

May 16, 2016

Company name: Aozora Bank, Ltd.  
Name of representative: Shinsuke Baba, President and CEO  
Listed exchange: TSE, Code 8304  
Enquiries: Hiroyuki Kajitani  
Corporate Communication Division (03 3263 1111)

**Aozora Reports Net Income of 43.5 billion for FY2015  
Exceeds Earnings Forecast;  
Announces FY2015 Dividend Payment, FY2016 Earnings and Dividend Forecast**

**TOKYO May 16, 2016** – Aozora Bank, Ltd. (“Aozora” or “the Bank”), a leading Japanese commercial bank, today announced its financial results for FY2015, its FY2015 full-year dividend payment, as well as the Bank’s FY2016 earnings and dividend forecasts.

**Earnings results for FY2015**

Aozora reported consolidated net income of 43.5 billion yen for FY2015. This result exceeded the full-year forecast of 43.0 billion yen.

Shinsuke Baba, Representative Director, President and Chief Executive Officer of Aozora Bank commented, “The banking sector has experienced increasingly severe business conditions since last summer including growing uncertainty in global markets and the introduction of negative interest rates in Japan. In the face of these conditions, we were pleased to have exceeded our full-year earnings forecast for fiscal year 2015. This positive result reflected our ongoing focus on disciplined balance sheet management and diversification of income sources. Today we announced a full-year dividend of 18.60 yen per common share for fiscal year 2015, exceeding the forecast by 0.20 yen. The fourth quarter dividend payment will be 5.60 yen.”

Baba concluded, “Going forward, we remain committed to leveraging our expertise and the provision of differentiated services in order to further enhance Aozora’s corporate value, while properly responding to changes in the environment. I would like to express my gratitude to all of our stakeholders for their continued support.”

**1. Summary of the full-year results (Consolidated)**

- Net revenue was 91.4 billion yen, a decrease of 1.4 billion yen, or 1.5% year on year, and business profit was 48.6 billion yen, a decrease of 4.1 billion yen, or 7.7% year on year. Net income was 43.5 billion yen, a decrease of 0.2 billion yen, or 0.4%, exceeding the full-year forecast of 43.0 billion yen.
  - Net interest income was 49.8 billion yen, a slight decrease of 0.2 billion yen, or 0.4% year on year. The net interest margin increased 10 bps to 1.31% as the Bank continued its disciplined approach to balance sheet management and despite an increase in U.S. dollar funding costs.
  - General and administrative expenses were 42.8 billion yen, a year on year increase of 2.7 billion yen, or 6.6%, and below the 43.0 billion yen budgeted for the full year as the Bank continued to assign a priority to efficient operations.
  - Credit-related expenses were a net reversal of 4.7 billion yen, the same as FY2014, mainly due to recoveries of written-off claims. Credit-related expenses were a net reversal of 2.9 billion yen in the fourth quarter (Jan.-Mar.).

- The loan balance was 2,511.6 billion yen, a decrease of 264.2 billion yen, or 9.5%, from March 31, 2015. Domestic loans decreased by 336.7 billion yen, reflecting the Bank's ongoing focus on balancing risk and return as well as the reduction of low yielding loans. Overseas loans increased 72.5 billion yen.
- Funding from retail customers was 1,995.5 billion yen. The percentage of retail funding to total core funding (the sum of deposits, negotiable certificates of deposit, debentures and bonds) was stable at approximately 60%. As of March 31, 2016, the Bank maintained adequate liquidity reserves of 611.3 billion yen.
- Non-performing claims as defined by the Financial Reconstruction Law (FRL) were 23.0 billion yen, a decrease of 15.2 billion yen, or 39.9%, from March 31, 2015. The FRL ratio improved by 0.45 points to 0.90%. The ratio of loan loss reserves to total loans on a consolidated basis remained high at 2.44%.
- The Bank's consolidated capital adequacy ratio (domestic standard) remained at an adequate level of 11.03% (preliminary basis).

Note: From FY2015 onwards, consolidated net income represents 'profit attributable to owners of parent' in accordance with the Revised Accounting Standard for Business Combinations and related standards and implementation guidance.

