November 15, 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 25.9 billion for the First Half of FY2016;
- Progress of 60% towards full-year forecast -

TOKYO November 15, 2016 – Aozora Bank, Ltd. (“Aozora” or “the Bank”), a leading Japanese commercial bank, today announced its interim financial results for FY2016.

FY2016 Interim Financial Results

In the first half of FY2016, Aozora reported consolidated net revenue of 46.3 billion yen, business profit of 24.1 billion yen, and net income of 25.9 billion yen, representing progress of 50%, 51%, and 60%, respectively, towards the full-year forecasts.

Shinsuke Baba, Representative Director, President and Chief Executive Officer of Aozora Bank commented, “The banking sector continues to face a difficult business environment due to a decline in market interest rates following the introduction of negative interest rates in Japan, as well as continued uncertainty in global markets. In the face of these conditions, we were pleased to report a favorable net revenue performance, as well as achieving 60% of our net income forecast for the full year. These positive results were a product of our ongoing focus on disciplined balance sheet management and diversification of income sources. Today we also announced a second quarter dividend of 4.00 yen per common share, the same amount as the first quarter dividend. The full year earnings forecast of 43.0 billion yen as well as dividend forecast of 18.40 yen per common share remain unchanged.”

Baba concluded, “In light of the current operating environment, we intend to adopt an even more cautious approach with more careful attention to risk. We also remain committed to leveraging our expertise and the provision of differentiated services in order to further enhance Aozora’s corporate value. I would like to express my gratitude to all of our stakeholders for their continued support.”

1. Summary of the interim results (Consolidated)

- Net revenue was 46.3 billion yen, a decrease of 0.2 billion yen, or 0.4% year on year, and business profit was 24.1 billion yen, a decrease of 2.5 billion yen, or 9.5%, representing progress of 50% and 51%, respectively, towards the full-year forecasts. Net income was 25.9 billion yen, an increase of 1.6 billion yen, or 6.4%, representing progress of 60% towards the full-year forecast of 43.0 billion yen.
  - Net interest income was 22.4 billion yen, a decrease of 3.0 billion yen, or 11.7% year on year, due to factors including increased U.S. dollar funding costs, while the yields on loans and securities increased as the Bank continued its disciplined approach to balance sheet management. The net interest margin was 1.27%, as compared to 1.16% for the first three months of FY2016.
  - Non-interest income was 23.9 billion yen, an increase of 2.8 billion yen, or 13.3% year on year, mainly reflecting strong earnings from the sale of investment products including derivative-related products targeting the needs of our financial institution customers.
  - General and administrative expenses were 22.2 billion yen, a year on year increase of 2.3 billion yen, or 11.8%. The increase mainly reflected amortization expenses incurred in relation to the Bank’s new core banking system. The OHR (general and administrative expenses as a percentage of net revenue) was 48.0% and reflected the Bank’s continued efforts to control costs.
  - Credit-related expenses were a net reversal of 3.3 billion yen, mainly due to the reversal of loan loss reserves as well as recoveries of written-off claims, and compares with a net reversal of 1.8 billion yen recorded in the first half of FY2015.

- The loan balance was 2,475.4 billion yen, a decrease of 36.2 billion yen, or 1.4%, from March 31, 2016. Domestic loans increased 18.5 billion yen as the Bank maintained its focus on balancing risk and return. In U.S. dollars, overseas loans increased 302 million dollars (due to the strengthening yen, a decrease of 54.7 billion on a yen basis).

- The Bank continued its efforts to flexibly manage its funding volume in line with its assets. As a result, total core funding (deposits, negotiable certificates of deposit, debentures and bonds) decreased 79.3 billion yen, or 2.5%, from March 31, 2016, to 3,112.3 billion yen. Funding from retail customers was 1,905.6 billion yen, and the percentage of retail funding to total core funding remained above the 60% level.

