November 13, 2017

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Aozora Reports Profit Attributable to Owners of Parent of 23.2 billion yen for the First Half of FY2017;
- Progress of 54% towards full-year forecast -

TOKYO November 13, 2017 – Aozora Bank, Ltd. ("Aozora" or "the Bank"), a leading Japanese commercial bank, today announced its interim financial results for FY2017.

FY2017 Interim Financial Results

In the first half of FY2017, Aozora reported consolidated net revenue of 44.0 billion yen and profit attributable to owners of parent of 23.2 billion yen, representing progress of 48% and 54%, respectively, towards the full-year forecasts.

Shinsuke Baba, Representative Director, President and Chief Executive Officer of Aozora Bank commented, "The global economy continued to generate moderate growth over the past year in the face of increasing concerns over geopolitical risks. In Europe and the U.S., markets were in the process of adjusting to the movement away from central bank accommodative monetary policies. In Japan, the banking sector faced challenging business conditions given the ongoing low interest rate environment. For Aozora, in the first half we were pleased to report profit attributable to owners of parent representing progress of 54% towards our full-year earnings forecast for fiscal year 2017. This result was the product of several factors including our ongoing focus on disciplined balance sheet management and the diversification of income sources. Today we also announced a second quarter dividend of 4.00 yen per common share."

Baba concluded, "Looking ahead, we remain focused on leveraging our expertise and providing differentiated services that further enhance Aozora's corporate value. We also intend to continue to pay close attention to domestic and overseas market developments. I would like to express my gratitude to all of our stakeholders for their continued support."

1. Summary of Interim Results (Consolidated)

- Net revenue was 44.0 billion yen, a decrease of 2.3 billion yen, or 5.0% year on year, and business profit was 21.3 billion yen, a decrease of 2.8 billion yen, or 11.6% year on year. Profit attributable to owners of parent was 23.2 billion yen, a decrease of 2.7 billion yen, or 10.4%, representing progress of 54% towards the full-year forecast of 43.0 billion yen.

  - Net interest income was 25.0 billion yen, an increase of 2.6 billion yen, or 11.6% year on year. The increase was primarily due to an increase in the yield on loans and securities, reflecting the Bank's continued disciplined approach to balance sheet management, as well as an increase in the average asset balance.

  - Non-interest income was 19.1 billion yen, a decrease of 4.8 billion yen, or 20.1% year on year. The change was mainly due to a decline in gains/losses on bond transactions and net trading revenues, while earnings from the Bank's retail business and loan-related fee income were strong.

  - General and administrative expenses were 22.7 billion yen, a year-on-year increase of 0.5 billion yen, or 2.3%, representing 49.3% of the full-year budget of 46.0 billion yen.

  - Credit-related expenses were a net reversal of 5.4 billion yen, mainly due to the reversal of specific loan loss reserves in the first quarter in connection with the collection of non-performing claims. This result compares with a net reversal of 3.3 billion yen recorded in the first half of FY2016.

- Total loans were 2,555.8 billion yen, an increase of 33.9 billion yen, or 1.3%, from March 31, 2017. Domestic loans decreased by 32.2 billion yen from March 31, 2017, reflecting the Bank's continued focus on balancing risk and return. Compared to June 30, 2017 domestic loans increased by 22.0 billion yen. Overseas loans increased by 66.0 billion yen from March 31, 2017 as a result of the Bank's selective loan origination.
- The Bank continued to flexibly manage its funding position. Total core funding (deposits, negotiable certificates of deposit, debentures and bonds) was 3,148.8 billion yen, an increase of 49.4 billion yen, or 1.6%, from March 31, 2017. The percentage of retail funding to total core funding was 58%.
- Non-performing claims as defined by the Financial Reconstruction Law (FRL) were 4.1 billion yen, a decrease of 8.8 billion yen, or 68.2%, from March 31, 2017. The FRL ratio declined 0.35 points to 0.15%. The ratio of loan loss reserves to total loans on a consolidated basis remained high at 1.78%.
- The Bank's consolidated capital adequacy ratio (domestic standard) remained adequate at 10.87% (preliminary basis) as of September 30, 2017.

