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**Aozora Reports Net Income of 13.8 billion for the First Three Months of FY2016;  
- Progress of 32% towards full-year forecast -**

**TOKYO August 1, 2016** – Aozora Bank, Ltd. (“Aozora” or “the Bank”), a leading Japanese commercial bank, today announced its financial results for the first three months of FY2016.

**Earnings results for the first three months of FY2016**

In the first three months of FY2016, Aozora reported consolidated net revenue of 22.0 billion yen and net income of 13.8 billion yen, representing progress of 24% and 32%, 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 has experienced an increasingly difficult business environment marked by a decline in market interest rates following the introduction of negative interest rates in Japan, as well as growing uncertainty in global markets including the United Kingdom’s recent referendum on EU membership. For the first quarter, we were pleased to achieve 32% of our net income forecast for the full year, reflecting 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. The full year earnings forecast of 43.0 billion yen as well as dividend forecast of 18.40 yen per share remain unchanged.”

Baba concluded, “In light of recent uncertainty in our operating environment, we intend to take a more cautious approach with 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 results for the first three months (Consolidated)**

- Net revenue was 22.0 billion yen, a decrease of 1.5 billion yen, or 6.5% year on year (a decrease of 0.6 billion yen, or 2.6%, from the previous quarter), and business profit was 10.7 billion yen, a decrease of 2.9 billion yen, or 21.5% year on year (an increase of 0.7 billion yen, or 6.8%, from the previous quarter). Net income was 13.8 billion yen, an increase of 1.5 billion yen, or 11.8%, representing progress of 32% towards the full-year forecast of 43.0 billion yen.
  - Net interest income was 10.2 billion yen, a decrease of 2.8 billion yen, or 21.7% year on year (a decrease of 0.9 billion yen, or 7.8%, from the previous quarter) 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.
  - Non-interest income was 11.8 billion yen, an increase of 1.3 billion yen, or 12.5% year on year (an increase of 0.3 billion yen, or 2.4% from the previous quarter), mainly reflecting strong earnings from the sale of derivative-related products.
  - General and administrative expenses were 11.3 billion yen, a year on year increase of 1.4 billion yen, or 14.4%, representing 25.0% of the 45.0 billion yen budgeted for the full-year.
  - Credit-related expenses were a net reversal of 0.6 billion yen, compared with a net reversal of 1.6 billion yen recorded in the first three months of FY2015, mainly due to recoveries of written-off claims.

- The loan balance was 2,479.7 billion yen, a decrease of 32.0 billion yen, or 1.3%, from March 31, 2016. Domestic loans increased 36.7 billion yen as the Bank maintained its focus on balancing risk and return. In U.S. dollar terms, overseas loans increased 32.0 million dollars (due to the strengthening yen, a decrease of 68.6 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 59.8 billion yen, or 1.9%, from March 31, 2016, to 3,131.8 billion yen. Funding from retail customers was 1,964.0 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 20.5 billion yen, a decrease of 2.5 billion yen, or 10.7%, from March 31, 2016. The FRL ratio improved by 0.09 points to 0.81%. The ratio of loan loss reserves to total loans on a consolidated basis remained high at 2.40%.
- Aozora will announce its June 30, 2016 consolidated capital adequacy ratio (domestic standard) at a later date. As of March 31, 2016, the ratio was 11.03%, and is expected to remain at an adequate level.

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

## 2. Performance in the first three months of FY2016 (April 1, 2016 to June 30, 2016)

### Consolidated basis

(billion yen)	Net Revenue	Business Profit	Ordinary Profit	Net Income	Net Income per common share
FY2016 1 <sup>st</sup> quarter (Apr.-Jun.) (a)	22.0	10.7	11.9	13.8	11.85 yen
FY2015 1 <sup>st</sup> quarter (Apr.-Jun.) (b)	23.5	13.6	15.9	12.4	10.61 yen
Change (a) - (b)	-1.5	-2.9	-4.1	1.5	1.24 yen
Percentage change ((a)-(b)) / (b)	-6.5%	-21.5%	-25.5%	11.8%	11.7%
FY2016 full-year forecast (c)	92.0	47.0	53.0	43.0	36.86 yen
Progress (a)/(c)	23.8%	22.7%	22.3%	32.1%	32.1%

