

Summary of the 3rd Quarter Financial Statements for the First Nine Months of FY2018 [JGAAP] (Consolidated)

January 31, 2019

Company Name	Aozora Bank, Ltd.	Listed Exchange	TSE
TSE Code	8304	URL	http://www.aozorabank.co.jp/
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Scheduled Filing Date of Security Report	Feb. 13, 2019	Dividend payable date	Mar. 15, 2019
Reference Material	Affirmative	Trading Accounts	Affirmative
Investor Meeting	Affirmative	TEL	(03)6752-1111

(Unit: JPY millions, rounded down)

1. Business highlights for the first nine months of FY2018

(1) Consolidated business results

(Note: Percentages show year-on-year rates of change)

	Ordinary income		Ordinary profit		Profit attributable to owners of parent	
Nine months ended	Million Yen	%	Million Yen	%	Million Yen	%
Dec. 31, 2018	125,815	11.9	41,971	(9.1)	29,723	(11.4)
Dec. 31, 2017	112,395	14.8	46,180	8.8	33,534	(5.7)

(Note) Comprehensive income JPY (2,500) million (—%) (Nine months ended Dec. 31, 2018)
JPY 43,136 million (134.9%) (Nine months ended Dec. 31, 2017)

	Net income per common share (basic)	Net income per common share (diluted)
Nine months ended	Yen	Yen
Dec. 31, 2018	254.76	254.55
Dec. 31, 2017	287.47	287.26

(Note) Aozora Bank, Ltd. (Aozora) consolidated every ten common shares into one common share on October 1, 2017. "Net income per common share (basic)" and "Net income per common share (diluted)" are presented as if the share consolidation was effective at the beginning of the previous accounting period.

(2) Consolidated financial condition

	Total assets	Total net assets	Net assets to total assets ratio	Net assets per common share
	Million Yen	Million Yen	%	Yen
Dec. 31, 2018	5,045,825	419,191	8.3	3,591.20
Mar. 31, 2018	4,912,792	437,234	8.9	3,735.00

(Ref.) Total net assets (less Share acquisition rights and Non-controlling interests) JPY 419,013 million (Dec. 31, 2018)
JPY 435,719 million (Mar. 31, 2018)

(Note) Net assets to total assets ratio = (Total net assets - Share acquisition rights - Non-controlling interests) / Total assets

2. Dividend

	Annual dividend				
	1Q end	2Q end	3Q end	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
FY2017(common share)	4.00	4.00	50.00	54.00	—
FY2018(common share)	40.00	40.00	40.00		
FY2018(common share) (Forecast)				64.00	184.00

(Note) Revision of dividends forecast to the latest announcement Affirmative

(Note) On October 1, 2017, Aozora consolidated every ten common shares into one common share. As the above dividend payments for the 1st quarter and the 2nd quarter of FY2017 are actual amounts before the share consolidation, the annual dividend for FY2017 is shown as "—". For more details on dividend payments for each quarter assuming that the share consolidation was effective at the beginning of the previous accounting period, please refer to "(Reference) Dividend payments per common share."

(Note) The dividend payment forecast for FY2018 was calculated by dividing the total dividend amount, which is set at 50% of Profit attributable to owners of parent for forecast FY2018, by the total number of common share issued, excluding treasury shares, as of December 31, 2018.

(Note) Because the dividend forecast for year-end of FY2018 has become a fixed amount, revision of dividends forecast to the latest announcement is shown as "Affirmative". The common share dividend forecast for FY2018 would be 184.00 yen per common share, which remains unchanged from the last forecast.

3. Consolidated earnings forecast for the year ending March 31, 2019 (FY2018)

(Note: Percentages show year-on-year rates of change)

	Ordinary profit		Profit attributable to owners of parent		Net income per common share
	Million Yen	%	Million Yen	%	Yen
FY2018 (Full Year)	58,500	0.9	43,000	(0.1)	368.53

(Note) Revision of consolidated earnings forecast to the latest announcement None

* Notes

(1) Changes in material subsidiaries during the first nine months (changes in specified subsidiaries which affect the scope of consolidation) None

(2) Accounting treatments particularly used for the quarterly financial statements None

(3) Changes in accounting policy, accounting estimates, or retrospective restatements

(a) Changes with revisions of accounting standards None

(b) Changes other than (a) above None

(c) Changes in accounting estimates None

(d) Retrospective restatements None

(4) The number of common shares issued

	Dec. 31, 2018	Mar. 31, 2018
(a) The number of common shares issued (including treasury shares)	118,289,418	118,289,418
(b) The number of treasury shares	1,611,667	1,631,067

	Nine months ended Dec. 31, 2018	Nine months ended Dec. 31, 2017
(c) The average number of common shares outstanding (9 months)	16,671,169	116,652,735

(Note) Aozora consolidated every ten common shares into one common share on October 1, 2017. "The average number of common shares outstanding" is presented as if the share consolidation was effective at the beginning of the previous accounting period.

