

July 31, 2017

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Aozora Reports Profit Attributable to Owners of Parent of 14.5 billion for the First Three Months of FY2017; Increase of 5.1% compared to previous year; Progress of 34% towards full-year forecast

TOKYO July 31, 2017 – Aozora Bank, Ltd. (“Aozora” or “the Bank”), a leading Japanese commercial bank, today announced its financial results for the first three months of FY2017.

Earnings results for the first three months of FY2017

In the first three months of FY2017, Aozora reported consolidated net revenue of 21.7 billion yen and profit attributable to owners of parent of 14.5 billion yen, representing progress of 24% and 34%, respectively, towards the full-year forecasts of 92.0 billion yen and 43.0 billion yen.

Shinsuke Baba, Representative Director, President and Chief Executive Officer of Aozora Bank commented, “The banking sector in Japan continues to face challenging business conditions due to the ongoing low interest rate environment, while in global markets we have begun to witness a gradual change towards a normalization of monetary easing policies. For the first quarter, we were pleased to report profit attributable to owners of parent of 14.5 billion yen, an increase from the prior year and representing progress of 34% 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 diversification of income sources. Today we announced a first quarter dividend of 4.00 yen per common share.”

Baba concluded, “Looking ahead, we remain committed to leveraging our expertise and the provision of differentiated services in order to further enhance Aozora’s corporate value, while paying careful 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 the results for the first three months (Consolidated)

- Net revenue was 21.7 billion yen, a decrease of 0.3 billion yen, or 1.4% year on year, and business profit was 10.1 billion yen, a decrease of 0.6 billion yen, or 5.6% year on year. Profit attributable to owners of parent was 14.5 billion yen, an increase of 0.7 billion yen, or 5.1%, representing progress of 34% towards the full-year forecast of 43.0 billion yen.
 - Net interest income was 12.9 billion yen, an increase of 2.7 billion yen, or 26.5% year on year, and reflected 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.
 - Non-interest income was 8.7 billion yen, a decrease of 3.1 billion yen, or 26.3% year on year. The change was due to factors including a decline in gains/losses on bond transactions, while earnings from the Bank’s retail-related business and gains from limited partnerships were strong.
 - General and administrative expenses were 11.6 billion yen, a year on year increase of 0.3 billion yen, or 2.7%, representing 25.2% of the 46.0 billion yen budgeted for the full-year. This change was mainly due to incremental staff for the Bank’s Internet banking project, as well as for its business areas of focus.
 - Credit-related expenses were a net reversal of 4.6 billion yen, mainly due to the reversal of specific loan loss reserves resulting from the collection of non-performing claims. This result compares with the net reversal of 0.6 billion yen recorded in the first three months of FY2016.

- Total loans were 2,514.5 billion yen, a decrease of 7.4 billion yen, or 0.3%, from March 31, 2017. Domestic loans decreased 54.2 billion yen as the Bank maintained its focus on balancing risk and return. Overseas loans increased 46.8 billion yen.
- The Bank continued its efforts to flexibly manage its funding position. Total core funding (deposits, negotiable certificates of deposit, debentures and bonds) was 3,142.1 billion yen, an increase of 42.7 billion yen, or 1.4%, from March 31, 2017. The percentage of retail funding to total core funding was 58% and remained at an appropriate level.
- Non-performing claims as defined by the Financial Reconstruction Law (FRL) were 3.5 billion yen, a decrease of 9.4 billion yen, or 72.9%, from March 31, 2017. The FRL ratio declined by 0.37 points to 0.13%. The ratio of loan loss reserves to total loans on a consolidated basis remained high at 1.86%.
- Aozora will announce its June 30, 2017 consolidated capital adequacy ratio (domestic standard) at a later date. As of March 31, 2017, the ratio was 10.75%, and is expected to remain at an adequate level.

