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# Aozora Reports Net Income of 40.6 billion for FY2012, 101.4% of Forecast; Upward Revision of FY2012 Dividend Payment Forecast; Announces FY2013 Earnings and Dividend Payment Forecasts

**TOKYO May 15, 2013 –** Aozora Bank, Ltd. ("Aozora" or "the Bank"), a leading Japanese commercial bank, today announced its financial results for FY2012, the upward revision of the FY2012 dividend payment forecast, as well as the FY2013 full-year forecast for earnings and dividend payments.

## FY2012 Financial Results

Aozora reported consolidated net revenue of 84.5 billion yen, business profit of 45.8 billion yen, and net income of 40.6 billion yen for FY2012. These results exceeded the full-year forecasts of 83.0 billion yen, 44.0 billion yen, and 40.0 billion yen, respectively.

Shinsuke Baba, Representative Director, President and Chief Executive Officer of Aozora Bank commented, "FY2012 represented an important milestone for the Bank with the announcement of our comprehensive recapitalization plan toward a full repayment of public funds over time, as well as our revised Business Revitalization Plan. With net revenue, business profit and net income results all exceeding the full-year forecast, we firmly enter the next phase of our business development."

Baba continued, "As we announced in 'Aozora Bank's Business Model' in February of this year, the Bank intends to leverage its strengths and its financial expertise in order to be the 'Primary Secondary Bank: Another Reliable Partner' for its customers. While we remain focused on efficiency, we are committed to achieving sustainable growth, as well as contributing to the success of our customers and the economic growth of the country. I would like to express my gratitude for your continuing support."

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

- The Bank recorded net revenue of 84.5 billion yen, an increase of 0.2 billion yen, or 0.2%, year on year, representing an increase for the second consecutive year. Business profit was 45.8 billion yen, an increase of 0.2 billion yen, or 0.4%, year on year, representing an increase for the fourth consecutive year. Net income was 40.6 billion yen, a decrease of 5.7 billion yen, or 12.4%, year on year, exceeding the full-year forecast of 40.0 billion yen.
  - Net interest income was 46.0 billion yen, an increase of 0.7 billion yen, or 1.5%, year on year, reflecting continued improvement of the net interest margin, while the Bank continued its disciplined balance sheet management. This growth represented the second consecutive year on year increase. Funding costs were reduced 9 bps from 0.58% to 0.49% in FY2012. The net interest margin expanded 3 bps to 1.07%.
  - General and administrative expenses remained almost unchanged at 38.7 billion yen as a result of the Bank's continued strict control on costs. The overhead ratio, or OHR (general and administrative expenses as a percentage of net revenues), remained low at 45.8%.
  - Credit-related expenses were a net expense of 2.4 billion yen, compared with a net expense of 0.8 billion yen in FY2011. This result reflected the Bank's appropriate reserving policy based on borrowers' status, as well as preventative measures taken by the Bank to date, including the conservative allocation of reserves. The credit cost ratio (credit-related expenses as a percentage of loan balance) for the fiscal year ended March 31, 2013 remained low at 0.09%.

- Ordinary profit was 41.1 billion yen, a year on year increase of 0.1 billion yen, or 0.3%, exceeding the full-year forecast of 39.0 billion yen and representing an increase for the fourth consecutive year. Net income decreased 5.7 billion yen, or 12.4%, from the previous fiscal year, which included the special factor of a gain from a large reversal of specific credit reserves.
- Comprehensive income was 50.5 billion yen, increasing 3.4 billion yen, or 7.2%, year on year. Net assets per common share were 308.58 yen, as compared to 284.22 yen as of March 31, 2012.

■ Loans were 2,719.7 billion yen, an increase of 47.6 billion yen, or 1.8% from March 31, 2012, and represented an increase for the third consecutive quarter. Loans increased from December 31, 2012 by 105.3 billion yen, or 4.0%.

■ The percentage of retail funding to total core funding (the sum of deposits, negotiable certificates of deposit, debentures and bonds) was stable at approximately 65%. The Bank maintained sufficient liquidity reserves of approximately 560 billion yen as of March 31, 2013.

■ Non-performing claims as defined by the Financial Reconstruction Law (FRL) were 106.3 billion yen, a decrease of 2.8 billion yen, or 2.6%, from March 31, 2012, reflecting the Bank's disciplined risk management and appropriate actions based on the condition of borrowers. The FRL ratio decreased 0.16 points to 3.83%. The percentage of FRL claims covered by reserves, collateral and guarantees remained high at 89.3% as of March 31, 2013. In addition, the ratio of loan loss reserves to total loans outstanding was 2.33% on a consolidated basis as of March 31, 2013.

