

Aozora Bank, Ltd.

Securities Code 8304

The Convocation Notice for the 84th FY Ordinary General Meeting of Shareholders

Contents

◆ Notice on Exercise of Voting Rights	1
◆ The Convocation Notice for the 84 th FY Ordinary General Meeting of Shareholders	3
◆ Reference Material for The General Meeting of Shareholders	6
◆ Attached Documents of The Convocation Notice	19
■ Business Report	19
■ The Consolidated Financial Statements	48
■ The Non-consolidated Financial Statements	51
■ Audit Reports	54

Date & Time

June 27, 2017 (Tuesday)
10:00 a.m. (reception opens at 9:00 a.m.)

Venue

Diamond Room on the 2nd Floor
of Hotel Grand Palace
1-1, Iidabashi 1-chome, Chiyodaku,
Tokyo
(Please refer to map on the last page)

Proposals for Resolution:

Proposal No.1 Share Consolidation

Proposal No.2 Partial Amendment to Articles of Incorporation

Proposal No.3 Appointment of Eight Directors

Proposal No.4 Appointment of Two Alternate Audit & Supervisory Board Members

A Retail Showroom will be set up to showcase the Bank's retail banking business so please feel free to visit.

Time: for approx. 1 hour from the closing of the Meeting of Shareholders

Drinks and snacks will be available at the Drink Corner.

Time: 9:00 a.m. – 10:00 a.m. (prior to the meeting)

Notice on Exercise of Voting Rights

The following 3 methods may be used to exercise your voting rights.

Attend the Shareholder's Meeting



Please present the "Exercise of Voting Rights Form" at the reception desk.

Date & Time: **June 27, 2017** (Tuesday)

10:00 a.m. (reception opens at 9:00 a.m.)

Place: **Diamond Room on the 2nd Floor of Hotel Grand Palace**
1-1 Iidabashi 1-Chome, Chiyoda-Ku, Tokyo
(Please refer to map on the last page)

Exercise Your Voting Right in Writing



Please write your vote of approval or disapproval on the enclosed "Exercise of Voting Rights Form" and return the form to us by mail. You do not need a stamp, the mail is prepaid.

Valid Date: **June 26, 2017** (Monday)

Must Be Received No Later Than 5:15 p.m.

Exercise Your Voting Right via the Internet



Access the website dedicated to Exercise of Voting Rights (<http://www.web54.net>) from a PC, smartphone or cellular phone, input the "Voting Right Exercise Code" and "Password" provided on the enclosed "Exercise of Voting Rights Form" and register whether you agree or disagree according to the instructions displayed on the screen.

Valid Date: **June 26, 2017** (Monday)

No Later Than 5:15 p.m.

** You may also use the barcode reader feature of your cellular phone to access the Exercise of Voting Rights website by reading the "QR Code®" shown on the right.

(QR code is a registered trademark of Denso Wave)



◆ **Exercise Voting Rights by Proxy**

In the event you are not able to attend the shareholder's meeting, you may designate one other shareholder with voting rights as proxy. However, please note that a document certifying delegated authority as well as the "Exercise of Voting Rights Form" must be presented at the reception desk.

◆ **Some of the documents for the General Meeting of Shareholders are disclosed on the Internet.**

Pursuant to laws and regulations and the provision of Article 15 of the Articles of Incorporation, the Notes to the Consolidated Financial Statements and Notes to the Non-consolidated Financial Statements are disclosed on the Company's website (<http://www.aozorabank.co.jp/>) and therefore not included in the notice and attached material.

◆ **Notice for Revision of Reference Material, Business Report, Consolidated Financial Statements and the Non-consolidated Financial Statements**

Please note that in the event any revisions are necessary to the Reference Materials for the General Meeting of Shareholders, the Business Report, the Consolidated Financial Statements and the Non-consolidated Financial Statements, we will inform you of such revision on the Company's website (<http://www.aozorabank.co.jp/>).

◆ **Duplication of Exercising Voting Rights in Writing & the Internet or Other Means.**

If you exercise your voting right both in writing and via the Internet or other means, the exercise made via the Internet or other means shall prevail.

◆ **Duplication of Exercising Voting Rights via the Internet**

If you exercise your voting right more than once via the Internet or other means, the last exercise made shall prevail.

◆ **Electronic Platform for Executing Voting Rights**

Nominee shareholders (including standing proxy) of trust banks, etc. who have registered beforehand to use the electronic platform operated by ICJ Inc. (Joint corporation established by TSE, etc.) may exercise their voting rights through electromagnetic form at the Ordinary General Meeting of Shareholders.

Please refer to "Procedure for the Exercise of Voting Rights via the Internet" on page 5 for information regarding the exercise of voting rights via the Internet or other means.

June 7, 2017

The Convocation Notice for the 84th FY Ordinary General Meeting of Shareholders

Dear Shareholders,

Shinsuke Baba
President, Representative Director
Aozora Bank, Ltd.
1-1, Kojimachi 6-chome, Chiyoda-ku, Tokyo

You are cordially invited to attend Aozora Bank, Ltd.'s 84th FY Ordinary General Meeting of Shareholders as described below.

If you are unable to attend the meeting, you may exercise your voting right in writing via the Internet or other means. We will ask for your cooperation in exercising your voting right by no later than 5:15 p.m. on June 26th (Mon) 2017, in consideration of the following “Reference Material for the General Meeting of Shareholders”

【If you choose to exercise your voting right in writing】

Please write your vote of approval or disapproval on the enclosed “Exercise of Voting Rights Form” and return the form to us by mail.

【If you choose to exercise your voting right via the Internet or other means】

If you choose to exercise your voting right via the Internet or other means, please read through the following “Procedure to Exercise the Voting Right via the Internet”.

Thank you.

Best Regards,

1.Date & Time Tuesday, June 27, 2017 at 10:00 a.m.

2.Place Diamond Room on the 2nd floor of Hotel Grand Palace
1-1, Iidabashi 1-chome, Chiyoda-ku, Tokyo

3. Purpose of the meeting

- Reports**
1. Business Report, Consolidated Financial Statements and Reports of Audit Results of Consolidated Financial Statements by the Accounting Auditor and the Audit & Supervisory Board for the 84th FY (from April 1, 2016 to March 31, 2017)
 2. Reports on the Financial Statements for the 84th FY (from April 1, 2016 to March 31, 2017)

Proposals for Resolution:

Proposal No.1: Share Consolidation

Proposal No.2: Partial Amendment to Articles of Incorporation

Proposal No.3: Appointment of Eight Directors

Proposal No.4: Appointment of Two Alternate Audit & Supervisory Board Members

End

- ~~~~~
- ◎ For those attending, please present the enclosed Exercise of Voting Rights Form at the reception desk upon arrival at the meeting.
 - ◎ In case of a substitution, please present a document that proves the delegated authority at the reception desk as well as Exercise of Voting Rights Form (Under the Articles of Incorporation, only one other shareholder with the voting right is entitled to attend the General Meeting of Shareholders).
 - ◎ Pursuant to laws and regulations and the provision of Article 15 of the Articles of Incorporation, the Notes to the Consolidated Financial Statements and Notes to the Non-consolidated Financial Statements are disclosed on the Company's website (<http://www.aozorabank.co.jp/>) and therefore not included in the notice and attached material. Note that the Consolidated Financial Statements and Non-consolidated Financial Statements audited by the Audit & Supervisory Board Member or the accounting auditor is included in the attached documents indicated in the convocation and also provides the Notes to the Consolidated Financial Statements and Notes to the Non-consolidated Financial Statements disclosed on the Company's website.
 - ◎ Please note that, in the event of any necessary revision to the Reference Materials for the General Meetings of Shareholders, the Business Report, the Consolidated Financial Statements and the Non-consolidated Financial Statements, we will inform you of such revision on the Company's website (<http://www.aozorabank.co.jp/>).

Procedure for the Exercise of Voting Rights via the Internet

If you decide to exercise your voting right via the Internet or other means, please note the following:

1. Exercising your voting right via the Internet, using a PC, smartphone or cellular phone, is possible only at the following website designated by Aozora Bank.

【URL of website dedicated to the exercise of voting rights】 <http://www.web54.net>

※ You may also access the website from a smartphone or cellular phone by reading the “QR Code[®]” shown on the right.
(QR Code is a registered trade mark of the DENSO WAVE INCORPORATED.)



2. If you choose to exercise your voting right via the Internet or other means, use the “Voting Right Exercise Code” and the “Password” shown on the Exercise of Voting Rights Form, and register whether you agree or disagree with the agenda items by following the instructions displayed on the screen.
3. Any Internet service provider fees or communication fees (such as telephone charges) incurred for accessing the voting website will be borne by the shareholder.

【System Environment for the Exercise of Voting Rights via the Internet】

The following system environment is required to access the website for exercising your voting right:

- ① If you decide to exercise your voting right from a PC, you need to have Microsoft[®] Internet Explorer[®] 7.0 or later versions as your Internet browser software. You also need to be able to use the above Internet browser software as your hardware environment.
- ② If you decide to exercise your voting right from a cellular phone, you need to be able to use 128bitSSL communications (encrypted communication) from your cellular phone model. You may be able to exercise your voting right using cellular phones with full browser functions, including smartphones, depending on your cellular phone model.
(Microsoft and Internet Explorer are registered trademarks of the Microsoft Corporation in the United States and other countries.)

【Questions about Exercise of the Voting Right via the Internet】

If you have any questions regarding the exercise of your voting right via the Internet, please contact the following manager of register of shareholders.

Manager of Register of Shareholders:

Web Support, Stock Transfer Agency Department, Sumitomo Mitsui Trust Bank, Limited.

【Hotline】 0120—652—031 (9:00 a.m.-9:00 p.m.)

【Other inquires】 0120—782—031

(9:00 a.m.-5:00 p.m., except Saturdays, Sundays, and Holidays)

【Electronic platform for executing voting rights】

Nominee shareholders (including standing proxy) of trust banks, etc. who have registered beforehand to use the electronic platform operated by ICJ Inc. (Joint corporation established by TSE, etc.) may exercise their voting rights through electromagnetic form at the Ordinary General Meeting of Shareholders.

Reference Materials for the General Meeting of Shareholders

Proposals and Reference Matters

Proposal No. 1: Share Consolidation

1. Reasons for Proposed Share Consolidation

Pursuant to their “Action Plan for Consolidating Trading Units,” the Japanese Stock Exchanges issued a “Decision on Transitioning to 100-share Trading Units” and thereby set the deadline for the transitioning as October 1, 2018, with the aim of unifying the trading units (i.e., the number of shares constituting one unit of stock) of common shares of all listed companies in Japan at 100 shares. Following their decision, the Bank decided to change the number of shares constituting one unit of stock (which will be the Bank’s share trading unit) from 1,000 shares to 100 shares, effective October 1, 2017. Further, the Bank also decided to consolidate every 10 shares into one share (the “Share Consolidation”), to taking into account the level of price per trading unit (minimum trading price) that is deemed appropriate by the Japanese Stock Exchanges (which is no less than 50,000 yen and less than 500,000 yen).

2. Details of Share Consolidation

(1) Consolidation Ratio

Every ten shares in the Bank will be consolidated into one share.

Regarding fractional shares constituting less than one share arising as a result of the Share Consolidation, the Bank will liquidate all such fractional shares in a lump in accordance with Article 235 of the Companies Act of Japan, and the sales proceeds will be distributed to shareholders who held fractional shares in proportion to the fractions.

(2) Effective Date of Share Consolidation

October 1, 2017

(3) Total Number of Issuable Shares as of Effective Date

289,828,200 shares

(Note) The Bank will change the total number of issuable shares to one tenth of the current total number of issuable shares in conformity with the Share Consolidation ratio.

3. Others

The Share Consolidation under this proposal shall be subject to the approval and resolution of Proposal No. 2 “Partial Amendment to Articles of Incorporation.”

For more details on the Share Consolidation and the change to the number of shares constituting one unit of stock, please refer to explanatory materials on pages 16 to 18.

Proposal No. 2: Partial Amendment to Articles of Incorporation

We propose the following partial amendment to the Articles of Incorporation.

1. Reasons for Proposed Amendments

In order to change the number of the Bank's shares constituting one unit to 100 shares in light of the "Action Plan for Consolidating Trading Units" established by the Japanese Stock Exchanges, the Bank will amend Article 7 of the Articles of Incorporation. In addition, in consideration of a decrease in the total number of outstanding shares resulting from the Share Consolidation (as stated in Proposal No.1 "Share Consolidation"), the Bank will change the total number of issuable shares as set forth in Article 6 of the Articles of Incorporation to 1/10th of the current number in proportion to the ratio of the Share Consolidation.

2. Details of Amendment

Details of the amendment to the Articles of Incorporation are as follows.

(Changes are underlined)

Current Articles of Incorporation	Proposals for Amendments
CHAPTER 2 Shares (Total Number of Issuable Shares) Article 6 The total number of shares that the Bank is authorized to issue shall be <u>two billion eight hundred ninety-eight million two hundred eighty-two thousand (2,898,282,000) shares</u> ; provided, however, that if any share is retired, the number of shares so retired shall be subtracted from the total number of shares that the Bank is authorized to issue.	CHAPTER 2 Shares (Total Number of Issuable Shares) Article 6 The total number of shares that the Bank is authorized to issue shall be <u>two hundred eighty-nine million eight hundred twenty-eight thousand two hundred (289,828,200) shares</u> ; provided, however, that if any share is retired, the number of shares so retired shall be subtracted from the total number of shares that the Bank is authorized to issue.
(Number of Shares Constituting One Unit) Article 7 The number of shares constituting one unit (<i>tan-gen</i>) shall be <u>one thousand (1,000) shares</u> .	(Number of Shares Constituting One Unit) Article 7 The number of shares constituting one unit (<i>tan-gen</i>) shall be <u>one hundred (100) shares</u> .

3. Others

The partial amendment to the Articles of Incorporation under this proposal shall become effective on October 1, 2017, subject to the approval and resolution of the Proposal No. 1 "Share Consolidation."

Proposal No.3: Appointment of Eight Directors

At the close of this Ordinary General Meeting of Shareholders, the term of office of all eight directors shall expire. This is to propose, therefore, that eight directors be elected. Candidates are shown below, and the matters concerning each candidate are described on page 9 and thereafter.

Candidate No.	Name	Current Positions and Areas of Responsibility	Board meeting attendance
1	<u>For reappointment Inside</u> Makoto Fukuda	Chairman and Director, Executive Officer	Attended all 16 Board meetings during the relevant fiscal year
2	<u>For reappointment Inside</u> Shinsuke Baba	President and Representative Director, Executive Officer	Attended all 16 Board meetings during the relevant fiscal year
3	<u>For reappointment Inside</u> Takeo Saito	Director, Senior Managing Executive Officer, Chief Risk Officer and Chief Credit Risk Officer	Attended all 16 Board meetings during the relevant fiscal year
4	<u>For reappointment Outside Independent director</u> Shunsuke Takeda	Director	Attended all 16 Board meetings during the relevant fiscal year
5	<u>For reappointment Outside Independent director</u> Hiroyuki Mizuta	Director	Attended all 16 Board meetings during the relevant fiscal year
6	<u>For reappointment Outside Independent director</u> Ippei Murakami	Director	Attended 15 out of 16 Board meetings during the relevant fiscal year
7	<u>For reappointment Outside Independent director</u> Tomonori Ito	Director	Attended all 16 Board meetings during the relevant fiscal year
8	<u>New candidate Inside</u> Yukio Sekizawa	Managing Executive Officer, Head of Compliance & Governance Unit and Head of Operations Group	—

Candidates for Directors

Candidate No.	Name (Date of Birth)	Brief Personal History, Positions, Areas of Responsibility and Concurrent Major Posts	Number of Bank's shares Owned by Candidate
1	Makoto Fukuda (June 27, 1945)	Apr. 1968 Ministry of Finance (MOF) June 1995 Director of Insurance Business Division, Banks Bureau, MOF July 1998 President of Accounting Center and Finance Research Institute July 1999 Director-General of Finance Planning Bureau, MOF July 2000 Deputy President of Agriculture Forestry and Fisheries Finance Corporation June 2002 Deputy Chairman and Senior Managing Director of Regional Banks Association of Japan June 2013 Outside Director, Rakuten Life Insurance Co., Ltd. (current) Chairman and Director, Executive Officer, Aozora Bank, Ltd. (current)	22,415