Note: All amounts stated in 1 billion yen have been rounded to the nearest 0.1 billion yen, and "Change" represents the difference between the rounded amounts.

2. FY2017 Interim Performance (April 1, 2017 to September 30, 2017)

Consolidated basis

(billion yen)	Net revenue	Business profit	Ordinary profit	Profit attributable to owners of parent	Profit attributable to owners of parent per common share*
1H FY2017 (Apr.-Sept.) (a)	44.0	21.3	30.4	23.2	198.71 yen
1H FY2016 (Apr.-Sept.) (b)	46.3	24.1	27.8	25.9	221.68 yen
Change (a) - (b)	-2.3	-2.8	2.6	-2.7	-22.97 yen
Percentage change ((a)-(b)) / (b)	-5.0%	-11.6%	9.4%	-10.4%	-10.4%
FY2017 full-year forecast (c)	92.0	46.0	56.5	43.0	368.59 yen
Progress (a)/(c)	47.8%	46.3%	53.7%	53.9%	53.9%

Non-consolidated basis

(billion yen)	Net revenue	Business profit before general loan-loss reserve	Ordinary profit	Profit	Profit per common share*
1H FY2017 (Apr.-Sept.) (a)	41.7	21.3	30.2	23.0	197.57 yen
1H FY2016 (Apr.-Sept.) (b)	44.2	23.8	27.5	26.5	226.87 yen
Change (a) - (b)	-2.5	-2.5	2.7	-3.5	-29.30 yen
Percentage change ((a)-(b)) / (b)	-5.7%	-10.5%	9.8%	-13.2%	-12.9%
FY2017 full-year forecast (c)	86.0	44.0	54.0	42.0	360.02 yen
Progress (a)/(c)	48.4%	48.3%	56.0%	54.8%	54.8%

* The Bank consolidated every ten common shares into one common share on October 1, 2017. Figures in "Profit attributable to owners of parent per common share" and "Profit per common share" are presented as if the share consolidation was effective at the beginning of the previous accounting period.

I. Revenue and Expenses

(billion yen)	FY2016 3 months Jul.-Sept.	FY2016 Interim (A)	FY2017 3 months Jul.-Sept.	FY2017 Interim (B)	Change (B)－(A) Amount	Change (B)－(A) %	(Ref.) FY2017 Apr.-Jun.	Page
Net revenue	**24.4**	**46.3**	**22.4**	**44.0**	**-2.3**	**-5.0%**	**21.7**	**-**
Net interest income	12.2	22.4	12.0	25.0	2.6	11.6%	12.9	4
Net interest margin	*1.38%*	*1.27%*	*1.27%*	*1.34%*	*0.07%*	-	*1.42%*	4
Non-interest income	12.1	23.9	10.3	19.1	-4.8	-20.1%	8.7	-
Net fees and commissions	2.7	4.9	3.9	5.8	0.9	18.4%	1.9	5
Net trading revenues	5.6	10.1	3.9	7.6	-2.5	-24.8%	3.7	5
Gains/losses on bond transactions	2.1	4.3	0.5	1.6	-2.7	-62.8%	1.0	6
Net other ordinary income excluding gains/losses on bond transactions	1.7	4.6	2.0	4.1	-0.5	-10.9%	2.1	6
General & administrative expenses	-11.0	-22.2	-11.1	-22.7	-0.5	-2.3%	-11.6	6
Business profit	**13.4**	**24.1**	**11.2**	**21.3**	**-2.8**	**-11.6%**	**10.1**	**-**
Credit-related expenses	2.7	3.3	0.8	5.4	2.1	-	4.6	7
Gains/losses on stock transactions	0.0	0.4	0.8	4.1	3.7	-	3.3	7
Other gains/losses	-0.2	-0.0	-0.0	-0.5	-0.5	-	-0.5	-
Ordinary profit	**16.0**	**27.8**	**12.8**	**30.4**	**2.6**	**9.4%**	**17.6**	**-**
Extraordinary profit/loss	-0.0	-0.0	-0.0	-0.0	0.0	-	-	-
Profit before income taxes	**16.0**	**27.8**	**12.8**	**30.4**	**2.6**	**9.4%**	**17.6**	**-**
Taxes	-4.0	-2.0	-4.2	-7.4	-5.4	-	-3.2	7
Profit attributable to owners of parent	**12.0**	**25.9**	**8.7**	**23.2**	**-2.7**	**-10.4%**	**14.5**	**-**