### Non-consolidated basis

(billion yen)	Net Revenue	Business Profit before general loan-loss reserve	Ordinary Profit	Net Income	Net Income per common share
FY2016 1 <sup>st</sup> quarter (Apr.-Jun.) (a)	21.1	10.7	11.7	14.7	12.61 yen
FY2015 1 <sup>st</sup> quarter (Apr.-Jun.) (b)	22.6	13.6	15.7	12.2	10.49 yen
Change (a) - (b)	-1.6	-2.9	-3.9	2.5	2.12 yen
Percentage change ((a)-(b)) / (b)	-6.9%	-21.6%	-25.2%	20.2%	20.2 %
FY2016 full-year forecast (c)	86.0	45.0	51.0	41.0	35.15 yen
Progress (a)/(c)	24.4%	23.6%	22.9%	35.8%	35.8%

## I. Revenue and Expenses

					(Ref.)	Page
	FY2015	FY2016	Change (B) – (A)		FY2015	
	Apr.-Jun. (A)	Apr.-Jun. (B)	Amount	%	Jan.-Mar.	
(billion yen)						
<b>Net revenue</b>	<b>23.5</b>	<b>22.0</b>	<b>-1.5</b>	<b>-6.5%</b>	<b>22.5</b>	-
Net interest income	13.0	10.2	-2.8	-21.7%	11.0	4
<i>Net interest margin</i>	<i>1.30%</i>	<i>1.16%</i>	<i>-0.14%</i>	-	<i>1.24%</i>	4
Non-interest income	10.5	11.8	1.3	12.5%	11.5	-
Net fees and commissions	2.7	2.2	-0.5	-18.2%	2.8	5
Net trading revenues	3.8	4.5	0.7	19.3%	4.7	5
Net other ordinary income	4.0	5.1	1.1	26.7%	4.0	-
Gains/losses on bond transactions	2.2	2.3	0.1	3.3%	2.1	6
Net other ordinary income excluding gains/losses on bond transactions	1.8	2.8	1.0	54.4%	1.9	6
General & administrative expenses	-9.8	-11.3	-1.4	-14.4%	-12.5	7
<b>Business profit</b>	<b>13.6</b>	<b>10.7</b>	<b>-2.9</b>	<b>-21.5%</b>	<b>10.0</b>	-
Credit-related expenses	1.6	0.6	-1.0	-	2.9	7
<b>Ordinary profit</b>	<b>15.9</b>	<b>11.9</b>	<b>-4.1</b>	<b>-25.5%</b>	<b>12.6</b>	-
Extraordinary profit/loss	-	-	-	-	-0.0	-
<b>Income before taxes and minority interests</b>	<b>15.9</b>	<b>11.9</b>	<b>-4.1</b>	<b>-25.5%</b>	<b>12.6</b>	-
Taxes	-3.6	2.0	5.5	-	-4.2	7
<b>Net income</b>	<b>12.4</b>	<b>13.8</b>	<b>1.5</b>	<b>11.8%</b>	<b>8.4</b>	-

In the first three months of FY2016, the Bank recorded consolidated net revenue of 22.0 billion yen, a decrease of 1.5 billion yen, or 6.5% year on year (a decrease of 0.6 billion yen, or 2.6%, from the previous quarter).

Net interest income was 10.2 billion yen, a decrease of 2.8 billion yen, or 21.7% year on year (a decrease of 0.9 billion yen, or 7.8%, from the previous quarter), 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.

Non-interest income increased 1.3 billion yen, or 12.5% year on year, to 11.8 billion yen (an increase of 0.3 billion yen, or 2.4%, from the previous quarter). Net fees and commissions were 2.2 billion yen, a decrease of 0.5 billion yen, or 18.2% year on year, and net trading revenues were 4.5 billion yen, an increase of 0.7 billion yen, or 19.3%, mainly reflecting strong earnings from the sale of derivative-related products. Gains/losses on bond transactions were a gain of 2.3 billion yen, compared with a gain of 2.2 billion yen in the first three months of FY2015. Net other ordinary income, excluding gains/losses on bond transactions, was 2.8 billion yen, an increase of 1.0 billion yen, or 54.4% year on year, reflecting strong gains from limited partnerships.

General and administrative expenses were 11.3 billion yen, an increase of 1.4 billion yen, or 14.4% year on year, representing 25.0% of the 45.0 billion yen budgeted for the full year. The increase mainly reflected amortization expenses incurred in relation to our new core banking system.