■ The Bank's consolidated capital adequacy ratio was 15.67%, and the Tier 1 ratio was 16.27% (both on a preliminary basis). When compared with March 31, 2012, these ratios declined as a result of the Bank's implementation of its comprehensive recapitalization plan, including a partial repayment of public funds and the repurchase of shares. Nonetheless, the ratios remain among the highest in the Japanese banking industry.

## 2. FY2012 Performance (April 1, 2012 to March 31, 2013)

**Consolidated basis**

| (100 million yen) | Ordinary Income | Net Revenue | Business Profit | Ordinary Profit | Net Income | Net Income per common share |
|---|---|---|---|---|---|---|
| **FY2012 (a)** | 1,181 | 845 | 458 | 411 | 406 | 28.05 Yen |
| **FY2011 (b)** | 1,362 | 843 | 456 | 409 | 463 | 29.51 Yen |
| **Change (a) - (b)** | -181 | 2 | 2 | 1 | -57 | -1.46 Yen |
| **Percentage change ((a)-(b)) / (b)** | -13.3% | 0.2% | 0.4% | 0.3% | -12.4% | -4.9% |
| **FY2012 Full-Year Forecast (c)** | - | 830 | 440 | 390 | 400 | 27.64 Yen |
| **Achievement (a)/(c)** | - | 101.8% | 104.0% | 105.3% | 101.4% | 101.5% |

**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 |
|---|---|---|---|---|---|---|
| **FY2012 (a)** | 1,135 | 798 | 439 | 407 | 405 | 28.01 Yen |
| **FY2011 (b)** | 1,302 | 789 | 425 | 395 | 451 | 28.74 Yen |
| **Change (a)-(b)** | -167 | 9 | 14 | 12 | -46 | -0.73 Yen |
| **Percentage change ((a)-(b)) / (b)** | -12.8% | 1.1% | 3.3% | 3.0% | -10.2% | -2.5% |
| **FY2012 Full-Year Forecast (c)** | - | 760 | 390 | 340 | 350 | 24.02 Yen |
| **Achievement (a)/(c)** | - | 105.0% | 112.5% | 119.6% | 115.8% | 116.6% |

Note: The full-year forecast for net income per common share disclosed in conjunction with the results for the first nine months of FY2012 was calculated by dividing the net income forecast (40.0 billion yen on a consolidated basis; 35.0 billion yen on a non-consolidated basis) by the total number of common shares issued excluding treasury stock as of December 31, 2012. Consolidated and non-consolidated forecasts were 30.58 yen and 26.58 yen, respectively. However, as the average number of common shares issued, excluding treasury stock, for the full term has been determined, newly calculated forecasts have been included as above. (27.64 yen on a consolidated basis; 24.02 yen on a non-consolidated basis.)

## 3. Upward Revision of FY2012 Dividend Payment Forecast

| | Dividend per common share (yen) | | |
|---|---|---|---|
| | First Half | Second Half | Full-Year |
| **Previous forecast** | | 12.82 Yen | 12.82 Yen |
| **Current forecast** | | 13.90 Yen | 13.90 Yen |
| **Payments in current term** | | | |
| **Payments in previous term (FY2011)** | | 9.00 Yen | 9.00 Yen |

The Bank announced a common share dividend forecast of 12.82 yen per common share for FY2012 in conjunction with its results for the first nine months of FY2012. The forecast has been revised this time to 13.90 yen to reflect the decrease in the number of common shares issued, excluding treasury stock, as a result of the completion of the repurchase of shares, and the recording of net income exceeding the full-year forecast.

As announced on September 27, 2012, based on the comprehensive recapitalization plan, the Bank resolved to make a common share buyback of 330,000,000 shares (upper limit) between October 1, 2012 and September 30, 2013. The Bank completed the repurchase of 330,000,000 shares on March 14, 2013.

The dividend payment forecast for FY2012 was calculated by dividing the total dividend amount, which is set at 40% of consolidated net income for FY2012, by the total number of common shares issued, excluding treasury stock.

In addition to the existing dividend for preferred shares, the Bank will pay a super preferred dividend of 20.49 billion yen in June of this year, in accordance with the comprehensive recapitalization plan. The payment will be made from Other Capital Surplus.

## 4. Comparison between FY2012 and FY2011 ordinary income

### Consolidated basis

| (100 million yen) | Ordinary Income |
|---|---|
| **FY2012 (a)** | 1,181 |
| **FY2011 (b)** | 1,362 |
| **Change (a) - (b)** | -181 |
| **Percentage change ((a)-(b)) / (b)** | -13.3% |

### Non-Consolidated basis

| (100 million yen) | Ordinary Income |
|---|---|
| **FY2012 (a)** | 1,135 |
| **FY2011 (b)** | 1,302 |
| **Change (a)-(b)** | -167 |
| **Percentage change ((a)-(b)) / (b)** | -12.8% |

Reason for the difference between FY2011 and FY2012 ordinary income:

In accordance with Practical Guidelines on Accounting Standards for Financial Instruments, the Bank has included items such as ‘reversal of allowance for doubtful receivables’ and ‘recoveries of written-off claims’ in ‘other ordinary income’ since FY2011. Due to significant year on year decreases in these items in FY2012, ordinary income decreased in excess of 10% compared with the previous year on both a consolidated and non-consolidated basis.

