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**Aozora Reports Net Earnings of 29.7 billion yen
for the First Nine Months of FY2018;
- 69% of full-year forecast -**

TOKYO January 31, 2019 – Aozora Bank, Ltd. (“Aozora” or “the Bank”), a leading Japanese commercial bank, today announced its financial results for the first nine months of FY2018.

Financial Results for the first nine months of FY2018

In the first nine months of FY2018, Aozora reported consolidated net revenue of 62.7 billion yen, business profit of 26.9 billion yen, and profit attributable to owners of parent of 29.7 billion yen, representing progress of 68%, 67%, and 69%, respectively, towards the full-year forecasts.

Shinsuke Baba, Representative Director, President and Chief Executive Officer of Aozora Bank commented, “During the quarter, the global economy faced newly arising uncertainties due to emerging concerns over the possibility of a deteriorating credit cycle and a slowdown in economic activity. These concerns likely contributed to the heightened volatility observed in the financial markets as we approached the end of the year. Taking into account these conditions, the management team at Aozora maintained our focus on disciplined risk management as well as implementing our business strategy in line with our new Mid-term Plan. For the first nine months, our net earnings were 29.7 billion yen, representing progress of 69% towards our full-year forecast. Today, we also announced a third quarter dividend of 40 yen per common share. While business conditions are expected to remain challenging for the foreseeable future, Aozora remains committed to meeting its financial targets while responding with care and flexibility as a result of any changes in the business environment.”

Baba concluded, “On behalf of the management team of Aozora Bank, 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 FY2018 (Apr.-Dec.) net revenue was 62.7 billion yen, a decrease of 6.6 billion yen, or 9.5% year on year, and business profit was 26.9 billion yen, a decrease of 8.4 billion yen, or 24.0% year on year. Profit attributable to owners of parent was 29.7 billion yen, a decrease of 3.8 billion yen, or 11.4% from the prior year.
- Net interest income was 39.9 billion yen, an increase of 2.1 billion yen, or 5.7% year on year. The increase was due to higher average asset balances, while net interest margins remained almost the same compared to the previous year, as the Bank maintained its focus on risk and return.
- Non-interest income was 22.8 billion yen, a decrease of 8.7 billion yen, or 27.7% year on year. The decline was mainly due to lower revenues on customer transactions as well as poor results in the Bank’s trading activities. Partially offsetting the trading results were strong gains from limited partnerships.
- General and administrative expenses were 35.8 billion yen, a year-on-year increase of 1.8 billion yen, or 5.5%, mainly due to incremental expenses associated with the Bank’s business areas of focus and new internet banking operations. The level of expenses represented only 69% 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 1.6 billion yen, mainly due to the reversal of general loan loss reserves. Gains/losses on stock transactions were a gain of 11.2 billion yen due to the sale of Japanese equity ETFs and domestic equity investments.

- Total loans were 2,686.9 billion yen, an increase of 75.6 billion yen, or 2.9%, from March 31, 2018. Domestic loans increased by 2.1 billion yen compared to March 31, 2018, and overseas loans increased by 73.5 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 3,393.7 billion yen, an increase of 165.2 billion yen, or 5.1%, 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 8.2 billion yen, an increase of 1.3 billion yen from March 31, 2018. The FRL ratio increased by 0.04 points to 0.30%. The ratio of loan loss reserves to total loans on a consolidated basis remained high at 1.59%.
- Aozora will announce its December 31, 2018 consolidated capital adequacy ratio (domestic standard) at a later date. As of September 30, 2018, the ratio was 10.14% and is expected to remain at an adequate level.

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

2. FY2018 First Nine Months Performance (April 1, 2018 to December 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*
FY2018 nine months (Apr.-Dec.) (a)	62.7	26.9	41.9	29.7	254.76 yen
FY2017 nine months (Apr.-Dec.) (b)	69.3	35.3	46.1	33.5	287.47 yen
Change (a) - (b)	-6.6	-8.4	-4.2	-3.8	-32.71 yen
Percentage change ((a)-(b)) / (b)	-9.5%	-24.0%	-9.1%	-11.4%	-11.4%
FY2018 full-year forecast (c)	92.0	40.0	58.5	43.0	368.53 yen
Progress (a)/(c)	68.2%	67.3%	71.7%	69.1%	69.1%