Consolidated business profit was 10.7 billion yen, a decrease of 2.9 billion yen, or 21.5% (an increase of 0.7 billion yen, or 6.8%, from the previous quarter).

Credit-related expenses were a net reversal of 0.6 billion yen, mainly due to recoveries of written-off claims. Ordinary profit and pre-tax income were both 11.9 billion yen, a decrease of 4.1 billion yen, or 25.5%. Taxes were a net credit of 2.0 billion yen.

As a result of the aforementioned factors, consolidated net income was 13.8 billion yen, an increase of 1.5 billion yen, or 11.8% year on year, representing progress of 32% towards the full-year forecast of 43.0 billion yen.

## 1. Net Revenue

### (1)①Net Interest Income

	FY2015	FY2016	Change (B)–(A)	(Ref.)
				FY2015
(billion yen)	Apr.-Jun. (A)	Apr.-Jun. (B)		Jan.-Mar.
Net interest income (a)-(b)	13.0	10.2	-2.8	11.0
Interest income (a)	16.5	14.7	-1.8	15.4
Interest on loans and discounts	10.8	10.1	-0.7	10.8
Interest and dividends on securities	4.8	4.3	-0.5	4.3
Other interest income	0.8	0.2	-0.6	0.3
Interest on swaps	0.1	0.1	-0.0	0.1
Interest expenses (b)	-3.5	-4.6	-1.1	-4.4
Interest on deposits and NCDs	-2.1	-1.8	0.3	-2.0
Interest on debentures and bonds	-0.2	-0.1	0.0	-0.2
Interest on borrowings and rediscount	-0.2	-0.2	-0.0	-0.2
Other interest expenses	-0.3	-0.5	-0.2	-0.5
Interest on swaps	-0.7	-1.9	-1.2	-1.5

### (1)②Net Interest Margin

	FY2015	FY2016	Change (B)–(A)	(Ref.)
				FY2015
	Apr.-Jun. (A)	Apr.-Jun. (B)		Jan.-Mar.
Yield on total investments (a)	1.65%	1.64%	-0.01%	1.69%
Yield on loans	1.58%	1.62%	0.04%	1.70%
Yield on securities	1.83%	1.91%	0.08%	1.90%
Yield on funding (b)	0.35%	0.48%	0.13%	0.45%
Net interest margin (a)-(b)	1.30%	1.16%	-0.14%	1.24%

Net interest income was 10.2 billion yen, a decrease of 2.8 billion yen, or 21.7% year on year (a decrease of 0.9 billion yen, or 7.8%, from the previous quarter). Interest income decreased 1.8 billion yen year on year, partially reflecting the decline in interest on assets other than loans and securities when compared to the level recorded in the first three months of FY2015 as 'Other interest income'. Interest expenses increased 1.1 billion yen as a result of increased U.S. dollar funding costs.

While the yield on total investments remained almost unchanged year on year, the yields on loans and securities increased as the Bank continued its disciplined approach to balance sheet management. Funding costs increased 13 bps (an increase of 3 bps from the previous quarter) due to an increase in U.S. dollar funding costs, the impact of which exceeded the decline in yen funding costs. The net interest margin was 1.16%, a year on year decline of 14 bps (a decline of 8 bps from the previous quarter).

## (2) Net Fees and Commissions

				(Ref.)
	FY2015	FY2016	Change (B)–(A)	FY2015
(billion yen)	Apr.-Jun. (A)	Apr.-Jun. (B)		Jan.-Mar.
Net fees and commissions (a)-(b)	2.7	2.2	-0.5	2.8
Fees and commissions received (a)	2.9	2.5	-0.4	3.2
Loan business-related and deposits	1.1	1.0	-0.1	1.4
Securities-related and agency	1.4	0.9	-0.5	1.2
Others	0.4	0.6	0.2	0.6
Fees and commissions payments (b)	-0.2	-0.3	-0.1	-0.3

Net fees and commissions were 2.2 billion yen, a decrease of 0.5 billion yen, or 18.2% year on year.

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 1.4 billion yen. 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 in a negative interest rate environment.