In the first half of FY2017, the Bank recorded consolidated net revenue of 44.0 billion yen, a decrease of 2.3 billion yen, or 5.0% year on year.

Net interest income was 25.0 billion yen, an increase of 2.6 billion yen, or 11.6% year on year, due to increases in the yield on loans and securities, reflecting the Bank's continued disciplined approach to balance sheet management, as well as an increase in the average asset balance.

Non-interest income was 19.1 billion yen, a decrease of 4.8 billion yen, or 20.1% year on year. Net fees and commissions were 5.8 billion yen, an increase of 0.9 billion yen, or 18.4% year on year, mainly due to increases in fee income from loans as well as the sale of investment trust and insurance to our mass affluent retail customers. Net trading revenues were 7.6 billion yen, a decrease of 2.5 billion yen, or 24.8% year on year. Gains/losses on bond transactions were a gain of 1.6 billion yen, a decrease of 2.7 billion yen, or 62.8% year on year. Net other ordinary income, excluding gains/losses on bond transactions, was 4.1 billion yen, a decrease of 0.5 billion yen, or 10.9%.

General and administrative expenses were 22.7 billion yen, a year-on-year increase of 0.5 billion yen, or 2.3%, representing 49.3% of the full-year budget of 46.0 billion yen. The increase was mainly due to incremental staff for the Bank's Internet banking project as well as for other business areas of focus.

Consolidated business profit was 21.3 billion yen, a decrease of 2.8 billion yen, or 11.6% year on year.

Credit-related expenses were a net reversal of 5.4 billion yen, mainly due to the reversal of specific loan loss reserves resulting from the collection of non-performing claims. Gains/losses on stock transactions were a gain of 4.1 billion yen. Ordinary profit and profit before income taxes were both 30.4 billion yen, an increase of 2.6 billion yen, or 9.4% year on year. Taxes were a net expense of 7.4 billion yen.

As a result of the above factors, profit attributable to owners of parent was 23.2 billion yen, a decrease of 2.7 billion yen, or 10.4% year on year, representing progress of 54% towards the full-year forecast of 43.0 billion yen.

1. Net Revenue

(1) (i) Net Interest Income

(billion yen)	FY2016 3 months Jul.-Sept.	FY2016 Interim (A)	FY2017 3 months Jul.-Sept.	FY2017 Interim (B)	Change (B)－(A)	FY2017 Apr.-Jun.
Net interest income (a)-(b)	12.2	22.4	12.0	25.0	2.6	12.9
Interest income (a)	17.2	31.9	19.4	38.8	6.9	19.4
Interest on loans and discounts	10.6	20.7	11.8	23.0	2.3	11.2
Interest and dividends on securities	6.3	10.6	7.2	14.7	4.1	7.5
Other interest income	0.2	0.5	0.4	1.1	0.6	0.7
Interest on swaps	0.0	0.1	-	-	-0.1	-
Interest expenses (b)	-4.9	-9.5	-7.4	-13.8	-4.3	-6.4
Interest on deposits and NCDs	-1.6	-3.4	-1.5	-2.8	0.6	-1.3
Interest on debentures and bonds	-0.1	-0.3	-0.3	-0.6	-0.3	-0.3
Interest on borrowings and rediscount	-0.2	-0.4	-0.3	-0.6	-0.2	-0.3
Other interest expenses	-0.5	-1.0	-1.5	-2.7	-1.7	-1.1
Interest on swaps	-2.5	-4.4	-3.7	-7.1	-2.7	-3.4

Net interest income was 25.0 billion yen, an increase of 2.6 billion yen, or 11.6% year on year. Interest income increased by 6.9 billion yen year on year due to an increase in interest on loans and discounts as a result of both higher yield and average loan balances compared to the previous year, as well as an increase in interest and dividends on securities which mainly reflected an increase in interest on foreign bonds as well as dividends on investment trusts and ETFs. Interest expenses increased by 4.3 billion yen year on year, largely the result of a rise in U.S. dollar interest rates.