Non-consolidated basis

(billion yen)	Net revenue	Business profit before general loan-loss reserve	Ordinary profit	Profit	Profit per common share*
FY2018 nine months (Apr.-Dec.) (a)	58.3	28.4	43.0	29.9	256.73 yen
FY2017 nine months (Apr.-Dec.) (b)	64.9	34.5	45.1	32.6	280.16 yen
Change (a) - (b)	-6.5	-6.1	-2.1	-2.7	-23.43 yen
Percentage change ((a)-(b)) / (b)	-10.1%	-17.7%	-4.7%	-8.3%	-8.4%
FY2018 full-year forecast (c)	84.0	41.0	59.0	42.0	359.96 yen
Progress (a)/(c)	69.5%	69.3%	73.0%	71.3%	71.3%

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		FY2018		Change (B) – (A)		Page
	3 months Oct.-Dec.	9 months Apr.-Dec. (A)	3 months Oct.-Dec.	9 months Apr.-Dec. (B)	Amount	%	
Net revenue	25.3	69.3	17.9	62.7	-6.6	-9.5%	-
Net interest income	12.8	37.7	12.8	39.9	2.1	5.7%	5
Net interest margin	1.31%	1.34%	1.25%	1.33%	-0.01%	-	5
Non-interest income	12.5	31.6	5.1	22.8	-8.7	-27.7%	-
Net fees and commissions	2.7	8.5	3.0	7.7	-0.7	-9.0%	6
Net trading revenues	5.1	12.7	0.0	5.4	-7.3	-57.2%	6
Gains/losses on bond transactions	0.1	1.6	2.0	4.1	2.5	151.0%	7
Net other ordinary income excluding gains/losses on bond transactions	4.5	8.6	-0.0	5.4	-3.1	-36.7%	7
General & administrative expenses	-11.2	-34.0	-12.2	-35.8	-1.8	-5.5%	7
Business profit	14.0	35.3	5.6	26.9	-8.4	-24.0%	-
Credit-related expenses	-1.5	3.8	-1.3	1.6	-2.1	-	8
Gains/losses on stock transactions	3.3	7.4	6.0	11.2	3.8	-	8
Other gains/losses	0.0	-0.5	1.9	2.1	2.6	-	-
Ordinary profit	15.8	46.1	12.3	41.9	-4.2	-9.1%	-
Extraordinary profit/loss	-	-0.0	-	-	0.0	-	-
Profit before income taxes	15.8	46.1	12.3	41.9	-4.1	-9.1%	-
Taxes	-5.5	-13.0	-4.5	-13.6	-0.6	-	8
Profit attributable to owners of parent	10.3	33.5	8.3	29.7	-3.8	-11.4%	-

In the first nine months of FY2018, the Bank recorded consolidated net revenue of 62.7 billion yen, a decrease of 6.6 billion yen, or 9.5% year on year.

Net interest income was 39.9 billion yen, an increase of 2.1 billion yen, or 5.7% year on year, due to higher average asset balances, while net interest margins remained almost the same compared to the previous year, as the Bank maintained its focus on risk and return.

Non-interest income was 22.8 billion yen, a decrease of 8.7 billion yen, or 27.7% year on year. Net fees and commissions decreased by 0.7 billion yen, or 9.0% year-on-year, and net trading revenues decreased by 7.3 billion yen or 57.2%, while gains on limited partnerships remained strong.

General and administrative expenses were 35.8 billion yen, a year-on-year increase of 1.8 billion yen, or 5.5%, mainly due to incremental expenses associated with the Bank's business areas of focus and new internet banking operations, but represented only 69.0% of the full-year budget of 52.0 billion yen.

Consolidated business profit was 26.9 billion yen, a decrease of 8.4 billion yen, or 24.0% year on year.

Credit-related expenses were a net reversal of 1.6 billion yen, mainly due to the reversal of general loan loss reserves. Gains/losses on stock transactions were a gain of 11.2 billion yen. Ordinary profit was 41.9 billion yen, a decrease of 4.2 billion yen, or 9.1% year on year. Taxes were a net expense of 13.6 billion yen.

As a result of the above factors, profit attributable to owners of parent was 29.7 billion yen, a decrease of 3.8 billion yen, or 11.4% year on year, representing progress of 69% towards the full-year forecast of 43.0 billion yen.