2	Shinsuke Baba (August 23, 1954)	Apr. 1977 The Nippon Credit Bank, Ltd (changed name to Aozora Bank, Ltd. in January 2001) Aug. 2000 General Manager of Cross Border Business Division Apr. 2001 General Manager of Investment Banking Division Apr. 2003 General Manager of Structured Credit and Investment Division June 2004 Senior General Manager, General Manager of Structured Credit and Investment Division Sep. 2005 Executive Officer, Head of Corporate Banking Group May 2006 Executive Officer, Head of Corporate Banking Group and concurrently General Manager of Capital Markets Division Apr. 2007 Senior Managing Executive Officer, Head of Investment Banking Group, concurrently Acting Head of Corporate Banking Group and General Manager of Capital Markets Division May 2007 Senior Managing Executive Officer, Head of Investment Banking Group June 2008 Senior Managing Executive Officer, Head of Corporate Banking Group and Head of Investment Banking Group Nov. 2008 Executive Officer and Deputy President June 2009 Deputy President and Representative Director, Executive Officer Sep. 2012 President and Representative Director, Executive Officer (current)	171,550

3	Takeo Saito (August 31, 1958)	Apr. 1982 The Nippon Credit Bank, Ltd. (changed name to Aozora Bank, Ltd. in January 2001) Oct. 2003 General Manager of Credit Products Division Sep. 2005 General Manager of Fund Investment Division Apr. 2009 General Manager of Treasury Investment Division Dec. 2009 Deputy Head of Financial Markets Group and General Manager of Treasury Investment Division July 2010 Executive Officer and Head of Financial Markets Group July 2013 Managing Executive Officer and Head of Financial Markets Group June 2014 Director, Managing Executive Officer and Head of Financial Markets Group July 2014 Director, Senior Managing Executive Officer, Chief Risk Officer and Chief Credit Risk Officer (current)	39,296
4	Shunsuke Takeda (September 30, 1941)	Apr. 1965 Joined the Nippon Kangyo Bank, Ltd. (currently Mizuho Bank, Ltd.) Sep. 1968 Joined Orient Leasing Co., Ltd. (currently Orix Corporation) June 1993 Director and GM of Treasury Department May 1997 Managing Director and Chief Financial Officer (CFO) Sep. 1998 Senior Managing Director and CFO Apr. 2000 Deputy President and CFO Member of the Board June 2002 Member of the Board, Director of Fuji Fire and Marine Insurance Co., Ltd. June 2003 Director, Deputy President and CFO of Orix Corporation Feb. 2005 Director, Vice Chairman and CFO June 2007 Senior Advisor Director, Aozora Bank, Ltd. (current) June 2010 Chairman and Representative Executive Officer, Daikyo Incorporated Advisor, Orix Corporation (current) Oct. 2013 Chairman, Nippon Professional Baseball Organization	68,269

5	Hiroyuki Mizuta (November 30, 1949)	Apr. 1974 Kyowa Bank (currently Resona Bank, Limited) Nov. 2003 President and Representative Director, The Kinki Osaka Bank, Ltd. June 2006 Director, President and Representative Executive Officer of Resona Holdings June 2007 President and Representative Director, Resona Bank, Limited Executive Officer, Group Strategy Dept., Resona Holdings (In charge of Corporate Management of Resona Bank, Limited) Oct. 2008 President, The Resona Foundation for Small and Medium Enterprise Promotion May 2009 Resigned from President of Resona Bank, Limited and Executive Officer of Resona Holdings June 2010 Outside Director of Nippon Dentsu Co., Ltd. and Nippon Television City Corporation June 2011 Representative Director and Chairman of Nippon Television City Corporation (current) June 2013 Director, Aozora Bank, Ltd. (current) June 2016 Executive Advisor, Nippon Dentsu Co., Ltd.(current)	22,415
6	Ippei Murakami (March 3, 1945)	Apr. 1967 Nisshin Flour Milling Inc. (Currently Nisshin Seifun Group Inc.) June 1995 Director (Planning and Finance) June 2000 Managing Director July 2001 Nisshin Seifun Group Inc.(Group holding company) Managing Director (Finance and Accounting) June 2004 Managing Director (Finance and Accounting, Corporate Planning [deputy]) June 2005 Managing Director (Finance and Accounting, Corporate Planning) June 2006 Managing Director (Corporate Planning) June 2007 Senior Managing Director (Corporate Planning) Oct. 2007 President and Representative Director Apr. 2011 Director and Senior Consultant June 2011 Special Advisor (current) June 2014 Director, Aozora Bank, Ltd. (current)	24,061

7	Tomonori Ito (January 9, 1957)	Apr. 1979 Bank of Tokyo, Ltd. (currently Bank of Tokyo-Mitsubishi UFJ, Ltd.) Mar. 1990 Vice President of Investment Banking Group, Bank of Tokyo Trust Company, New York Mar. 1995 Union Bank of Switzerland, Tokyo Branch (currently UBS) Aug. 1997 General Manager of Tokyo Branch and Head of Investment Banking, Union Bank of Switzerland June 1998 Head of Investment Banking and Managing Director, UBS Securities Japan Co., Ltd. Apr. 2011 Visiting Professor, Graduate School of International Corporate Strategy, Hitotsubashi University May 2012 Outside Board Member of PARCO CO., LTD. (current) Oct. 2012 Professor, Graduate School of International Corporate Strategy, Hitotsubashi University (current) July 2013 Outside Corporate Auditor, AIN PHARMACIEZ INC. June 2014 Director, Aozora Bank, Ltd. (current) June 2016 Outside Director, Electric Power Development Co., Ltd.(current)	20,000
8	Yukio Sekizawa (January 29, 1962)	Apr. 1984 The Nippon Credit Bank, Ltd. (changed name to Aozora Bank, Ltd. in January 2001) Apr. 2006 Joint General Manager of Financial Management Division Feb. 2008 General Manager of Financial Control Division Oct. 2011 Deputy Chief Financial Officer July 2012 Executive Officer, Deputy Chief Financial Officer Mar. 2013 Executive Officer, Special Assignment of Office of Chief Executive June 2013 Executive Officer, Special Assignment July 2013 Executive Officer, Deputy Chief Technology Officer July 2016 Managing Executive Officer, Head of Compliance & Governance Unit and Head of Operations Group(current) (changed name to Aozora Bank, Ltd. in January 2001)	9,817

- (Note) 1. Messrs. Shunsuke Takeda, Hiroyuki Mizuta, Ippei Murakami, and Tomonori Ito meet the conditions of outside directors, and also meet the conditions of independent directors based on the rules of Tokyo Stock Exchange.
2. Mr. Shunsuke Takeda is qualified as a candidate for outside director because he has substantial experience, achievements and expertise in executive management of financial institutions and business corporations, and his position as a Director is independent from the day-to-day management responsibilities for the Bank's business operations. He will have served the Bank as an outside director for 10 years at this Ordinary General Meeting of Shareholders.

3. Mr. Hiroyuki Mizuta is qualified as a candidate for outside director because he has substantial experience, achievements and expertise in executive management of banks and business corporations, and his position is independent from the day-to-day management responsibilities of the operations and activities of the Bank. He will have served the Bank as an outside director for 4 years at this Ordinary General Meeting of Shareholders.
4. The Bank has dealings, extending loans, etc., with Nippon Television City Corporation, of which Candidate Mr. Hiroyuki Mizuta is Representative Director and Chairman.
5. Mr. Ippei Murakami is qualified as a candidate for outside director because he has substantial experience, achievements and expertise in executive management of a business corporation, and his position is independent from the day-to-day management responsibilities of the operations and activities of the Bank. He will have served the Bank as an outside director for 3 years at this Ordinary General Meeting of Shareholders.
6. Mr. Tomonori Ito is qualified as a candidate for outside director because he has substantial experience and achievements in domestic and overseas financial institutions and expertise as a professor of a graduate school, and his position is independent from the day-to-day management responsibilities of the operations and activities of the Bank. He will have served the Bank as an outside director for 3 years at this Ordinary General Meeting of Shareholders.
7. Except for the above-mentioned item 4, there is no particular common interests between each candidate and the Bank.
8. The Bank has contracts with Messrs. Shunsuke Takeda, Hiroyuki Mizuta, Ippei Murakami and Tomonori Ito, to the effect that, if these outside directors are without knowledge and are not grossly negligent in performing the duties of non-executive directors, the liabilities of the non-executive directors under Article 423 (1) of the Companies Act shall be limited to the amount stipulated by Article 425(1) of the Companies Act in accordance with the provisions of Article 427 (1) of the Companies Act. When these candidates assume the offices of outside directors with the adoption of the proposal, the said contracts shall continue to be effective.
9. The above “Number of Bank’s shares Owned by Candidate” states the sum of the shares held directly by the candidate and includes shares held through the Executive Stock Ownership Plan (ESOP). (Fractional shares are rounded off.)

Proposal No. 4: Appointment of Two Alternate Audit & Supervisory Board Members

In order to prepare for a vacancy in the number of Audit & Supervisory Board Members fixed by laws, it is proposed to appoint two alternate Audit & Supervisory Board Members, with the consent of the Audit & Supervisory Board.

Mr. Keiichirou Uchida is the candidate for a substitute to the Standing Audit & Supervisory Board Member and Mr. Mitch R. Fulscher is the candidate for a substitute to the Audit & Supervisory Board Members other than the Standing Audit & Supervisory Board Member.

The candidates are shown below.

Candidates for Alternate Audit & Supervisory Board Member

Candidate No.	Name (Date of Birth)	Brief Personal History, Positions and Concurrent major posts		Number of Bank's shares Owned by Candidate
1	Keiichirou Uchida (June 22, 1962)	Apr. 1986	The Nippon Credit Bank, Ltd. (changed name to Aozora Bank, Ltd. in January 2001)	322
		Oct. 2007	Joint General Manager, Corporate Banking Division I	
		Apr. 2009	Deputy General manager, Nagoya Branch	
		Aug. 2010	General Manager, Business Banking Planning Division	
		Nov. 2012	General Manager, Kanazawa Branch	
		Oct. 2014	General Manager of Office of Audit & Supervisory Board (current)	
2	Mitch R. Fulscher (August 18, 1941)	1963	ARTHUR ANDERSEN (Chicago)	48,000
		1969	ARTHUR ANDERSEN (Chicago), Audit Manager	
		1974	ARTHUR ANDERSEN (Chicago), Audit Partner	
		1986	ARTHUR ANDERSEN (Tokyo), Managing Partner	
		1991	ARTHUR ANDERSEN (Los Angeles), Partner	
		1997	KPMG AZSA LLC (formerly Asahi & Co.), US GAAP Expert	
		1998	Futures Industry Association Japan, Chairman	
		2002	MELAMED & ASSOCIATES, Japan Representative	
		2003	PROTIVITI JAPAN, Senior Advisor	
		June 2004	Aozora Bank, Ltd., Outside ASB Member	
		2004	Showa Jisho, Outside Auditor	
		2014	Futures Industry Association Japan, President and Representative Director	
		2015	Futures Industry Association Japan, Advisor to Executive Committee, Chairman Emeritus (current)	

- (Note)
1. Mr. Keiichirou Uchida is qualified for the responsibilities of a Standing Audit & Supervisory Board Member and is the candidate for alternate Standing Audit & Supervisory Board Member because he has enough experience and knowledge in the banking business.
 2. Mr. Mitch R. Fulscher is qualified for the responsibilities of an outside Audit & Supervisory Board Member and is the candidate for alternate outside Audit & Supervisory Board Member because he can be judged to contribute to the Bank's management from the following background: Holding a U.S. CPA, he has extensive experience, achievements and specialized knowledge as an accounting specialist and is independent from the day-to-day management responsibilities for the bank's operations and activities.
 3. There is no particular common interests between each candidate and the Bank.
 4. When Mr. Keiichirou Uchida or Mr. Mitch R. Fulscher assumes the office of Audit & Supervisory Board Member, the Bank will enter into a contract with him to the effect that, if he is without knowledge and is not grossly negligent in performing the duties of Audit & Supervisory Board Member, the liabilities of the Audit & Supervisory Board Member under Article 423 (1) of the Companies Act shall be limited to the amount stipulated by Article 425 (1) of the Companies Act in accordance with the provisions of Article 427 (1) of the Companies Act.