(1) (ii) Net Interest Margin

	FY2016 3 months Jul.-Sept.	FY2016 Interim (A)	FY2017 3 months Jul.-Sept.	FY2017 Interim (B)	Change (B)－(A)	FY2017 Apr.-Jun.
Yield on total investments (a)	1.90%	1.77%	2.00%	2.04%	0.27%	2.09%
Yield on loans	1.67%	1.64%	1.84%	1.81%	0.17%	1.77%
Yield on securities	2.83%	2.37%	2.65%	2.87%	0.50%	3.13%
Yield on funding (b)	0.52%	0.50%	0.73%	0.70%	0.20%	0.67%
Net interest margin (a)-(b)	1.38%	1.27%	1.27%	1.34%	0.07%	1.42%

The yield on total investments increased by 27 bps year on year. The change was due to an increase in the yield on loans as the Bank continued its disciplined approach to balance sheet management, as well as an increase in the yield on securities, mainly due to an increase in dividends on investment trusts and ETFs. Funding costs increased by 20 bps over the prior year due to an increase in U.S. dollar interest rates, the impact of which exceeded the decline in yen funding costs. As a result of these factors, the net interest margin improved 7 bps to 1.34%.

(2) Net Fees and Commissions

(billion yen)		FY2016 3 months Jul.-Sept.	FY2016 Interim (A)	FY2017 3 months Jul.-Sept.	FY2017 Interim (B)	Change (B)−(A)	FY2017 Apr.-Jun.
Net fees and commissions	(a)-(b)	2.7	4.9	3.9	5.8	0.9	1.9
Fees and commissions received	(a)	3.0	5.5	4.2	6.4	0.9	2.2
Loan business-related and deposits		1.8	2.8	2.3	3.1	0.3	0.8
Securities-related and agency		0.9	1.8	1.3	2.3	0.5	1.0
Others		0.3	0.9	0.6	1.0	0.1	0.4
Fees and commissions payments	(b)	-0.3	-0.6	-0.3	-0.6	0.0	-0.3

Net fees and commissions were 5.8 billion yen, an increase of 0.9 billion yen, or 18.4% year on year, mainly due to increases in fee income from loans as well as the sale of investment trust and insurance to our mass affluent retail customers.

Earnings from the sale of financial products (investment trusts, insurance, and structured bonds) to our mass affluent retail customers were 3.6 billion yen, a year-on-year increase of 0.9 billion yen. Committed to providing customer-oriented services, the Bank will continue its efforts aimed at enhancing its investment product line-up in order to meet the needs of its customers while strengthening the consultative skills of its sales staff.

[Ref.] Earnings from Financial Product Sales to Retail Customers

(billion yen)	FY2016 3 months Jul.-Sept.	FY2016 Interim (A)	FY2017 3 months Jul.-Sept.	FY2017 Interim (B)	Change (B)− (A)	FY2017 Apr.-Jun.
Earnings from the sale of investment trusts, insurance and structured bonds	1.4	2.7	1.9	3.6	0.9	1.7

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

(3) Net Trading Revenues

(billion yen)	FY2016 3 months Jul.-Sept.	FY2016 Interim (A)	FY2017 3 months Jul.-Sept.	FY2017 Interim (B)	Change (B)−(A)	FY2017 Apr.-Jun.
Net trading revenues	5.6	10.1	3.9	7.6	-2.5	3.7
Income on trading-related financial derivatives transactions	5.1	8.9	1.9	4.3	-4.6	2.4
Others	0.5	1.2	2.0	3.3	2.1	1.3

Net trading revenues were 7.6 billion yen, a decrease of 2.5 billion yen, or 24.8% year on year. Earnings from the sale of derivative-related products to our financial institution customers remained favorable, although representing a decline from the especially strong level of the previous year.