- Non-performing claims as defined by the Financial Reconstruction Law (FRL) were 17.1 billion yen, a decrease of 5.9 billion yen, or 25.5%, from March 31, 2016. The FRL ratio declined by an additional 0.23 points to 0.67%. The ratio of loan loss reserves to total loans on a consolidated basis remained high at 2.28%.

- The Bank's consolidated capital adequacy ratio (domestic standard) remained at an adequate level of 11.33% (preliminary basis).

Note: In this document, consolidated net income represents 'profit attributable to owners of parent'.

2. FY2016 Interim Performance (April 1, 2016 to September 30, 2016)

Consolidated basis

(billion yen)	Net Revenue	Business Profit	Ordinary Profit	Net Income	Net Income per common share
1H FY2016 (Apr.-Sept.) (a)	46.3	24.1	27.8	25.9	22.16 yen
1H FY2015 (Apr.-Sept.) (b)	46.5	26.6	29.7	24.3	20.83 yen
Change (a) - (b)	-0.2	-2.5	-1.8	1.6	1.33 yen
Percentage change ((a)-(b)) / (b)	-0.4%	-9.5%	-6.2%	6.4%	6.4%
FY2016 full-year forecast (c)	92.0	47.0	53.0	43.0	36.86 yen
Progress (a)/(c)	50.3%	51.2%	52.5%	60.1%	60.1%

Non-consolidated basis

(billion yen)	Net Revenue	Business Profit before general loan-loss reserve	Ordinary Profit	Net Income	Net Income per common share
1H FY2016 (Apr.-Sept.) (a)	44.2	23.8	27.5	26.5	22.68 yen
1H FY2015 (Apr.-Sept.) (b)	44.2	26.0	28.9	23.8	20.38 yen
Change (a) - (b)	0.0	-2.2	-1.4	2.7	2.30 yen
Percentage change ((a)-(b)) / (b)	0.0%	-8.4%	-4.9%	11.3%	11.3%
FY2016 full-year forecast (c)	86.0	45.0	51.0	41.0	35.15 yen
Progress (a)/(c)	51.4%	52.9%	53.8%	64.5%	64.5%

Ⅰ. Revenue and Expenses

(billion yen)	FY2015 3 months Jul.-Sept.	FY2015 Interim (A)	FY2016 3 months Jul.-Sept.	FY2016 Interim (B)	Change (B)－(A) Amount	Change (B)－(A) %	(Ref.) FY2016 Apr.-Jun.	Page
Net revenue	**23.0**	**46.5**	**24.4**	**46.3**	**-0.2**	**-0.4%**	**22.0**	**-**
Net interest income	12.4	25.4	12.2	22.4	-3.0	-11.7%	10.2	4
Net interest margin	*1.27%*	*1.29%*	*1.38%*	*1.27%*	*-0.02%*	-	*1.16%*	4
Non-interest income	10.6	21.1	12.1	23.9	2.8	13.3%	11.8	-
Net fees and commissions	3.1	5.8	2.7	4.9	-0.8	-14.3%	2.2	5
Net trading revenues	1.4	5.1	5.6	10.1	5.0	96.9%	4.5	5
Net other ordinary income	6.2	10.2	3.8	8.9	-1.3	-13.1%	5.1	-
Gains/losses on bond transactions	2.3	4.5	2.1	4.3	-0.2	-4.0%	2.3	6
Net other ordinary income excluding gains/losses on bond transactions	3.9	5.7	1.7	4.6	-1.2	-20.3%	2.8	6
General & administrative expenses	-10.0	-19.9	-11.0	-22.2	-2.3	-11.8%	-11.3	7
Business profit	**13.0**	**26.6**	**13.4**	**24.1**	**-2.5**	**-9.5%**	**10.7**	**-**
Credit-related expenses	0.2	1.8	2.7	3.3	1.5	-	0.6	7
Ordinary profit	**13.7**	**29.7**	**16.0**	**27.8**	**-1.8**	**-6.2%**	**11.9**	**-**
Extraordinary profit/loss	-0.0	-0.0	-0.0	-0.0	0.0	-	-	-
Income before taxes and minority interests	**13.7**	**29.7**	**16.0**	**27.8**	**-1.8**	**-6.2%**	**11.9**	**-**
Taxes	-1.8	-5.4	-4.0	-2.0	3.4	-	2.0	7
Net income	**11.9**	**24.3**	**12.0**	**25.9**	**1.6**	**6.4%**	**13.8**	**-**

In the first half of FY2016, the Bank recorded consolidated net revenue of 46.3 billion yen, a decrease of 0.2 billion yen, or 0.4% year on year.