 5. The above "Number of Bank's shares Owned by Candidate" states the sum of the shares held directly by the candidate and includes shares held through the Employee Stock Ownership Plan (ESOP). (Fractional shares are rounded off.)

End

Note that the Board of Directors have resolved to pay a year-end common share dividend of 5.70 yen per share for the 84th FY (4th quarter).
As a result, the full-year dividend per common share for the 84th FY is 18.70 yen.

(Reference) Q&A regarding Consolidation of Shares and Change in Number of Shares Constituting One Unit

Q1 What is a consolidation of shares? What is a change in the number of shares constituting one unit?

- A1 A consolidation of shares means consolidating the number of shares to reduce the number of shares. The number of shares constituting one unit means the number of shares that forms the basis for the unit required to exercise voting rights at a shareholders' meeting, and also used as the share trading units on the stock exchanges.
- The Bank intends to consolidate every ten shares into one share (the “**Share Consolidation**”) and change the number of shares constituting one unit of stock from 1,000 shares to 100 shares (the “**Share Unit Number Change**”).

Q2 What is the purpose of the Share Consolidation and the Share Unit Number Change?

- A2 Pursuant to their “Action Plan for Consolidating Trading Units,” Japanese Stock Exchanges have been promoting efforts to unify the trading units at 100 shares. In light of this, the Bank decided to change the number of shares constituting one unit of stock (which will be the Bank's share trading unit) from 1,000 shares to 100 shares.
- Also, in light of the Share Unit Number Change from 1,000 shares to 100 shares, the Bank decided to consolidate every ten shares into one share taking into account the level of price per trading unit (minimum trading price) that is deemed appropriate by the Japanese Stock Exchanges (which is no less than 50,000 yen and less than 500,000 yen).

Q3 How will the number of shares and voting rights of shareholders be affected?

- A3 The number of shares held by each shareholder after the Share Consolidation will be the number of shares obtained by multiplying the number of shares listed or recorded on the final register of shareholders of September 30, 2017, by one-tenth (rounded down to the nearest whole share). The number of voting rights will be one per 100 shares held after the Share Consolidation.

The number of shares held and the number of voting rights before and after the implementation of the Share Consolidation and the Share Unit Number Change are as follows:

	Before Implementation			After Implementation		
	Number of Shares Held	Number of Voting Rights		Number of Shares Held	Number of Voting Rights	Fractional Shares
Example (i)	5,000	5		500	5	None
Example (ii)	2,500	2		250	2	None
Example (iii)	1,225	1		122	1	0.5
Example (iv)	612	None		61	None	0.2
Example (v)	1	None		0	None	0.1

Regarding fractional shares constituting less than one share (the “**Fractional Shares**”) arising as a result of the Share Consolidation (such as in Examples (iii) to (v) above), the Bank will liquidate all such Fractional Shares in a lump; and the sales proceeds will be paid to shareholders based on the proportion of Fractional Shares held, in about the middle of December 2017.

Meanwhile, shareholders in Examples (iii) to (v) above can opt to utilize the procedures for the “Additional Purchase of Fractional Unit Shares” or “Repurchase of Fractional Unit Shares” before the Share Consolidation takes effect, if they do not wish to have their Fractional Shares liquidated.

Shareholders opting to do so are recommended to contact their securities company or the Bank’s shareholder registry administrator specified at the end hereof, for specific procedures.

As a result of the Share Consolidation, shareholders who hold less than ten shares before the implementation of the Share Consolidation (such as in Example (v) above) will lose their status as shareholders as all of their shares will become Fractional Shares. The Bank would appreciate the shareholders’ understanding in this regard.

Q4. Will there be no impact on asset value?

A4. Although the number of shares held by a shareholder will be one-tenth after the Share Consolidation, the Bank’s assets and capital will remain unchanged after the Share Consolidation. Aside from changes in share market conditions and other factors, this means that there will be no change to the asset value of the Bank’s shares held by the shareholders. This is because, after the Share Consolidation, there will be a tenfold increase in the amount of net assets per share. Further, in theory, there will be a tenfold increase in the share price.

Q5 Will the minimum trading price be affected?

A5 Theoretically, the current minimum trading price will not change.
(Reference) Trial calculation based on the closing price on March 31, 2017 (410 yen)

Before consolidation:

410 yen (share price) x 1,000 shares (the number of shares per share unit) = 410,000 yen (minimum trading price)

After consolidation:

4,100 yen (share price) x 100 shares (the number of shares per share unit) = 410,000 yen (minimum trading price)

Q6 When the number of shares held declines, will this affect dividends?

A6 Although the number of shares held by shareholders will be one-tenth after the Share Consolidation, dividend per share will increase tenfold for payments with a record date that comes after the effective date of the Share Consolidation. Thus, aside from the change in performance results or other factors, total dividends of each shareholder after the Share Consolidation will not be substantially affected. However, dividends will not be paid on the Fractional Shares resulting from the Share Consolidation. As set out in Q3, the Bank will liquidate all Fractional Shares arising from the Share Consolidation in a lump; and the sales proceeds will be paid to the shareholders, based on the percentage of the fractions that each shareholder holds.

Q7 Are there any procedures that shareholders must take?

A7 No special procedures are necessary.

Where a shareholder holds less than ten shares before the Share Consolidation comes into effect, these shares will become Fractional Shares as a result of the Share Consolidation. The Bank will liquidate all such Fractional Shares in a lump, and the sales proceeds will be paid to the shareholders, based on the percentages of the fractions that each shareholder holds.

Shareholders holding less than ten shares before the Share Consolidation comes into effect will lose their status as shareholders.

Q8 Is it possible to request the additional purchase or repurchase of shares constituting less than one share unit after the Share Consolidation?

A8 Shareholders holding shares constituting less than one share unit that cannot be traded on the market can opt to utilize the procedures for “Additional Purchase of Fractional Unit Shares” or “Repurchase of Fractional Unit Shares,” before the Share Consolidation comes into effect. The shareholders opting to do so are recommended to contact their securities company or the Bank’s shareholder registry administrator specified at the end hereof, for specific procedures.

Q9 What is the specific schedule going forward?

A9 A summary of the schedule (planned) is as follows:

June 27, 2017	Annual Shareholders’ Meeting
September 15, 2017	Public Notice (<i>koukoku</i>) of Share Consolidation
September 26, 2017	Last Day of Trading using the Current Number of Shares Constituting One Unit (1,000 Shares)
September 27, 2017	First Day of Trading using the Changed Shares Constituting One Unit (100 Shares)
October 1, 2017	Effective Date of Share Unit Number Change
	Effective Date of Share Consolidation
	Effective Date of Amendment of Articles of Incorporation

[Contact information for Inquiries]

If you have any inquiries regarding the Share Consolidation and the Share Unit Number Change, please contact the following shareholder registry administrator.

The Bank’s shareholder registry administrator:
Sumitomo Mitsui Trust Bank, Limited
4-1 Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8233, Japan

Mails and Inquiries:
Stock Transfer Agency Business Planning Dept., Sumitomo Mitsui Trust Bank, Limited
8-4 Izumi 2-chome, Suginami-ku, Tokyo 168-0063
Tel: 0120-782-031 (toll free)
Office hours: 9:00 a.m.-5:00 p.m. (excluding Saturdays, Sundays, and National holidays)

Business Report - Fiscal Year 2016 -

(April 1, 2016 — March 31, 2017)

1. Current Status of the Bank

(1) Business Developments and Results of the Corporate Group

[Financial and Economic Environment]

Japan's domestic economy remained on course for a moderate recovery, as seen in improving corporate earnings and steady consumer spending backed by the improvement in employment and household income. The core consumer price index continued to be in slight negative territory year-on-year. Overseas economic conditions remained on course for a moderate recovery. U.S. business confidence improved due to growing expectations for the economic policy of the new administration after the U.S. presidential election in November 2016. Under these conditions, the Federal Reserve Board (FRB) raised its policy interest rate by 0.25% in December 2016 and March 2017.

In the financial markets, domestic long-term interest rates (10-year JGB yield) remained in a range between -0.3% and 0.1%. The Nikkei Average temporarily fell below 15,000 yen mainly due to the British referendum on membership in the European Union (EU) in June. However, after the U.S. presidential election, the Nikkei rose and recovered to the 19,000 yen level by the end of the fiscal year. The exchange rate of U.S. dollar to Japanese yen fluctuated between 100 yen and 119 yen, ending the fiscal year at the 112 yen level, the same level as the previous year.

The U.S. 10-year Treasury bond yield rose to 2.6% after the U.S. presidential election, but gradually declined to the 2.3% level by the end of the fiscal year. The Dow Jones Industrial Average temporarily reached an all-time high of 21,000 in March 2017.

[Main Business Activities of the Corporate Group]

The Group consists of the Bank and 19 consolidated subsidiaries that provide a variety of financial services, such as securities, trust and investment management, in addition to our primary banking business. The other main services include loan collection which is provided by the Group's subsidiaries.

[Business Developments and Results of the Corporate Group]

(Updated Business Model and Mid-term Targets, etc.)

In May 2015, Aozora established and announced the following plans indicating its mid-term direction:

- ① Aozora's vision;
- ② Post-Repayment Financial Targets; and
- ③ Revised Capital policy.

① Aozora's vision (Management Policy, Strategy, etc.)

Management Policy

After the repayment of its public funds, all executive officers and employees of Aozora will contribute to the Bank's objective of earning a high reputation from society through the provision of differentiated and specialized financial services. Aozora also reaffirms its commitment to a strong risk management framework and the maintenance of management soundness, in order to preserve its financial strength and institutional discipline under any future conditions.

By implementing these policies, the Bank aims to create a “virtuous cycle” which leads to further improvement in corporate value, in response to its shareholders’ growth mandate.

Mid- to Long-term Strategy

The Bank’s vision is “Primary Secondary Bank: An *Even More* Reliable Partner.”

Aozora will strengthen its position as a trusted “Primary Secondary Bank: An *Even More* Reliable Partner” by building upon its differentiated and specialized financial services centered on “6 Focuses” as the core components of its updated business model, creating more opportunities for customers to consult with the Bank.

Specifically, Aozora will continue to expand its business base centered on “6 Focuses” by leveraging and building upon the Bank’s long-standing differentiated advantages. The Bank will continue to conduct “selection and concentration” with respect to its management resources, upgrading its expertise in the “6 Focuses” for each line of business in order to strengthen its differentiated and specialized Business Model.