## 5. Earnings Forecast for FY2013

Aozora also announced its fiscal year 2013 earnings forecast today as below.

### Consolidated basis

| (100 million yen) | Net Revenue | Business Profit | Ordinary Profit | Net Income | Net Income per common share |
|---|---|---|---|---|---|
| **FY2013 Forecast (a)** | 880 | 480 | 420 | 410 | 33.73Yen |
| **FY2012 Actual (b)** | 845 | 458 | 411 | 406 | 28.05Yen |
| **Change (a) - (b)** | 35 | 22 | 9 | 4 | 5.68Yen |
| **Percentage change** | 4.2% | 4.9% | 2.2% | 1.1% | 20.2% |
| **FY2011 Actual** | 843 | 456 | 409 | 463 | 29.51 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 |
|---|---|---|---|---|---|
| **FY2013 Forecast (a)** | 830 | 455 | 400 | 380 | 31.16 Yen |
| **FY2012 Actual (b)** | 798 | 439 | 407 | 405 | 28.01 Yen |
| **Change (a) - (b)** | 32 | 16 | -7 | -25 | 3.15 Yen |
| **Percentage change** | 4.0% | 3.7% | -1.6% | -6.2% | 11.2% |
| **FY2011 Actual** | 789 | 425 | 395 | 451 | 28.74 Yen |

## 6. FY2013 Dividend Payment Forecast

| | Dividend per common share (yen) |
|---|---|
| | Full-Year |
| **FY2013 forecast** | **14.00 Yen** |
| **Current forecast (FY2012)** | **13.90 Yen** |

The dividend payment forecast for FY2013 will be calculated based on the division of the total dividend amount, which is 40% of consolidated net income forecast for the full year, by the total number of common shares issued, excluding treasury stock, as of March 31, 2013.

While the Bank is currently considering the payment of dividends on common shares on a quarterly basis in FY2013, the dividend payment forecast is disclosed on only a full-year basis.

## Ⅰ. Revenue and Expenses

| (100 million yen) | FY2011 Jan.- Mar. | FY2011 Full-Year (A) | FY2012 Jan.- Mar. | FY2012 Full-Year (B) | Change (B)－(A) Amount | Change (B)－(A) % | Page |
|---|---|---|---|---|---|---|---|
| **Net revenue** | **248** | **843** | **206** | **845** | **2** | **0.2%** | **-** |
| Net interest income | 111 | 453 | 116 | 460 | 7 | 1.5% | 6 |
| *Net interest margin* | *1.01%* | *1.04%* | *1.11%* | *1.07%* | *0.03%* | - | 6 |
| Net fees and commissions | 32 | 95 | 38 | 100 | 5 | 5.5% | 6 |
| Net trading revenues | 19 | 72 | 18 | 62 | -10 | -14.1% | 7 |
| Gains/losses on bond transactions | 72 | 171 | 18 | 142 | -29 | -16.8% | 7 |
| Net other ordinary income excluding gains/losses on bond transactions | 14 | 52 | 15 | 80 | 29 | 55.5% | 7 |
| General & administrative expenses | -99 | -387 | -101 | -387 | -0 | 0.0% | 8 |
| **Business profit** | **149** | **456** | **104** | **458** | **2** | **0.4%** | **-** |
| **Ordinary profit** | **114** | **409** | **103** | **411** | **1** | **0.3%** | **-** |
| **Net income** | **146** | **463** | **99** | **406** | **-57** | **-12.4%** | **-** |
| Credit-related expenses incl. recoveries of written-off claims | -27 | -8 | 0 | -24 | -16 | 206.8% | 8 |
| Taxes | 32 | 54 | -4 | -3 | -56 | - | 8 |

In FY2012, the Bank recorded net revenue of 84.5 billion yen, an increase of 0.2 billion yen, or 0.2%, year on year, representing a year on year increase for the second consecutive year.

Net interest income was 46.0 billion yen, an increase of 0.7 billion yen, or 1.5%, year on year. This growth represented the second consecutive year on year increase. The net interest margin continued to expand as the Bank continued its disciplined balance sheet management, while we continued our efforts to reduce funding costs. Funding costs were reduced 9 bps from 0.58% to 0.49% in FY2012 and the net interest margin expanded 3 bps to 1.07%. Net fees and commissions were 10.0 billion yen, an increase of 0.5 billion yen, or 5.5%, year on year, and net trading revenues were 6.2 billion yen, a decrease of 1.0 billion yen, or 14.1%. Gains/losses on bond transactions decreased 2.9 billion yen, or 16.8%, to 14.2 billion yen. Net other ordinary income, excluding gains/losses on bond transactions, improved 2.9 billion yen, or 55.5%, to 8.0 billion yen.