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

				(Ref.)
	FY2015	FY2016	Change (B)–(A)	FY2015
(billion yen)	Apr.-Jun. (A)	Apr.-Jun. (B)		Jan.-Mar.
Earnings related to the sale of investment trusts, insurance and structured bonds	1.9	1.4	-0.6	1.6

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

				(Ref.)
	FY2015	FY2016	Change (B)–(A)	FY2015
(billion yen)	Apr.-Jun. (A)	Apr.-Jun. (B)		Jan.-Mar.
Net trading revenues	3.8	4.5	0.7	4.7
Income on trading-related financial derivatives transactions	2.5	3.8	1.3	4.3
Others	1.2	0.6	-0.6	0.4

Net trading revenues were 4.5 billion yen, an increase of 0.7 billion yen, or 19.3% year on year. Earnings from the sale of derivative-related products targeting the asset management needs of our financial institution customers remained strong.

(4) Gains/Losses on Bond Transactions

				(Ref.)
	FY2015 Apr.-Jun. (A)	FY2016 Apr.-Jun. (B)	Change (B) – (A)	FY2015 Jan.-Mar.
(billion yen)				
Gains/losses on bond transactions	2.2	2.3	0.1	2.1
Japanese government bonds	0.1	-	-0.1	-0.0
Foreign government bonds and mortgage bonds	1.7	1.9	0.1	1.2
Others	0.3	0.4	0.0	0.9

Gains/losses on bond transactions were a gain of 2.3 billion yen, compared with a gain of 2.2 billion yen in the first three months 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

				(Ref.)
	FY2015 Apr.-Jun. (A)	FY2016 Apr.-Jun. (B)	Change (B) – (A)	FY2015 Jan.-Mar.
(billion yen)				
Net other ordinary income excluding gains/losses on bond transactions	1.8	2.8	1.0	1.9
Gains from limited partnerships	2.1	2.0	-0.0	1.5
Real estate-related	0.2	0.2	0.0	0.5
Distressed loan-related	1.3	1.4	0.1	0.6
Others (Buyout, etc.)	0.6	0.4	-0.2	0.4
Gains on distressed loans (Aozora Loan Services)	-0.0	0.2	0.2	0.3
Others	-0.2	0.6	0.8	0.1

Net other ordinary income, excluding gains/losses on bond transactions, was 2.8 billion yen, an increase of 1.0 billion yen, or 54.4% year on year. This result included gains from limited partnerships of 2.0 billion yen, mainly supported by strong results in the Bank's distressed loan business.

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

				(Ref.)
	FY2015	FY2016	Change (B)–(A)	FY2015
(billion yen)	Apr.-Jun. (A)	Apr.-Jun. (B)		Jan.-Mar.
G&A expenses	-9.8	-11.3	-1.4	-12.5
Personnel	-4.9	-5.0	-0.1	-5.8
Non-personnel expense	-4.2	-5.2	-1.0	-5.6
Tax	-0.8	-1.1	-0.3	-1.1

General and administrative expenses were 11.3 billion yen, an increase of 1.4 billion yen, or 14.4% year on year, representing 25.0% of the 45.0 billion yen budgeted for the full year. The increase mainly reflected amortization expenses incurred in relation to our new core banking system. The OHR (general and administrative expenses as a percentage of net revenue) was 51.3%.

## 3. Credit-Related Expenses

				(Ref.)
	FY2015	FY2016	Change (B)–(A)	FY2015
(billion yen)	Apr.-Jun. (A)	Apr.-Jun. (B)		Jan.-Mar.
Credit-related expenses	1.6	0.6	-1.0	2.9
Write-off of loans	-0.0	-0.0	0.0	-0.1
Gains/losses on disposition of loans	-0.1	-0.1	0.0	-0.0
Reserve for possible loan losses	0.1	0.9	0.8	2.5
Specific reserve for possible loan losses	-1.4	0.1	1.4	-1.0
General reserve for possible loan losses	1.5	0.9	-0.6	3.5
Reserve for credit losses on off-balance-sheet instruments	-0.4	-0.8	-0.4	0.5
Recoveries of written-off claims	2.1	0.6	-1.5	0.0

Credit-related expenses were a net reversal of 0.6 billion yen, compared with a net reversal of 1.6 billion yen in the first three months of FY2015, mainly due to recoveries of 0.6 billion yen in written-off claims. The ratio of loan loss reserves to total loans remained high at 2.40%, which reflected the Bank's mid- to long-term perspective on the conservative allocation of reserves.