“6 Focuses” are as follows:

- (i) Retail Banking Focusing on Senior Generation Mass-affluent Customers
- (ii) Marketing with business solutions for SME and other corporate customers
- (iii) Deeper Partnerships with Regional Financial Institutions
- (iv) Specialty Finance
- (v) International Business
- (vi) Pursuit of Diversified Global Investments and promotion of risk consulting

② Post-Repayment Financial Targets

Earnings

Through the promotion of our business model, Aozora aims to achieve sustainable top line revenue growth, as well as stable annual net income of at least 40 billion yen in and after FY2017, when the tax burden is expected to increase.

Earnings	FY2017 (Mid-term targets)	FY2016 (Results)
Net revenue	100 billion yen +	85.2 billion yen
Net income (*)	40 billion yen or more	43.8 billion yen

(*) From FY2015 onwards, consolidated net income represents ‘profit attributable to owners of parent’ in accordance with the Revised Accounting Standard for Business Combinations and related standards and implementation guidance.

Key Performance Indicators (KPIs)

To ensure continued efficiency in our operations as one of the Bank's advantages and to achieve sustainable earnings growth even after the full repayment of public funds, we have established the following target KPIs. While our ROE target for the mid-term (FY2015 - FY2017) is 9% or higher, we intend to achieve 10% over the longer term.

	FY2015 - FY2017 (Mid-term targets)	FY2016 (Results)
Net Interest Margin	1.20%	1.28%
Non-interest Income Ratio	40% - 50%	46.5%
OHR	45% or below	52.8%
Credit Cost Ratio	0.10% - 0.20%	- (*)
ROE	9% or higher	10.6%
ROA	0.8%	1.0%

(*)Credit-related expenses were a net reversal in FY2016.

③Revised Capital Policy

Capital Adequacy Ratio

The Bank intends to efficiently deploy its capital by setting its target capital adequacy ratio (Basel III basis, domestic standard) at 10% or higher, a level necessary for achieving all the above financial targets while maintaining its financial soundness. In light of the global trend towards strengthening capital regulations, we will ensure that we maintain sufficient capital going forward.

Shareholder Return Policy

Aozora intends to provide returns to its shareholders primarily in the form of dividends based on the Bank's performance. The Bank has adopted a dividend policy of 50% of consolidated net income (profit attributable to owners of parent). The Bank will continue to make quarterly dividend payments.

(Analysis of Operating Results and Financial Conditions)

The results of Aozora Group for FY2016 are as follows.

Total assets were 4,586.0 billion yen as of March 31, 2017, a decrease of 6.9 billion yen, or 0.2%, compared to March 31, 2016. Loans were 2,521.8 billion yen, an increase of 10.2 billion yen, or 0.4%, from March 31, 2016. Domestic loans decreased 31.1 billion yen, while overseas loans increased 41.4 billion yen. Securities increased by 14.4 billion yen, or 1.6%, from March 31, 2016, to 937.9 billion yen.

Total liabilities were 4,165.6 billion yen, a decrease of 21.7 billion yen, or 0.5%, compared to March 31, 2016. The Bank continued its efforts to flexibly manage its funding position. Total core funding (deposits, negotiable certificates of deposit, debentures and bonds) was 3,099.3 billion yen, a decrease of 92.2 billion yen, or 2.9%, from March 31, 2016.

Net assets were 420.3 billion yen, representing an increase of 14.8 billion yen, or 3.7%, in comparison with March 31, 2016.

Net assets per common share were 358.61 yen, as compared to 346.83 yen per common share as of March 31, 2016.

For FY2016, net revenue was 85.2 billion yen, a decrease of 6.1 billion yen, or 6.7% year on year, and business profit was 40.2 billion yen, a decrease of 8.3 billion yen, or 17.1% year on year. Profit attributable to owners of parent was 43.8 billion yen, an increase of 0.3 billion yen, or 0.8% year on year.

Net interest income was 45.6 billion yen, a decrease of 4.1 billion yen, or 8.3% year on year. This change was due to factors including a decline in average asset balances, while the yield on loans and securities increased as the Bank continued its disciplined approach to balance sheet management. The net interest margin was 1.28%.

Non-interest income was 39.6 billion yen, a decrease of 1.9 billion yen, or 4.7% year on year. Net fees and commissions were 9.2 billion yen, a decrease of 2.1 billion yen, or 19.0% year on year. Net trading revenues were 20.4 billion yen, an increase of 8.2 billion yen, or 67.4%, mainly due to strong earnings from the sale of derivative-related products designed to meet the needs of our financial institution customers. Earnings from the sale of financial products to the Bank's mass affluent retail customers also increased compared to the previous year. Gains/losses on bond transactions were a gain of 2.3 billion yen, a decrease of 5.7 billion yen compared with FY2015, mainly reflecting risk reduction measures taken by the Bank, including to its U.S. Treasury bond positions. Net other ordinary income, excluding gains/losses on bond transactions, was 7.5 billion yen, a decrease of 2.2 billion yen or 23.3% year on year.

General and administrative expenses were 45.0 billion yen, an increase of 2.1 billion yen, or 5.1% year on year. The increase was mainly due to amortization expenses recognized as a result of the Bank's new core banking system. General and administrative expenses were in line with the full-year budget for FY2016 and reflected the Bank's continued efforts to control costs. The OHR (general and administrative expenses as a percentage of net revenue) was 52.8%.

Consolidated business profit was 40.2 billion yen, a decrease of 8.3 billion yen, or 17.1%.

Credit-related expenses were a net reversal of 11.0 billion yen, mainly due to the reversal of loan loss reserves as well as recoveries of written-off claims. Ordinary profit and profit before income taxes were both 51.7 billion yen, a decrease of 3.9 billion yen, or 7.1%. Total income taxes (the sum of corporation tax, resident tax, business tax and deferred income taxes) were a net of expense of 8.0 billion yen, compared with a net expense of 12.2 billion yen in FY2015.

As a result of the above factors, profit attributable to owners of parent was 43.8 billion yen, an increase of 0.3 billion yen, or 0.8% year on year. Net income per share (basic) was 37.59 yen, as compared to 37.29 yen per share (basic) in FY2015.

For this fiscal year the Bank has decided to pay a total dividend per common share of 18.70 yen. As the Bank has already paid a total of 13 yen in dividends per share in the first through third quarters, the fourth quarter dividend will be 5.70 yen.

The Bank has classified its Group's business operations into the following business groups based upon the nature of the customers served and products offered: Retail Banking Group ("RBG"), Institutional Banking Group ("IBG"), Specialized Banking Group ("SBG") and Financial Markets Group ("FMG"). The Bank has designated these business groups as operating segments and reportable segments.

Profit / loss by segment for FY2016, which is calculated as net revenue minus general and administrative expenses by each segment, was: a profit of 1.7 billion yen (2.1 billion yen in FY2015) for RBG; a profit of 11.7 billion yen (10.7 billion yen) for IBG; a profit of 16.3 billion yen (20.2 billion yen) for SBG; and a profit of 11.7 billion yen (16.6 billion yen) for FMG.

(Reference)

Summary of consolidated revenue and expenses

(JPY 100 million)

	FY2015	FY2016	Change
Net revenue ※1	914	852	(61)
Net interest income	498	456	(41)
Net fees and commissions	114	92	(21)
Net trading revenue	122	204	82
Gains/losses on bond transactions	81	23	(57)
Net other ordinary income excluding gains/losses on bond transactions	97	75	(22)
General and administrative expenses	(428)	(450)	(21)
Business profit ※2	485	402	(83)
Credit-related expenses	47	110	63
Gains/losses on stock transactions	14	4	(9)
Other	9	(0)	(10)
Ordinary profit	557	517	(39)
Extraordinary profit	(0)	(0)	0
Profit before income taxes	557	517	(39)
Total income taxes	(122)	(80)	41
Profit	435	436	1
Profit (loss) attributable to non-controlling interests ※3	(0)	1	1
Profit attributable to owners of parent	434	438	3

※1 Net revenue = (Interest income—Interest expenses) + (Fees and commissions income — Fees and commissions expenses) + (Trading income—Trading expenses) + (Other ordinary income—Other ordinary expenses)

※2 Business profit = Net revenue—General and administrative expenses

※3 Regardless of nature of accounts, revenue or income is shown as positive and expenses or losses are shown as a negative amount in the table above.

[Challenges Facing the Bank]

Aozora Bank defines its Management philosophy as “Aozora is firmly established in the Japanese financial system and is truly committed to contributing to the economic and social growth of the country.” In accordance with our May 15, 2015 press release entitled ‘Aozora Announces Early and Full Repayment of Public Funds; Establishes Updated Business Model and Mid-term Financial Targets’, the Bank will strengthen its position as a trusted “Primary Secondary Bank: An Even More Reliable Partner” by continuing to conduct “selection and concentration” with respect to its management resources, building upon its differentiated and specialized financial services centered on “6 Focuses” as the core components of its updated business model, and creating more opportunities for customers to consult with the Bank. The Bank will fulfill its social and public responsibility as a financial institution as well as continue to place a high priority on its risk management framework and the maintenance of financial soundness, in order to preserve its strong position and institutional discipline by properly responding to changes in the internal and external environment, aiming to avoid causing a credit crunch triggered by the Bank.

By implementing these policies, the Bank aims to create a “virtuous cycle” which leads to further improvement in corporate value, in response to its shareholders’ growth mandate. All executive officers and employees of Aozora will contribute to the Bank’s objective of earning a high reputation from society.

The Bank will proactively maintain and enhance its business foundation to support sustainable growth in corporate value. As for human resources, the Bank will foster human resources who have a strong sense of ethics and welcome challenges, and establish a better workplace for people with diverse backgrounds. In addition, the Bank will work to foster a team of “highly-skilled employees maintaining an appropriate work-life balance” through innovative and efficient business conduct leveraging the “Working Style Reforms” and “Business Process Innovation.”

The Bank relocated its head office to the “Sophia Tower” in Kojimachi, Chiyoda-Ku, Tokyo in May 2017. The Bank intends to leverage the safety of this new environment to further strengthen its business continuity framework, as well as increase productivity, while maintaining easy access for our customers. The Bank will contribute to the economic and social growth of the country by aiming to become a truly trusted “Primary Secondary Bank: An Even More Reliable Partner” for its customers.

(Note) Figures are rounded down to the nearest unit specified.

(2) Assets and Profit or Loss of the Corporate Group and the Bank

A. Assets and Profit or Loss of the Corporate Group

(Unit: JPY 100 million)

	FY2013	FY2014	FY2015	FY2016
Ordinary Income	1,318	1,300	1,240	1,347
Ordinary Profit	521	596	557	517
Profit attributable to owners of parent	423	436	434	438
Comprehensive Income	273	902	231	352
Net Assets	5,160	5,674	4,054	4,203
Total Assets	48,054	49,244	45,929	45,860

(Notes) Figures are rounded down to the nearest unit specified.

B. Assets and Profit or Loss of the Bank

(Unit: JPY 100 million)