1. Net Revenue

(1) (i) Net Interest Income

(billion yen)	FY2017		FY2018		Change (B)–(A)
	3 months Oct.-Dec.	9 months Apr.-Dec. (A)	3 months Oct.-Dec.	9 months Apr.-Dec. (B)	
Net interest income (a)-(b)	12.8	37.7	12.8	39.9	2.1
Interest income (a)	20.7	59.5	25.5	73.8	14.3
Interest on loans and discounts	12.2	35.2	15.3	43.5	8.2
Interest and dividends on securities	8.1	22.8	9.6	28.8	6.0
Other interest income	0.3	1.4	0.5	1.4	0.0
Interest on swaps	-	-	-	-	-
Interest expenses (b)	-7.9	-21.7	-12.7	-33.9	-12.1
Interest on deposits and NCDs	-1.6	-4.4	-1.9	-5.5	-1.0
Interest on debentures and bonds	-0.3	-0.9	-0.6	-1.3	-0.3
Interest on borrowings and rediscount	-0.3	-0.9	-0.2	-0.8	0.0
Other interest expenses	-1.7	-4.4	-2.9	-7.5	-3.1
Interest on swaps	-3.8	-10.9	-6.8	-18.6	-7.7

Net interest income was 39.9 billion yen, an increase of 2.1 billion yen, or 5.7% year on year. Interest income increased by 14.3 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 12.1 billion yen year on year, largely the result of a rise in U.S. dollar interest rates.

(1) (ii) Net Interest Margin

	FY2017		FY2018		Change (B)–(A)
	3 months Oct.-Dec.	9 months Apr.-Dec. (A)	3 months Oct.-Dec.	9 months Apr.-Dec. (B)	
Yield on total investments (a)	2.08%	2.06%	2.42%	2.39%	0.33%
Yield on loans	1.88%	1.83%	2.26%	2.17%	0.34%
Yield on securities	2.87%	2.87%	3.08%	3.22%	0.35%
Yield on funding (b)	0.77%	0.72%	1.17%	1.06%	0.34%
Net interest margin (a)-(b)	1.31%	1.34%	1.25%	1.33%	-0.01%

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 34 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 was 1.33%, approximately the same as the prior year.

(2) Net Fees and Commissions

(billion yen)	FY2017		FY2018		Change (B)–(A)
	3 months Oct.-Dec.	9 months Apr.-Dec. (A)	3 months Oct.-Dec.	9 months Apr.-Dec. (B)	
Net fees and commissions (a)-(b)	2.7	8.5	3.0	7.7	-0.7
Fees and commissions received (a)	3.1	9.5	3.4	8.9	-0.6
Loan business-related and deposits	1.2	4.3	1.8	4.4	0.1
Securities-related and agency	1.4	3.7	1.0	3.0	-0.7
Others	0.4	1.4	0.5	1.3	-0.0
Fees and commissions payments (b)	-0.4	-1.0	-0.4	-1.1	-0.1

Net fees and commissions for the first nine months were 7.7 billion yen, a decrease of 0.7 billion yen, or 9.0% year on year mainly due to decreased sales of investment related products to our retail customers, while loan related fees remained strong.

Earnings from the sale of financial products (investment trusts, insurance, and structured bonds) to our mass affluent retail customers were 4.4 billion yen, a decrease of 1.7 billion yen compared to the previous year, mainly due to a decline in the sales of investment trusts and structured bonds under uncertain market conditions while sales of insurance remained at almost the same level as the previous year. 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 (B)–(A)
	3 months Oct.-Dec.	9 months Apr.-Dec. (A)	3 months Oct.-Dec.	9 months Apr.-Dec. (B)	
Earnings from the sale of investment trusts, insurance and structured bonds	2.6	6.2	1.2	4.4	-1.7

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

(3) Net Trading Revenues

(billion yen)	FY2017		FY2018		Change (B)–(A)
	3 months Oct.-Dec.	9 months Apr.-Dec. (A)	3 months Oct.-Dec.	9 months Apr.-Dec. (B)	
Net trading revenues	5.1	12.7	0.0	5.4	-7.3

Net trading revenues were 5.4 billion yen, a decrease of 7.3 billion yen, or 57.2% 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 in addition to poor results in the Bank's trading activities due to global financial market fluctuations.