## 4. Taxes

				(Ref.)
	FY2015	FY2016	Change (B)–(A)	FY2015
(billion yen)	Apr. - Jun. (A)	Apr. - Jun. (B)		Jan. - Mar.
Taxes	-3.6	2.0	5.5	-4.2

Taxes were a net credit of 2.0 billion yen, compared with a net expense of 3.6 billion yen in the first three months of FY2015. In conjunction with a change in the Bank's accounting classification for the calculation of deferred tax assets to Category 2 under Japanese tax rules, the Bank fully recognized in the first quarter the total amount of future deductible temporary differences.

## II. Balance Sheet

(billion yen)	Mar. 31, 2016 (A)	Jun.30, 2016 (B)	Change (B)–(A)		Page
			Amount	%	
<b>Total assets</b>	<b>4,592.9</b>	<b>4,618.3</b>	<b>25.4</b>	<b>0.6%</b>	-
Loan and bills discounted	2,511.6	2,479.7	-32.0	-1.3%	9
Securities	923.5	885.9	-37.6	-4.1%	10
Cash and due from banks	546.3	569.0	22.7	4.2%	-
Trading assets	337.4	411.3	73.9	21.9%	-
Others	274.1	272.4	-1.7	-0.6%	-
<b>Total liabilities</b>	<b>4,187.4</b>	<b>4,202.0</b>	<b>14.6</b>	<b>0.3%</b>	-
Deposits and negotiable certificates of deposit	2,932.1	2,880.5	-51.6	-1.8%	9
Debentures, Bonds	259.5	251.3	-8.2	-3.2%	9
Borrowed money	208.0	226.0	18.0	8.6%	-
Payables under securities lending transactions	263.5	214.7	-48.8	-18.5%	-
Trading liabilities	269.9	296.1	26.3	9.7%	-
Others	254.4	333.3	78.9	31.0%	-
<b>Total net assets</b>	<b>405.5</b>	<b>416.3</b>	<b>10.8</b>	<b>2.7%</b>	-
Capital stock	100.0	100.0	-	-	-
Capital surplus	87.3	87.3	-	-	-
Retained earnings	199.8	207.1	7.3	3.7%	-
Treasury stock	-3.4	-3.4	-0.0	0.0%	-
Valuation difference on available-for-sale securities	16.3	19.8	3.6	21.9%	-
Others	5.5	5.5	-0.0	-0.8%	-
<b>Total liabilities and net assets</b>	<b>4,592.9</b>	<b>4,618.3</b>	<b>25.4</b>	<b>0.6%</b>	-

Total assets were 4,618.3 billion yen as of June 30, 2016, an increase of 25.4 billion yen, or 0.6%, compared to March 31, 2016. Loans were 2,479.7 billion yen, a decrease of 32.0 billion yen, or 1.3%, from March 31, 2016. Domestic loans increased 36.7 billion yen. In U.S. dollar terms, overseas loans increased 32.0 million dollars (due to the strengthening yen, a decrease of 68.6 billion on a yen basis). Securities decreased by 37.6 billion yen, or 4.1 %, from March 31, 2016, to 885.9 billion yen.

Total liabilities were 4,202.0 billion yen, an increase of 14.6 billion yen, or 0.3%, 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 59.8 billion yen, or 1.9%, from March 31, 2016, to 3,131.8 billion yen.

Net assets were 416.3 billion yen, representing an increase of 10.8 billion yen, or 2.7%, in comparison with March 31, 2016.

Net assets per common share were 355.09 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 (B)	Change (B)–(A)
Total core funding	3,191.6	3,131.8	-59.8

### Funding sources by product

(billion yen)	Mar. 31, 2016 (A)	Jun. 30, 2016 (B)	Change (B)–(A)
Deposits/NCDs	2,932.1	2,880.5	-51.6
Debentures/Bonds	259.5	251.3	-8.2

### Funding sources by customer

(billion yen)	Mar. 31, 2016 (A)	Jun. 30, 2016 (B)	Change (B)–(A)
Retail	1,995.5	1,964.0	-31.5
Corporate	616.0	576.1	-39.9
Financial Institutions	580.1	591.6	11.5

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 59.8 billion yen, or 1.9%, from March 31, 2016, to 3,131.8 billion yen. The percentage of retail funding to total core funding remained above the 60% level.