	FY2013	FY2014	FY2015	FY2016
Deposits	30,183	29,969	29,453	28,664
Time Deposits	23,218	22,560	23,006	22,185
Other	6,965	7,409	6,447	6,479
Debentures (Long-Term Credit Bank Bond)	1,975	2,461	2,194	1,206
Corporate Bonds (Excluding Long-Term Credit Bank Bond)	-	-	400	1,256
Loans and Bills Discounted	26,490	27,814	25,158	25,383
Retail	53	40	36	28
Small/ Medium Companies	17,844	19,233	17,674	18,236
Other	8,593	8,540	7,447	7,118
Trading Assets	3,528	3,471	3,373	2,106
Trading Liabilities	3,182	3,112	2,698	1,977
Securities	12,067	10,343	9,874	10,106
Government Bonds	3,456	1,937	280	80
Other	8,611	8,405	9,593	10,026
Total Assets	47,973	49,129	45,896	45,834
Domestic Exchange Transactions	105,216	101,385	83,040	87,594
Foreign Exchange Transactions	USD million 9,678	USD million 8,291	USD million 9,103	USD million 6,469
Ordinary Profit	JPY million 51,156	JPY million 57,851	JPY million 54,460	JPY million 50,081
Profit	JPY million 41,602	JPY million 48,316	JPY million 42,631	JPY million 43,475
Net Income per Share	JPY 34.24	JPY 40.16	JPY 36.55	JPY 37.27

(Notes) 1. Figures are rounded down to the nearest unit specified.

2. The balance of 'Deposits' and 'Other' under 'Deposits' includes negotiable certificates of deposit.

3. 'Long-Term Credit Bank Bond' represents a long-term credit bank bond, as classified in Item 5, Paragraph 2, Article 2 of the Deposit Insurance Act.

(3) Employees of the Corporate Group

	March 31, 2017		March 31, 2016	
	Banking Business	Other Operations	Banking Business	Other Operations
Number of Employees	1,758	171	1,717	135

- (Notes)
1. The Number of Employees includes locally hired staff overseas.
 2. Subsidiaries which operate auxiliary businesses or operate businesses alternately for the Bank, are classified as 'Banking Business.' Other subsidiaries are classified as 'Other Operations.'

(4) Major Branches and Offices of the Corporate Group

A) Banking operations

i. Major Branches and Number of Branches

The Bank:

Domestic: Head office, Sapporo, Sendai, Shinjuku, Nihonbashi, Shibuya, Ueno, Ikebukuro, Chiba, Yokohama, Kanazawa, Nagoya, Kyoto, Kansai, Osaka, Umeda, Hiroshima, Takamatsu, Fukuoka, Internet Branch, Financial Oasis Jiyugaoka (Shibuya Branch Jiyugaoka Office)

Total 21 as of March 31, 2017. (21 as of March 31, 2016)

Overseas: 0 as of March 31, 2017. (0 as of March 31, 2016)

In addition to the above, the Bank has 3 overseas representative offices as of March 31, 2017 (3 as of March 31, 2016):

New York Representative Office, Shanghai Representative Office, Singapore Representative Office

Subsidiaries:

Aozora Regional Consulting Co., Ltd.: Tokyo Head office
Aozora Asia Pacific Finance Limited: Hong Kong, Republic of China
Aozora Europe Limited: London, UK
AZB Funding: Cayman Islands
AZB Funding 2: Cayman Islands
AZB Funding 3: Cayman Islands
AZB Funding 4 Limited: Dublin, Ireland
AZB Funding 5: Cayman Islands
AZB Funding 6: Cayman Islands
AZB Funding 7: Cayman Islands
AZB Funding 8 Limited: Dublin, Ireland
Aozora GMAC Investment Limited: London, UK
Aozora Investment, Inc.: Delaware, USA
Aozora Investments LLC: Delaware, USA

ii. List of agencies of the Bank

Name	Main Address	Other Operations
Tsukuba Bank, Ltd.	11-7, Chuo 2-chome, Tsuchiura City, Ibaraki	Banking

iii. Agent activities operated by the Bank

None.

B) Other operations

Aozora Trust Bank, Ltd.: Tokyo Head office
Aozora Loan Services Co., Ltd.: Tokyo Head office
Aozora Securities Co., Ltd.: Tokyo Head office
Aozora Investment Management Co., Ltd.: Tokyo Head office
Aozora Real Estate Investment Advisors Co., Ltd.: Tokyo Head office

(5) Capital Investments of the Corporate Group

A) Total Capital Investments

(Unit: JPY million)

Operation Segment	Amount
Banking	11,490
Other	62
Total	11,552

B) New Establishment of Material Facilities and Other Material Investments

(Unit: JPY million)

Operating Segment	Description	Amount
Banking	Replacement of its "Kanjokei" Core Banking System, etc.	9,960
Banking	Takamatsu Branch Relocation	271

(Notes) The amounts in the table above show fixed assets, etc. recorded in FY2016.

(6) Parent company and major subsidiaries

A) Parent company

None.

B) Subsidiaries

(As of March 31, 2017)

Company Name	Location	Principal Business Activities	Incorporation Date	Stated Capital (JPY millions)	Voting Rights held by the Bank (%)	Other
Aozora Trust Bank, Ltd.	3-1, Kudan-minami 1-chome, Chiyoda-ku, Tokyo	Trust services, banking operations	February 28, 1994	8,751	85.10%	—
Aozora Loan Services Co., Ltd.	13-5, Kudan-kita 1-chome, Chiyoda-ku, Tokyo	Distressed loan servicing	June 18, 1996	500	67.60%	—
Aozora Securities Co., Ltd.	3-1, Kudan-minami 1-chome, Chiyoda-ku, Tokyo	Financial instruments business	January 23, 2006	3,000	100.00%	—
Aozora Regional Consulting Co., Ltd.	3-1, Kudan-minami 1-chome, Chiyoda-ku, Tokyo	Consulting and advisory	March 21, 2013	10	100.00%	—
Aozora Investment Management Co., Ltd.	3-1, Kudan-minami 1-chome, Chiyoda-ku, Tokyo	Investment management services	February 4, 2014	225	100.00%	—
Aozora Real Estate Investment Advisors Co., Ltd.	3-1, Kudan-minami 1-chome, Chiyoda-ku, Tokyo	Investment advisory	January 6, 2015	150	100.00%	—
Aozora Asia Pacific Finance Limited	Hong Kong	Financial services	June 29, 2005	11,376 100,000 Thousands of USD	100.00%	—
Aozora Europe Limited	London	Financial services	December 15, 2015	180 1,000 Thousands of GBP	100.00%	—
AZB Funding	Cayman Islands	Investment vehicle	June 1, 2012	0 0 Thousands of USD	—	—
AZB Funding 2	Cayman Islands	Investment vehicle	March 19, 2013	0 0 Thousands of USD	—	—
AZB Funding 3	Cayman Islands	Investment vehicle	September 18, 2013	0 0 Thousands of USD	—	—
AZB Funding 4 Limited	Dublin, Ireland	Investment vehicle	March 18, 2014	0 0 Thousands of EUR	—	—
AZB Funding 5	Cayman Islands	Investment vehicle	August 18, 2014	0 0 Thousands of USD	—	—
AZB Funding 6	Cayman Islands	Investment vehicle	July 7, 2015	0 0 Thousands of USD	—	—
AZB Funding 7	Cayman Islands	Investment vehicle	November 26, 2015	0 0 Thousands of USD	—	—
AZB Funding 8 Limited	Dublin, Ireland	Investment vehicle	August 15, 2016	0 0 Thousands of USD	—	—

(Notes)1. The amounts are rounded down to the nearest unit specified. Percentages of voting rights held by the Bank are rounded down to two decimal places.

2. "Stated Capital" converted into JPY is calculated using the exchange rates at the time of acquisition.

[Principal Business Alliances]

1. The Bank provides a cash dispensing service and a balance inquiry service through the mutual use of cash dispensers with Resona Bank, Limited., Saitama Resona Bank, Limited, Mizuho Bank, Ltd., the Bank of Tokyo-Mitsubishi UFJ, Ltd., Sumitomo Mitsui Banking Corporation, Sumitomo Mitsui Trust Bank, Limited, Mitsubishi UFJ Trust and Banking Corporation, Mizuho Trust & Banking Co., Ltd., Shinsei Bank, Limited and the Shoko Chukin Bank, Ltd.
2. The Bank has joined with Resona Bank, Limited., Saitama Resona Bank, Limited, Mizuho Bank, Ltd., the Bank of Tokyo-Mitsubishi UFJ, Sumitomo Mitsui Banking Corporation, Shinsei Bank, Limited, the Shoko Chukin Bank, Ltd., the Japan Net Bank, Limited, Seven Bank, Ltd., Rakuten Bank, Ltd., AEON Bank, Ltd., Citibank Japan Ltd., SMBC Trust Bank Ltd., SBI Sumishin Net Bank, Ltd., Sony Bank Incorporated, Jibun Bank Corporation, Shinhan Bank Japan, and Daiwa Next Bank, Ltd. to provide an account holder confirmation service for cash transfer using cash dispensers.
3. The Bank has cooperated with JAPAN POST BANK Co., Ltd., and provides a cash dispensing service, a balance inquiry service and an account holder confirmation service for cash transfer through the mutual use of automatic teller machines.
4. The Bank has an arrangement with Aozora Securities Co., Ltd. to provide financial intermediary services such as structured notes for corporate and retail customers.
5. In partnership with Mizuho Securities Co., Ltd., the Bank is conducting financial intermediary business for structured notes aimed at retail customers.
6. The Bank has arranged a business alliance with Tokio Marine & Nichido Life Insurance Co., Ltd. for the joint provision of life insurance products (excluding private pension insurance).
7. The Bank formed a comprehensive business alliance with the Bank of Yokohama, Ltd. in the investment banking area on May 24, 2007.
8. The Bank formed a comprehensive business alliance with the Toho Bank, Ltd. relating to loan business on August 6, 2007.
9. Based on the comprehensive master agreement on November 20, 2007, the Bank formed a business alliance with Sumitomo Trust & Banking Group (current Sumitomo Mitsui Trust Group).
10. On August 20, 2009, the Bank formed a strategic business partnership with Tsukuba Bank, Ltd., aiming to expand its customer base in order to enhance competitiveness and profitability. Tsukuba Bank, Ltd. was formed following the conclusion of a merger agreement between Kanto Tsukuba Bank and Ibaraki Bank on March 1, 2010.
11. The Bank formed a comprehensive business alliance with the Hokkaido Bank, Ltd. in the area of agricultural sector finance on August 26, 2009.
12. The Bank formed a master agreement for the formation of a strategic business partnership with Kirayaka Bank, Ltd. on February 9, 2011 to take full advantage of their strengths and enhance their responsiveness to various customer needs the Bank formed an agreement for business matching with Kirayaka Bank, Ltd. on February 6, 2013.
13. On September 26, 2011, the Bank and Daiwa Securities Capital Markets (current Daiwa Securities Co. Ltd.) and Daiwa PI Partners Co. Ltd., consolidated subsidiaries of Daiwa Securities Group Inc., announced an M&A finance business alliance and an agreement to establish a joint-venture company Aozora Daiwa Finance Co., Ltd.
14. On January 10, 2013, the Bank formed an agreement for business recovery support with the Tokyo Tomin Bank, Limited.

15. On February 6, 2013, the Bank formed an agreement for business matching with THE SENDAI BANK, LTD.
16. On March 4, 2013, the Bank launched the “Aozora Cash Card Plus” which features the addition of a Visa debit card function provided by Visa Worldwide (Japan) Co., Ltd.
17. On March 15, 2013, the Bank formed an agreement for business recovery support with THE HOWA BANK, LTD., the Miyazaki Taiyo Bank, Ltd. and the Minami-Nippon Bank, Ltd.
18. On March 26, 2013, the Bank formed an agreement for business matching with TOMATO BANK, LTD.
19. On November 8, 2013, the Bank formed an agreement for cross border M&A advisory services with Oversea-Chinese Banking Corporation Limited (Head Office: Singapore).
20. On November 14, 2013, the Bank formed an agreement with KANEMATSU CORPORATION related to support for overseas business expansion through cross border business matching.
21. On June 19, 2014, the Bank formed an agreement for cross border M&A advisory services with PT Bank Central Asia TBK (Head Office: Jakarta, Republic of Indonesia).
22. On November 28, 2014, the Bank formed an agreement for cross border M&A advisory services with KASIKORNBANK PUBLIC COMPANY LIMITED (Head Office: Bangkok, The Kingdom of Thailand).
23. On May 15, 2015, the Bank formed an agreement with the Daishi Bank, Ltd., aiming at strengthening cooperation related to business matching between Japanese and local Vietnamese companies.
24. The Bank formed a comprehensive business alliance with CTBC Financial Holding Co., Ltd. (Head Office: Taipei, Republic of China) on June 19, 2015, aiming at strengthening business cooperation in Asia, mainly in Taiwan.
25. On March 28, 2016, the Bank formed an agreement for regional revitalization with Bank of the Ryukyus, Limited.
26. On May 23, 2016, the Bank formed an agreement for cross border M&A advisory services with BDO Unibank, Inc. (Head Office : Makati, Republic of the Philippines)
27. The Bank entered into a capital and business alliance regarding a joint venture Internet bank, which will be operated by Aozora Trust Bank, with GMO Internet, Inc. on June 24, 2016 and with GMO CLICK Holdings, Inc. on July 21, 2016.

(7) Assignment of Operations
None

(8) Other Major Issues Concerning the Current Status of the Corporate Group
None

