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## **Aozora Reports Net Income of 34.2 billion for the First Nine Months of FY2014 - Progress of 79.6% towards full-year forecast -**

**TOKYO January 30, 2015** – Aozora Bank, Ltd. (“Aozora” or “the Bank”), a leading Japanese commercial bank, today announced its financial results for the first nine months of FY2014.

### **Financial results for the first nine months of FY2014**

For the first nine months of FY2014, Aozora reported consolidated net revenue of 69.8 billion yen and net income of 34.2 billion yen, representing progress of 75.8% and 79.6%, respectively, towards the full-year forecasts of 92.0 billion yen and 43.0 billion yen.

Shinsuke Baba, Representative Director, President and Chief Executive Officer of Aozora Bank commented, “In an environment of continued low interest rates, aggregate domestic loan demand was sluggish and loan pricing competition remained intense. Despite these conditions, we achieved year on year increases in both net interest income and non-interest income as a result of our disciplined balance sheet management, as well as the diversification of our sources of income. We recorded net income of 34.2 billion yen, placing us soundly on track to achieve our full-year forecast of 43.0 billion yen. In addition, today we announced that the third quarter dividend payment will be 4 yen per common share.”

Baba concluded, “The Bank remains committed to refining and implementing our business model which is designed to achieve sustainable earnings growth. I would like to express my gratitude to all of our stakeholders for their continuing support.”

### **1. Summary of the results for the first nine months (Consolidated)**

- Net revenue was 69.8 billion yen, an increase of 9.6 billion yen, or 16.0% year on year, reflecting year on year increases in both net interest income and non-interest income. Business profit was 41.2 billion yen, an increase of 10.0 billion yen, or 32.0% year on year. Net income was 34.2 billion yen, representing progress of 79.6% towards the full-year forecast of 43.0 billion yen.
  - Net interest income increased 5.0 billion yen, or 15.0% year on year, to 38.0 billion yen, due to an increase in net interest margin as the Bank continued its disciplined balance sheet management. Non-interest income was 31.7 billion yen, an increase of 4.7 billion yen, or 17.2% year on year, mainly due to growth in earnings from the sale of financial products to our mass affluent retail customers, as well as the sale of derivative-related products to our corporate and financial institution customers.
  - General and administrative expenses were 28.5 billion yen, a year on year reduction of 0.4 billion yen, or 1.3%. The OHR (general and administrative expenses as a percentage of net revenue) was 40.9%, due to the ongoing priority assigned to efficient operations.
  - Credit-related expenses were a net reversal of 11.9 billion yen, compared with a net expense of 2.9 billion yen in the first nine months of FY2013. This result included the reversal of specific reserves mainly due to an improvement in the condition of borrowers, in addition to the recoveries of claims written off in previous years and gains on the disposition of loans.

- The loan balance increased 118.5 billion yen, or 4.5%, to 2,762.0 billion yen from March 31, 2014. Overseas loans increased by 178.6 billion yen while domestic loans decreased 60.1 billion yen as the Bank maintained its focus on balancing risk and return.
- The percentage of retail funding to total core funding (the sum of deposits, negotiable certificates of deposit and debentures) was stable at 63.4%. The Bank maintained an appropriate level of liquidity reserves at approximately 505 billion yen as of December 31, 2014.
- Non-performing claims as defined by the Financial Reconstruction Law (FRL) were 40.1 billion yen, a decrease of 40.1 billion yen, or 50.0%, from March 31, 2014. The FRL ratio improved by 1.56 points to 1.42%. The percentage of FRL claims covered by reserves, collateral and guarantees was 81.8% as of December 31, 2014.
- Aozora will announce its December 31, 2014 consolidated capital adequacy ratio (Basel III basis, domestic standard) at a later date. As of September 30, 2014, the ratio was 14.95%, and is expected to remain at an adequate level.

