November 14, 2018

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Aozora Reports Net Earnings of 21.3 billion for First Half of FY2018; 50% of Full-year Forecast

TOKYO November 14, 2018 – Aozora Bank, Ltd. ("Aozora" or "the Bank"), a leading Japanese commercial bank, today announced its interim financial results for FY2018.

FY2018 Interim Financial Results

In the first half of FY2018, Aozora reported consolidated net revenue of 44.8 billion yen, business profit of 21.2 billion yen, and profit attributable to owners of parent of 21.3 billion yen, representing progress of 49%, 53%, and 50%, respectively, towards the full-year forecasts of 92.0 billion yen, 40.0 billion yen, and 43.0 billion yen.

Shinsuke Baba, Representative Director, President and Chief Executive Officer of Aozora Bank commented, "Global markets continued the process of adjusting to the movement away from central bank accommodative monetary policies while facing new uncertainties arising from the potential for increasing trade disputes. In Japan, the banking sector continued to face challenging business conditions given the low interest rate environment. Fully taking into account these conditions, we continued our focus on implementing our business strategy in line with our new Mid-term Plan announced in May. In July, we launched our new internet banking operations through our consolidated subsidiary GMO Aozora Net Bank. For the interim period, Aozora is pleased to report business profit of 21.2 billion yen and net earnings of 21.3 billion yen, representing progress of 53% and 50%, respectively, of our full-year forecast. Today we also announced a second quarter dividend of 40 yen per common share."

Baba concluded, "As always, our bank remains committed to providing differentiated and high-quality financial products and services to our customers. We will do this by leveraging our core competencies and maintaining sound risk taking based on disciplined risk management. I believe that the actions we are taking will serve to further enhance our corporate value. I would like to express my gratitude to all of our stakeholders for their continued support."

1. Summary of Interim Results (Consolidated)

- Net revenue was 44.8 billion yen, an increase of 0.7 billion yen, or 1.8% year on year, and business profit was 21.2 billion yen, a decrease of 0.1 billion yen, or 0.5%. Profit attributable to owners of parent was 21.3 billion yen, a decrease of 1.8 billion yen, or 7.8%.
    - Net interest income was 27.0 billion yen, an increase of 2.1 billion yen, or 8.5% year on year, due to expanded net interest margins compared to the previous year as well as an increase in average asset balances, as the Bank maintained its focus on risk and return.
    - Non-interest income was 17.7 billion yen, a decrease of 1.3 billion yen, or 6.9% year on year. The decline was mainly due to lower net trading revenues and net fees and commissions, while gains from limited partnerships remained strong.
    - General and administrative expenses were 23.6 billion yen, a year-on-year increase of 0.9 billion yen, or 4.0%, mainly due to incremental expenses associated with the Bank's business areas of focus and new internet banking operations, but represented only 45.4% of the full-year budget of 52.0 billion yen as the Bank continued its focus on cost control.
    - Credit-related expenses were a net reversal of 3.0 billion yen, mainly due to the reversal of general loan loss reserves. Gains/losses on stock transactions were a gain of 5.1 billion yen due to the sale of a portion of domestic equity investments in the first quarter (Apr.-Jun.).

- Total loans were 2,654.4 billion yen, an increase of 43.1 billion yen, or 1.7%, compared to March 31, 2018. Domestic loans decreased by 31.9 billion yen compared to March 31, 2018, while overseas loans increased by 75.1 billion yen.
- Total core funding (deposits, negotiable certificates of deposit, debentures and bonds) was 3,383.6 billion yen, an increase of 155.1 billion yen, or 4.8%, 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 9.0 billion yen, an increase of 2.1 billion yen from March 31, 2018. The FRL ratio increased by 0.07 points to 0.33%. The ratio of loan loss reserves to total loans on a consolidated basis remained high at 1.53%.
- The Bank's consolidated capital adequacy ratio (domestic standard) as of September 30, 2018 was 10.14% (preliminary basis).

