016 (B) | Change (B)−(A) |
|---|---|---|---|---|
| Retail | 1,995.5 | 1,905.6 | 1,843.9 | -151.7 |
| Corporate | 616.0 | 607.4 | 732.0 | 116.0 |
| Financial Institutions | 580.1 | 599.3 | 638.9 | 58.8 |

Note: Corporate includes public entities

The Bank continued its efforts to flexibly manage its funding volume. Total core funding (deposits, negotiable certificates of deposit, debentures and bonds) was 3,214.8 billion yen, an increase of 23.2 billion yen, or 0.7%, from March 31, 2016. This change was mainly due to an increase in the balance of long-term corporate deposits. The percentage of retail funding to total core funding remained at an appropriate level at 57%.

Although U.S. dollar funding costs have increased since last year, the increase in market interest rates had little impact on net earnings. The Bank continues to monitor fluctuations in U.S. dollar funding premiums. While market availability of foreign currency remains stable, the Bank will continue its efforts to diversify and enhance its foreign currency funding base.

As of December 31, 2016, the Bank maintained adequate liquidity reserves of 636.3 billion yen.

## 2. Loans

| (billion yen) | Mar. 31, 2016 (A) | Sept. 30, 2016 | Dec. 31, 2016 (B) | Change (B)−(A) |
|---|---|---|---|---|
| Loans | 2,511.6 | 2,475.4 | 2,594.1 | 82.5 |
| Domestic loans | 1,683.1 | 1,701.5 | 1,701.1 | 18.0 |
| Overseas loans | 828.5 | 773.9 | 893.1 | 64.5 |
| U.S. dollar basis ($ million) | 7,353 | 7,655 | 7,663 | 310 |

Note: Overseas loans with no final risk residing in Japan

Loans were 2,594.1 billion yen, an increase of 82.5 billion yen, or 3.3%, from March 31, 2016.

Domestic loans increased 18.0 billion yen as the Bank maintained its focus on balancing risk and return. Overseas loans increased 64.5 billion yen (an increase of 310 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) | Sept. 30, 2016 | Dec. 31, 2016 (B) | Change (B) – (A) | Mar. 31, 2016 (A) | Sept. 30, 2016 | Dec. 31, 2016 (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 | 20.8 | 24.1 | 9.0 | 0.3 | 0.3 | 0.2 | -0.1 |
| Corporate bonds | | 34.1 | 35.0 | 35.2 | 1.2 | 0.3 | 0.2 | 0.1 | -0.1 |
| Equities | | 42.2 | 48.0 | 54.0 | 11.8 | 23.5 | 29.3 | 34.9 | 11.3 |
| Foreign bonds | | 374.5 | 366.5 | 450.7 | 76.3 | 1.8 | 1.4 | -18.0 | -19.8 |
| | Foreign government bonds | 227.5 | 206.2 | 246.8 | 19.3 | 1.6 | 0.1 | -13.4 | -15.0 |
| | Mortgage bonds | 107.5 | 120.3 | 164.4 | 56.9 | -0.0 | 0.6 | -4.8 | -4.8 |
| | Others | 39.5 | 40.0 | 39.5 | 0.0 | 0.3 | 0.7 | 0.2 | -0.1 |
| Others | | 429.4 | 447.3 | 507.1 | 77.7 | -2.8 | 3.5 | 5.9 | 8.7 |
| | ETFs | 213.1 | 248.9 | 303.3 | 90.2 | -3.0 | 3.1 | 0.4 | 3.4 |
| | Investment in limited partnerships | 75.3 | 73.6 | 74.7 | -0.7 | 1.1 | 0.6 | 0.8 | -0.3 |
| | REIT | 51.0 | 62.3 | 60.6 | 9.6 | 3.2 | 3.4 | 3.4 | 0.2 |
| | Investment trusts | 69.2 | 47.3 | 51.6 | -17.6 | -4.5 | -4.1 | 1.0 | 5.5 |
| | Others | 20.7 | 15.3 | 16.8 | -3.9 | 0.3 | 0.5 | 0.3 | 0.0 |
| Total | | 923.5 | 925.6 | 1,079.2 | 157.7 | 23.0 | 34.7 | 23.1 | 0.0 |

| | | | | |
|---|---|---|---|---|
| Ref: Incl. unrealized gains/losses on hedging instruments | 29.4 | 36.9 | 16.0 | -13.4 |

Securities were 1,079.2 billion yen as of December 31, 2016, an increase of 155.7 billion yen, or 16.9%, compared to March 31, 2016. In the first nine months of FY2016, ETFs and mortgage bonds increased, while JGBs and investment trusts were reduced.

Interest and dividends on securities were 17.1 billion yen and gains on bond transactions were 5.4 billion yen. These results reflected the Bank’s continued efforts to secure stable income, despite continued uncertainty in global markets, through an ongoing focus on diversification and efficient asset allocation in its investment portfolio.

While somewhat affected by U.S interest rate fluctuations in the third quarter (Oct.-Dec.), total unrealized gains were almost unchanged from March 31, 2016 at 23.1 billion yen, as the Bank continued its focus on a diversified investment portfolio in consideration of correlations.

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 16.0 billion yen.

## Ⅲ. *Disclosed Claims under the Financial Reconstruction Law*

***(Non-consolidated)***

| (billion yen) | | Mar. 31, 2016 (A) | Sept. 30, 2016 | Dec. 31, 2016 (B) | Change (B)－(A) |
|---|---|---|---|---|---|
| Bankrupt and similar credit | | 0.1 | 0.1 | 0.0 | -0.1 |
| Doubtful credit | | 19.0 | 14.9 | 16.3 | -2.8 |
| Special attention credit | | 3.8 | 2.1 | 1.4 | -2.4 |
| FRL credit, total | (a) | 23.0 | 17.1 | 17.7 | -5.3 |
| Normal credit | (b) | 2,528.2 | 2,508.8 | 2,619.2 | 91.0 |
| Total credit | (c)=((a)+(b)) | 2,551.1 | 2,525.9 | 2,636.8 | 85.7 |
| FRL credit ratio | (a)/(c) | 0.90% | 0.67% | 0.67% | -0.23% |

Non-performing claims as defined by the Financial Reconstruction Law (FRL) were 17.7 billion yen, a decrease of 5.3 billion yen, or 23.0%, from March 31, 2016, mainly due to the collection of claims, including doubtful and special attention credits. The FRL ratio declined by 0.23 points to 0.67%. The percentage of FRL claims covered by reserves, collateral and guarantees was 83.7% as of December 31, 2016. The ratio of loan loss reserves to total loans on a consolidated basis remained high at 2.20% as of December 31, 2016.

*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.*
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