## 2. FY2015 Performance (April 1, 2015 to March 31, 2016)

### Consolidated basis

(100 million yen)	Net Revenue	Business Profit	Ordinary Profit	Net Income	Net Income per common share
FY2015 results (a)	914	486	557	435	37.29 yen
FY2014 results (b)	928	527	597	437	36.19 yen
Change (a) - (b)	-14	-41	-40	-2	1.10 yen
Percentage change ((a)-(b)) / (b)	-1.5%	-7.7%	-6.6%	-0.4%	3.0%
FY2015 full-year forecast (c)	960	530	535	430	36.86 yen
Achievement (a)/(c)	95.2%	91.6%	104.1%	101.1%	101.1%

### Non-consolidated basis

(100 million yen)	Net Revenue	Business Profit before general loan-loss reserve	Ordinary Profit	Net Income	Net Income per common share
FY2015 results (a)	861	468	545	426	36.55 yen
FY2014 results (b)	859	490	579	483	40.16 yen
Change (a) - (b)	3	-21	-34	-57	-3.61 yen
Percentage change ((a)-(b)) / (b)	0.3%	-4.4%	-5.9%	-11.8%	-9.0%
FY2015 full-year forecast (c)	890	490	495	400	34.29 yen
Achievement (a)/(c)	96.7%	95.6%	110.0%	106.5%	106.5%

### 3. FY2015 Dividend Payment

	Dividend per common share				
Record date	1 <sup>st</sup> quarter	2 <sup>nd</sup> quarter	3 <sup>rd</sup> quarter	Year-end	Total
Previous forecast				5.40 yen	18.40 yen
<b>Year-end payment</b>				<b>5.60 yen</b>	<b>18.60 yen</b>
Payments in FY2015	4.00 yen	4.00 yen	5.00 yen		
Payments in FY2014	3.00 yen	3.00 yen	4.00 yen	4.90 yen	14.90 yen

The full-year dividend per common share for FY2015 will be 18.60 yen (3.70 yen increase compared to FY2014) as a result of recording consolidated net income of 43.5 billion yen, exceeding the full-year forecast. The Bank previously announced a dividend forecast of 18.40 yen per common share for FY2015 based on a total dividend amount representing 50% of the consolidated net income forecast of 43.0 billion yen. The total dividend payment for the first three quarters was 13.00 yen. The fourth quarter dividend payment will be 5.60 yen.

#### 4. Earnings Forecast for FY2016

##### Consolidated basis

(100 million yen)	Net Revenue	Business Profit	Ordinary Profit	Net Income	Net Income per common share
<b>FY2016 forecast (a)</b>	920	470	530	430	36.86 yen
<b>FY2015 results (b)</b>	914	486	557	435	37.29 yen
<b>Change (a) - (b)</b>	6	-16	-27	-5	-0.43 yen
<b>Percentage change ((a)-(b)) / (b)</b>	0.7%	-3.3%	-4.9%	-1.1%	-1.2%
<b>FY2014 results</b>	928	527	597	437	36.19 yen

##### Non-consolidated basis

(100 million yen)	Net Revenue	Business Profit before general loan-loss reserve	Ordinary Profit	Net Income	Net Income per common share
<b>FY2016 forecast (a)</b>	860	450	510	410	35.15 yen
<b>FY2015 results (b)</b>	861	468	545	426	36.55 yen
<b>Change (a) - (b)</b>	-1	-18	-35	-16	-1.40 yen
<b>Percentage change ((a)-(b)) / (b)</b>	-0.1%	-3.9%	-6.4%	-3.8%	-3.8%
<b>FY2014 results</b>	859	490	579	483	40.16 yen

#### 5. FY2016 Dividend Forecast

	Full-year dividend per common share
<b>FY2016 forecast</b>	18.40 yen
<b>Payments in FY2015</b>	18.60 yen

The full-year dividend forecast per common share for FY2016 is based on the total dividend amount, which is 50% of the consolidated net income forecast for the full year, divided by the total number of common shares issued, excluding treasury stock, as of March 31, 2016.

The dividend forecast for FY2016 is only disclosed on a full-year basis. As was our policy in FY2015, the Bank will pay common share dividends on a quarterly basis.