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

2. FY2018 Interim Performance (April 1, 2018 to September 30, 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*
1H FY2018 (Apr.-Sept.) (a)	44.8	21.2	29.6	21.3	183.23 yen
1H FY2017 (Apr.-Sept.) (b)	44.0	21.3	30.3	23.1	198.71 yen
Change (a) - (b)	0.7	-0.1	-0.7	-1.8	-15.48 yen
Percentage change ((a)-(b)) / (b)	1.8%	-0.5%	-2.4%	-7.8%	-7.8%
FY2018 full-year forecast (c)	92.0	40.0	58.5	43.0	368.53 yen
Progress (a)/(c)	48.7%	53.1%	50.7%	49.7%	49.7%

Non-consolidated basis

(billion yen)	Net revenue	Business profit before general loan-loss reserve	Ordinary profit	Profit	Profit per common share*
1H FY2018 (Apr.-Sept.) (a)	42.1	22.1	30.5	21.9	188.21 yen
1H FY2017 (Apr.-Sept.) (b)	41.6	21.2	30.2	23.0	197.57 yen
Change (a) - (b)	0.4	0.8	0.2	-1.0	-9.36 yen
Percentage change ((a)-(b)) / (b)	1.2%	4.2%	1.0%	-4.7%	-4.7%
FY2018 full-year forecast (c)	84.0	41.0	59.0	42.0	359.96 yen
Progress (a)/(c)	50.2%	54.1%	51.8%	52.3%	52.3%

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 FY2017.

I. Revenue and Expenses

(billion yen)	FY2017 3 months Jul.-Sept.	FY2017 Interim (A)	FY2018 3 months Jul.-Sept.	FY2018 Interim (B)	Change (B)－(A) Amount	Change (B)－(A) %	Page
Net revenue	**22.3**	**44.0**	**22.7**	**44.8**	**0.7**	**1.8%**	**-**
Net interest income	12.0	24.9	13.0	27.0	2.1	8.5%	4
Net interest margin	*1.27%*	*1.34%*	*1.29%*	*1.36%*	*0.02%*	-	4
Non-interest income	10.3	19.0	9.7	17.7	-1.3	-6.9%	-
Net fees and commissions	3.8	5.7	3.0	4.6	-1.1	-19.1%	5
Net trading revenues	3.9	7.6	3.1	5.4	-2.2	-29.2%	5
Gains/losses on bond transactions	0.5	1.5	0.6	2.1	0.6	39.0%	6
Net other ordinary income excluding gains/losses on bond transactions	1.9	4.1	2.8	5.5	1.4	34.1%	6
General & administrative expenses	-11.1	-22.7	-11.9	-23.6	-0.9	-4.0%	6
Business profit	**11.2**	**21.3**	**10.7**	**21.2**	**-0.1**	**-0.5%**	**-**
Credit-related expenses	0.8	5.4	2.2	3.0	-2.4	-	7
Gains/losses on stock transactions	0.7	4.1	0.0	5.1	1.0	-	7
Other gains/losses	-0.0	-0.5	0.0	0.2	0.7	-	-
Ordinary profit	**12.7**	**30.3**	**13.0**	**29.6**	**-0.7**	**-2.4%**	**-**
Extraordinary profit/loss	-0.0	-0.0	-	-	0.0	-	-
Profit before income taxes	**12.7**	**30.3**	**13.0**	**29.6**	**-0.7**	**-2.4%**	**-**
Taxes	-4.2	-7.4	-3.5	-9.0	-1.5	-	7
Profit attributable to owners of parent	**8.6**	**23.1**	**10.0**	**21.3**	**-1.8**	**-7.8%**	**-**

In the first half of FY2018, the Bank recorded consolidated net revenue of 44.8 billion yen, an increase of 0.7 billion yen, or 1.8% year on year.

Net interest income was 27.0 billion yen, an increase of 2.1 billion yen or 8.5% year on year, due to expanded net interest margins compared to the previous year as well as an increase in average asset balances, as the Bank maintained its focus on risk and return.