(4) Gains/Losses on Bond Transactions

(billion yen)	FY2016 3 months Jul.-Sept.	FY2016 Interim (A)	FY2017 3 months Jul.-Sept.	FY2017 Interim (B)	Change (B) －(A)	FY2017 Apr.-Jun.
Gains/losses on bond transactions	2.1	4.3	0.5	1.6	-2.7	1.0
Japanese government bonds	-	-	0.0	0.0	0.0	-
Foreign government bonds and mortgage bonds	1.4	3.2	0.0	0.4	-2.8	0.4
Others	0.7	1.1	0.5	1.1	0.0	0.6

Gains/losses on bond transactions were a gain of 1.6 billion yen, largely due to gains from the sale of foreign bonds and foreign currency ETFs.

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

(billion yen)	FY2016 3 months Jul.-Sept.	FY2016 Interim (A)	FY2017 3 months Jul.-Sept.	FY2017 Interim (B)	Change (B) －(A)	FY2017 Apr.-Jun.
Net other ordinary income excluding gains/losses on bond transactions	1.7	4.6	2.0	4.1	-0.5	2.1
Incl. Gains from limited partnerships	2.2	4.3	1.5	4.1	-0.2	2.6
Real estate-related	0.4	0.6	1.0	2.3	1.7	1.3
Distressed loan-related	0.8	2.2	0.6	2.0	-0.2	1.4
Others (buyout, etc.)	1.0	1.4	-0.1	-0.1	-1.5	-0.0

Net other ordinary income, excluding gains/losses on bond transactions, was 4.1 billion yen, a decrease of 0.5 billion yen, or 10.9% year on year. Gains from limited partnerships were 4.1 billion yen, mainly supported by strong performance in real estate-related limited partnerships and earnings from the Bank’s distressed loan business.

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

(billion yen)	FY2016 3 months Jul.-Sept.	FY2016 Interim (A)	FY2017 3 months Jul.-Sept.	FY2017 Interim (B)	Change (B)－(A)	FY2017 Apr.-Jun.
G&A expenses	-11.0	-22.2	-11.1	-22.7	-0.5	-11.6
Personnel expense	-5.5	-10.5	-5.8	-11.3	-0.8	-5.5
Non-personnel expense	-4.7	-9.8	-4.6	-9.5	0.3	-4.9
Tax	-0.8	-1.9	-0.7	-2.0	-0.1	-1.2

General and administrative expenses were 22.7 billion yen, an increase of 0.5 billion yen, or 2.3% year on year. The increase was mainly due to incremental staff for the Bank’s Internet banking project as well as for other business areas of focus. General and administrative expenses for the first half were in line with expectations and represented 49.3% of the full-year budget of 46.0 billion yen. The OHR (general and administrative expenses as a percentage of net revenue) was 51.6%.

3. Credit-Related Expenses

(billion yen)	FY2016 3 months Jul.-Sept.	FY2016 Interim (A)	FY2017 3 months Jul.-Sept.	FY2017 Interim (B)	Change (B)−(A)	FY2017 Apr.-Jun.
Credit-related expenses	2.7	3.3	0.8	5.4	2.1	4.6
Write-off of loans	-0.0	-0.0	-0.0	-0.1	-0.1	-0.0
Reserve for possible loan losses	2.2	3.1	1.1	4.9	1.8	3.8
Specific reserve for possible loan losses	1.3	1.3	0.6	3.4	2.1	2.8
General reserve for possible loan losses	1.0	1.8	0.5	1.5	-0.3	1.0
Gains/losses on disposition of loans	-0.4	-0.5	-	-	0.5	-
Recoveries of written-off claims	0.2	0.8	0.0	0.6	-0.2	0.5
Reserve for credit losses on off-balance-sheet instruments	0.7	-0.1	-0.2	0.1	0.2	0.3

Credit-related expenses were a net reversal of 5.4 billion yen, mainly due to the first quarter reversal of specific loan loss reserves resulting from the collection of non-performing claims. This result compares with a net reversal of 3.3 billion yen recorded in the first half of FY2016. The ratio of loan loss reserves to total loans remained high at 1.78% and reflects the Bank's mid- to long-term perspective on the conservative allocation of reserves.