## I. Revenue and Expenses

	FY2014		FY2015		Change (B)–(A)		Page
	3 months Jan.-Mar.	Full-Year (A)	3 months Jan.-Mar.	Full-Year (B)	Amount	%	
(100 million yen)							
<b>Net revenue</b>	<b>231</b>	<b>928</b>	<b>225</b>	<b>914</b>	<b>-14</b>	<b>-1.5%</b>	-
Net interest income	119	500	110	498	-2	-0.4%	6
<i>Net interest margin</i>	<i>1.17%</i>	<i>1.21%</i>	<i>1.24%</i>	<i>1.31%</i>	<i>0.10%</i>	-	6
Non-interest income	111	429	115	416	-13	-2.9%	-
Net fees and commissions	41	145	28	115	-31	-21.2%	7
Net trading revenues	42	125	47	122	-3	-2.2%	7
Net other ordinary income	29	158	40	179	21	13.3%	-
Gains/losses on bond transactions	-11	29	21	81	53	184.5%	8
Net other ordinary income excluding gains/losses on bond transactions	40	130	19	98	-32	-24.4%	8
General & administrative expenses	-116	-402	-125	-428	-27	-6.6%	9
<b>Business profit</b>	<b>114</b>	<b>527</b>	<b>100</b>	<b>486</b>	<b>-41</b>	<b>-7.7%</b>	-
Credit-related expenses	-72	47	29	47	1	-	9
<b>Ordinary profit</b>	<b>52</b>	<b>597</b>	<b>126</b>	<b>557</b>	<b>-40</b>	<b>-6.6%</b>	-
Extraordinary profit/loss	-0	-58	-0	-0	58	-	-
<b>Income before taxes and minority interests</b>	<b>52</b>	<b>539</b>	<b>126</b>	<b>557</b>	<b>18</b>	<b>3.3%</b>	-
Taxes	42	-102	-42	-122	-20	-	9
<b>Net income</b>	<b>95</b>	<b>437</b>	<b>84</b>	<b>435</b>	<b>-2</b>	<b>-0.4%</b>	-

In FY2015, the Bank recorded consolidated net revenue of 91.4 billion yen, a decrease of 1.4 billion yen, or 1.5% year on year.

Net interest income was 49.8 billion yen, a slight decrease of 0.2 billion yen, or 0.4% year on year. The Bank's net interest margin increased 10 bps to 1.31%. Contributing to this result was an increase in the yield on total investments of 14 bps as the Bank continued its disciplined balance sheet management, while funding costs increased 4 bps due to an increase in U.S. dollar funding costs.

Non-interest income was 41.6 billion yen, a decrease of 1.3 billion yen, or 2.9% year on year. Net fees and commissions were 11.5 billion yen, a decrease of 3.1 billion yen, or 21.2% year on year, and net trading revenues were 12.2 billion yen, a decrease of 0.3 billion yen, or 2.2%. Gains/losses on bond transactions were a gain of 8.1 billion yen, compared with a gain of 2.9 billion yen in FY2014. Net other ordinary income, excluding gains/losses on bond transactions, was 9.8 billion yen, a decrease of 3.2 billion yen, or 24.4% year on year.

General and administrative expenses were 42.8 billion yen, an increase of 2.7 billion yen, or 6.6% year on year, and below the 43.0 billion yen budgeted for the full year as the Bank continued to assign a priority to efficient operations. This result was mainly due to increased staff in our focus business areas, as well as additional expenses incurred for system-related investments.

Consolidated business profit was 48.6 billion yen, a decrease of 4.1 billion yen, or 7.7%.

Credit-related expenses were a net reversal of 4.7 billion yen, mainly due to recoveries of written-off claims. Ordinary profit was 55.7 billion yen, a decrease of 4.0 billion yen, or 6.6%.

Pre-tax income increased 1.8 billion yen, or 3.3% year on year, to 55.7 billion yen. Taxes were a net expense of 12.2 billion yen.

As a result of the aforementioned factors, consolidated net income was 43.5 billion yen, a decrease of 0.2 billion yen, or 0.4% year on year, exceeding the full-year forecast of 43.0 billion yen.