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. Performance in the first three months of FY2017 (April 1, 2017 to June 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
FY2017 1 st quarter (Apr.-Jun.) (a)	21.7	10.1	17.6	14.5	12.45 yen
FY2016 1 st quarter (Apr.-Jun.) (b)	22.0	10.7	11.9	13.8	11.85 yen
Change (a) - (b)	-0.3	-0.6	5.7	0.7	0.60 yen
Percentage change ((a)-(b)) / (b)	-1.4%	-5.6%	47.9%	5.1%	5.1%
FY2017 full-year forecast (c)	92.0	46.0	56.5	43.0	36.86 yen
Progress (a)/(c)	23.5%	21.9%	31.1%	33.7%	33.7%

Non-consolidated basis

(billion yen)	Net Revenue	Business Profit before general loan-loss reserve	Ordinary Profit	Profit attributable to owners of parent	Profit attributable to owners of parent per common share
FY2017 1 st quarter (Apr.-Jun.) (a)	20.7	10.2	17.7	14.6	12.51 yen
FY2016 1 st quarter (Apr.-Jun.) (b)	21.1	10.7	11.7	14.7	12.61 yen
Change (a) - (b)	-0.4	-0.5	6.0	-0.1	-0.10 yen
Percentage change ((a)-(b)) / (b)	-1.9%	-4.7%	51.3%	-0.7%	-0.8%
FY2017 full-year forecast (c)	86.0	44.0	54.0	42.0	36.00 yen
Progress (a)/(c)	24.0%	23.2%	32.6%	34.7%	34.7%

Note: Effective October 1, 2017, the Bank intends to consolidate every ten common shares into one common share. The above profit attributable to owners of parent per common share forecast for FY2017 does not reflect the scheduled consolidation of shares.

I. Revenue and Expenses

(billion yen)	FY2016	FY2017	Change (B) – (A)		Page
	Apr.-Jun. (A)	Apr.-Jun. (B)	Amount	%	
Net revenue	22.0	21.7	-0.3	-1.4%	-
Net interest income	10.2	12.9	2.7	26.5%	4
<i>Net interest margin</i>	<i>1.16%</i>	<i>1.42%</i>	<i>0.26%</i>	-	4
Non-interest income	11.8	8.7	-3.1	-26.3%	-
Net fees and commissions	2.2	1.9	-0.3	-13.6%	5
Net trading revenues	4.5	3.7	-0.8	-17.8%	5
Gains/losses on bond transactions	2.3	1.0	-1.3	-56.5%	6
Net other ordinary income excluding gains/losses	2.8	2.1	-0.7	-25.0%	6
General & administrative expenses	-11.3	-11.6	-0.3	-2.7%	6
Business profit	10.7	10.1	-0.6	-5.6%	-
Credit-related expenses	0.6	4.6	4.0	-	7
Gains/losses on stock transactions	0.4	3.3	2.9	-	7
Other gains/losses	0.2	-0.5	-0.7	-	-
Ordinary profit	11.9	17.6	5.7	47.9%	-
Extraordinary profit/loss	-	-	0.0	-	-
Profit before income taxes	11.9	17.6	5.7	47.9%	-
Taxes	2.0	-3.2	-5.2	-	7
Profit attributable to owners of parent	13.8	14.5	0.7	5.1%	-

In the first three months of FY2017, the Bank recorded consolidated net revenue of 21.7 billion yen, a decrease of 0.3 billion yen, or 1.4% year on year.

Net interest income was 12.9 billion yen, an increase of 2.7 billion yen, or 26.5% year on year, and reflected 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.

Non-interest income was 8.7 billion yen, a decrease of 3.1 billion yen, or 26.3% year on year. Net fees and commissions were 1.9 billion yen, a decrease of 0.3 billion yen, or 13.6% year on year, and net trading revenues were 3.7 billion yen, a decrease of 0.8 billion yen, or 17.8%. Earnings from the sale of financial products to the Bank's mass affluent retail customers increased compared to the previous year. Gains/losses on bond transactions were a gain of 1.0 billion yen, compared with a gain of 2.3 billion yen in the first three months of FY2016. Net other ordinary income, excluding gains/losses on bond transactions, was 2.1 billion yen, a decrease of 0.7 billion yen, or 25.0% year on year.

General and administrative expenses were 11.6 billion yen, a year on year increase of 0.3 billion yen, or 2.7%, representing 25.2% of the 46.0 billion yen budgeted for the full-year. The expense increase was mainly due to incremental staff for the Bank's Internet banking project, as well as its business areas of focus.