Net interest income was 22.4 billion yen, a decrease of 3.0 billion yen, or 11.7% year on year, due to factors including increased U.S. dollar funding costs, while the yields on loans and securities increased as the Bank continued its disciplined approach to balance sheet management. In the second quarter (Jul.-Sept.), net interest income remained almost unchanged from the previous year at 12.2 billion yen, an increase of 2.1 billion yen as compared to the first three months of FY2016.

Non-interest income increased 2.8 billion yen, or 13.3% year on year, to 23.9 billion yen, as a result of the Bank's continued efforts to diversify its income sources. Net fees and commissions were 4.9 billion yen, and net trading revenues were 10.1 billion yen mainly due to strong earnings from the sale of derivative-related products targeting the needs of our financial institution customers. Gains/losses on bond transactions were a gain of 4.3 billion yen, resulting in the same level as the first half of FY2015. Net other ordinary income, excluding gains/losses on bond transactions, was 4.6 billion yen, reflecting strong gains from limited partnerships.

General and administrative expenses were 22.2 billion yen, an increase of 2.3 billion yen, or 11.8% year on year. The increase mainly reflected amortization expenses incurred in relation to the Bank's new core banking system. The OHR (general and administrative expenses as a percentage of net revenue) was 48.0% and reflected the Bank's continued efforts to control costs.

Consolidated business profit was 24.1 billion yen, a decrease of 2.5 billion yen, or 9.5%.

Credit-related expenses were a net reversal of 3.3 billion yen, mainly due to the reversal of loan loss reserves as well as recoveries of written-off claims. Ordinary profit and pre-tax income were both 27.8 billion yen, a decrease of 1.8 billion yen, or 6.2%. Taxes were a net expense of 2.0 billion yen.

As a result of the aforementioned factors, consolidated net income was 25.9 billion yen, an increase of 1.6 billion yen, or 6.4% year on year, representing progress of 60% towards the full-year forecast of 43.0 billion yen.

1. Net Revenue

(1)①Net Interest Income

(Ref.)

(billion yen)		FY2015 3 months Jul.-Sept.	FY2015 Interim (A)	FY2016 3 months Jul.-Sept.	FY2016 Interim (B)	Change (B)－(A)	FY2016 Apr.-Jun.
Net interest income	(a)-(b)	12.4	25.4	12.2	22.4	-3.0	10.2
Interest income	(a)	16.0	32.5	17.2	31.9	-0.6	14.7
Interest on loans and discounts		11.0	21.8	10.6	20.7	-1.1	10.1
Interest and dividends on securities		4.8	9.6	6.3	10.6	1.1	4.3
Other interest income		0.2	1.0	0.2	0.5	-0.6	0.2
Interest on swaps		0.1	0.2	0.0	0.1	-0.1	0.1
Interest expenses	(b)	-3.6	-7.1	-4.9	-9.5	-2.3	-4.6
Interest on deposits and NCDs		-2.1	-4.2	-1.6	-3.4	0.9	-1.8
Interest on debentures and bonds		-0.2	-0.3	-0.1	-0.3	0.0	-0.1
Interest on borrowings and rediscount		-0.2	-0.4	-0.2	-0.4	0.0	-0.2
Other interest expenses		-0.3	-0.6	-0.5	-1.0	-0.4	-0.5
Interest on swaps		-0.8	-1.6	-2.5	-4.4	-2.8	-1.9

(1)②Net Interest Margin

(Ref.)