## 1. Net Revenue

### (1)① Net Interest Income

(100 million yen)	FY2014		FY2015		Change (B) – (A)
	3 months Jan.-Mar.	Full-Year (A)	3 months Jan.-Mar.	Full-Year (B)	
Net interest income (a)-(b)	119	500	110	498	-2
Interest income (a)	152	634	154	652	18
Interest on loans and discounts	110	429	108	434	5
Interest and dividends on securities	38	177	43	201	24
Other interest income	3	23	3	15	-8
Interest on swaps	1	5	1	3	-2
Interest expense (b)	-33	-134	-44	-154	-20
Interest on deposits and NCDs	-22	-93	-20	-83	10
Interest on debentures and bonds	-1	-6	-2	-6	-1
Interest on borrowings and rediscount	-2	-7	-2	-9	-2
Other interest expenses	-3	-10	-5	-14	-4
Interest on swaps	-5	-18	-15	-41	-24

### (1)② Net Interest Margin

	FY2014		FY2015		Change (B) – (A)
	3 months Jan.-Mar.	Full-Year (A)	3 months Jan.-Mar.	Full-Year (B)	
Yield on total investments (a)	1.50%	1.55%	1.69%	1.69%	0.14%
Yield on loans	1.61%	1.60%	1.70%	1.63%	0.03%
Yield on securities	1.38%	1.45%	1.90%	2.01%	0.56%
Yield on funding (b)	0.33%	0.34%	0.45%	0.38%	0.04%
Net interest margin (a)-(b)	1.17%	1.21%	1.24%	1.31%	0.10%

Net interest income was 49.8 billion yen, a slight decrease of 0.2 billion yen, or 0.4% year on year. Interest income increased 1.8 billion yen, while interest expense increased 2.0 billion yen, mainly reflecting increased U.S. dollar funding costs. Yen funding costs continued to decline.

The yield on total investments increased 14 bps. This result included an improvement in the yield on loans as the Bank maintained its focus on balancing risk and return, as well as an improvement in the yield on securities. Funding costs increased 4 bps due to the aforementioned increase in U.S. dollar funding costs. The net interest margin increased 10 bps to 1.31%.

## (2) Net Fees and Commissions

(100 million yen)	FY2014		FY2015		Change (B) – (A)
	3 months Jan.-Mar.	Full-Year (A)	3 months Jan.-Mar.	Full-Year (B)	
Net fees and commissions (a)-(b)	41	145	28	115	-31
Fees and commissions received (a)	44	156	32	125	-31
Loan business-related	18	72	14	50	-21
Securities-related and agency	19	69	12	56	-14
Others	7	15	6	19	4
Fees and commissions payments (b)	-3	-11	-3	-10	0

Net fees and commissions were 11.5 billion yen, a decrease of 3.1 billion yen, or 21.2%, compared to FY2014, mainly due to a decline in loan-related fee income.

Earnings from the Bank's retail-related business (the sum of earnings from the sale of investment trusts, insurance and structured bonds) to our mass affluent retail customers were 7.0 billion yen, a year on year decrease of 1.0 billion yen, or 12.1%, mainly due to a decline in earnings from the sale of insurance products amid growing uncertainty in global markets. Earnings from the sale of structured bonds were strong as a result of the Bank's continued efforts to enhance its product line-up in order to respond to the needs of its customers.

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

(100 million yen)	FY2014		FY2015		Change (B) – (A)
	3 months Jan.-Mar.	Full-Year (A)	3 months Jan.-Mar.	Full-Year (B)	
Earnings related to the sale of investment trusts, insurance and structured bonds	26	80	16	70	-10

Note: Earnings related to the sale of investment trusts and insurance are recorded as net fees and commissions, and earnings related to the sale of structured bonds are recorded as trading revenues.

## (3) Net Trading Revenues

(100 million yen)	FY2014		FY2015		Change (B) – (A)
	3 months Jan.-Mar.	Full-Year (A)	3 months Jan.-Mar.	Full-Year (B)	
Net trading revenues	42	125	47	122	-3
Income on trading-related financial derivatives transactions	23	92	43	101	9
Others	18	32	4	21	-11

Net trading revenues were 12.2 billion yen, a decrease of 0.3 billion yen, or 2.2% year on year. Earnings from the sale of derivative-related products targeting the asset management and funding needs of our corporate and financial institution customers remained stable.

(4) Gains/Losses on Bond Transactions

(100 million yen)	FY2014		FY2015		Change (B) – (A)
	3 months Jan.-Mar.	Full-Year (A)	3 months Jan.-Mar.	Full-Year (B)	
Gains/losses on bond transactions	-11	29	21	81	53
Japanese government bonds	0	20	-0	7	-13
Foreign government bonds and mortgage bonds	4	9	12	42	33
Others	-15	-0	9	32	32
Profit from hedge funds	1	7	0	8	1
Others (J-REIT, foreign currency ETFs, etc.)	-16	-7	9	24	32

Gains/losses on bond transactions were a gain of 8.1 billion yen, compared with a gain of 2.9 billion yen in FY2014. Contributing to this result were gains on the sale of foreign government bonds and J-REITs.