Consolidated business profit was 10.1 billion yen, a decrease of 0.6 billion yen, or 5.6%.

Credit-related expenses were a net reversal of 4.6 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 3.3 billion yen. Ordinary profit and pre-tax income were both 17.6 billion yen, an increase of 5.7 billion yen, or 47.9%. Taxes were a net expense of 3.2 billion yen.

As a result of the aforementioned factors, profit attributable to owners of parent was 14.5 billion yen, an increase of 0.7 billion yen, or 5.1% year on year, representing progress of 34% towards the full-year forecast of 43.0 billion yen.

1. Net Revenue

(1)①Net Interest Income

(billion yen)	FY2016	FY2017	Change (B) – (A)
	Apr.-Jun. (A)	Apr.-Jun. (B)	
Net interest income (a)-(b)	10.2	12.9	2.7
Interest income (a)	14.7	19.4	4.7
Interest on loans and discounts	10.1	11.2	1.1
Interest and dividends on securities	4.3	7.5	3.2
Other interest income	0.2	0.7	0.5
Interest on swaps	0.1	-	-0.1
Interest expense (b)	-4.6	-6.4	-1.8
Interest on deposits and NCDs	-1.8	-1.3	0.5
Interest on debentures and bonds	-0.1	-0.3	-0.2
Interest on borrowings and rediscount	-0.2	-0.3	-0.1
Other interest expenses	-0.5	-1.1	-0.6
Interest on swaps	-1.9	-3.4	-1.5

(1)②Net Interest Margin

	FY2016	FY2017	Change (B) – (A)
	Apr.-Jun. (A)	Apr.-Jun. (B)	
Yield on total investments (a)	1.64%	2.09%	0.45%
Yield on loans	1.62%	1.77%	0.15%
Yield on securities	1.91%	3.13%	1.22%
Yield on funding (b)	0.48%	0.67%	0.19%
Net interest margin (a)-(b)	1.16%	1.42%	0.26%

Net interest income was 12.9 billion yen, an increase of 2.7 billion yen, or 26.5% year on year. Interest income increased 4.7 billion yen year on year. The change was due to an increase in interest on loans, as well as an increase in interest and dividends on securities which mainly reflected dividends on investment trusts and ETFs. Interest expense increased 1.8 billion yen, largely the result of a rise in U.S. dollar interest rates.

The yield on total investments increased 45 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 which were mainly due to dividends on investment trusts and ETFs. Funding costs increased 19 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. The net interest margin was 1.42%.

(2) Net Fees and Commissions

(billion yen)	FY2016	FY2017	Change (B)－(A)
	Apr.-Jun. (A)	Apr.-Jun. (B)	
Net fees and commissions (a)-(b)	2.2	1.9	-0.3
Fees and commissions received (a)	2.5	2.2	-0.3
Loan business-related and deposits	1.0	0.8	-0.2
Securities-related and agency	0.9	1.0	0.1
Others	0.6	0.4	-0.2
Fees and commissions payments (b)	-0.3	-0.3	0.0

Net fees and commissions were 1.9 billion yen, a decrease of 0.3 billion yen, or 13.6% year on year. The change was mainly due to a decline in loan-related fee income.

Earnings from the sale of financial products to our mass affluent retail customers were 1.7 billion yen, a year on year increase of 0.3 billion yen. The Bank is committed to providing customer-oriented services and will continue its efforts to enhance its investment product line-up to meet 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 our customers.

【Ref. 】 Earnings from Financial Product Sales to Retail Customers

(billion yen)	FY2016	FY2017	Change (B)－(A)
	Apr.-Jun. (A)	Apr.-Jun. (B)	
Earnings related to the sale of investment trusts, insurance and structured bonds	1.4	1.7	0.3

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)	FY2016	FY2017	Change (B)－(A)
	Apr.-Jun. (A)	Apr.-Jun. (B)	
Net trading revenues	4.5	3.7	-0.8
Income on trading-related financial derivatives transactions	3.8	2.4	-1.4
Others	0.6	1.3	0.7

Net trading revenues were 3.7 billion yen, a decrease of 0.8 billion yen, or 17.8% year on year. Included in the above results were strong earnings from the sale of derivative-related products designed to meet the asset management needs of our financial institution customers.