		FY2015 3 months Jul.-Sept.	FY2015 Interim (A)	FY2016 3 months Jul.-Sept.	FY2016 Interim (B)	Change (B)－(A)	FY2016 Apr.-Jun.
Yield on total investments	(a)	1.63%	1.64%	1.90%	1.77%	0.13%	1.64%
Yield on loans		1.61%	1.59%	1.67%	1.64%	0.05%	1.62%
Yield on securities		1.89%	1.86%	2.83%	2.37%	0.51%	1.91%
Yield on funding	(b)	0.36%	0.35%	0.52%	0.50%	0.15%	0.48%
Net interest margin	(a)-(b)	1.27%	1.29%	1.38%	1.27%	-0.02%	1.16%

Net interest income was 22.4 billion yen, a decrease of 3.0 billion yen, or 11.7% year on year. In the second quarter (Jul.-Sept.), net interest income remained almost unchanged from the previous year at 12.2 billion yen, an increase of 2.1 billion yen as compared to the first three months of FY2016. Interest income decreased 0.6 billion yen, partially reflecting the decline in interest on assets other than loans and securities when compared to the level recorded in the first half of FY2015 as ‘Other interest income’. Interest expenses increased 2.3 billion yen as a result of increased U.S. dollar funding costs.

The net interest margin remained almost unchanged year on year at 1.27%, as compared to 1.16% for the first three months of FY2016. The yield on total investments increased 13 bps year on year, due to an increase in the yields on loans and securities as the Bank continued its disciplined approach to balance sheet management. Funding costs increased 15 bps mainly due to an increase in U.S. dollar funding costs, the impact of which exceeded the decline in yen funding costs.

(2) Net Fees and Commissions

(billion yen)	FY2015 3 months Jul.-Sept.	FY2015 Interim (A)	FY2016 3 months Jul.-Sept.	FY2016 Interim (B)	Change (B)－(A)	(Ref.) FY2016 Apr.-Jun.
Net fees and commissions (a)-(b)	3.1	5.8	2.7	4.9	-0.8	2.2
Fees and commissions received (a)	3.3	6.2	3.0	5.5	-0.7	2.5
Loan business-related and deposits	1.4	2.5	1.8	2.8	0.3	1.0
Securities-related and agency	1.6	3.0	0.9	1.8	-1.1	0.9
Others	0.4	0.8	0.3	0.9	0.1	0.6
Fees and commissions payments (b)	-0.3	-0.5	-0.3	-0.6	-0.1	-0.3

Net fees and commissions were 4.9 billion yen, a decrease of 0.8 billion yen, or 14.3% year on year, mainly due to a decline in earnings from the sale of investment trusts and insurance, while loan-related fee income increased compared to the first half of FY2015.

Amid growing uncertainty in global markets, earnings from the Bank's retail-related business (earnings from the sale of investment trusts, insurance and structured bonds) to our mass affluent retail customers were 2.7 billion yen. In accordance with our basic policy on fiduciary duties, the Bank will continue its efforts to enhance its investment product line-up in response to the needs of its customers as well as strengthen the consultative skills of its sales staff, in order to contribute to stable asset growth for customers.

【Ref. 】Earnings from Retail-Related Business

(billion yen)	FY2015 3 months Jul.-Sept.	FY2015 Interim (A)	FY2016 3 months Jul.-Sept.	FY2016 Interim (B)	Change (B)－ (A)	(Ref.) FY2016 Apr.-Jun.
Earnings related to the sale of investment trusts, insurance and structured bonds	1.8	3.7	1.4	2.7	-1.0	1.4

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

(billion yen)	FY2015 3 months Jul.-Sept.	FY2015 Interim (A)	FY2016 3 months Jul.-Sept.	FY2016 Interim (B)	Change (B)－(A)	(Ref.) FY2016 Apr.-Jun.
Net trading revenues	1.4	5.1	5.6	10.1	5.0	4.5
Income on trading-related financial derivatives transactions	1.5	4.0	5.1	8.9	4.9	3.8
Others	-0.1	1.1	0.5	1.2	0.0	0.6

Net trading revenues were 10.1 billion yen, an increase of 5.0 billion yen, or 96.9% year on year. Earnings from the sale of derivative-related products targeting the asset management needs of our financial institution customers remained strong in a negative interest rate environment.