General and administrative expenses were almost unchanged at 38.7 billion yen, while the OHR remained low at 45.8% reflecting our strict control on costs. As a result of the above factors, consolidated business profit was 45.8 billion yen, an increase of 0.2 billion yen, or 0.4%, year on year. This result exceeded the full-year forecast of 44.0 billion yen, representing the fourth consecutive year on year increase.

Credit-related expenses were a net expense of 2.4 billion yen, compared with a net expense of 0.8 billion yen in FY2011. This result reflected the Bank's disciplined risk management and appropriate reserving policy based on borrowers' status, as well as preventative measures taken by the Bank to date, including the conservative allocation of reserves. The credit cost ratio (credit-related expenses as a percentage of loan balance) for the fiscal year ended March 31, 2013 remained low at 0.09%.

Ordinary profit was 41.1 billion yen, a year on year increase of 0.1 billion yen, or 0.3%, exceeding the full-year forecast of 39.0 billion yen and representing the fourth consecutive year on year increase.

Taxes were a net expense of 0.3 billion yen.

As a result of the aforementioned factors, consolidated net income was 40.6 billion yen, exceeding the full-year forecast of 40.0 billion yen. Net income decreased 5.7 billion yen, or 12.4%, from the previous fiscal year, which included the special factor of a gain from a large reversal of specific credit reserves.

## 1. Net Revenue

(1)①Net Interest Income

| (100 million yen) | FY2011 Jan.- Mar. | FY2011 Full-Year (A) | FY2012 Jan.- Mar. | FY2012 Full-Year (B) | Change (B)－(A) |
|---|---|---|---|---|---|
| Net interest income (a)-(b) | 111 | 453 | 116 | 460 | 7 |
| Interest income (a) | 164 | 680 | 159 | 648 | -32 |
| Interest on loans and discounts | 125 | 512 | 116 | 470 | -42 |
| Interest and dividends on securities | 30 | 127 | 36 | 145 | 18 |
| Other interest income | 3 | 15 | 4 | 17 | 2 |
| Interest on swaps | 6 | 26 | 3 | 16 | -10 |
| Interest expenses (b) | -53 | -228 | -43 | -188 | 39 |
| Interest on deposits and NCDs※ | -41 | -177 | -33 | -143 | 34 |
| Interest on debentures | -5 | -26 | -2 | -13 | 12 |
| Interest on borrowings and rediscount | -1 | -4 | -1 | -5 | -1 |
| Other interest expenses | -3 | -10 | -3 | -12 | -2 |
| Interest on swaps | -3 | -11 | -4 | -15 | -4 |

※ Negotiable certificates of deposit

(1)②Net Interest Margin

| | FY2011 Jan.- Mar. | FY2011 Full-Year (A) | FY2012 Jan.- Mar. | FY2012 Full-Year (B) | Change (B)－(A) |
|---|---|---|---|---|---|
| Yield on total investments (a) | 1.55% | 1.62% | 1.56% | 1.56% | -0.06% |
| Yield on loans (b) | 1.94% | 1.94% | 1.83% | 1.88% | -0.06% |
| Yield on securities | 0.92% | 0.98% | 1.13% | 1.12% | 0.14% |
| Yield on funding (c) | 0.54% | 0.58% | 0.45% | 0.49% | -0.09% |
| Net interest margin (a)-(c) | 1.01% | 1.04% | 1.11% | 1.07% | 0.03% |
| Loan margin (b)-(c) | 1.40% | 1.36% | 1.38% | 1.39% | 0.03% |

Net interest income was 46.0 billion yen, an increase of 0.7 billion yen, or 1.5%, year on year. This growth represented the second consecutive year on year increase. Funding costs were reduced 9 bps from 0.58% to 0.49% in FY2012, reflecting our ongoing efforts to reduce funding costs while maintaining a stable base of retail deposits. As a result of the reduction in funding costs, the net interest margin expanded 3 bps to 1.07% and the loan margin improved 3 bps to 1.39%.