(4) Gains/Losses on Bond Transactions

(billion yen)	FY2016	FY2017	Change (B) – (A)
	Apr.-Jun. (A)	Apr.-Jun. (B)	
Gains/losses on bond transactions	2.3	1.0	-1.3
Japanese government bonds	-	-	-
Foreign government bonds and mortgage bonds	1.9	0.4	-1.5
Others	0.4	0.6	0.2

Gains/losses on bond transactions were a gain of 1.0 billion yen, mainly as a result of gains from the sale of foreign government bonds. For the first three months of FY2016, gains/losses on bond transactions were a gain of 2.3 billion yen.

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

(billion yen)	FY2016	FY2017	Change (B) – (A)
	Apr.-Jun. (A)	Apr.-Jun. (B)	
Net other ordinary income excluding gains/losses on bond transactions	2.8	2.1	-0.7
Incl. Gains from limited partnerships	2.0	2.6	0.6
Real estate-related	0.2	1.3	1.1
Distressed loan-related	1.4	1.4	0.0
Others (Buyout, etc.)	0.4	-0.0	-0.4

Net other ordinary income, excluding gains/losses on bond transactions, was 2.1 billion yen, a decrease of 0.7 billion yen, or 25.0% year on year. Gains from limited partnerships increased 0.6 billion yen from the previous year to 2.6 billion yen and mainly reflected gains recognized from the Bank's real estate-related limited partnerships. Also contributing were the positive results recorded in the Bank's distressed loan business.

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

(billion yen)	FY2016	FY2017	Change (B) – (A)
	Apr.-Jun. (A)	Apr.-Jun. (B)	
G&A expenses	-11.3	-11.6	-0.3
Personnel	-5.0	-5.5	-0.5
Non-personnel expense	-5.2	-4.9	0.3
Tax	-1.1	-1.2	-0.1

General and administrative expenses were 11.6 billion yen, an increase of 0.3 billion yen, or 2.7% year on year. The increase was mainly due to incremental staff for the Bank's Internet banking project as well as for its business areas of focus. General and administrative expenses for the first three months represented 25.2% of the 46.0 billion yen budgeted for the full year and reflected the Bank's continued efforts to control costs. The OHR (general and administrative expenses as a percentage of net revenue) was 53.4%.

3. Credit-Related Expenses

(billion yen)	FY2016	FY2017	Change (B)－(A)
	Apr.-Jun. (A)	Apr.-Jun. (B)	
Credit-related expenses	0.6	4.6	4.0
Write-off of loans	-0.0	-0.0	0.0
Reserve for possible loan losses	0.9	3.8	2.9
Specific reserve for possible loan losses	0.1	2.8	2.7
General reserve for possible loan losses	0.9	1.0	0.1
Gains/losses on disposition of loans	-0.1	-	0.1
Recoveries of written-off claims	0.6	0.5	-0.1
Reserve for credit losses on off-balance-sheet instruments	-0.8	0.3	1.1

Credit-related expenses were a net reversal of 4.6 billion yen, mainly due to the reversal of specific loan loss reserves resulting from the collection of non-performing claims. This result compares with the net reversal of 0.6 billion yen recorded in the first three months of FY2016. The ratio of loan loss reserves to total loans remained high at 1.86% and incorporates the Bank's mid- to long-term perspective on the conservative allocation of reserves.

4. Gains/ Losses on Stock Transactions

(billion yen)	FY2016	FY2017	Change (B)－(A)
	Apr. - Jun. (A)	Apr. - Jun. (B)	
Gains/losses on stock transactions	0.4	3.3	2.9

Gains/losses on stock transactions were a gain of 3.3 billion yen, and were mainly due to gains from the sale of domestic equity ETFs.

5. Taxes

(billion yen)	FY2016	FY2017	Change (B)－(A)
	Apr. - Jun. (A)	Apr. - Jun. (B)	
Taxes	2.0	-3.2	-5.2

Taxes were a net expense of 3.2 billion yen. In the first three months of FY2016, taxes were a net credit of 2.0 billion yen 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 of FY2016, the Bank fully recognized the total amount of future deductible temporary differences.