Non-interest income was 17.7 billion yen, a decrease of 1.3 billion yen, or 6.9% year on year. Net fees and commissions decreased by 1.1 billion yen, or 19.1% year-on-year, and net trading revenues decreased by 2.2 billion yen or 29.2%, while net other ordinary income, excluding gains/losses on bond transactions, increased by 1.4 billion yen, or 34.1%, due to gains on limited partnerships.

General and administrative expenses were 23.6 billion yen, a year-on-year increase of 0.9 billion yen, or 4.0%, mainly due to incremental expenses associated with the Bank's business areas of focus and new internet banking operations, but represented only 45.4% of the full-year budget of 52.0 billion yen.

Consolidated business profit was 21.2 billion yen, a decrease of 0.1 billion yen, or 0.5% year on year.

Credit-related expenses were a net reversal of 3.0 billion yen, mainly due to the reversal of general loan loss reserves. Gains/losses on stock transactions were a gain of 5.1 billion yen. Ordinary profit and profit before income taxes were both 29.6 billion yen, a decrease of 0.7 billion yen, or 2.4% year on year. Taxes were a net expense of 9.0 billion yen.

As a result of the above factors, profit attributable to owners of parent was 21.3 billion yen, a decrease of 1.8 billion yen, or 7.8% year on year, representing progress of 50% of the full-year forecast of 43.0 billion yen.

1. Net Revenue

(1) (i) Net Interest Income

(billion yen)		FY2017 3 months Jul.-Sept.	FY2017 Interim (A)	FY2018 3 months Jul.-Sept.	FY2018 Interim (B)	Change (B)－(A)
Net interest income	(a)-(b)	12.0	24.9	13.0	27.0	2.1
Interest income	(a)	19.3	38.7	24.2	48.3	9.5
Interest on loans and discounts		11.7	22.9	14.6	28.1	5.1
Interest and dividends on securities		7.2	14.7	9.1	19.1	4.4
Other interest income		0.4	1.1	0.5	0.9	-0.1
Interest on swaps		-	-	-	-	-
Interest expenses	(b)	-7.3	-13.8	-11.1	-21.2	-7.4
Interest on deposits and NCDs		-1.5	-2.8	-1.8	-3.5	-0.7
Interest on debentures and bonds		-0.3	-0.6	-0.3	-0.7	-0.0
Interest on borrowings and rediscount		-0.3	-0.6	-0.2	-0.5	0.0
Other interest expenses		-1.5	-2.6	-2.4	-4.5	-1.9
Interest on swaps		-3.6	-7.0	-6.2	-11.7	-4.7

Net interest income was 27.0 billion yen, an increase of 2.1 billion yen, or 8.5% year on year. Interest income increased by 9.5 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 to the increase in interest income was an increase in interest and dividends on securities which was largely due to an increase in dividends on ETFs. Interest expenses increased by 7.4 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 Jul.-Sept.	FY2017 Interim (A)	FY2018 3 months Jul.-Sept.	FY2018 Interim (B)	Change (B)－(A)
Yield on total investments	(a)	2.00%	2.04%	2.34%	2.37%	0.33%
Yield on loans		1.84%	1.81%	2.17%	2.12%	0.31%
Yield on securities		2.65%	2.87%	3.05%	3.29%	0.42%
Yield on funding	(b)	0.73%	0.70%	1.05%	1.01%	0.31%
Net interest margin	(a)-(b)	1.27%	1.34%	1.29%	1.36%	0.02%

The yield on total investments increased by 33 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 ETF dividends.

Funding costs increased by 31 bps over the prior year. Foreign currency funding costs increased due to an increase in U.S. dollar interest rates. As a result of all these factors, the net interest margin rose modestly by 2 bps to 1.36% year on year.