(2) Net Fees and Commissions

| (100 million yen) | FY2011 Jan.- Mar. | FY2011 Full-Year (A) | FY2012 Jan.- Mar. | FY2012 Full-Year (B) | Change (B)－(A) |
|---|---|---|---|---|---|
| Net fees and commissions (a)-(b) | 32 | 95 | 38 | 100 | 5 |
| Fees and commissions received (a) | 33 | 102 | 40 | 107 | 5 |
| Loan business-related | 21 | 66 | 23 | 60 | -6 |
| Securities-related and agency | 8 | 23 | 13 | 35 | 12 |
| Others | 5 | 12 | 4 | 12 | -1 |
| Fees and commissions payments (b) | -2 | -7 | -2 | -7 | 0 |
| Ref: Earnings from retail business | | | | | |
| Of which, fees from investment trusts, annuity insurance and structured bonds | 7 | 28 | 17 | 43 | 15 |

Net fees and commissions were 10.0 billion yen, an increase of 0.5 billion yen or 5.5%, year on year. Earnings related to the sale of investment trusts, annuity insurance, and structured bonds, targeting the needs of our mass affluent retail customers, significantly exceeded the previous year's result, increasing 1.5 billion yen, or 53.0%, to 4.3 billion yen.

(3) Net Trading Revenues

| (100 million yen) | FY2011 | | FY2012 | | Change (B)－(A) |
|---|---|---|---|---|---|
| | Jan.- Mar. | Full-Year (A) | Jan.- Mar. | Full-Year (B) | |
| Net trading revenues | 19 | 72 | 18 | 62 | -10 |
| Net income on trading-related financial derivatives transactions | 11 | 53 | 11 | 39 | -14 |
| Others | 8 | 19 | 7 | 23 | 3 |

Net trading revenues were 6.2 billion yen, a decrease of 1.0 billion yen, or 14.1%, year on year. This reflected the temporary suspension of sales of derivative-embedded time deposits. The Bank resumed the sale of these deposits in December 2012.

(4) Gains/losses on Bond Transactions

| (100 million yen) | FY2011 | | FY2012 | | Change (B)－(A) |
|---|---|---|---|---|---|
| | Jan.- Mar. | Full-Year (A) | Jan.- Mar. | Full-Year (B) | |
| Gains/losses on bond transactions | 72 | 171 | 18 | 142 | -29 |
| Japanese government bonds | 10 | 48 | 3 | 31 | -18 |
| Foreign government bonds and mortgage bonds | 26 | 116 | -4 | 67 | -48 |
| Others | 36 | 7 | 19 | 44 | 37 |
| Collateralized Debt Obligations (CDOs) only | -0 | -0 | 0 | -1 | -0 |
| Profit from hedge funds (Available For Sale) | -0 | 6 | 2 | 4 | -2 |
| Others | 36 | 1 | 17 | 41 | 39 |

Gains/losses on bond transactions decreased 2.9 billion yen, or 16.8%, year on year to 14.2 billion yen. As a result of investment portfolio diversification, gains on the sale of JGBs as well as foreign government bonds and mortgage bonds decreased year on year, while Others increased 3.7 billion yen, or 531.3%, year on year to 4.4 billion yen, mainly due to gains on the sale of US dollar-denominated ETFs.

(5) Net other ordinary income excluding Gains (Losses) on Bond Transactions

| (100 million yen) | FY2011 | | FY2012 | | Change (B)－(A) |
|---|---|---|---|---|---|
| | Jan.- Mar. | Full-Year (A) | Jan.- Mar. | Full-Year (B) | |
| Net other ordinary income excluding gains/losses on bond transactions | 14 | 52 | 15 | 80 | 29 |
| Gains /losses on foreign currency transactions | 6 | -12 | 4 | 5 | 18 |
| Gains /losses on derivatives other than trading, net | -1 | -2 | -2 | -7 | -4 |
| Profit from limited partnerships | 2 | 25 | 5 | 47 | 22 |
| Real estate related | 1 | 17 | -5 | 6 | -11 |
| Distressed loan related | 3 | 14 | 2 | 16 | 1 |
| Other (Buyout and venture capital, etc.) | -1 | -6 | 8 | 26 | 32 |
| Gains on distressed loans (Aozora Loan Services) | 4 | 20 | 7 | 22 | 1 |
| Debenture issue cost | -0 | -0 | -0 | -0 | 0 |
| Others | 3 | 21 | 1 | 13 | -9 |

Net other ordinary income, excluding gains/losses on bond transactions, improved 2.9 billion yen, or 55.5%, to 8.0 billion yen mainly due to profit from limited partnerships.

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

| (100 million yen) | FY2011 | | FY2012 | | Change (B)－(A) |
|---|---|---|---|---|---|
| | Jan.- Mar. | Full-Year (A) | Jan.- Mar. | Full-Year (B) | |
| G & A expenses | -99 | -387 | -101 | -387 | -0 |
| Personnel | -48 | -187 | -51 | -193 | -6 |
| Non-personnel expense | -47 | -182 | -46 | -176 | 6 |
| Tax | -4 | -18 | -4 | -19 | -0 |

General and administrative expenses were almost unchanged at 38.7 billion yen, while the overhead ratio, or OHR (general and administrative expenses as a percentage of net revenues) was 45.8%, remaining one of the lowest among major Japanese banks, reflecting our continued focus on efficient operations, as well as steady growth in net revenue.