4. Gains/losses on Stock Transactions

(billion yen)	FY2016 3 months Jul.-Sept.	FY2016 Interim (A)	FY2017 3 months Jul.-Sept.	FY2017 Interim (B)	Change (B)−(A)	FY2017 Apr.-Jun.
Gains/losses on stock transactions	0.0	0.4	0.8	4.1	3.7	3.3

Gains/losses on stock transactions were a gain of 4.1 billion yen mainly due to gains from selling domestic equity ETFs.

5. Taxes

(billion yen)	FY2016 3 months Jul.-Sept.	FY2016 Interim (A)	FY2017 3 months Jul.-Sept.	FY2017 Interim (B)	Change (B)−(A)	FY2017 Apr.-Jun.
Taxes	-4.0	-2.0	-4.2	-7.4	-5.4	-3.2

Taxes were a net expense of 7.4 billion yen. In the first quarter of FY2016, the Bank adopted the accounting classification “Category 2” for the calculation of deferred tax assets subject to Japanese tax rules.

II. Balance Sheet

(billion yen)	Mar. 31, 2017 (A)	Jun.30, 2017	Sept. 30, 2017 (B)	Change (B)−(A)		Page
				Amount	%	
Total assets	**4,586.0**	**4,744.4**	**4,816.2**	**230.2**	**5.0%**	**-**
Loan and bills discounted	2,521.9	2.514.5	2,555.8	33.9	1.3%	9
Securities	937.9	1,084.0	1,163.5	225.6	24.1%	10
Cash and due from banks	573.0	605.7	561.3	-11.7	-2.0%	-
Trading assets	210.7	195.5	181.7	-29.0	-13.8%	-
Others	342.4	344.7	354.0	11.6	3.4%	-
Total liabilities	**4,165.7**	**4,316.0**	**4,379.9**	**214.2**	**5.1%**	**-**
Deposits and negotiable certificates of deposit	2,853.1	2,890.2	2,899.6	46.5	1.6%	9
Debentures, Bonds	246.3	251.9	249.2	2.9	1.2%	9
Borrowed money	276.6	290.1	299.4	22.8	8.2%	-
Payables under securities lending transactions	306.3	394.2	452.4	146.1	47.7%	-
Trading liabilities	197.7	176.3	162.3	-35.4	-17.9%	-
Others	285.6	313.3	317.0	31.4	11.0%	-
Total net assets	**420.3**	**428.4**	**436.2**	**15.9**	**3.8%**	**-**
Capital stock	100.0	100.0	100.0	0.0	0.0%	-
Capital surplus	87.3	87.3	87.3	0.0	0.0%	-
Retained earnings	221.9	229.8	233.8	11.9	5.4%	-
Treasury stock	-3.4	-3.4	-3.3	0.1	-	-
Valuation difference on available-for-sale securities	23.8	25.7	37.8	14.0	58.8%	-
Others	-9.3	-11.1	-19.3	-10.0	-	-
Total liabilities and net assets	**4,586.0**	**4,744.4**	**4,816.2**	**230.2**	**5.0%**	**-**

Total assets were 4,816.2 billion yen as of September 30, 2017, an increase of 230.2 billion yen, or 5.0%, compared to March 31, 2017. Loans were 2,555.8 billion yen, an increase of 33.9 billion yen, or 1.3%, from March 31, 2017. Domestic loans decreased by 32.2 billion yen, while overseas loans increased by 66.0 billion yen. Securities increased by 225.6 billion yen, or 24.1%, from March 31, 2017, to 1,163.5 billion yen.