(2) Net Fees and Commissions

(billion yen)	FY2017		FY2018		Change
	3 months Jul.-Sept.	Interim (A)	3 months Jul.-Sept.	Interim (B)	(B)－(A)
Net fees and commissions (a)-(b)	3.8	5.7	3.0	4.6	-1.1
Fees and commissions received (a)	4.2	6.4	3.4	5.4	-0.9
Loan business-related and deposits	2.2	3.0	1.9	2.6	-0.4
Securities-related and agency	1.3	2.3	1.0	1.9	-0.3
Others	0.6	1.0	0.4	0.8	-0.1
Fees and commissions payments (b)	-0.3	-0.6	-0.3	-0.7	-0.1

Net fees and commissions were 4.6 billion yen, a decrease of 1.1 billion yen, or 19.1% year on year, while loan related fees and commissions for the second quarter (Jul.-Sept.) increased significantly from the first quarter (Apr.-Jun.), mainly driven by increased financing activity towards the end of the second quarter.

Earnings from the sale of financial products (investment trusts, insurance, and structured bonds) to our mass affluent retail customers were 3.2 billion yen, a decrease of 0.3 billion yen compared to the previous year, mainly due to a decline in the sales of investment trusts while sales of insurance and structured bonds remained strong under uncertain market conditions. Aozora intends to promote customer-first business practices in order to contribute to its customers' successful asset accumulation by further leveraging its highly-specialized consulting services as well as enhancing its financial product lineup to better meet our customers' needs.

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

(billion yen)	FY2017		FY2018		Change
	3 months Jul.-Sept.	Interim (A)	3 months Jul.-Sept.	Interim (B)	(B)－(A)
Earnings from the sale of investment trusts, insurance and structured bonds	1.8	3.5	1.5	3.2	-0.3

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

(3) Net Trading Revenues

(billion yen)	FY2017		FY2018		Change
	3 months Jul.-Sept.	Interim (A)	3 months Jul.-Sept.	Interim (B)	(B)－(A)
Net trading revenues	3.9	7.6	3.1	5.4	-2.2

Net trading revenues were 5.4 billion yen, a decrease of 2.2 billion yen, or 29.2% year on year. This result was mainly due to the decline in earnings from the sale of derivative-related products to our financial institution customers as domestic interest rates remained low with limited volatility.

Aozora strives to achieve stable earnings by providing derivative-related products to meet the investment needs of our financial institution customers and the hedging needs of our corporate customers, as well as securing trading revenues generated from customer initiated transactions.

(4) Gains/Losses on Bond Transactions

(billion yen)	FY2017		FY2018		Change (B) －(A)
	3 months Jul.-Sept.	Interim (A)	3 months Jul.-Sept.	Interim (B)	
Gains/losses on bond transactions	0.5	1.5	0.6	2.1	0.6
Japanese government bonds	0.0	0.0	-0	-0	-0.0
Foreign government bonds and mortgage bonds	0.0	0.4	-	0.1	-0.2
Others	0.4	1.0	0.6	1.9	0.9

Gains/losses on bond transactions were a gain of 2.1 billion yen, mainly due to gains on the sale of REITs. For the first six months of FY2017, gains/losses on bond transactions were a gain of 1.5 billion yen.

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

(billion yen)	FY2017		FY2018		Change (B) －(A)
	3 months Jul.-Sept.	Interim (A)	3 months Jul.-Sept.	Interim (B)	
Net other ordinary income excluding gains/losses on bond transactions	1.9	4.1	2.8	5.5	1.4
Incl. Gains from limited partnerships	1.5	4.1	2.1	4.9	0.8
Real estate-related	0.9	2.2	0.3	1.2	-1.0
Distressed loan-related	0.6	1.9	1.2	2.1	0.1
Others (buyout, etc.)	-0.0	-0.1	0.6	1.6	1.7

Net other ordinary income, excluding gains/losses on bond transactions, was 5.5 billion yen, an increase of 1.4 billion yen, or 34.1% year on year. This result was largely due to 4.9 billion yen in gains from limited partnerships and other non-recurring gains. While gains from real estate related investments decreased compared to the strong result recorded in the first six months of the previous year, gains associated with buyout related limited partnerships were strong due to the public listing of investments.