II. Balance Sheet

(billion yen)	Mar. 31, 2017 (A)	Jun.30, 2017 (B)	Change (B) — (A)		Page
			Amount	%	
Total assets	4,586.0	4,744.4	158.4	3.5%	-
Loan and bills discounted	2,521.9	2,514.5	-7.4	-0.3%	9
Securities	937.9	1,084.0	146.1	15.6%	10
Cash and due from banks	573.0	605.7	32.7	5.7%	-
Trading assets	210.7	195.5	-15.2	-7.2%	-
Others	342.4	344.7	2.3	0.7%	-
Total liabilities	4,165.7	4,316.0	150.3	3.6%	-
Deposits and negotiable certificates of deposit	2,853.1	2,890.2	37.1	1.3%	9
Debentures, Bonds	246.3	251.9	5.6	2.3%	9
Borrowed money	276.6	290.1	13.5	4.9%	-
Payables under securities lending transactions	306.3	394.2	87.9	28.7%	-
Trading liabilities	197.7	176.3	-21.4	-10.8%	-
Others	285.6	313.3	27.7	9.7%	-
Total net assets	420.3	428.4	8.1	1.9%	-
Capital stock	100.0	100.0	0.0	0.0%	-
Capital surplus	87.3	87.3	0.0	0.0%	-
Retained earnings	221.9	229.8	7.9	3.6%	-
Treasury stock	-3.4	-3.4	0.0	0.0%	-
Valuation difference on available-for-sale securities	23.8	25.7	1.9	8.0%	-
Others	-9.3	-11.1	-1.8	19.4%	-
Total liabilities and net assets	4,586.0	4,744.4	158.4	3.5%	-

Total assets were 4,744.4 billion yen as of June 30, 2017, an increase of 158.4 billion yen, or 3.5%, compared to March 31, 2017. Loans were 2,514.5 billion yen, a decrease of 7.4 billion yen, or 0.3%, from March 31, 2017. Domestic loans decreased 54.2 billion yen, while overseas loans increased 46.8 billion yen. Securities increased by 146.1 billion yen, or 15.6 %, from March 31, 2017, to 1,084.0 billion yen.

Total liabilities were 4,316.0 billion yen, an increase of 150.3 billion yen, or 3.6%, compared to March 31, 2017. The Bank continued its efforts to flexibly manage its funding position. Total core funding (deposits, negotiable certificates of deposit, debentures and bonds) increased 42.7 billion yen, or 1.4%, from March 31, 2017, to 3,142.1 billion yen.

Net assets were 428.4 billion yen, representing an increase of 8.1 billion yen, or 1.9%, from March 31, 2017.

Net assets per common share were 365.63 yen, as compared to 358.61 yen per common share as of March 31, 2017.

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

(billion yen)	Mar. 31, 2017 (A)	Jun. 30, 2017 (B)	Change (B)–(A)
Total core funding	3,099.4	3,142.1	42.7

Funding sources by product

(billion yen)	Mar. 31, 2017 (A)	Jun. 30, 2017 (B)	Change (B)–(A)
Deposits/NCDs	2,853.1	2,890.2	37.1
Debentures/Bonds	246.3	251.9	5.6

Funding sources by customer

(billion yen)	Mar. 31, 2017 (A)	Jun. 30, 2017 (B)	Change (B)–(A)
Retail	1,829.4	1,819.8	-9.6
Corporate	610.5	596.9	-13.6
Financial Institutions	659.4	725.4	66.0

Note: Corporate includes public entities

The Bank continued its efforts to flexibly manage its funding position. Total core funding (deposits, negotiable certificates of deposit, debentures and bonds) was 3,142.1 billion yen, an increase of 42.7 billion yen, or 1.4%, from March 31, 2017. The percentage of retail funding to total core funding was 58%.

While the market availability of foreign currency funding remains more than adequate, the Bank is making ongoing efforts to further diversify and strengthen its funding base.

As of June 30, 2017, the Bank maintained adequate liquidity reserves of 647.5 billion yen.