(4) Gains/Losses on Bond Transactions

(billion yen)	FY2015 3 months Jul.-Sept.	FY2015 Interim (A)	FY2016 3 months Jul.-Sept.	FY2016 Interim (B)	Change (B) −(A)	(Ref.) FY2016 Apr.-Jun.
Gains/losses on bond transactions	2.3	4.5	2.1	4.3	-0.2	2.3
Japanese government bonds	0.6	0.7	-	-	-0.7	-
Foreign government bonds and mortgage bonds	0.6	2.3	1.4	3.2	0.9	1.9
Others	1.1	1.4	0.7	1.1	-0.3	0.4

Gains/losses on bond transactions were a gain of 4.3 billion yen, compared with a gain of 4.5 billion yen in the first half of FY2015. 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

(billion yen)	FY2015 3 months Jul.-Sept.	FY2015 Interim (A)	FY2016 3 months Jul.-Sept.	FY2016 Interim (B)	Change (B) −(A)	(Ref.) FY2016 Apr.-Jun.
Net other ordinary income excluding gains/losses on bond transactions	3.9	5.7	1.7	4.6	-1.2	2.8
Gains from limited partnerships	2.9	4.9	2.2	4.3	-0.6	2.0
Real estate-related	0.3	0.4	0.4	0.6	0.2	0.2
Distressed loan-related	1.2	2.5	0.8	2.2	-0.2	1.4
Others (Buyout, etc.)	1.4	2.0	1.0	1.4	-0.6	0.4
Gains on distressed loans (Aozora Loan Services)	0.3	0.2	0.2	0.4	0.1	0.2
Others	0.8	0.6	-0.7	-0.1	-0.7	0.6

Net other ordinary income, excluding gains/losses on bond transactions, was 4.6 billion yen, a decrease of 1.2 billion yen, or 20.3% year on year. This result included gains from limited partnerships of 4.3 billion yen, mainly due to the strong results achieved in the Bank’s distressed loan business.

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

(billion yen)	FY2015 3 months Jul.-Sept.	FY2015 Interim (A)	FY2016 3 months Jul.-Sept.	FY2016 Interim (B)	Change (B)－(A)	(Ref.) FY2016 Apr.-Jun.
G&A expenses	-10.0	-19.9	-11.0	-22.2	-2.3	-11.3
Personnel	-5.3	-10.2	-5.5	-10.5	-0.3	-5.0
Non-personnel expense	-4.3	-8.5	-4.7	-9.8	-1.3	-5.2
Tax	-0.4	-1.2	-0.8	-1.9	-0.7	-1.1

General and administrative expenses were 22.2 billion yen, an increase of 2.3 billion yen, or 11.8% year on year. The increase mainly reflected amortization expenses incurred in relation to the Bank's new core banking system. The OHR (general and administrative expenses as a percentage of net revenue) was 48.0% and reflected the Bank's continued efforts to control costs. General and administrative expenses for the first half represented 49.3% of the full-year budget of 45.0 billion yen.

3. Credit-Related Expenses

(billion yen)	FY2015 3 months Jul.-Sept.	FY2015 Interim (A)	FY2016 3 months Jul.-Sept.	FY2016 Interim (B)	Change (B)－(A)	(Ref.) FY2016 Apr.-Jun.
Credit-related expenses	0.2	1.8	2.7	3.3	1.5	0.6
Write-off of loans	-0.0	-0.0	-0.0	-0.0	0.0	-0.0
Gains/losses on disposition of loans	0.0	-0.1	-0.4	-0.5	-0.4	-0.1
Reserve for possible loan losses	-0.1	-0.0	2.2	3.1	3.2	0.9
Specific reserve for possible loan losses	0.6	-0.8	1.3	1.3	2.1	0.1
General reserve for possible loan losses	-0.7	0.7	1.0	1.8	1.1	0.9
Reserve for credit losses on off-balance-sheet instruments	0.2	-0.2	0.7	-0.1	0.2	-0.8
Recoveries of written-off claims	0.1	2.2	0.2	0.8	-1.4	0.6