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 Oct.-Dec.	9 months Apr.-Dec. (A)	3 months Oct.-Dec.	9 months Apr.-Dec. (B)	
Gains/losses on bond transactions	0.1	1.6	2.0	4.1	2.5
Japanese government bonds	0.0	0.1	0.0	0.0	-0.1
Foreign government bonds and mortgage bonds	-0.7	-0.3	0.4	0.5	0.9
Others	0.8	1.8	1.5	3.5	1.6

Gains/losses on bond transactions were a gain of 4.1 billion yen (compared to a gain of 1.6 billion yen the previous year) largely due to gains from the sale of REITs.

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

(billion yen)	FY2017		FY2018		Change (B) – (A)
	3 months Oct.-Dec.	9 months Apr.-Dec. (A)	3 months Oct.-Dec.	9 months Apr.-Dec. (B)	
Net other ordinary income excluding gains/losses on bond transactions	4.5	8.6	-0.0	5.4	-3.1
Incl. Gains from limited partnerships	5.0	9.1	2.2	7.2	-1.9
Real estate-related	0.8	3.1	0.7	1.9	-1.2
Distressed loan-related	1.0	2.9	1.1	3.2	0.3
Others (buyout, etc.)	3.1	3.0	0.3	1.9	-1.0

Net other ordinary income, excluding gains/losses on bond transactions, was 5.4 billion yen, a decrease of 3.1 billion yen, or 36.7% year on year. While gains from limited partnerships decreased by 1.9 billion yen compared to the strong result recorded in the previous year with gains on the sale of large-lot real estate and buyout related investments, distressed loan-related gains were strong, contributing to an overall gain of 7.2 billion yen.

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

(billion yen)	FY2017		FY2018		Change (B) – (A)
	3 months Oct.-Dec.	9 months Apr.-Dec. (A)	3 months Oct.-Dec.	9 months Apr.-Dec. (B)	
G&A expenses	-11.2	-34.0	-12.2	-35.8	-1.8
Personnel expense	-5.6	-16.9	-5.9	-17.6	-0.7
Non-personnel expense	-4.7	-14.2	-5.6	-16.0	-1.8
Tax	-0.8	-2.8	-0.6	-2.2	0.6

General and administrative expenses were 35.8 billion yen, an increase of 1.8 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 its new internet banking operations. General and administrative expenses for the first nine months represented 69% of the full-year budget of 52.0 billion yen as the Bank continued its focus on cost control. The Overhead Ratio (OHR) was 57.2%.

3. Credit-Related Expenses

(billion yen)	FY2017		FY2018		Change (B) – (A)
	3 months Oct.-Dec.	9 months Apr.-Dec. (A)	3 months Oct.-Dec.	9 months Apr.-Dec. (B)	
Credit-related expenses	-1.5	3.8	-1.3	1.6	-2.1
Write-off of loans	-0.1	-0.1	-0.0	-0.1	0.0
Reserve for possible loan losses	-1.5	3.3	-2.1	0.5	-2.7
Specific reserve for possible loan losses	-0.3	3.0	0.0	-0.4	-3.4
General reserve for possible loan losses	-1.2	0.2	-2.2	0.9	0.6
Gains/losses on disposition of loans	-	-	-0.0	-0.0	-0.0
Recoveries of written-off claims	0.8	1.3	0.6	1.0	-0.3
Reserve for credit losses on off-balance-sheet instruments	-0.7	-0.6	0.2	0.3	1.0

Credit-related expenses were a net reversal of 1.6 billion yen, mainly due to the reversal of general loan loss reserves, while new non-performing loans were limited. This result compares with a net reversal of 3.8 billion yen recorded in the previous year. Credit-related expenses were 1.3 billion yen in the third quarter (Oct.-Dec.) mainly due to a provision of the general loan loss reserve, reflecting the Bank's continued focus on the conservative allocation of reserves. The ratio of loan loss reserves to total loans remained high at 1.59%.

4. Gains/losses on Stock Transactions

(billion yen)	FY2017		FY2018		Change (B) – (A)
	3 months Oct.-Dec.	9 months Apr.-Dec. (A)	3 months Oct.-Dec.	9 months Apr.-Dec. (B)	
Gains/losses on stock transactions	3.3	7.4	6.0	11.2	3.8

Gains/losses on stock transactions were a gain of 11.2 billion yen mainly due to gains from the sale of domestic equity ETFs in the third quarter (Oct.-Dec.) in addition to gains from the sale of a portion of domestic equity investments.