2. Loans

(billion yen)	Mar. 31, 2017 (A)	Jun. 30, 2017 (B)	Change (B)–(A)
Loans	2,521.9	2,514.5	-7.4
Domestic loans	1,651.9	1,597.7	-54.2
Overseas loans	870.0	916.8	46.8
U.S. dollar basis (\$ million)	\$7,755	\$8,187	\$432

Note: Overseas loans with no final risk residing in Japan

Loans were 2,514.5 billion yen, a decrease of 7.4 billion yen, or 0.3%, from March 31, 2017.

Domestic loans decreased 54.2 billion yen as the Bank maintained its focus on balancing risk and return.

Overseas loans increased 46.8 billion yen (an increase of 432 million on a U.S. dollar basis) as a 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 attractive.

3. Securities

(billion yen)	Book Value			Unrealized Gains/Losses		
	Mar. 31, 2017 (A)	Jun. 30, 2017 (B)	Change (B) – (A)	Mar. 31, 2017 (A)	Jun. 30, 2017 (B)	Change (B) – (A)
JGBs	8.1	13.1	5.0	-0.0	-0.0	0.0
Municipal bonds	26.7	29.0	2.3	0.1	0.1	0.0
Corporate bonds	28.4	32.0	3.6	0.1	0.1	0.0
Equities	63.1	64.3	1.2	43.9	45.2	1.3
Foreign bonds	343.9	476.4	132.5	-12.9	-11.5	1.4
Foreign government bonds	174.2	262.2	88.0	-9.2	-8.9	0.3
Mortgage bonds	117.1	131.7	14.6	-4.1	-3.9	0.2
Others	52.7	82.5	29.8	0.4	1.3	0.9
Others	467.8	469.3	1.5	8.4	8.2	-0.2
ETFs	276.2	285.2	9.0	4.1	4.3	0.2
Investment in limited partnerships	65.6	62.6	-3.0	0.8	0.9	0.1
REIT	61.1	59.0	-2.1	2.8	1.9	-0.9
Investment trusts	48.6	45.1	-3.5	0.3	0.5	0.2
Others	16.3	17.4	1.1	0.5	0.5	0.0
Total	937.9	1,084.0	146.1	39.7	42.0	2.3

Ref: Incl. unrealized hedging gains	25.3	25.1	-0.2
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Securities were 1,084.0 billion yen as of June 30, 2017, an increase of 146.1 billion yen, or 15.6%, compared to March 31, 2017. Foreign bonds increased 132.5 billion yen. In the first three months of FY2017 (Apr.-Jun.), the Bank increased its foreign bond position which was 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.

For the first quarter, interest and dividends on securities were 7.5 billion yen, gains on bond transactions were 1.0 billion yen and gains on stock transactions were 3.3 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.

Total unrealized gains increased 2.3 billion yen from March 31, 2017 to 42.0 billion yen, as the Bank continued its focus on a diversified investment portfolio in consideration of correlations.

The Bank's Japanese equity ETF position is hedged, as is a portion of equities. Total unrealized gains, including unrealized hedging gains, were almost unchanged from March 31, 2017 at 25.1 billion yen.

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

	(billion yen)	Mar. 31, 2017 (A)	Jun. 30, 2017 (B)	Change (B) – (A)
Bankrupt and similar credit		0.0	0.0	0.0
Doubtful credit		11.5	2.1	-9.4
Special attention credit		1.4	1.4	0.0
FRL credit, total	(a)	12.9	3.5	-9.4
Normal credit	(b)	2,558.9	2,563.7	4.8
Total credit	(c)=((a)+(b))	2,571.8	2,567.3	-4.5
FRL credit ratio	(a)/(c)	0.50%	0.13%	-0.37%

Non-performing claims as defined by the Financial Reconstruction Law (FRL) were 3.5 billion yen, a decrease of 9.4 billion yen, or 72.9%, from March 31, 2017. The decline was mainly due to the collection of doubtful credit claims. The FRL ratio declined by 0.37 points to 0.13%. The percentage of FRL claims covered by reserves, collateral and guarantees was 100.0% as of June 30, 2017. The ratio of loan loss reserves to total loans on a consolidated basis remained high at 1.86% as of June 30, 2017.

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.