Credit-related expenses were a net reversal of 3.3 billion yen, mainly due to the reversal of loan loss reserves as well as recoveries of written-off claims, and compares with a net reversal of 1.8 billion yen in the first half of FY2015. The ratio of loan loss reserves to total loans remained high at 2.28%, which reflected the Bank's mid- to long-term perspective on the conservative allocation of reserves.

4. Taxes

(billion yen)	FY2015 3 months Jul.-Sept.	FY2015 Interim (A)	FY2016 3 months Jul.-Sept.	FY2016 Interim (B)	Change (B)－(A)	(Ref.) FY2016 Apr.-Jun.
Taxes	-1.8	-5.4	-4.0	-2.0	3.4	2.0

Taxes were a net expense of 2.0 billion yen, compared with a net expense of 5.4 billion yen in the first half of FY2015. As a result of a change in the Bank's accounting classification for the calculation of deferred tax assets to Category 2 under Japanese tax rules, in the first quarter the Bank fully recognized the total amount of future deductible temporary differences.

Ⅱ. Balance Sheet

(billion yen)		Mar. 31, 2016 (A)	Jun.30, 2016	Sept. 30, 2016 (B)	Change (B)－(A) Amount	%	Page
Total assets		**4,592.9**	**4,618.3**	**4,575.1**	**-17.8**	**-0.4%**	**-**
	Loan and bills discounted	2,511.6	2,479.7	2,475.4	-36.2	-1.4%	9
	Securities	923.5	885.9	925.6	2.1	0.2%	10
	Cash and due from banks	546.3	569.0	595.3	49.1	9.0%	-
	Trading assets	337.4	411.3	356.5	19.1	5.7%	-
	Others	274.1	272.4	222.2	-52.0	-19.0%	-
Total liabilities		**4,187.4**	**4,202.0**	**4,150.4**	**-37.0**	**-0.9%**	**-**
	Deposits and negotiable certificates of deposit	2,932.1	2,880.5	2,876.8	-55.3	-1.9%	9
	Debentures, Bonds	259.5	251.3	235.5	-24.0	-9.3%	9
	Borrowed money	208.0	226.0	224.4	16.3	7.8%	-
	Payables under securities lending transactions	263.5	214.7	269.3	5.8	2.2%	-
	Trading liabilities	269.9	296.1	252.8	-17.1	-6.3%	-
	Others	254.4	333.3	291.6	37.3	14.6%	-
Total net assets		**405.5**	**416.3**	**424.7**	**19.2**	**4.7%**	**-**
	Capital stock	100.0	100.0	100.0	-	-	-
	Capital surplus	87.3	87.3	87.3	0.0	0.0%	-
	Retained earnings	199.8	207.1	214.4	14.7	7.3%	-
	Treasury stock	-3.4	-3.4	-3.4	0.0	0.0%	-
	Valuation difference on available-for-sale securities	16.3	19.8	24.2	7.9	48.8%	-
	Others	5.5	5.5	2.1	-3.4	-62.0%	-
Total liabilities and net assets		**4,592.9**	**4,618.3**	**4,575.1**	**-17.8**	**-0.4%**	**-**

Total assets were 4,575.1 billion yen as of September 30, 2016, a decrease of 17.8 billion yen, or 0.4%, compared to March 31, 2016. Loans were 2,475.4 billion yen, a decrease of 36.2 billion yen, or 1.4%, from March 31, 2016. Domestic loans increased 18.5 billion yen. In U.S. dollars, overseas loans increased 302 million dollars (due to the strengthening yen, a decrease of 54.7 billion on a yen basis). Securities increased by 2.1 billion yen, or 0.2%, from March 31, 2016, to 925.6 billion yen.