2. Matters Concerning Directors and Audit & Supervisory Board Members

(1) Directors and Audit & Supervisory Board Members

(As of March 31, 2017)

Name	Title and Line of Business	Major Concurrent Post	Other
Makoto Fukuda	Chairman Executive officer	Outside Director, Rakuten Life Insurance Co., Ltd.	—
Shinsuke Baba	President Executive officer (Representative Director) CEO	—	—
Masaki Tanabe	Deputy President Executive officer (Representative Director) CFO	—	—
Takeo Saito	Director and Senior Managing Executive Officer CRO, CCRO	—	—
Shunsuke Takeda	Director (outside)	Advisor, ORIX Corporation	—
Hiroyuki Mizuta	Director (outside)	Representative Director & Chairman, Nippon Television City Corporation	—
		Executive Counselor, Nippon Dentsu Co., Ltd.	
Ippei Murakami	Director (outside)	Special Advisor, Nisshin Seifun Group Inc.	—
Tomonori Ito	Director (outside)	Professor, Graduate School of International Corporate Strategy, Hitotsubashi University	—
		Outside Board Member, PARCO Co., LTD.	
		Outside Board Member, Electric Power Development Co., Ltd.	
Shinichi Fujihira	Audit & Supervisory Board Member (full-time)	—	—
Kiyoto Hagiwara	Audit & Supervisory Board Member (outside)	—	—
Toraki Inoue	Audit & Supervisory Board Member (outside)	Toraki Inoue Certified Public Accountant Office	Holds CPA qualification
		Representative Director and President, Accounting Advisory Co., Ltd.	
		Supervisory Director, GLP J-REIT	
		Outside Audit & Supervisory Board Member, Kao Corporation	

(Notes) Messrs. Shunsuke Takeda, Hiroyuki Mizuta, Ippei Murakami and Tomonori Ito, outside directors, and Kiyoto Hagiwara and Toraki Inoue, audit & supervisory board members, meet the definition of independent directors based on the rules of Tokyo Stock Exchange.

(2) Director and Audit & Supervisory Board Member Remuneration and Benefits

(Unit : JPY million)

Category	Number of Recipients	Remuneration and Benefits
Directors	8	348
Audit & Supervisory Board Members	4	53
Total	12	402

- (Notes) 1. The number of recipients and the remuneration and benefits include an audit & supervisory board member who retired at the close of the 83rd Annual General Shareholders' Meeting held on June 28, 2016.
2. The ceiling of base remuneration and bonuses for directors was determined as 600 million yen per year at the 82nd Annual General Shareholders' Meeting held on June 26, 2015. Apart from this, the Bank approved the grant of equity compensation type stock options of up to 150 million yen per year to full-time directors in addition to the aforementioned ceiling at the 81st Annual General Shareholders' Meeting held on June 26, 2014.
3. The base remuneration ceiling for audit & supervisory board members was determined as 60 million yen per year at the 73rd Annual General Shareholders' Meeting held on June 23, 2006.
4. The remuneration and benefits for directors include directors' bonuses of 70 million yen in this fiscal year.
5. The remuneration and benefits for directors include equity compensation type stock options of 47 million yen granted to full-time directors.

(3) Limited Liability Contract

Name	Limited Liability Contract
Shunsuke Takeda	For each liability set out in Article 423-1 of the Companies Act, they are liable for up to the total monetary amount set out in Article 425-1 of the Companies Act.
Hiroyuki Mizuta	
Ippei Murakami	
Tomonori Ito	
Shinichi Fujihira	
Kiyoto Hagiwara	
Toraki Inoue	

3. Matters Concerning Outside Directors and Audit & Supervisory Board Members

(1) Concurrent Post and Other Status of Outside Directors and Audit & Supervisory Board Members

(As of March 31, 2017)

Name	Concurrent Post and Other Status	Relationship with the Bank
Shunsuke Takeda	Advisor, ORIX Corporation	Customer (loans, etc.)
Hiroyuki Mizuta	Representative Director & Chairman, Nippon Television City Corporation	Customer (loans, etc.)
	Executive Counselor, Nippon Dentsu Co., Ltd.	—
Ippei Murakami	Special Advisor, Nisshin Seifun Group Inc.	—
Tomonori Ito	Professor, Graduate School of International Corporate Strategy, Hitotsubashi University	—
	Outside Board Member, PARCO Co., LTD.	—
	Outside Board Member, Electric Power Development Co.,Ltd.	Customer (loans, etc.)
Toraki Inoue	Toraki Inoue Certified Public Accountant Office	—
	Representative Director and President, Accounting Advisory Co.,Ltd	—
	Supervisory Director, GLP J-REIT	Customer (loans, etc.)
	Outside Audit & Supervisory Board Member, Kao Corporation	—

(2) Activity Status of Outside Directors and Audit & Supervisory Board Members

(As of March 31, 2017)

Name	Term served	Attendance at Board meetings, etc.	Remarks or other activities performed at Board meetings, etc.
Shunsuke Takeda	9 yrs 10 ms	Attended all 16 Board meetings during the relevant fiscal year	Expressing opinions and offering proposals based on substantial experience, achievements and expertise as a top management executive for financial institutions and business corporations.
Hiroyuki Mizuta	3 yrs 10 ms	Attended all 16 Board meetings during the relevant fiscal year	Expressing opinions and offering proposals based on substantial experience as a top management executive of financial institutions, and substantial experience, achievements and expertise as a member of the management team of business corporations.
Ippei Murakami	2 yrs 10 ms	Attended 15 of 16 Board meetings during the relevant fiscal year	Expressing opinions and offering proposals based on substantial experience as a top management executive of business corporations.
Tomonori Ito	2 yrs 10 ms	Attended all 16 Board meetings during the relevant fiscal year	Expressing opinions and offering proposals based on substantial experience in financial institutions, expertise as a professor of a graduate school, and substantial knowledge and achievement as an executive of business corporations.
Kiyoto Hagiwara	1 yr 10 ms	Attended all 16 Board meetings during the relevant fiscal year Attended all 15 meetings of the Audit & Supervisory Board during the relevant fiscal year	Expressing opinions and making proposals based on substantial experience and insight in the finance and banking business
Toraki Inoue	10 ms	Attended all 11 Board meetings during the relevant fiscal period after his appointment Attended all 9 meetings of the Audit & Supervisory Board during the relevant fiscal period after his appointment	Expressing opinions and making proposals based on substantial experience in Auditor and Supervisor of business corporations and insight as a CPA

(3) Remuneration and Benefits to Outside Directors and Audit & Supervisory Board Members

(Unit: JPY million)

	Number of Recipients	Remuneration and Benefits from the Bank	Remuneration and Benefits from the Bank's Parent, etc.
Total Remuneration and Benefits	7	80	—

(Note) The number of recipients and the remuneration and benefits include an audit & supervisory board member who retired at the close of the 83rd Annual General Shareholders' Meeting held on June 28, 2016.

4. Stock Data of the Bank

(1) Number of Shares		(In thousands)
Authorized Shares	Common Stock	2,898,282
Number of Stocks Issued	Common Stock	1,182,894

(Notes) 1. The Number of Stocks Issued includes treasury shares of 16,495 thousand.

2. The number of shares are in thousands, rounded down to the nearest thousand.

(2) Number of Stockholders as of the End of This Fiscal Year 75,506

(3) Major Shareholders

(As of March 31, 2017)

Name of Shareholder	Contributed Capital	
	Number of Shares Held (in thousands)	Percentage of Total Outstanding Shares
The Master Trust Bank of Japan, Ltd. (Trust Account)	75,501	6.47%
Japan Trustee Services Bank, Ltd. (Trust Account)	68,322	5.85%
Japan Trustee Services Bank, Ltd. (Trust Account 9)	24,899	2.13%
Japan Trustee Services Bank, Ltd. (Trust Account 5)	22,941	1.96%
STATE STREET BANK WEST CLIENT-TREATY 505234	18,847	1.61%
Japan Trustee Services Bank, Ltd. (Trust Account 4)	17,464	1.49%
Japan Trustee Services Bank, Ltd. (Trust Account 7)	17,228	1.47%
Japan Trustee Services Bank, Ltd. (Trust Account 1)	16,963	1.45%
Japan Trustee Services Bank, Ltd. (Trust Account 2)	16,950	1.45%
JP MORGAN CHASE BANK 385151	14,251	1.22%

(Notes) 1. The major shareholders are top 10 shareholders, excluding treasury shares held by the Bank (16,495 thousand shares), described in the above table.

2. 'Number of Shares Held' is in thousands and rounded down to the nearest thousand.

3. 'Percentage of Total Outstanding Shares' is rounded down to two decimal places.

4. 'Percentage of Total Outstanding Shares' is calculated excluding treasury shares held by the Bank (16,495 thousand shares).

5. In the above table, we have calculated the number of common shares and its percentage held by each shareholder based upon the Bank's Shareholder Registry as of March 31, 2017.

(4) Other Major Issues Concerning Shares

None

5. The Bank's Share Warrant or Similar Instruments

(1) The Bank's share warrants or similar instruments held by directors of the Bank as of March 31, 2017

	Issuance of stock options is outlined below.	Number of recipients
Directors (except Outside Directors)	① Name: Aozora Bank first series of equity compensation type stock options ② Grant date: August 1, 2014 ③ Number of stock options: 2,535 ④ Class of shares to be delivered upon exercise: Common shares ⑤ Number of shares to be delivered upon exercise: 253,500 units (100 shares per option) ⑥ Issue price of stock option: 32,300 yen per option ⑦ Exercise price: 1 yen per share ⑧ Time period in which stock options are exercisable: As from August 2, 2014 through August 1, 2044 ⑨ Conditions for the exercise of stock options: A stock option holder may exercise the granted stock options only once during the ten-day period following the day on which the holder ceases to be a director of the Bank.	4
Directors (except Outside Directors)	① Name: Aozora Bank second series of equity compensation type stock options ② Grant date: July 14, 2015 ③ Number of stock options: 1,021 ④ Class of shares to be delivered upon exercise: Common shares ⑤ Number of shares to be delivered upon exercise: 102,100 units (100 shares per option) ⑥ Issue price of stock option: 43,800 yen per option ⑦ Exercise price: 1 yen per share ⑧ Time period in which stock options are exercisable: As from July 15, 2015 through July 14, 2045 ⑨ Conditions for the exercise of stock options: A stock option holder may exercise the granted stock options only once during the ten-day period following the day on which the holder ceases to be both a director and an executive officer of the Bank.	4

Directors (except Outside Directors)	① Name: Aozora Bank third series of equity compensation type stock options ② Grant date: July 15, 2016 ③ Number of stock options: 1,395 ④ Class of shares to be delivered upon exercise: Common shares ⑤ Number of shares to be delivered upon exercise: 139,500 units (100 shares per option) ⑥ Issue price of stock option: 34,200 yen per option ⑦ Exercise price: 1 yen per share ⑧ Time period in which stock options are exercisable: As from July 16, 2016 through July 15, 2046 ⑨ Conditions for the exercise of stock options: A stock option holder may exercise the granted stock options only once during the ten-day period following the day on which the holder ceases to be both a director and an executive officer of the Bank.	4
Outside Directors	—	—
Audit & Supervisory Board Member	—	—

(2) The Bank's share warrants or similar instruments issued to employees during this fiscal year.

	Issuance of stock options is outlined below.	Number of recipients
Executive Officers	① Name: Aozora Bank third series of equity compensation type stock options ② Grant date: July 15, 2016 ③ Number of stock options: 2,038 ④ Class of shares to be delivered upon exercise: Common shares ⑤ Number of shares to be delivered upon exercise: 203,800 units (100 shares per option) ⑥ Issue price of stock option: 34,200 yen per option ⑦ Exercise price: 1 yen per share ⑧ Time period in which stock options are exercisable: As from July 16, 2016 through July 15, 2046 ⑨ Conditions for the exercise of stock options: A stock option holder may exercise the granted stock options only once during the ten-day period following the day on which the holder ceases to be both a director and an executive officer of the Bank.	18