## 2. FY2014 First Nine Months Performance (April 1, 2014 to December 31, 2014)

### Consolidated basis

(100 million yen)	Ordinary Income	Net Revenue	Business Profit	Ordinary Profit	Net Income	Net Income per common share
FY2014 nine months (Apr. – Dec.) (a)	1,017	698	412	545	342	28.39 Yen
FY2013 nine months (Apr. – Dec.) (b)	1,058	601	312	413	341	28.20 Yen
Change (a) - (b)	-41	96	100	131	1	0.19 Yen
Percentage change ((a)-(b)) / (b)	-3.8%	16.0%	32.0%	31.8%	0.3%	0.7%
FY2014 full-year forecast (c)		920	510	515	430	35.60 Yen
Progress (a)/(c)		75.8%	80.9%	105.8%	79.6%	79.7%

### Non-consolidated basis

(100 million yen)	Ordinary Income	Net Revenue	Business Profit before general loan-loss reserve	Ordinary Profit	Net Income	Net Income per common share
FY2014 nine months (Apr. – Dec.) (a)	976	645	383	527	384	31.94 Yen
FY2013 nine months (Apr. – Dec.) (b)	1,016	627	360	403	334	27.59 Yen
Change (a)-(b)	-40	19	23	123	49	4.35 Yen
Percentage change ((a)-(b)) / (b)	-3.9%	3.0%	6.3%	30.6%	14.8%	15.8%
FY2014 full-year forecast (c)		860	475	495	420	34.74 Yen
Progress (a)/(c)		75.1%	80.6%	106.4%	91.3%	91.9%

## I. Revenue and Expenses

(100 million yen)	FY2013		FY2014		Change (B) – (A)		Page
	3 months Oct.- Dec.	9 months Apr.- Dec. (A)	3 months Oct.- Dec.	9 months Apr.- Dec. (B)	Amount	%	
<b>Net revenue</b>	<b>214</b>	<b>601</b>	<b>236</b>	<b>698</b>	<b>96</b>	<b>16.0%</b>	-
Net interest income	114	331	138	380	50	15.0%	4
Net interest margin	1.16%	1.09%	1.30%	1.23%	0.14%	-	4
Net fees and commissions	31	93	29	104	11	12.3%	4
Net trading revenues	19	66	29	83	17	26.6%	5
Net other ordinary income	51	112	41	130	18	15.9%	-
Gains/losses on bond transactions	19	-5	8	40	45	-	5
Net other ordinary income excluding gains/losses on bond transactions	32	117	33	90	-27	-23.2%	5
General & administrative expenses	-97	-289	-96	-285	4	1.3%	6
<b>Business profit</b>	<b>118</b>	<b>312</b>	<b>140</b>	<b>412</b>	<b>100</b>	<b>32.0%</b>	-
<b>Ordinary profit</b>	<b>139</b>	<b>413</b>	<b>164</b>	<b>545</b>	<b>131</b>	<b>31.8%</b>	-
<b>Net income</b>	<b>102</b>	<b>341</b>	<b>106</b>	<b>342</b>	<b>1</b>	<b>0.3%</b>	-
Credit-related expenses	6	-29	14	119	148	-	6
Extraordinary Profit	-0	-0	-0	-57	-57	-	-
Taxes	-38	-71	-59	-144	-73	-	6

In the first nine months of FY2014, consolidated net revenue increased 9.6 billion yen, or 16.0% year on year, to 69.8 billion yen, representing progress of 75.8% towards the full-year forecast of 92.0 billion yen.

Net interest income was 38.0 billion yen, an increase of 5.0 billion yen, or 15.0% year on year. The Bank's net interest margin increased 14 bps to 1.23%. Contributing to this result was an increase in the yield on total investments of 7 bps as the Bank continued its disciplined balance sheet management. Also contributing was a reduction in funding costs of 7 bps year on year as a result of our ongoing efforts to reduce funding costs.

Non-interest income increased 4.7 billion yen, or 17.2% year on year, to 31.7 billion yen. Net fees and commissions were 10.4 billion yen, an increase of 1.1 billion yen, or 12.3% year on year, and net trading revenues were 8.3 billion yen, an increase of 1.7 billion yen, or 26.6%, due to growth in fee income and earnings from the sale of derivative-related products. Gains/losses on bond transactions were a gain of 4.0 billion yen, compared with a loss of 0.5 billion yen in the first nine months of FY2013. Net other ordinary income, excluding gains/losses on bond transactions, was 9.0 billion yen, a decrease of 2.7 billion yen, or 23.2%, from the first nine months of FY2013.

General and administrative expenses were 28.5 billion yen, a reduction of 0.4 billion yen, or 1.3% year on year. The OHR was 40.9%, due to the ongoing priority assigned to efficient operations.

Consolidated business profit increased 10.0 billion yen, or 32.0%, to 41.2 billion yen.