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

(100 million yen)	FY2014		FY2015		Change (B) – (A)
	3 months Jan.-Mar.	Full-Year (A)	3 months Jan.-Mar.	Full-Year (B)	
Net other ordinary income excluding gains/losses on bond transactions	40	130	19	98	-32
Gains from limited partnerships	41	90	15	82	-8
Real estate-related	3	12	5	14	1
Distressed loan-related	7	33	6	40	8
Others (Buyout, etc.)	30	45	4	28	-17
Gains on distressed loans (Aozora Loan Services)	2	10	3	8	-2
Others	-2	30	1	8	-22

Net other ordinary income, excluding gains/losses on bond transactions, was 9.8 billion yen, a decrease of 3.2 billion yen, or 24.4% year on year. This result included gains from limited partnerships of 8.2 billion yen, mainly supported by strong results in the Bank's distressed loan business.



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

(100 million yen)	FY2014		FY2015		Change (B) – (A)
	3 months Jan.-Mar.	Full-Year (A)	3 months Jan.-Mar.	Full-Year (B)	
G&A expenses	-116	-402	-125	-428	-27
Personnel	-56	-204	-58	-211	-7
Non-personnel expense	-54	-175	-56	-188	-13
Tax	-6	-23	-11	-29	-7

General and administrative expenses were 42.8 billion yen, an increase of 2.7 billion yen, or 6.6% year on year, and below the 43.0 billion yen budgeted for the full year as the Bank continued to assign a priority to efficient operations. This result was mainly due to increased staff in our focus business areas, as well as additional system and branch-related expenses. The OHR increased slightly to 46.8%, due in part to a year on year decline in net revenue.

## 3. Credit-Related Expenses

(100 million yen)	FY2014		FY2015		Change (B) – (A)
	3 months Jan.- Mar.	Full-Year (A)	3 months Jan.-Mar.	Full-Year (B)	
Credit-related expenses	-72	47	29	47	1
Write-off of loans	-3	-6	-1	-2	4
Gains/losses on disposition of loans	-0	26	-0	-1	-27
Reserve for possible loan losses	-79	-30	25	13	43
Specific reserve for possible loan losses	6	86	-10	-15	-101
General reserve for possible loan losses	-86	-116	35	28	145
Reserve for credit losses on off-balance-sheet instruments	8	6	5	3	-3
Recoveries of written-off claims	2	50	0	34	-17

Credit-related expenses were a net reversal of 4.7 billion yen, the same as FY2014, mainly due to recoveries of 3.4 billion yen in written-off claims. Credit-related expenses were a net reversal of 2.9 billion yen in the fourth quarter (Jan.-Mar.). The ratio of loan loss reserves to total loans remained high at 2.44%, which reflected the Bank's mid- to long-term perspective on the conservative allocation of reserves.

## 4. Taxes

(100 million yen)	FY2014		FY2015		Change (B) – (A)
	3 months Jan.-Mar.	Full-Year (A)	3 months Jan.-Mar.	Full-Year (B)	
Taxes	42	-102	-42	-122	-20