## 3. Credit-Related Expenses

| (100 million yen) | FY2011 | | FY2012 | | Change (B)－(A) |
|---|---|---|---|---|---|
| | Jan.- Mar. | Full-Year (A) | Jan.- Mar. | Full-Year (B) | |
| Credit-related expenses | -27 | -8 | 0 | -24 | -16 |
| Write-off of loans | -55 | -65 | -19 | -27 | 38 |
| Gains/losses on disposition of loans | -121 | -123 | -8 | -63 | 60 |
| Reserves for loan losses | 118 | 141 | 25 | 49 | -93 |
| Specific reserve for possible loan losses | 127 | -8 | 1 | -141 | -133 |
| General reserve for possible loan losses | -8 | 149 | 24 | 190 | 41 |
| Reversal of reserve for credit losses on off-balance-sheet instruments | 1 | 1 | 2 | 3 | 2 |
| Recoveries of written-off claims | 29 | 38 | 1 | 14 | -24 |

Credit-related expenses were a net expense of 2.4 billion yen, compared with a net expense of 0.8 billion yen in FY2011. This result reflected the Bank's appropriate reserving policy based on borrowers' status, as well as preventative measures taken by the Bank to date, including the conservative allocation of reserves. The credit cost ratio (credit-related expenses as a percentage of loan balance) for the fiscal year ended March 31, 2013 remained low at 0.09%.

The ratio of loan loss reserves to total loans outstanding was 2.33% on a consolidated basis.

## 4. Taxes

| (100 million yen) | FY2011 | | FY2012 | | Change (B)－(A) |
|---|---|---|---|---|---|
| | Jan.- Mar. | Full-Year (A) | Jan.- Mar. | Full-Year (B) | |
| Taxes | 32 | 54 | -4 | -3 | -56 |

As a result of limitations imposed on deductible tax loss carry-forwards as part of the recent tax reform, taxes were a net expense of 0.3 billion yen.

## Ⅱ. Balance Sheet

| (100 million yen) | Mar. 31, 2012 (A) | Mar. 31, 2013 (B) | Change (B)－(A) Amount | Change (B)－(A) % | Dec. 31, 2012 | Page |
|---|---|---|---|---|---|---|
| **Total assets** | **50,974** | **50,167** | **-807** | **-1.6%** | **50,825** | - |
| Loan and bills discounted | 26,722 | 27,197 | 476 | 1.8% | 26,145 | 10 |
| Securities | 13,223 | 13,058 | -165 | -1.3% | 12,534 | 11 |
| Cash and due from banks | 2,604 | 4,045 | 1,441 | 55.3% | 3,791 | - |
| Others | 8,426 | 5,867 | -2,559 | -30.4% | 8,354 | - |
| **Total liabilities** | **44,898** | **44,808** | **-90** | **-0.2%** | **45,399** | - |
| Deposits | 27,197 | 27,034 | -162 | -0.6% | 27,290 | 10 |
| Negotiable certificates of deposit | 2,098 | 3,355 | 1,257 | 59.9% | 2,537 | |
| Debentures | 2,231 | 1,694 | -538 | -24.1% | 1,747 | |
| Others | 13,373 | 12,725 | -647 | -4.8% | 13,825 | |
| **Total net assets** | **6,076** | **5,358** | **-717** | **-11.8%** | **5,426** | - |
| Capital stock | 4,198 | 1,000 | -3,198 | -76.2% | 1,000 | - |
| Capital surplus | 336 | 3,307 | 2,971 | 884.8% | 3,307 | - |
| Retained earnings | 1,735 | 1,985 | 249 | 14.4% | 1,886 | - |
| Treasury stock | -154 | -993 | -839 | 543.4% | -764 | |
| Valuation difference on available-for-sale securities | 33 | 123 | 90 | 267.6% | 68 | - |
| Others | -72 | -63 | 10 | 13.4% | -70 | - |
| **Total liabilities and net assets** | **50,974** | **50,167** | **-807** | **-1.6%** | **50,825** | - |

Total assets were 5,016.7 billion yen as of March 31, 2013, a decrease of 80.7 billion yen, or 1.6%, compared to March 31, 2012. Loans increased from March 31, 2012 by 47.6 billion yen, or 1.8%, to 2,719.7 billion yen representing an increase for the third consecutive quarter. Loans increased from December 31, 2012 by 105.3 billion yen, or 4.0%. Overseas loans increased 76.3 billion yen, or 21.8%, while domestic lending decreased 28.7 billion yen, or 1.2%, during the term. Securities decreased by 16.5 billion yen, or 1.3% from March 31, 2012, to 1,305.8 billion yen.