Credit-related expenses were a net reversal of 11.9 billion yen, compared with a net expense of 2.9 billion yen in the first nine months of FY2013. This result included the reversal of specific reserves mainly due to an improvement in the condition of borrowers, in addition to the recoveries of claims written off in previous years and gains on the disposition of loans.

Ordinary profit was 54.5 billion yen, an increase of 13.1 billion yen, or 31.8%. During the first quarter of FY2014, an extraordinary loss of 5.7 billion yen was recognized as a result of crystallizing a negative foreign currency translation adjustment previously recorded in consolidated net assets in conjunction with the sale of an impaired overseas legacy investment. Taxes were a net expense of 14.4 billion yen, compared with a net expense of 7.1 billion yen in the first nine months of FY2013.

As a result of the aforementioned factors, consolidated net income was 34.2 billion yen, representing progress of 79.6% towards the full-year forecast of 43.0 billion yen.

## 1. Net Revenue

### (1)① Net Interest Income

(100 million yen)	FY2013		FY2014		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)	114	331	138	380	50
Interest income (a)	152	449	172	482	33
Interest on loans and discounts	110	322	110	319	-3
Interest and dividends on securities	34	107	47	139	32
Other interest income	4	11	14	19	8
Interest on swaps	3	8	1	4	-4
Interest expenses (b)	-38	-118	-34	-101	17
Interest on deposits and NCDs *	-30	-91	-23	-72	19
Interest on debentures	-1	-4	-1	-4	0
Interest on borrowings and rediscount	-1	-4	-2	-6	-1
Other interest expenses	-2	-7	-3	-8	-0
Interest on swaps	-3	-11	-5	-12	-1

\* Negotiable certificates of deposit

### (1)② Net Interest Margin

	FY2013		FY2014		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)	1.55%	1.50%	1.64%	1.57%	0.07%
Yield on loans (b)	1.67%	1.66%	1.61%	1.60%	-0.06%
Yield on securities	1.25%	1.17%	1.51%	1.48%	0.31%
Yield on funding (c)	0.39%	0.41%	0.34%	0.34%	-0.07%
Net interest margin (a)-(c)	1.16%	1.09%	1.30%	1.23%	0.14%
Loan margin (b)-(c)	1.28%	1.25%	1.27%	1.26%	0.01%

Net interest income was 38.0 billion yen, an increase of 5.0 billion yen, or 15.0% year on year. The yield on total investments improved 7 bps to 1.57%. This result included an improvement in the yield on securities, while the Bank managed a decline of only 6 bps in the yield on loans due to its continued focus on balancing risk and return. Funding costs were reduced 7 bps to 0.34% as a result of our ongoing efforts to reduce funding costs. The net interest margin increased 14 bps to 1.23%.

### (2) Net Fees and Commissions

(100 million yen)	FY2013		FY2014		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)	31	93	29	104	11
Fees and commissions received (a)	33	100	31	112	12
Loan business-related	17	47	12	53	7
Securities-related and agency	13	42	18	50	8
Others	3	11	2	8	-2
Fees and commissions payments (b)	-2	-7	-2	-7	-1

Net fees and commissions were 10.4 billion yen, an increase of 1.1 billion yen, or 12.3% year on year.

Earnings from the sale of investment trusts, insurance and structured bonds, targeting the needs of our mass affluent retail customers, increased 0.6 billion yen, or 11.9% year on year, to 5.3 billion yen. This result reflected the Bank's continued efforts to further strengthen the capabilities of its sales staff, as well as enhance its investment product line-up in order to respond to the needs of its customers.

**【Ref.】 Earnings from Retail-Related Business**

(100 million yen)	FY2013		FY2014		Change (B) – (A)
	3 months Oct.- Dec.	9 months Apr.- Dec. (A)	3 months Oct.- Dec.	9 months Apr.- Dec. (B)	
Earnings related to the sale of investment trusts, insurance and structured bonds	15	48	21	53	6

Note: Earnings related to the sale of structured bonds are recorded as trading revenues.

**(3) Net Trading Revenues**

(100 million yen)	FY2013		FY2014		Change (B) – (A)
	3 months Oct.- Dec.	9 months Apr.- Dec. (A)	3 months Oct.- Dec.	9 months Apr.- Dec. (B)	
Net trading revenues	19	66	29	83	17
Income on trading-related financial derivatives transactions	14	50	21	69	19
Others	5	16	7	14	-2

Net trading revenues were 8.3 billion yen, an increase of 1.7 billion yen, or 26.6% year on year, as a result of the continued favorable sale of derivative-related products to our corporate and financial institution customers.