※Quarterly summary is out of scope of quarterly review (by CPAs or audit firms).

※Notes and remarks for the proper use of earnings projection

The above earnings forecast involves certain risks and uncertainties since the calculations are based on management's assumptions and beliefs in light of information currently available. This should not be interpreted as a promise or guarantee that the forecast will be achieved. Please be aware that actual results may be materially different from the forecast presented herein due to various factors.

(Reference) Dividend payments per common share

Aozora consolidated every ten common shares into one common share on October 1, 2017.

Assuming that the share consolidation was effective at the beginning of the previous accounting period, dividend payments per common share are as follows.

	Annual dividend				
	1Q end	2Q end	3Q end	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
FY2017 (common share)	40.00	40.00	50.00	54.00	184.00
FY2018 (common share)	40.00	40.00	40.00		
FY2018 (common share) (Forecast)				64.00	184.00

[Attachment]

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1. Qualitative information

(1) Operating results

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, due to similar 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 22.8 billion yen, a decrease of 8.7 billion yen, or 27.7% year on year despite continued gains on limited partnerships. 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%.

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 (corporation tax, resident tax, business tax and deferred income 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 69.1% towards the full-year forecast of 43.0 billion yen. Net income per share (basic) was 254.76 yen, as compared to 287.47 yen per share (basic) in the first nine months of FY2017.

(2) Financial condition

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.

(3) Consolidated earnings forecast

No change has been made to the full-year consolidated earnings forecast of FY2018 announced on May 14, 2018 (net revenue of 92.0 billion yen, consolidated business profit of 40.0 billion yen, ordinary profit of 58.5 billion yen and profit attributable to owners of parent of 43.0 billion yen).

(Note 1) Figures are rounded down to the nearest unit specified.

(Note 2) Aozora consolidated every ten common shares into one common share on October 1, 2017. "Net income per common share(basic)" is presented as if the share consolidation was effective at the beginning of the previous accounting period.

(Reference)

Summary of consolidated revenue and expenses

(JPY 100 million)

	FY2017 9 months Apr.-Dec.	FY2018 9 months Apr.-Dec.	Change
Net revenue ※1	693	627	(66)
Net interest income	377	399	21
Net fees and commissions	85	77	(7)
Net trading income	127	54	(73)
Gains/losses on bond transactions	16	41	25
Net other ordinary income excluding gains/losses on bond transactions	86	54	(31)
General and administrative expenses	(340)	(358)	(18)
Business profit ※2	353	269	(84)
Credit-related expenses	38	16	(21)
Gains/losses on stock transactions	74	112	38
Other	(5)	21	26
Ordinary profit	461	419	(42)
Extraordinary profit/loss	(0)	-	0
Profit before income taxes	461	419	(41)
Total income taxes	(130)	(136)	(6)
Profit	331	283	(47)
Loss attributable to non-controlling interests	3	13	9
Profit attributable to owners of parent	335	297	(38)

※1 Net revenue = (Interest income – Interest expenses)

+ (Trust fees + Fees and commissions income – Fees and commissions expenses)

+ (Trading income – Trading expenses)

+ (Other ordinary income – Other ordinary expenses)

※2 Business profit = Net revenue – General and administrative expenses

※3 Regardless of nature of accounts, income or profits are shown as positive and expenses or losses are shown as negative amount on the table above.