On the funding side, total deposits and negotiable certificates of deposit increased 109.5 billion yen, or 3.7%, as compared to March 31, 2012. We continued our effort to reduce funding costs while maintaining a stable base of retail deposits. Funding from retail customers was 2,072.7 billion yen, decreasing 91.2 billion yen, or 4.2%, from March 31, 2012, while the percentage of retail funding to total core funding was stable at approximately 65%. Total liabilities decreased 9.0 billion yen, or 0.2%, as compared to March 31, 2012, to 4,480.8 billion yen.

Net assets were 535.8 billion yen, representing a decrease of 71.7 billion yen, or 11.8%, in comparison with March 31, 2012, mainly due to the repurchase and retirement of a part of the Series 5 preferred shares (22.7 billion yen) and the repurchase of common shares (83.9 billion yen) based on the comprehensive recapitalization plan. Net assets per common share were 308.58 yen, as compared to 284.22 yen per common share as of March 31, 2012.

## 1. Funding (Deposits and Debentures)

| （100 million yen） | Mar. 31, 2012 (A) | Mar. 31, 2013 (B) | Change (B)－(A) | Dec. 31, 2012 |
|---|---|---|---|---|
| Retail | 21,639 | 20,727 | -912 | 20,977 |
| Corporate, etc. | 5,396 | 7,074 | 1,678 | 5,399 |
| Financial Institutions (Debentures) | 2,120 | 1,649 | -471 | 1,699 |
| Financial Institutions (Deposits) | 2,371 | 2,633 | 262 | 3,499 |
| Deposits and Debentures total | 31,526 | 32,083 | 557 | 31,574 |

Total funding increased 55.7 billion yen, or 1.8%, from March 31, 2012 to 3,208.3 billion yen, reflecting an increase in funding from corporate and financial institution customers.
Funding from retail customers was 2,072.7 billion yen, decreasing 91.2 billion yen, or 4.2%, from March 31, 2012, while the percentage of retail funding to total core funding was stable at approximately 65%. The loan to deposit ratio, including negotiable certificates of deposit, was 89.5%.

The Bank maintained sufficient liquidity reserves of approximately 560.0 billion yen as of March 31, 2013.

## 2. Loans

| （100 million yen） | Mar. 31, 2012 (A) | Mar. 31, 2013 (B) | Change (B)－(A) | Dec. 31, 2012 |
|---|---|---|---|---|
| Loans outstanding | 26,722 | 27,197 | 476 | 26,145 |

Loans were 2,719.7 billion yen, an increase of 47.6 billion yen, or 1.8%, year on year, representing an increase for the third consecutive quarter.

While the loan balance decreased in the first quarter of FY2012 due to certain repayments of loans to large lot borrowers, loans began to increase from the second quarter on a quarterly basis. Loans increased from December 31, 2012 by 105.3 billion yen, or 4.0%.

Domestic loans decreased 28.7 billion yen, or 1.2%, from March 31, 2012; however, in comparison with the balance as of December 31, 2012, they increased 34.0 billion yen, or 1.5%. Overseas loans increased 76.3 billion yen, or 21.8%, in comparison with March 31, 2012, and increased 71.2 billion yen, or 20.0%, in comparison with December 31. 2012.

Our continued focus on middle market business has resulted in the acquisition of a number of new clients. The Bank provided financial products and other support tailored to the needs of its SME customers during the term, and loans to SMEs increased.

## 3. Securities

| (100 million yen) | Book value | | | | Unrealized gains/losses | | | |
|---|---|---|---|---|---|---|---|---|
| | Mar. 31, 2012 (A) | Mar. 31, 2013 (B) | (B) – (A) | Dec. 31, 2012 | Mar. 31, 2012 (A) | Mar. 31, 2013 (B) | (B) – (A) | Dec. 31, 2012 |
| JGBs | 6,610 | 4,650 | -1,509 | 5,123 | 58 | 60 | 2 | 58 |
| Municipal bonds | 143 | 113 | -29 | 80 | 1 | 2 | 1 | 1 |
| Corporate bonds | 706 | 642 | -65 | 623 | -2 | -1 | 2 | -3 |
| Equities | 267 | 270 | 3 | 267 | -0 | 5 | 5 | 2 |
| Foreign bonds | 4,073 | 4,658 | 585 | 4,107 | -13 | -7 | 6 | 6 |
| Others | 1,874 | 2,725 | 850 | 2,334 | 17 | 121 | 105 | 44 |
| Hedge funds | 105 | 90 | -15 | 91 | 15 | 17 | 2 | 17 |
| ETFs (Linked to Japanese stocks index) | 232 | 696 | 465 | 455 | 1 | 32 | 31 | 11 |
| Investment in limited partnerships | 582 | 525 | -57 | 513 | 0 | 2 | 2 | 3 |
| REIT | 142 | 287 | 145 | 155 | 2 | 72 | 70 | 14 |
| Others | 814 | 1,127 | 313 | 1,120 | -1 | -2 | -0 | -0 |
| Money market funds only | 701 | 1,000 | 299 | 1,001 | 1 | 0 | -1 | 1 |
| Total | 13,223 | 13,058 | -165 | 12,534 | 60 | 180 | 120 | 108 |