Total liabilities were 4,379.9 billion yen, an increase of 214.2 billion yen, or 5.1%, compared to March 31, 2017. Total core funding (deposits, negotiable certificates of deposit, debentures and bonds) increased by 49.4 billion yen, or 1.6%, from March 31, 2017, to 3,148.8 billion yen.

Total net assets were 436.2 billion yen, representing an increase of 15.9 billion yen, or 3.8%, from March 31, 2017.

Net assets per common share were 3,723.77 yen, as compared to 3,586.16 yen as of March 31, 2017.

Note: The Bank consolidated every ten common shares into one common share on October 1, 2017. “Net assets per common share” is presented as if the share consolidation was effective at the beginning of the previous accounting period.

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

(billion yen)	Mar. 31, 2017 (A)	Jun. 30, 2017	Sept. 30, 2017 (B)	Change (B)－(A)
Total core funding	3,099.4	3,142.1	3,148.8	49.4

Funding sources by product

(billion yen)	Mar. 31, 2017 (A)	Jun. 30, 2017	Sept. 30, 2017 (B)	Change (B)－(A)
Deposits/NCDs	2,853.1	2,890.2	2,899.6	46.5
Debentures/Bonds	246.3	251.9	249.2	2.9

Funding sources by customer

(billion yen)	Mar. 31, 2017 (A)	Jun. 30, 2017	Sept. 30, 2017 (B)	Change (B)－(A)
Retail	1,829.4	1,819.8	1,822.3	-7.1
Corporate	610.5	596.9	559.7	-50.8
Financial Institutions	659.4	725.4	766.8	107.4

Note: Corporate includes public entities.

The Bank continued to flexibly manage its funding position in light of its asset requirements. Total core funding (deposits, negotiable certificates of deposit, debentures and bonds) was 3,148.8 billion yen, an increase of 49.4 billion yen, or 1.6%, from March 31, 2017. The percentage of retail funding to total core funding was 58%.

As of September 30, 2017, the Bank maintained adequate liquidity reserves of 605.1 billion yen.

2. Loans

(billion yen)	Mar. 31, 2017 (A)	Jun. 30, 2017	Sept. 30, 2017 (B)	Change (B)－(A)
Loans	2,521.9	2,514.5	2,555.8	33.9
Domestic loans	1,651.9	1,597.7	1,619.7	-32.2
Overseas loans	870.0	916.8	936.0	66.0
U.S. dollar basis ($ million)	$7,755	$8,187	$8,303	$548

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

Loans were 2,555.8 billion yen, an increase of 33.9 billion yen, or 1.3%, from March 31, 2017.

Reflecting the Bank’s continued focus on balancing risk and return, domestic loans decreased by 32.2 billion yen from March 31, 2017, while for the quarter ended September 30, 2017 domestic loans increased by 22.0 billion yen.

For the first six months, overseas loans increased by 66.0 billion yen (an increase of 548 million on a U.S. dollar basis). The increase was the result of the Bank’s selective origination of corporate loans and real estate non-recourse loans, mainly in North America where the risk-return profiles remain relatively attractive.