2. Quarterly consolidated financial statements and main notes

(1) Quarterly consolidated balance sheet

(In millions of yen)

	As of Mar. 31, 2018	As of Dec. 31, 2018
Assets		
Cash and due from banks	543,173	554,403
Call loans and bills bought	26,567	—
Monetary claims bought	45,733	51,569
Trading assets	179,671	178,863
Money held in trust	30,815	27,668
Securities	1,139,803	1,209,046
Loans and bills discounted	2,611,278	2,686,901
Foreign exchanges	42,576	49,661
Other assets	246,703	226,907
Tangible fixed assets	24,628	23,831
Intangible fixed assets	16,907	18,417
Deferred debenture discounts	36	21
Net defined benefit asset	2,720	3,111
Deferred tax assets	18,541	30,286
Customers' liabilities for acceptances and guarantees	27,433	28,956
Allowance for loan losses	(43,495)	(42,797)
Allowance for investment loss	(302)	(1,025)
Total assets	4,912,792	5,045,825
Liabilities		
Deposits	2,846,878	2,997,944
Negotiable certificates of deposit	124,060	103,910
Debentures	64,710	51,360
Call money and bills sold	90,998	57,310
Payables under repurchase agreements	9,823	50,341
Payables under securities lending transactions	431,309	437,812
Trading liabilities	130,201	157,278
Borrowed money	315,250	311,617
Bonds payable	192,853	240,540
Other liabilities	227,275	176,850
Provision for bonuses	3,735	2,080
Provision for directors' bonuses	87	55
Net defined benefit liability	9,533	9,542
Provision for directors' retirement benefits	2	2
Provision for credit losses on off-balance-sheet instruments	994	648
Provision for contingent loss	391	368
Reserves under special laws	8	8
Deferred tax liabilities	10	3
Acceptances and guarantees	27,433	28,956
Total liabilities	4,475,557	4,626,633
Net assets		
Capital stock	100,000	100,000
Capital surplus	87,345	87,377
Retained earnings	243,190	257,281
Treasury shares	(3,351)	(3,312)
Total shareholders' equity	427,184	441,346
Valuation difference on available-for-sale securities	35,343	(7,037)
Deferred gains or losses on hedges	(25,581)	(14,744)
Foreign currency translation adjustment	(1,070)	(319)
Remeasurements of defined benefit plans	(156)	(231)
Total accumulated other comprehensive income	8,535	(22,333)
Share acquisition rights	331	357
Non-controlling interests	1,183	(179)
Total net assets	437,234	419,191
Total liabilities and net assets	4,912,792	5,045,825

(2) Quarterly consolidated statement of income and quarterly consolidated statement of comprehensive income
 (Quarterly consolidated statement of income)
 (For the nine months ended Dec. 31)

(In millions of yen)

	For the nine months ended Dec. 31, 2017	For the nine months ended Dec. 31, 2018
Ordinary income	112,395	125,815
Interest income	59,554	73,885
Interest on loans and discounts	35,282	43,541
Interest and dividends on securities	22,813	28,848
Trust fees	325	273
Fees and commissions	9,250	8,675
Trading income	12,799	10,627
Other ordinary income	16,645	16,331
Other income	13,820	16,022
Ordinary expenses	66,215	83,844
Interest expenses	21,779	33,968
Interest on deposits	4,456	5,515
Fees and commissions payments	1,050	1,192
Trading expenses	—	5,145
Other ordinary expenses	6,350	6,699
General and administrative expenses	33,583	35,818
Other expenses	3,451	1,018
Ordinary profit	46,180	41,971
Extraordinary losses	21	—
Loss on disposal of non-current assets	21	—
Profit before income taxes	46,158	41,971
Income taxes - current	12,023	11,933
Income taxes - deferred	979	1,669
Total income taxes	13,002	13,603
Profit	33,156	28,368
Loss attributable to non-controlling interests	(378)	(1,355)
Profit attributable to owners of parent	33,534	29,723

(Quarterly consolidated statement of comprehensive income)
 (For the nine months ended Dec. 31)

	(In millions of yen)	
	For the nine months ended Dec. 31, 2017	For the nine months ended Dec. 31, 2018
Profit	33,156	28,368
Other comprehensive income	9,980	(30,868)
Valuation difference on available-for-sale securities	28,055	(42,381)
Deferred gains or losses on hedges	(17,879)	10,836
Foreign currency translation adjustment	129	751
Remeasurements of defined benefit plans, net of tax	(325)	(74)
Comprehensive income	43,136	(2,500)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	43,515	(1,145)
Comprehensive income attributable to non-controlling interests	(378)	(1,355)

(3) Notes to quarterly consolidated financial statements
(Information on going concern assumption)

None

(Changes in shareholders' equity)

None