**(4) Gains/losses on Bond Transactions**

(100 million yen)	FY2013		FY2014		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	19	-5	8	40	45
Japanese government bonds	0	2	2	20	18
Foreign government bonds and mortgage bonds	1	-47	4	5	52
Others	18	40	2	15	-25
Profit from hedge funds	1	3	1	6	3
Others (J-REIT, foreign currency ETFs, etc.)	17	37	1	9	-28

Gains/losses on bond transactions were a gain of 4.0 billion yen, compared with a loss of 0.5 billion yen in the first nine months of FY2013. Contributing to this result were gains on the sale of JGBs and J-REITs as the Bank focused on diversifying its investment portfolio.

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

(100 million yen)	FY2013		FY2014		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	32	117	33	90	-27
Gains /losses on foreign currency transactions	2	2	12	10	8
Gains /losses on derivatives other than trading, net	0	3	1	0	-3
Gains from limited partnerships	31	102	19	49	-53
Real estate-related	9	34	2	9	-25
Distressed loan-related	16	41	8	25	-15
Others (Buyout and venture capital, etc.)	5	27	8	14	-12
Gains on distressed loans (Aozora Loan Services)	-2	7	1	9	1
Debenture issue cost	-0	-0	-0	-0	-0
Others	0	3	1	22	19

Net other ordinary income, excluding gains/losses on bond transactions, was 9.0 billion yen, a decrease of 2.7 billion yen, or 23.2% year on year. Contributing to this result were gains from limited partnerships of 4.9 billion yen, mainly from the Bank's distressed loan business.

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

(100 million yen)	FY2013		FY2014		Change (B)–(A)
	3 months Oct.- Dec.	9 months Apr.- Dec. (A)	3 months Oct.- Dec.	9 months Apr.- Dec. (B)	
G & A expenses	-97	-289	-96	-285	4
Personnel	-50	-148	-50	-148	-1
Non-personnel expense	-42	-128	-40	-120	7
Tax	-4	-14	-5	-16	-3

General and administrative expenses were 28.5 billion yen, a year on year reduction of 0.4 billion yen, or 1.3%, reflecting the Bank's continued focus on cost control. The OHR was 40.9% due to growth in net revenue, as well as the ongoing priority the Bank has assigned to efficient operations.

## 3. Credit-Related Expenses

(100 million yen)	FY2013		FY2014		Change (B)–(A)
	3 months Oct.- Dec.	9 months Apr.- Dec. (A)	3 months Oct.- Dec.	9 months Apr.- Dec. (B)	
Credit-related expenses	6	-29	14	119	148
Write-off of loans	-1	-13	-1	-3	10
Gains/losses on disposition of loans	2	16	-0	26	10
Reserve for possible loan losses	-27	-104	5	49	153
Specific reserve for possible loan losses	-11	-22	12	80	102
General reserve for possible loan losses	-16	-82	-7	-31	51
Reserve for credit losses on off-balance-sheet instruments	-2	-3	-8	-2	1
Recoveries of written-off claims	34	75	18	49	-27

Credit-related expenses were a net reversal of 11.9 billion yen, compared with a net expense of 2.9 billion yen in the first nine months of FY2013. This result included the reversal of specific reserves mainly due to an improvement in the condition of borrowers, in addition to the recoveries of claims written off in previous years and gains on the disposition of loans. The ratio of loan loss reserves to total loans remained high at 2.02%, which reflected the Bank's continued conservative allocation of reserves.

## 4. Taxes

(100 million yen)	FY2013		FY2014		Change (B)–(A)
	3 months Oct.- Dec.	9 months Apr.- Dec. (A)	3 months Oct.- Dec.	9 months Apr.- Dec. (B)	
Taxes	-38	-71	-59	-144	-73

A net tax expense of 14.4 billion yen was recognized in the first nine months of FY2014, compared with a net expense of 7.1 billion yen in the first nine months of FY2013. The effective tax rate, excluding the impact of extraordinary losses related to foreign currency translation adjustment, was 26.5%. In calculating deferred tax assets, the Bank continued its conservative estimation of future taxable income and future deductible temporary differences in consideration of the uncertainty of such estimations.