Securities were 1,305.8 billion yen, a decrease of 16.5 billion yen, or 1.3%, from March 31, 2012. In comparison with March 31, 2012, foreign bonds increased 58.5 billion yen, or 14.4%, and ETFs, particularly US dollar denominated, were increased by 46.5 billion yen, or 200.7%, while JGBs decreased 150.9 billion yen, or 24.5%. Money market funds, assets comparable to the liquidity reserve, increased by 29.9 billion yen, or 42.7% from March 31, 2012.

Total unrealized gains amounted to 18.0 billion yen as of March 31, 2013, an increase of 12.0 billion yen, or 199.0% from March 31, 2012, reflecting unrealized gains on JGBs and Others, including ETFs and REITs of 6.0 billion yen and 12.1 billion yen, respectively.

Note (1): Floating rate JGBs, as of March 31, 2013, were valued in the same way as at March 31, 2012, on the basis of internal calculations pursuant to Practical Issues Task Force No.25, 'Practical Solution on Measurement of Fair Value for Financial Assets' issued by the Accounting Standards Board of Japan.
Note (2): A portion of beneficial interests in investment trusts within 'monetary claims bought' are marked at fair value , but the amounts (balance sheet total 9.8 billion yen; valuation gains of 0.5 billion yen as of end-March 2013) are not included in the table above.

## 4. Investment in Limited Partnerships and Hedge Funds

| (100 million yen) | Mar. 31, 2012 (A) | Mar. 31, 2013 (B) | Change (B)－(A) | Dec. 31, 2012 |
|---|---|---|---|---|
| Limited partnerships | 582 | 525 | -57 | 513 |
| Real estate related | 123 | 130 | 7 | 134 |
| Distressed loan related | 259 | 238 | -21 | 220 |
| Others (Buyout and venture related) | 200 | 156 | -43 | 159 |
| Hedge funds | 105 | 90 | -15 | 91 |

Investment in limited partnerships decreased by 5.7 billion yen, or 9.9%, from March 31, 2012, mainly due to redemptions. Hedge fund investments decreased 1.5 billion yen, or 14.0%, as compared to March 31, 2012.

## Ⅲ. Disclosed Claims under the Financial Reconstruction Law

*(Non-consolidated)*

| （100 million yen, %） | Mar. 31, 2012 (A) | Mar. 31, 2013 (B) | Change (B)－(A) | Dec. 31, 2012 |
|---|---|---|---|---|
| Bankrupt and similar credit | 75 | 72 | -3 | 47 |
| Doubtful credit | 640 | 792 | 152 | 877 |
| Special attention credit | 377 | 200 | -177 | 206 |
| FRL credit, total (a) | 1,091 | 1,063 | -28 | 1,130 |
| Normal credit (b) | 26,191 | 26,688 | 496 | 25,664 |
| Total credit (c)((a)+(b)) | 27,282 | 27,751 | 468 | 26,794 |
| FRL credit ratio (a)/(c) | 3.99% | 3.83% | -0.16% | 4.21% |

Non-performing claims as defined by the Financial Reconstruction Law (FRL) were 106.3 billion yen, a decrease of 2.8 billion yen, or 2.6%, from March 31, 2012, reflecting the Bank's disciplined risk management and appropriate actions based on the condition of borrowers. The FRL Ratio decreased 0.16 points to 3.83%. In addition, the percentage of FRL claims covered by reserves, collateral and guarantees remained high at 89.3% as of March 31, 2013, and the ratio of loan loss reserves to total loans outstanding was 2.33% on a consolidated basis as of March 31, 2013.

## Ⅳ. Capital Adequacy Ratio (Preliminary)

| | March 31, 2012 (A) | March 31, 2013 (B) | Change (B)-(A) | Dec.31, 2012 |
|---|---|---|---|---|
| Capital adequacy ratio | 17.86% | 15.67% | -2.19% | 17.04% |
| Tier 1 ratio | 19.37% | 16.27% | -3.10% | 18.03% |

Note: Figures are calculated in accordance with the FSA Notification Number 56 issued in 2012 (special treatment of FSA Notification Number 19 issued in 2006).

The Bank's consolidated capital adequacy ratio was 15.67%, and the Tier 1 ratio was 16.27% (both on a preliminary basis). When compared with March 31, 2012, the decline in these ratios was the result of the Bank's implementation of its comprehensive recapitalization plan, including a partial repayment of public funds and the repurchase of shares. Nonetheless, the ratios remain among the highest in the Japanese banking industry.

*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 cost and the effectiveness of our operational, legal and other risk management policies.*