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

(billion yen)	FY2017		FY2018		Change (B)－(A)
	3 months Jul.-Sept.	Interim (A)	3 months Jul.-Sept.	Interim (B)	
G&A expenses	-11.1	-22.7	-11.9	-23.6	-0.9
Personnel expense	-5.7	-11.2	-6.0	-11.6	-0.4
Non-personnel expense	-4.5	-9.4	-5.3	-10.3	-0.9
Tax	-0.7	-1.9	-0.5	-1.5	0.4

General and administrative expenses were 23.6 billion yen, an increase of 0.9 billion yen, or 4.0%, compared to the previous year. The increase was mainly due to incremental expenses associated with the Bank's business areas of focus and the launch of its internet banking operations. General and administrative expenses for the first six months represented 45.4% of the full-year budget of 52.0 billion yen as the Bank continued its focus on cost control. The Overhead Ratio (OHR) was 52.7%.

3. Credit-Related Expenses

(billion yen)	FY2017		FY2018		Change
	3 months Jul.-Sept.	Interim (A)	3 months Jul.-Sept.	Interim (B)	(B)－(A)
Credit-related expenses	0.8	5.4	2.2	3.0	-2.4
Write-off of loans	-0.0	-0.0	0.0	-0.1	-0.0
Reserve for possible loan losses	1.0	4.8	2.1	2.7	-2.1
Specific reserve for possible loan losses	0.5	3.3	-0.3	-0.4	-3.8
General reserve for possible loan losses	0.5	1.5	2.4	3.2	1.6
Gains/losses on disposition of loans	-	-	-0.0	-0.0	-0.0
Recoveries of written-off claims	0.0	0.5	0.1	0.3	-0.2
Reserve for credit losses on off-balance-sheet instruments	-0.2	0.0	-0.0	0.0	0.0

Credit-related expenses were a net reversal of 3.0 billion yen, mainly due to the reversal of general loan loss reserves due to an overall improvement in credit conditions and the risk profile of our borrowers, while new non-performing loans were limited. This result compares with a net reversal of 5.4 billion yen recorded in the previous year, which was mainly due to the reversal of specific loan loss reserves resulting from the collection of non-performing claims. The ratio of loan loss reserves to total loans was 1.53% and reflects 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
	3 months Jul.-Sept.	Interim (A)	3 months Jul.-Sept.	Interim (B)	(B)－(A)
Gains/losses on stock transactions	0.7	4.1	0.0	5.1	1.0

Gains/losses on stock transactions were a gain of 5.1 billion yen mainly due to gains from the sale of a portion of domestic equities in the first quarter (Apr.-Jun.).

5. Taxes

(billion yen)	FY2017		FY2018		Change
	3 months Jul.-Sept.	Interim (A)	3 months Jul.-Sept.	Interim (B)	(B)－(A)
Taxes	-4.2	-7.4	-3.5	-9.0	-1.5

Taxes were a net expense of 9.0 billion yen. The effective tax rate was 30.4%.

II. Balance Sheet

(billion yen)	Mar. 31, 2018 (A)	Jun.30, 2018	Sept. 30, 2018 (B)	Change (B)−(A) Amount	%	Page
Total assets	**4,912.7**	**4,927.8**	**4,996.0**	**83.2**	**1.7%**	**-**
Loan and bills discounted	2,611.2	2,634.8	2,654.4	43.1	1.7%	9
Securities	1,139.8	1,194.3	1,281.6	141.8	12.4%	10
Cash and due from banks	543.1	533.9	519.3	-23.7	-4.4%	-
Trading assets	179.6	159.2	152.5	-27.1	-15.1%	-
Others	438.8	405.3	388.0	-50.8	-11.6%	-
Total liabilities	**4,475.5**	**4,497.5**	**4,558.4**	**82.9**	**1.9%**	**-**
Deposits and negotiable certificates of deposit	2,970.9	3,094.5	3,085.1	114.2	3.8%	9
Debentures, Bonds	257.5	258.4	298.4	40.9	15.9%	9
Borrowed money	315.2	295.4	300.3	-14.9	-4.7%	-
Payables under securities lending transactions	431.3	381.8	409.5	-21.7	-5.0%	-
Trading liabilities	130.2	137.7	151.6	21.4	16.5%	-
Others	370.2	329.5	313.2	-57.0	-15.4%	-
Total net assets	**437.2**	**430.2**	**437.5**	**0.3**	**0.1%**	**-**
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	248.2	253.6	10.4	4.3%	-
Treasury stock	-3.3	-3.3	-3.3	0.0	-	-
Valuation difference on available-for-sale securities	35.3	23.0	34.9	-0.4	-1.1%	-
Others	-25.2	-25.0	-35.0	-9.7	-	-
Total liabilities and net assets	**4,912.7**	**4,927.8**	**4,996.0**	**83.2**	**1.7%**	**-**