Total liabilities were 4,150.4 billion yen, a decrease of 37.0 billion yen, or 0.9%, compared to March 31, 2016. The Bank continued its efforts to flexibly manage its funding volume in line with its assets. As a result, total core funding (deposits, negotiable certificates of deposit, debentures and bonds) decreased 79.3 billion yen, or 2.5%, from March 31, 2016, to 3,112.3 billion yen.

Net assets were 424.7 billion yen, representing an increase of 19.2 billion yen, or 4.7%, in comparison with March 31, 2016.

Net assets per common share were 362.19 yen, as compared to 346.83 yen per common share as of March 31, 2016.

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

(billion yen)	Mar. 31, 2016 (A)	Jun. 30, 2016	Sept. 30, 2016 (B)	Change (B)－(A)
Total core funding	3,191.6	3,131.8	3,112.3	-79.3

Funding sources by product

(billion yen)	Mar. 31, 2016 (A)	Jun. 30, 2016	Sept. 30, 2016 (B)	Change (B)－(A)
Deposits/NCDs	2,932.1	2,880.5	2,876.8	-55.3
Debentures/Bonds	259.5	251.3	235.5	-24.0

Funding sources by customer

(billion yen)	Mar. 31, 2016 (A)	Jun. 30, 2016	Sept. 30, 2016 (B)	Change (B)－(A)
Retail	1,995.5	1,964.0	1,905.6	-89.9
Corporate	616.0	576.1	607.4	-8.6
Financial Institutions	580.1	591.6	599.3	19.2

Note: Corporate includes public entities

The Bank continued its efforts to flexibly manage its funding volume in line with its assets. As a result, total core funding (deposits, negotiable certificates of deposit, debentures and bonds) decreased 79.3 billion yen, or 2.5%, from March 31, 2016, to 3,112.3 billion yen. The percentage of retail funding to total core funding remained above the 60% level.

While U.S. dollar funding costs have increased since last year, market availability of foreign currency remains stable. The Bank will continue its efforts to secure stable funding through the diversification of its funding sources.

As of September 30, 2016, the Bank maintained adequate liquidity reserves of 630.4 billion yen.

2. Loans

(billion yen)	Mar. 31, 2016 (A)	Jun. 30, 2016	Sept. 30, 2016 (B)	Change (B)－(A)
Loans	2,511.6	2,479.7	2,475.4	-36.2
Domestic loans	1,683.1	1,719.8	1,701.5	18.5
Overseas loans	828.5	759.9	773.9	-54.7
U.S. dollar basis ($ million)	7,353	7,385	7,655	302

Note: Overseas loans with no final risk residing in Japan

Loans were 2,475.4 billion yen, a decrease of 36.2 billion yen, or 1.4%, from March 31, 2016.

Domestic loans increased 18.5 billion yen, as the Bank maintained its focus on balancing risk and return. In U.S. dollars, overseas loans increased 302 million dollars (due to the strengthening yen, a decrease of 54.7 billion on a yen basis) as a result of the Bank's selective origination of real estate non-recourse loans and corporate loans, mainly in North America where the risk-return profiles remain attractive.