## II. Balance Sheet

(100 million yen)	Mar. 31, 2014 (A)	Sept. 30, 2014	Dec. 31, 2014 (B)	Change (B)–(A)		Page
				Amount	%	
<b>Total assets</b>	<b>48,054</b>	<b>50,435</b>	<b>51,023</b>	<b>2,968</b>	<b>6.2%</b>	-
Loan and bills discounted	26,435	27,198	27,620	1,185	4.5%	8
Securities	11,686	12,202	12,580	894	7.6%	9
Cash and due from banks	4,419	4,755	3,936	-483	-10.9%	-
Others	5,514	6,279	6,886	1,372	24.9%	-
<b>Total liabilities</b>	<b>42,894</b>	<b>45,238</b>	<b>45,520</b>	<b>2,626</b>	<b>6.1%</b>	-
Deposits	27,567	27,517	27,018	-548	-2.0%	8
Negotiable certificates of deposit	2,531	3,266	2,906	376	14.8%	8
Debentures	1,976	2,289	2,305	330	16.7%	8
Borrowed money	1,588	1,783	1,795	207	13.0%	-
Others	9,234	10,383	11,496	2,263	24.5%	-
<b>Total net assets</b>	<b>5,160</b>	<b>5,197</b>	<b>5,502</b>	<b>342</b>	<b>6.6%</b>	-
Capital stock	1,000	1,000	1,000	-	-	-
Capital surplus	3,102	2,897	2,897	-205	-6.6%	-
Retained earnings	2,098	2,239	2,306	208	9.9%	-
Treasury stock	-993	-993	-993	-	-	-
Valuation difference on available-for-sale securities	-31	8	221	252	-	-
Foreign currency translation adjustment	-69	-3	13	82	-	-
Others	53	50	59	5	9.9%	-
<b>Total liabilities and net assets</b>	<b>48,054</b>	<b>50,435</b>	<b>51,023</b>	<b>2,968</b>	<b>6.2%</b>	-

Total assets were 5,102.3 billion yen as of December 31, 2014, an increase of 296.8 billion yen, or 6.2%, compared to March 31, 2014. Loans increased from March 31, 2014 by 118.5 billion yen, or 4.5%, to 2,762.0 billion yen. Overseas loans increased, while domestic loans decreased from March 31, 2014, as the Bank maintained its focus on balancing risk and return. Securities were 1,258.0 billion yen, an increase of 89.4 billion yen, or 7.6%, compared to March 31, 2014.

On the funding side, total liabilities were 4,552.0 billion yen, an increase of 262.6 billion yen, or 6.1%, compared to March 31, 2014. Deposits and negotiable certificates of deposit decreased 17.3 billion yen, while debentures increased 33.0 billion yen. Funding from retail customers remained almost unchanged at 2,043.5 billion yen, decreasing 2.8 billion yen, or 0.1%, and the percentage of retail funding to total core funding (the sum of deposits, negotiable certificates of deposit and debentures) was stable at 63.4%.

Net assets were 550.2 billion yen, representing an increase of 34.2 billion yen, or 6.6%, in comparison with March 31, 2014. Net assets per common share were 339.62 yen, as compared to 292.83 yen per common share as of March 31, 2014.

## 1. Funding (Deposits and Debentures)

(100 million yen)	Mar. 31, 2014 (A)	Sept. 30, 2014	Dec. 31, 2014 (B)	Change (B)–(A)
Total core funding	32,073	33,072	32,230	157

### Funding sources by products

(100 million yen)	Mar. 31, 2014 (A)	Sept. 30, 2014	Dec. 31, 2014 (B)	Change (B)–(A)
Deposits / NCDs	30,097	30,783	29,925	-173
Debentures	1,976	2,289	2,305	330

### Funding sources by customers

(100 million yen)	Mar. 31, 2014 (A)	Sept. 30, 2014	Dec. 31, 2014 (B)	Change (B)–(A)
Retail	20,463	20,553	20,435	-28
Corporate	6,503	6,751	6,114	-389
Financial Institutions	5,107	5,768	5,681	574

Note: Corporate includes public entities

Total core funding (the sum of deposits, negotiable certificates of deposit and debentures) was 3,223.0 billion yen, an increase of 15.7 billion yen, or 0.5%, from March 31, 2014. The Bank continued its efforts to reduce funding costs, while maintaining a stable funding base as it continued to conduct flexible operations based on the level of interest-earning assets. Funding from retail customers remained almost unchanged at 2,043.5 billion yen, decreasing 2.8 billion yen, or 0.1%, and the percentage of retail funding to total core funding (the sum of deposits, negotiable certificates of deposit and debentures) was stable at 63.4%.