Total assets were 4,996.0 billion yen as of September 30, 2018, an increase of 83.2 billion yen, or 1.7%, compared to March 31, 2018.

Loans were 2,654.4 billion yen, an increase of 43.1 billion yen, or 1.7%, from March 31, 2018. Domestic loans decreased 31.9 billion yen, while overseas loans increased 75.1 billion yen. Securities increased by 141.8 billion yen, or 12.4%, from March 31, 2018, to 1,281.6 billion yen.

Total liabilities were 4,558.4 billion yen, an increase of 82.9 billion yen, or 1.9%, compared to March 31, 2018. 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 3,383.6 billion yen, an increase of 155.1 billion yen, or 4.8%, from March 31, 2018.

Net assets were 437.5 billion yen, representing an increase of 0.3 billion yen, or 0.1%, from March 31, 2018.

Net assets per common share were 3,743.61 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)	Jun. 30, 2018	Sept. 30, 2018 (B)	Change (B)－(A)
Total core funding	3,228.5	3,353.0	3,383.6	155.1

Funding sources by product

(billion yen)	Mar. 31, 2018 (A)	Jun. 30, 2018	Sept. 30, 2018 (B)	Change (B)－(A)
Deposits/NCDs	2,970.9	3,094.5	3,085.1	114.2
Debentures/Bonds	257.5	258.4	298.4	40.9

Funding sources by customer

(billion yen)	Mar. 31, 2018 (A)	Jun. 30, 2018	Sept. 30, 2018 (B)	Change (B)－(A)
Retail	1,811.3	1,810.0	1,802.7	-8.6
Corporate	581.1	682.0	632.2	51.0
Financial Institutions	835.9	860.9	948.6	112.6

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 3,383.6 billion yen, an increase of 155.1 billion yen, or 4.8%, 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. In September, Aozora issued its second U.S. dollar foreign currency bonds.

As of September 30, 2018, the Bank maintained adequate liquidity reserves of 598.7 billion yen.

2. Loans

(billion yen)	Mar. 31, 2018 (A)	Jun. 30, 2018	Sept. 30, 2018 (B)	Change (B)－(A)
Loans	2,611.2	2,634.8	2,654.4	43.1
Domestic loans	1,638.1	1,647.7	1,606.1	-31.9
Overseas loans	973.1	987.0	1,048.2	75.1
U.S. dollar basis ($ million)	$9,157	$8,929	$9,229	$72

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

Loans were 2,654.4 billion yen, an increase of 43.1 billion yen, or 1.7%, from March 31, 2018.

Domestic loans decreased by 31.9 billion yen from March 31, 2018, reflecting the Bank's ongoing focus on disciplined balance sheet management.

Overseas loans increased by 75.1 billion yen, or $72 million on a U.S. dollar basis, from March 31, 2018 as a result of the Bank's selective origination of corporate and real estate non-recourse loans, mainly in North America where the risk-return profile remains relatively attractive. In the second quarter (Jul.-Sept.), overseas loans increased by $299 million, as compared to a decline of $227 million in the first quarter (Apr.-Jun.) due to the prepayment of several larger loans.