5. Taxes

(billion yen)	FY2017		FY2018		Change (B) – (A)
	3 months Oct.-Dec.	9 months Apr.-Dec. (A)	3 months Oct.-Dec.	9 months Apr.-Dec. (B)	
Taxes	-5.5	-13.0	-4.5	-13.6	-0.6

Taxes were a net expense of 13.6 billion yen. The effective tax rate was 32.4%.

II. Balance Sheet

(billion yen)	Mar. 31, 2018 (A)	Sept.30, 2018	Dec. 31, 2018 (B)	Change (B) — (A)		Page
				Amount	%	
Total assets	4,912.7	4,996.0	5,045.8	133.0	2.7%	-
Loan and bills discounted	2,611.2	2,654.4	2,686.9	75.6	2.9%	10
Securities	1,139.8	1,281.6	1,209.0	69.2	6.1%	11
Cash and due from banks	543.1	519.3	554.4	11.2	2.1%	-
Trading assets	179.6	152.5	178.8	-0.8	-0.4%	-
Others	438.8	388.0	416.6	-22.2	-5.1%	-
Total liabilities	4,475.5	4,558.4	4,626.6	151.0	3.4%	-
Deposits and negotiable certificates of deposit	2,970.9	3,085.1	3,101.8	130.9	4.4%	10
Debentures, Bonds	257.5	298.4	291.9	34.3	13.3%	10
Borrowed money	315.2	300.3	311.6	-3.6	-1.2%	-
Payables under securities lending transactions	431.3	409.5	437.8	6.5	1.5%	-
Trading liabilities	130.2	151.6	157.2	27.0	20.8%	-
Others	370.2	313.2	326.1	-44.1	-11.9%	-
Total net assets	437.2	437.5	419.1	-18.0	-4.1%	-
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	253.6	257.2	14.0	5.8%	-
Treasury stock	-3.3	-3.3	-3.3	0.0	-	-
Valuation difference on available-for-sale securities	35.3	34.9	-7.0	-42.3	-	-
Others	-25.2	-35.0	-15.1	10.1	-	-
Total liabilities and net assets	4,912.7	4,996.0	5,045.8	133.0	2.7%	-

Total assets were 5,045.8 billion yen as of December 31, 2018, an increase of 133.0 billion yen, or 2.7%, compared to March 31, 2018. Loans were 2,686.9 billion yen, an increase of 75.6 billion yen, or 2.9%, from March 31, 2018. Domestic loans increased by 2.1 billion yen, while overseas loans increased by 73.5 billion yen. Securities increased by 69.2 billion yen, or 6.1%, from March 31, 2018, to 1,209.0 billion yen.

Total liabilities were 4,626.6 billion yen, an increase of 151.0 billion yen, or 3.4%, compared to March 31, 2018. Total core funding (deposits, negotiable certificates of deposit, debentures and bonds) was 3,393.7 billion yen, an increase of 165.2 billion yen, or 5.1%, from March 31, 2018.

Net assets were 419.1 billion yen, representing a decrease of 18.0 billion yen, or 4.1%, from March 31, 2018, mainly due to lower valuation difference on available-for-sale securities.

Net assets per common share were 3,591.20 yen, as compared to 3,735.00 yen as of March 31, 2018.

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

(billion yen)	Mar. 31, 2018 (A)	Sept. 30, 2018	Dec. 31, 2018 (B)	Change (B) – (A)
Total core funding	3,228.5	3,383.6	3,393.7	165.2

Funding sources by product

(billion yen)	Mar. 31, 2018 (A)	Sept. 30, 2018	Dec. 31, 2018 (B)	Change (B) – (A)
Deposits/NCDs	2,970.9	3,085.1	3,101.8	130.9
Debentures/Bonds	257.5	298.4	291.9	34.3

Funding sources by customer

(billion yen)	Mar. 31, 2018 (A)	Sept. 30, 2018	Dec. 31, 2018 (B)	Change (B) – (A)
Retail	1,811.3	1,802.7	1,798.6	-12.6
Corporate	581.1	632.2	649.3	68.2
Financial Institutions	835.9	948.6	945.7	109.7

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 3,393.7 billion yen, an increase of 165.2 billion yen, or 5.1%, 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 December 31, 2018, the Bank maintained adequate liquidity reserves of 599.0 billion yen.