The Bank maintained an appropriate level of liquidity reserves at approximately 505 billion yen as of December 31, 2014.

## 2. Loans

(100 million yen)	Mar. 31, 2014 (A)	Sept. 30, 2014	Dec. 31, 2014 (B)	Change (B)–(A)
Loans	26,435	27,198	27,620	1,185
Domestic loans	21,016	20,871	20,414	-601
Overseas loans	5,419	6,328	7,206	1,786

Note: Overseas loans with no final risk residing in Japan

Loans increased 118.5 billion yen, or 4.5%, from March 31, 2014, to 2,762.0 billion yen. Domestic loans decreased 60.1 billion yen as the Bank maintained its focus on balancing risk and return, while overseas loans increased 178.6 billion yen as a result of the Bank's selective origination of loans, mainly in North America.

In comparison with March 31, 2014, domestic loans to the leasing sector and the financial and insurance sector increased, while loans to the manufacturing sector and the real estate sector decreased.



### 3. Securities

(100 million yen)	Book Value				Unrealized gains/losses			
	Mar. 31, 2014 (A)	Sept. 30, 2014	Dec. 31, 2014 (B)	Change (B) – (A)	Mar. 31, 2014 (A)	Sept. 30, 2014	Dec. 31, 2014 (B)	Change (B) – (A)
JGBs	3,459	3,395	3,689	230	20	9	8	-12
TDB only	1,702	2,502	2,902	1,200	-0	-0	0	0
15Y floating rate only	1,453	787	787	-666	23	8	8	-15
Municipal bonds	169	124	159	-11	1	1	2	2
Corporate bonds	575	418	418	-157	3	1	2	-2
Equities	295	308	381	86	6	7	229	223
Foreign bonds	3,672	4,126	3,856	183	-108	-62	-14	94
Others	3,516	3,832	4,077	561	38	84	118	80
Hedge funds	79	73	76	-3	21	21	24	3
ETFs	1,308	1,892	2,118	809	6	29	34	28
Investment in limited partnerships	430	407	405	-25	0	-0	3	3
REIT	349	409	439	90	14	38	65	51
Investment trusts	1,247	912	860	-387	-3	-4	-9	-6
Others	102	139	179	77	-0	1	1	1
Total	11,686	12,202	12,580	894	-40	40	345	385

Securities were 1,258.0 billion yen as of December 31, 2014, an increase of 89.4 billion yen, or 7.6%, compared to March 31, 2014. Domestic equities and foreign currency denominated ETFs increased 80.9 billion yen from March 31, 2014, while investment trusts decreased 38.7 billion yen as the Bank focused on diversifying its investment portfolio.

Total unrealized gains amounted to 34.5 billion yen, increasing 38.5 billion yen from March 31, 2014. This result mainly reflected an increase in unrealized gains on equities due to the public offering of an unlisted stock owned by the Bank over the years, as well as an increase in unrealized gains on J-REITs and ETFs.

Note: A portion of beneficial interests in investment trusts within 'monetary claims bought' is marked at fair value, but the amounts (balance sheet total 0.7 billion yen; valuation gains of 1 million yen as of December 31, 2014) are not included in the table above.

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

(Non-consolidated)

(100 million yen)	Mar. 31, 2014 (A)	Sept. 30, 2014	Dec. 31, 2014 (B)	Change (B)–(A)
Bankrupt and similar credit	36	5	3	-33
Doubtful credit	567	403	280	-287
Special attention credit	199	113	118	-81
FRL credit, total (a)	802	520	401	-401
Normal credit (b)	26,033	27,134	27,720	1,687
Total credit (c)((a)+(b))	26,834	27,654	28,121	1,287
FRL credit ratio (a)/(c)	2.98%	1.88%	1.42%	-1.56%

Non-performing claims as defined by the Financial Reconstruction Law (FRL) were 40.1 billion yen, a decrease of 40.1 billion yen, or 50.0%, from March 31, 2014, mainly due to the collection of claims, including doubtful credit and special attention credit. The FRL ratio improved by 1.56 points to 1.42%. The percentage of FRL claims covered by reserves, collateral and guarantees was 81.8% as of December 31, 2014. The ratio of loan loss reserves to total loans on a consolidated basis remained high at 2.02% as of December 31, 2014.

*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.*