3. Securities

(billion yen)	Book Value				Unrealized Gains/Losses			
	Mar. 31, 2017(A)	Jun. 30, 2017	Sept. 30, 2017 (B)	Change (B) – (A)	Mar. 31, 2017(A)	Jun. 30, 2017	Sept.30, 2017 (B)	Change (B) – (A)
JGBs	8.1	13.1	8.1	0.0	-0.0	-0.0	-0.0	0.0
Municipal bonds	26.7	29.0	31.2	4.5	0.1	0.1	0.1	0.0
Corporate bonds	28.4	32.0	35.0	6.6	0.1	0.1	0.1	0.0
Equities	63.1	64.3	78.4	15.3	43.9	45.2	59.2	15.3
Foreign bonds	343.9	476.4	531.9	188.0	-12.9	-11.5	-9.9	3.0
Foreign government bonds	174.2	262.2	285.5	111.3	-9.2	-8.9	-8.7	0.5
Mortgage bonds	117.1	131.7	152.4	35.3	-4.1	-3.9	-3.4	0.7
Others	52.7	82.5	94.0	41.3	0.4	1.3	2.1	1.7
Others	467.8	469.3	478.9	11.1	8.4	8.2	9.4	1.0
ETFs	276.2	285.2	280.7	4.5	4.1	4.3	4.5	0.4
Investment in limited partnerships	65.6	62.6	62.3	-3.3	0.8	0.9	0.7	-0.1
REIT	61.1	59.0	57.5	-3.6	2.8	1.9	1.9	-0.9
Investment trusts	48.6	45.1	61.9	13.3	0.3	0.5	1.8	1.5
Others	16.3	17.4	16.6	0.3	0.5	0.5	0.5	0.0
Total	937.9	1,084.0	1,163.5	225.6	39.7	42.0	58.9	19.2

Total unrealized gains, including unrealized gains/losses on hedging instruments	25.3	25.1	29.6	4.3

Securities were 1,163.5 billion yen as of September 30, 2017, an increase of 225.6 billion yen, or 24.1%, compared to March 31, 2017. Foreign bonds increased by 188.0 billion yen. In the first three months of FY2017 (Apr.-Jun.), the Bank increased its foreign bond position which had been reduced in the previous quarter (Jan.-Mar.) mainly due to risk reduction measures taken by the Bank, including to its U.S. Treasury Bond positions.

Total unrealized gains increased by 19.2 billion yen to 58.9 billion yen as of September 30, 2017 as compared with March 31, 2017. The Bank's Japanese equity ETF position is hedged, as is a portion of equities. Total unrealized gains, including unrealized gains/losses on hedging instruments were 29.6 billion yen, an increase of 4.3 billion yen from March 31, 2017.

For the first half of FY2017, interest and dividends on securities were 14.7 billion yen, gains on bond transactions were 1.6 billion yen and gains on stock transactions were 4.1 billion yen. These results reflected the Bank's ongoing efforts to secure stable income through a focus on diversification and efficient asset allocation in its investment portfolio.

III. Disclosed Claims under the Financial Reconstruction Law (Non-consolidated)

(billion yen)		Mar. 31, 2017 (A)	Jun. 30, 2017	Sept. 30, 2017 (B)	Change (B)－(A)
Bankrupt and similar credit		0.0	0.0	0.2	0.2
Doubtful credit		11.5	2.1	1.8	-9.7
Special attention credit		1.4	1.4	2.2	0.8
FRL credit, total	(a)	12.9	3.5	4.1	-8.8
Normal credit	(b)	2,558.9	2,563.7	2,601.6	42.7
Total credit	(c)=(a)+(b)	2,571.8	2,567.3	2,605.7	33.9
FRL credit ratio	(a)/(c)	0.50%	0.13%	0.15%	-0.35%

Non-performing claims as defined by the Financial Reconstruction Law (FRL) were 4.1 billion yen, a decrease of 8.8 billion yen, or 68.2%, from March 31, 2017. The decline was mainly due to the collection of doubtful credit claims. The FRL ratio declined 0.35 points to 0.15%. The percentage of FRL claims covered by reserves, collateral and guarantees was 83.7%. The ratio of loan loss reserves to total loans remained high at 1.78% on a consolidated basis.

IV. Capital Adequacy Ratio (Preliminary)

(billion yen)	Mar. 31, 2017 (A)	Jun. 30, 2017	Sept. 30, 2017 (B)	Change (B)－(A)
Capital adequacy ratio	10.75%	11.06%	10.87%	0.12%
Regulatory capital	439.8	449.5	453.7	13.9
Risk assets	4,087.4	4,061.1	4,173.9	86.5

The consolidated capital adequacy ratio (domestic standard) remained adequate at 10.87% (preliminary basis). For reference, the Bank's CET1 (Common Equity Tier 1) ratio was approximately 9.7%.

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.