A net tax expense of 12.2 billion yen was recognized in FY2015, compared with a net expense of 10.2 billion yen in FY2014. The effective tax rate (taxes as a proportion of pre-tax income) was 21.9%. 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, 2015 (A)	Dec. 31, 2015	Mar.31, 2016 (B)	Change (B)–(A)		Page
				Amount	%	
<b>Total assets</b>	<b>49,245</b>	<b>47,157</b>	<b>45,929</b>	<b>-3,316</b>	<b>-6.7%</b>	-
Loan and bills discounted	27,758	26,000	25,116	-2,642	-9.5%	11
Securities	9,841	10,516	9,235	-605	-6.2%	12
Cash and due from banks	5,505	5,745	5,463	-43	-0.8%	-
Trading assets	3,471	2,761	3,374	-97	-2.8%	-
Others	2,670	2,134	2,741	72	2.7%	-
<b>Total liabilities</b>	<b>43,571</b>	<b>43,158</b>	<b>41,874</b>	<b>-1,696</b>	<b>-3.9%</b>	-
Deposits	26,981	27,177	27,105	124	0.5%	11
Negotiable certificates of deposit	2,867	2,951	2,216	-651	-22.7%	11
Debentures, Bonds	2,461	2,527	2,595	134	5.4%	11
Borrowed money	1,872	2,057	2,080	208	11.1%	-
Trading liabilities	3,113	1,944	2,699	-414	-13.3%	-
Others	6,277	6,501	5,179	-1,098	-17.5%	-
<b>Total net assets</b>	<b>5,674</b>	<b>3,998</b>	<b>4,055</b>	<b>-1,619</b>	<b>-28.5%</b>	-
Capital stock	1,000	1,000	1,000	-	-	-
Capital surplus	2,897	873	873	-2,024	-69.9%	-
Retained earnings	2,350	1,972	1,998	-353	-15.0%	-
Treasury stock	-993	-34	-34	959	-	-
Valuation difference on available-for-sale securities	349	110	163	-187	-53.5%	-
Others	71	77	55	-16	-22.2%	-
<b>Total liabilities and net assets</b>	<b>49,245</b>	<b>47,157</b>	<b>45,929</b>	<b>-3,316</b>	<b>-6.7%</b>	-

Total assets were 4,592.9 billion yen as of March 31, 2016, a decrease of 331.6 billion yen, or 6.7%, compared to March 31, 2015. Loans were 2,511.6 billion yen, a decrease of 264.2 billion yen, or 9.5%, from March 31, 2015. Reflecting the Bank's ongoing focus on balancing risk and return, as well as the reduction of low yielding loans, domestic loans decreased 336.7 billion yen while overseas loans increased 72.5 billion yen. Securities were 923.5 billion yen, a decrease of 60.5 billion yen, or 6.2%, compared to March 31, 2015.

Total liabilities were 4,187.4 billion yen, a decrease of 169.6 billion yen, or 3.9%, compared to March 31, 2015. Funding from retail customers was 1,995.5 billion yen and the percentage of retail funding to total core funding (the sum of deposits, negotiable certificates of deposit, debentures and bonds) was stable at approximately 60%.

Net assets were 405.5 billion yen, representing a decrease of 161.9 billion yen, or 28.5%, in comparison with March 31, 2015. This decrease mainly reflected the full repayment of public funds (163.9 billion yen).

Net assets per common share were 346.83 yen, as compared to 336.83 yen per common share as of March 31, 2015.

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

(100 million yen)	Mar. 31, 2015 (A)	Dec. 31, 2015 (B)	Mar. 31, 2016 (C)	Change (C) – (A)	Change (C) – (B)
Total core funding	32,309	32,656	31,916	-393	-740

### Funding sources by product

(100 million yen)	Mar. 31, 2015 (A)	Dec. 31, 2015 (B)	Mar. 31, 2016 (C)	Change (C) – (A)	Change (C) – (B)
Deposits/NCDs	29,847	30,129	29,321	-526	-807
Debentures/Bonds	2,461	2,527	2,595	134	67

### Funding sources by customer

(100 million yen)	Mar. 31, 2015 (A)	Dec. 31, 2015 (B)	Mar. 31, 2016 (C)	Change (C) – (A)	Change (C) – (B)
Retail	20,597	20,194	19,955	-642	-239
Corporate	6,135	6,370	6,160	25	-210
Financial Institutions	5,576	6,092	5,801	225	-291

Note: Corporate includes public entities

Total core funding (the sum of deposits, negotiable certificates of deposit, debentures and bonds) was 3,191.6 billion yen, a decrease of 39.3 billion yen, or 1.2%, from March 31, 2015. The percentage of retail funding to total core funding was stable at approximately 60%.

As of March 31, 2016, the Bank maintained adequate liquidity reserves of 611.3 billion yen.

## 2. Loans

(100 million yen)	Mar. 31, 2015 (A)	Dec. 31, 2015 (B)	Mar. 31, 2016 (C)	Change (C) – (A)	Change (C) – (B)
Loans	27,758	26,000	25,116	-2,642	-884
Domestic loans	20,197	17,719	16,831	-3,367	-888
Overseas loans	7,561	8,282	8,285	725	4

Note: Overseas loans with no final risk residing in Japan

Loans were 2,511.6 billion yen, a decrease of 264.2 billion yen, or 9.5%, from March 31, 2015.