2. Loans

(billion yen)	Mar. 31, 2018 (A)	Sept. 30, 2018	Dec. 31, 2018 (B)	Change (B) – (A)
Loans	2,611.2	2,654.4	2,686.9	75.6
Domestic loans	1,638.1	1,606.1	1,640.2	2.1
Overseas loans	973.1	1,048.2	1,046.6	73.5
U.S. dollar basis (\$ million)	\$9,157	\$9,229	\$9,435	\$278

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

Loans were 2,686.9 billion yen, an increase of 75.6 billion yen, or 2.9%, from March 31, 2018.

Domestic loans increased by 2.1 billion yen from March 31, 2018, reflecting the Bank's ongoing focus on disciplined balance sheet management.

Overseas loans increased by 73.5 billion yen, or \$278 million on a U.S. dollar basis, from March 31, 2018 as a result of the Bank's selective origination of corporate loans, mainly in North America where the risk-return profile remains relatively attractive, while carefully monitoring market trends.

3. Securities

(billion yen)	Book Value				Unrealized Gains/Losses			
	Mar. 31, 2018(A)	Sept. 30, 2018	Dec. 31, 2018 (B)	Change (B) – (A)	Mar. 31, 2018(A)	Sept. 30, 2018	Dec.31, 2018 (B)	Change (B) – (A)
JGBs	8.0	13.0	13.0	5.0	0.0	0.0	0.0	0.0
Municipal bonds	32.4	34.1	29.9	-2.4	0.1	0.0	0.1	0.0
Corporate bonds	34.2	36.7	43.2	9.0	0.1	0.0	0.2	0.0
Equities	84.7	98.5	67.0	-17.6	65.2	76.2	45.3	-19.9
Foreign bonds	484.0	543.7	527.5	43.5	-16.9	-25.2	-19.0	-2.0
Foreign government bonds	228.0	259.0	249.4	21.4	-11.7	-16.0	-9.4	2.2
Mortgage bonds	159.6	186.6	179.2	19.6	-7.1	-9.8	-7.2	-0.1
Others	96.3	98.1	98.8	2.5	1.8	0.6	-2.3	-4.2
Others	496.3	555.3	528.1	31.7	9.8	10.3	-28.8	-38.7
ETFs	257.3	304.3	257.8	0.4	-1.3	-2.3	-25.9	-24.5
Investment in limited partnerships	62.4	69.1	67.8	5.4	0.9	0.4	0.3	-0.6
REIT	73.6	79.8	72.3	-1.2	3.0	4.0	3.4	0.4
Investment trusts	79.9	87.2	116.0	36.1	0.8	2.3	-11.7	-12.5
Others	22.9	14.7	14.0	-8.9	6.3	5.7	4.9	-1.4
Total	1,139.8	1,281.6	1,209.0	69.2	58.4	61.3	-2.1	-60.6
Total unrealized gains, including unrealized gains/losses on hedging instruments					22.7	10.5	-22.4	-45.1

Securities were 1,209.0 billion yen as of December 31, 2018, an increase of 69.2 billion yen, or 6.1%, compared to March 31, 2018.

As of December 31, 2018, unrealized gains/losses were a loss of 2.1 billion yen while unrealized gains/losses, net of unrealized gains/losses on hedging instruments, were a loss of 22.4 billion yen. The changes since March 31, 2018 included increases to unrealized losses of 60.6 billion yen and 45.1 billion yen, respectively. The increase in unrealized losses was mainly attributable to declines experienced in the financial markets while, more recently, unrealized gains/losses have improved as market conditions have begun to stabilize. 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)	Sept. 30, 2018	Dec. 31, 2018 (B)	Change (B) – (A)
	Bankrupt and similar credit	0.1	-	-	-0.1
	Doubtful credit	4.6	6.9	6.1	1.4
	Special attention credit	2.1	2.1	2.1	-
FRL credit, total (a)		6.9	9.0	8.2	1.3
Normal credit (b)		2,653.5	2,690.0	2,737.4	83.9
Total credit (c)=(a)+(b)		2,660.4	2,699.0	2,745.7	85.2
FRL credit ratio (a)/(c)		0.26%	0.33%	0.30%	0.04%

Non-performing claims as defined by the Financial Reconstruction Law (FRL) were 8.2 billion yen, an increase of 1.3 billion yen from March 31, 2018. The FRL ratio increased 0.04 points to 0.30%. The percentage of FRL claims covered by reserves, collateral and guarantees was 92.3%. The ratio of loan loss reserves to total loans remained high at 1.59% on a consolidated basis.

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.