As of June 30, 2016, the Bank maintained adequate liquidity reserves of 603.2 billion yen.

## 2. Loans

(billion yen)	Mar. 31, 2016 (A)	Jun. 30, 2016 (B)	Change (B)–(A)
Loans	2,511.6	2,479.7	-32.0
Domestic loans	1,683.1	1,719.8	36.7
Overseas loans	828.5	759.9	-68.6
U.S. dollar basis (\$ million)	7,353	7,385	32

Note: Overseas loans with no final risk residing in Japan

Loans were 2,479.7 billion yen, a decrease of 32.0 billion yen, or 1.3%, from March 31, 2016.

Domestic loans increased 36.7 billion yen, reflecting an increase in loans to sectors including the manufacturing sector and the information and communications sector, while the Bank maintained its ongoing focus on balancing risk and return. In terms of U.S. dollars, overseas loans increased 32.0 million dollars (due to the strengthening yen, a decrease of 68.6 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 (B)	Change (B) – (A)	Mar. 31, 2016 (A)	Jun. 30, 2016 (B)	Change (B) – (A)
JGBs	28.3	8.1	-20.2	-0.0	-0.0	0.0
Municipal bonds	15.1	17.8	2.7	0.3	0.3	0.1
Corporate bonds	34.1	31.7	-2.4	0.3	0.3	-0.0
Equities	42.2	44.7	2.5	23.5	26.1	2.5
Foreign bonds	374.5	334.8	-39.6	1.8	3.9	2.1
Foreign government bonds	227.5	183.3	-44.1	1.6	2.7	1.1
Mortgage bonds	107.5	109.3	1.8	-0.0	0.8	0.8
Others	39.5	42.2	2.7	0.3	0.4	0.2
Others	429.4	448.8	19.4	-2.8	-2.3	0.6
ETFs	213.1	217.0	3.9	-3.0	-0.2	2.8
Investment in limited partnerships	75.3	73.7	-1.6	1.1	0.7	-0.4
REIT	51.0	56.1	5.1	3.2	3.1	-0.1
Investment trusts	69.2	80.4	11.2	-4.5	-6.2	-1.7
Others	20.7	21.6	0.9	0.3	0.3	-0.0
Total	923.5	885.9	-37.6	23.0	28.3	5.3

Ref: Incl. unrealized hedging gains	29.4	35.0	5.6
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Securities were 885.9 billion yen as of June 30, 2016, a decrease of 37.6 billion yen, or 4.1%, compared to March 31, 2016. In the first three months of FY2016, investment trusts and REITs increased, while JGBs and foreign government bonds were reduced.

Interest and dividends on securities were 4.3 billion yen, and gains on bond transactions were 2.3 billion yen, reflecting the Bank's continued efforts to secure stable income, despite growing uncertainty in global markets, through an ongoing focus on the diversification and performance of its investment portfolio.

Total unrealized gains increased from March 31, 2016 to 28.3 billion yen, as the Bank continued to diversify the risk in its portfolio taking into consideration correlations.

The Bank's Japanese equity ETF position is fully hedged, as is a portion of equities. Total unrealized gains, including unrealized hedging gains, were 35.0 billion yen.

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

(Non-consolidated)

	(billion yen)	Mar. 31, 2016 (A)	Jun. 30, 2016 (B)	Change (B) –(A)
Bankrupt and similar credit		0.1	0.1	0.0
Doubtful credit		19.0	17.5	-1.5
Special attention credit		3.8	2.9	-1.0
FRL credit, total	(a)	23.0	20.5	-2.5
Normal credit	(b)	2,528.2	2,504.1	-24.1
Total credit	(c)=(a)+(b)	2,551.1	2,524.6	-26.6
FRL credit ratio	(a)/(c)	0.90%	0.81%	-0.09%

Non-performing claims as defined by the Financial Reconstruction Law (FRL) were 20.5 billion yen, a decrease of 2.5 billion yen, or 10.7%, from March 31, 2016, mainly due to the collection of claims, including doubtful and special attention credits. The FRL ratio improved by 0.09 points to 0.81%. The percentage of FRL claims covered by reserves, collateral and guarantees was 84.0% as of June 30, 2016. The ratio of loan loss reserves to total loans on a consolidated basis remained high at 2.40% as of June 30, 2016.

*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.*