Domestic loans decreased 336.7 billion yen as a result of the Bank's ongoing focus on balancing risk and return, as well as the reduction of low yielding loans. Overseas loans increased by 72.5 billion yen as a result of the Bank's selective origination of real estate non-recourse loans and corporate loans, mainly in North America where risk-return profiles remain attractive.

### 3. Securities

(100 million yen)	Book Value				Unrealized Gains/Losses			
	Mar. 31, 2015 (A)	Dec. 31, 2015	Mar. 31, 2016 (B)	Change (B) – (A)	Mar. 31, 2015 (A)	Dec. 31, 2015	Mar. 31, 2016 (B)	Change (B) – (A)
JGBs	1,940	1,252	283	-1,657	9	-0	-0	-9
TDB only	1,602	1,172	202	-1,400	0	0	0	0
15Y floating rate only	338	80	80	-257	9	-0	-0	-9
Municipal bonds	185	176	151	-34	1	2	3	1
Corporate bonds	393	343	341	-52	0	2	3	2
Equities	418	431	422	5	263	250	235	-27
Foreign bonds	3,704	3,897	3,745	40	36	-65	18	-18
Others	3,200	4,417	4,294	1,093	201	-1	-28	-230
Hedge funds	72	44	23	-49	24	14	1	-24
ETFs	1,444	2,202	2,131	687	111	-45	-30	-141
Investment in limited partnerships	675	697	753	79	6	8	11	5
REIT	482	570	510	28	59	29	32	-26
Investment trusts	324	707	692	368	-2	-11	-45	-43
Others	204	197	184	-20	4	3	2	-1
<b>Total</b>	<b>9,841</b>	<b>10,516</b>	<b>9,235</b>	<b>-605</b>	<b>511</b>	<b>187</b>	<b>230</b>	<b>-280</b>
Ref: Incl. unrealized hedging gains					510	200	294	-216

Securities were 923.5 billion yen as of March 31, 2016, a decrease of 60.5 billion yen, or 6.2%, compared to March 31, 2015. In FY2015, foreign currency denominated ETFs and investment trusts increased, while JGBs were reduced.

Interest and dividends on securities were 20.1 billion yen, reflecting the Bank's continued efforts to secure stable income, despite growing uncertainty in global markets, through an ongoing focus on the diversification and performance of its investment portfolio.

While total unrealized gains declined from March 31, 2015 to 23.0 billion yen, the Bank continued to diversify the risk in its portfolio taking into consideration correlations.

The Bank's Japanese equity ETF position is fully hedged, as is a portion of equities. Total unrealized gains, including unrealized hedging gains, were 29.4 billion yen.

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

(Non-consolidated)

(100 million yen)	Mar. 31, 2015 (A)	Dec. 31, 2015	Mar. 31, 2016 (B)	Change (B)–(A)
Bankrupt and similar credit	3	1	1	-2
Doubtful credit	262	187	190	-71
Special attention credit	118	39	38	-79
FRL credit, total (a)	382	227	230	-152
Normal credit (b)	27,871	26,228	25,282	-2,589
Total credit (c)=(a)+(b)	28,253	26,455	25,511	-2,741
FRL credit ratio (a)/(c)	1.35%	0.85%	0.90%	-0.45%

Non-performing claims as defined by the Financial Reconstruction Law (FRL) were 23.0 billion yen, a decrease of 15.2 billion yen, or 39.9%, from March 31, 2015, mainly due to the collection of claims, including doubtful and special attention credits. The FRL ratio improved by 0.45 points to 0.90%. The percentage of FRL claims covered by reserves, collateral and guarantees was 81.0% as of March 31, 2016. The ratio of loan loss reserves to total loans on a consolidated basis remained high at 2.44% as of March 31, 2016.

### IV. Capital Adequacy Ratio (Preliminary)

( 100 million yen)	Mar. 31, 2015 (A)	Dec. 31, 2015	Mar. 31, 2016 (B)	Change (B)–(A)
Capital adequacy ratio	14.45%	11.21%	11.03%	-3.42%
Regulatory capital	5,429	4,191	4,171	-1,258
Risk assets	37,569	37,369	37,783	215

Aozora's consolidated capital adequacy ratio (domestic standard) remained at an adequate level of 11.03% (preliminary basis). For reference purposes, the Bank's CET1 ratio was approximately 10.2%.

*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.*