3. Securities

(billion yen)		Book Value				Unrealized Gains/Losses			
		Mar. 31, 2016 (A)	Jun. 30, 2016	Sept. 30, 2016 (B)	Change (B) – (A)	Mar. 31, 2016 (A)	Jun. 30, 2016	Sept.30, 2016 (B)	Change (B) – (A)
JGBs		28.3	8.1	8.1	-20.2	-0.0	-0.0	-0.0	0.0
Municipal bonds		15.1	17.8	20.8	5.7	0.3	0.3	0.3	0.0
Corporate bonds		34.1	31.7	35.0	0.9	0.3	0.3	0.2	-0.0
Equities		42.2	44.7	48.0	5.7	23.5	26.1	29.3	5.7
Foreign bonds		374.5	334.8	366.5	-8.0	1.8	3.9	1.4	-0.4
	Foreign government bonds	227.5	183.3	206.2	-21.3	1.6	2.7	0.1	-1.5
	Mortgage bonds	107.5	109.3	120.3	12.8	-0.0	0.8	0.6	0.7
	Others	39.5	42.2	40.0	0.5	0.3	0.4	0.7	0.4
Others		429.4	448.8	447.3	17.9	-2.8	-2.3	3.5	6.3
	ETFs	213.1	217.0	248.9	35.8	-3.0	-0.2	3.1	6.1
	Investment in limited partnerships	75.3	73.7	73.6	-1.8	1.1	0.7	0.6	-0.5
	REIT	51.0	56.1	62.3	11.3	3.2	3.1	3.4	0.2
	Investment trusts	69.2	80.4	47.3	-21.9	-4.5	-6.2	-4.1	0.3
	Others	20.7	21.6	15.3	-5.5	0.3	0.3	0.5	0.1
Total		923.5	885.9	925.6	2.1	23.0	28.3	34.7	11.6

Ref: Incl. unrealized gains on hedging instruments	29.4	35.0	36.9	7.5

Securities were 925.6 billion yen as of September 30, 2016, an increase of 2.1 billion yen, or 0.2%, compared to March 31, 2016. In the first half of FY2016, ETFs and mortgage bonds increased, while investment trusts and foreign government bonds were reduced.

Interest and dividends on securities were 10.6 billion yen, and gains on bond transactions were 4.3 billion yen. These results reflected the Bank’s continued efforts to secure stable income, despite continued uncertainty in global markets, through an ongoing focus on diversification and efficient asset allocation in its investment portfolio.

Total unrealized gains increased 11.6 billion yen from March 31, 2016 to 34.7 billion yen, as a result of the Bank’s continued focus on a diversified investment portfolio in consideration of correlations.

The Bank’s Japanese equity ETF position is fully hedged, as is a portion of equities. Total unrealized gains, including unrealized gains on hedging instruments, were 36.9 billion yen.

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

(billion yen)		Mar. 31, 2016 (A)	Jun. 30, 2016	Sept. 30, 2016 (B)	Change (B)−(A)
Bankrupt and similar credit		0.1	0.1	0.1	-
Doubtful credit		19.0	17.5	14.9	-4.1
Special attention credit		3.8	2.9	2.1	-1.7
FRL credit, total	(a)	23.0	20.5	17.1	-5.9
Normal credit	(b)	2,528.2	2,504.1	2,508.8	-19.3
Total credit	(c)=((a)+(b))	2,551.1	2,524.6	2,525.9	-25.2
FRL credit ratio	(a)/(c)	0.90%	0.81%	0.67%	-0.23%

Non-performing claims as defined by the Financial Reconstruction Law (FRL) were 17.1 billion yen, a decrease of 5.9 billion yen, or 25.5%, from March 31, 2016, mainly due to the collection of claims, including doubtful and special attention credits. The FRL ratio declined by an additional 0.23 points to 0.67%. The percentage of FRL claims covered by reserves, collateral and guarantees was 86.7% as of September 30, 2016. The ratio of loan loss reserves to total loans on a consolidated basis remained high at 2.28% as of September 30, 2016.

Ⅳ. Capital Adequacy Ratio (Preliminary)

(billion yen)	Mar. 31, 2016 (A)	Jun. 30, 2016	Sept. 30, 2016 (B)	Change (B)−(A)
Capital adequacy ratio	11.03%	11.01%	11.33%	0.30%
Regulatory capital	417.1	425.8	433.7	16.6
Risk assets	3,778.3	3,864.3	3,826.0	47.7

Aozora's consolidated capital adequacy ratio (domestic standard) remained at an adequate level of 11.33% (preliminary basis). For reference purposes, the Bank's CET1 ratio was approximately 10.5%.

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.