3. Securities

(billion yen)	Book Value				Unrealized Gains/Losses			
	Mar. 31, 2018(A)	Jun. 30, 2018	Sept. 30, 2018 (B)	Change (B) - (A)	Mar. 31, 2018(A)	Jun. 30, 2018	Sept .30, 2018 (B)	Change (B) – (A)
JGBs	8.0	8.0	13.0	5.0	0.0	0.0	0.0	0.0
Municipal bonds	32.4	32.9	34.1	1.6	0.1	0.1	0.0	-0.0
Corporate bonds	34.2	35.2	36.7	2.5	0.1	0.1	0.0	-0.0
Equities	84.7	82.6	98.5	13.7	65.2	60.2	76.2	10.9
Foreign bonds	484.0	490.2	543.7	59.7	-16.9	-21.5	-25.2	-8.3
Foreign government bonds	228.0	220.8	259.0	31.0	-11.7	-13.5	-16.0	-4.3
Mortgage bonds	159.6	171.7	186.6	26.9	-7.1	-8.1	-9.8	-2.7
Others	96.3	97.6	98.1	1.7	1.8	0.1	0.6	-1.2
Others	496.3	545.1	555.3	59.0	9.8	3.4	10.3	0.4
ETFs	257.3	290.6	304.3	46.9	-1.3	-5.4	-2.3	-0.9
Investment in limited partnerships	62.4	65.3	69.1	6.7	0.9	0.5	0.4	-0.5
REIT	73.6	74.3	79.8	6.2	3.0	3.6	4.0	1.0
Investment trusts	79.9	92.6	87.2	7.3	0.8	-0.7	2.3	1.5
Others	22.9	22.2	14.7	-8.2	6.3	5.4	5.7	-0.6
Total	1,139.8	1,194.3	1,281.6	141.8	58.4	42.4	61.3	2.8

Total unrealized gains, including unrealized gains/losses on hedging instruments	22.7	6.8	10.5	-12.2

Securities were 1,281.6 billion yen, an increase of 141.8 billion yen, or 12.4%, compared to March 31, 2018. The higher level was mainly the result of incremental ETF and foreign government bond investments as well as effects of a weaker yen.

Compared with March 31, 2018, total unrealized gains increased by 2.8 billion yen to 61.3 billion yen as of September 30, 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 10.5 billion yen, a decrease of 12.2 billion from March 31, 2018 but an increase of 3.6 billion yen from June 30, 2018.

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

(billion yen)		Mar. 31, 2018 (A)	Jun. 30, 2018	Sept. 30, 2018 (B)	Change (B)－(A)
Bankrupt and similar credit		0.1	-	-	-0.1
Doubtful credit		4.6	4.6	6.9	2.2
Special attention credit		2.1	2.1	2.1	-
FRL credit, total	(a)	6.9	6.7	9.0	2.1
Normal credit	(b)	2,653.5	2,679.2	2,690.0	36.5
Total credit	(c)=((a)+(b))	2,660.4	2,686.0	2,699.0	38.6
FRL credit ratio	(a)/(c)	0.26%	0.25%	0.33%	0.07%

Non-performing claims as defined by the Financial Reconstruction Law (FRL) were 9.0 billion yen, an increase of 2.1 billion yen from March 31, 2018. The FRL ratio increased by 0.07 points to 0.33%. The percentage of FRL claims covered by reserves, collateral and guarantees was 89.5%. The ratio of loan loss reserves to total loans remained high at 1.53% on a consolidated basis.

IV. Capital Adequacy Ratio (Preliminary)

(billion yen)	Mar. 31, 2018 (A)	Jun. 30, 2018	Sept. 30, 2018 (B)	Change (B)－(A)
Capital adequacy ratio	10.39%	10.22%	10.14%	-0.25%
Regulatory capital	450.9	456.5	459.3	8.3
Risk assets	4,339.7	4,466.0	4,529.3	189.5

Aozora's consolidated capital adequacy ratio (domestic standard) was 10.14% (preliminary basis). For reference purposes, the Bank's CET1 ratio (Common Equity Tier 1 Ratio) was approximately 8.8%.

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.