Employees (except Executive Officers)	—	—
Directors and Employees of Subsidiaries	—	—

6. Matters Concerning Independent Accounting Auditors

(1) Independent Accounting Auditors

(Unit: JPY million)

Name	Fees for This Fiscal Year	Other
Deloitte Touche Tohmatsu LLC Designated Limited Liability Partner, Kentaro Fukada Tatsuya Hiraki Masashi Tsurumi	248	Reason for acknowledgment of the fees by the Audit & Supervisory Board ('the ASB): The ASB of the Bank received documents and direct explanation from the independent accounting auditors, analyzed and confirmed audit items, audit hours of prior years and year-to-year changes in audit fees. The ASB then compared the audit plan of the previous business year with actual performance and verified the achievement of the audit, in order to consider and assess audit items in the audit plan in the relevant business year, audit hours and details of the audit framework and appropriateness of the estimated audit remuneration. As a result, the ASB acknowledged the remuneration for the independent accounting auditors, in accordance with the Article 399-1 of the Companies Act. Non-audit services: Comfort letter for issuance corporate bonds, etc. External review of Kanjo-kei Core Banking System replacement

- (Notes) 1. The amounts in the table above are in million yen and rounded down to the nearest million.
2. When including the Bank's subsidiaries in the total, independent auditor fees for this fiscal year were 279 million yen.
3. 'Fees for This Fiscal Year' as classified above includes both the fees related to the audit under the Companies Act and under the Financial Instruments and Exchange Act because such audit fees cannot be clearly separated.

(2) Limited Liability Contract None

(3) Other Matters Related to Accounting Auditors

- i. Determination of dismissal or non-reappointment of auditors
The ASB of the Bank shall, in principle, determine removal of the independent accounting auditors, upon consent of all its Members, if it concludes that the accounting auditors fall under any of the items specified in the Article 340-1 of the Companies Act. In this case, an appointed ASB Member shall report the fact of removal and its reason in the first general meeting of shareholders to be convened after the removal.
If the ASB comprehensively concludes that it is difficult for the accounting auditors to execute their duty properly, the ASB shall, in principle, determine the detail of the proposal on the removal or non-reappointment, to be submitted to the general meeting of shareholders.
- ii. Audit of financial statements of the Bank's major subsidiaries by other auditors than the Bank's auditor
Of the Bank's major subsidiaries, the financial statements of Aozora Asia Pacific Finance Limited, Aozora Europe Limited and AZB Funding 4 Limited are audited by audit firms which are in the same network as the Bank's audit firm.

7. Policy towards Parties who can Influence the Financial and Operational Decision-making Process

None

8. Framework for Ensuring the Appropriateness of Business Operations

The summary of “Internal Control Programs” is as follows:

Aozora Bank shall determine the following basic policies concerning development of a system for appropriate business of the Bank and the Bank’s subsidiaries (internal control programs), based on the Companies Act and Ordinance for Enforcement of the Companies Act.

1. Ensure Execution of Fiduciary Responsibilities by Directors and Employees in compliance with Laws, Regulations and the Articles of Incorporation

(1) The Bank develops rules concerning its compliance system including a Master Policy “Code of Conduct and Ethics”, to establish good corporate governance and internal controls as well as standards of conduct for directors and employees, etc. of the Bank to execute their responsibilities while complying with external laws and regulations and internal policies and procedures.

(2) The Bank shall include several outside directors with knowledge and experience in its Board of Directors, for purposes of establishing corporate governance which “ensures management discipline to reflect the management policy of the Bank in the daily business operation into the future and to establish an internal checks and balances framework.”

(3) The Board of Directors establishes the Nomination & Remuneration Committee to deliberate appointment and remuneration of directors and important employees, etc. as well as the Audit & Compliance Committee to assess matters concerning internal control, consisting mainly of outside directors. Both of the committees, entrusted by the Board of Directors, deliberate such matters thoroughly and professionally, and report the results of the deliberations to the Board of Directors.

(4) The Board of Directors establishes a Compliance Management Division as a division controlling compliance matters. The Division develops the rules concerning compliance and familiarizes the directors and employees, etc. of the Bank with such rules via training programs, etc..

(5) The Board of Directors establishes a “Compliance Program” and an annual specific action plan in order to enhance effectiveness of the compliance system and manages its progress.

(6) The Board of Directors establishes an Internal Audit Group which functions independently from all business groups. The Internal Audit Group audits the progress status of development and operation of the internal control system from an independent perspective based on the annual audit plan approved by the Board of Directors, and periodically reports the status of internal audits to the Chief Executive Officer, Audit & Compliance Committee and the Board of Directors.

(7) The Bank maintains an “Aozora Hotline Program” for early discovery and correction of illicit behavior as a whistle-blower system which enables directors and employees, etc. of the Bank to report inappropriate activities and violations of laws, regulations and the articles of incorporation directly to the special contact.

(8) To ensure appropriate conduct of business to satisfy social responsibilities, the Bank develops a system necessary to prevent damages from Anti-Social Elements and unjustified involvement with them, and to eliminate or avoid all transactions with them including provision of funds.

(9) The Bank establishes a system for management of customer explanation, customer support, customer information, outsourcing and prevention of conflict of interests, to protect customers and to improve customers’ conveniences.

(10) The Bank establishes a system to prevent insider trading and unfair transactions where customer information is used by officers and employees of the Bank.

2. Ensure Efficient Execution of Duties & Responsibilities by the Directors

For prompt decision-making on business execution to pursue effectiveness based on separation of management and execution of duties, the Board of Directors establishes the Management Committee consisting of members appointed by the Board of Directors from among our Directors and Executive Officers and delegates the authorities to it. Management Committee may establish various committees and delegate its authorities to them.

3. Safekeeping and Management of Records regarding Execution of Fiduciary Responsibilities of Directors

Based on laws, regulations and various internal regulations for document management, the Bank appropriately manages and keeps the information on execution of directors' responsibilities including the minutes of the meetings of the Board of Directors and other various important committees.

4. Policies and Procedures to Manage Risk of Loss

(1) The Bank considers risk management as an important management task, and develops a system to understand, validate and control the business operating risks in an integrated manner.

(2) Based on Master Policy "Comprehensive Risk Management", the Board of Directors classifies the risks arising from operations into market risk, credit risk, liquidity risk and operational risk, manages them, and develops rules determining the basic policies by risk category.

(3) The Board of Directors determines divisions in charge by risk category to appropriately recognize, understand and manage each risk. Each division in charge periodically reports the risk management status to the Management Committee, Audit & Compliance Committee and Board of Directors.

(4) The Internal Audit Group audits effectiveness and appropriateness of the risk management system and reports the results to Chief Executive Officer (CEO), Audit & Compliance Committee and the Board of Directors.

(5) The Bank establishes a "Business Continuity Plan (BCP)" for possible emergencies including natural disasters and system failures. The Chief Executive Officer (CEO) shall be responsible for all business responses in an emergency situation.

5. Ensure Appropriate Business Practices of the Bank and the Bank's Subsidiaries

(1) The Board of Directors determines the basic policies for management/control, compliance, and risk management systems of the Bank's subsidiaries in Master Policy "Group Companies Management" to ensure appropriate and effective operation of the business at the Bank's subsidiaries.

(2) The Bank ensures business appropriateness by establishing an integrated internal control system for the Bank and the Bank's subsidiaries while respecting their independency and individuality. Meanwhile, to ensure that there are no violations of laws, the Bank familiarizes the Bank's subsidiaries with policies and procedures including the "Code of Conduct and Ethics".

(3) The Bank establishes a system to control conflict of interest to prevent unreasonable damage for customers' interests, and a system to control the terms of transactions with subsidiaries, etc. in order to not violate any arm's length rules.

(4) To ensure credibility and appropriateness of the financial reporting of the Bank and the Bank's subsidiaries, the Bank develops a system for proper internal control over financial reporting by establishing the procedure for "Internal Control over Financial Reporting".

(5) To ensure that there are no inconsistencies or violations of external laws & regulations, the Internal Audit Group of the Bank audits the activities of each company of the Bank's subsidiaries.

6. Matters Related to Personnel in cases where Audit & Supervisory Board Members (hereinafter, collectively "Members") Request Staff to Support the Execution of members' Duties

The Bank has established an Office of Audit & Supervisory Board to support the Members' duties, and appropriately allocates employees to support such activities.

7. Matters Related to Independence of Employees to Support the Members and to Ensure Effectiveness of Instructions to Employees

(1) The authority to give instructions to the employees to support the Members' duties belong to the Members.

(2) Employees supporting the Members' duties are interviewed and evaluated by the standing Member.

(3) Decisions on transfer, promotion, demotion, compensation and punishment of the employees supporting the Members' duties require the consent of the standing Member.

8. Reporting by Directors and Employees, etc., as well as Directors, Audit & Supervisory Board Members and Employees, etc. of the Bank Group, to the Audit & Supervisory Board Members, and Other Reporting to the Members

(1) Members may request a report directly from the directors and employees, etc. of the Bank and the Bank's subsidiaries at any time (including the status of the Whistle-Blower Program and any details of Whistle-Blower reports).

(2) Directors and employees, etc. of the Bank and the Bank's subsidiaries report to the Members when they find the matters at the Bank and the Bank's subsidiaries which may cause serious damage and the matters of serious violations of laws and regulations.

9. Matters Related to Prohibition of Unfair Treatment to Personnel Reporting to Audit & Supervisory Board Members

Directors and employees, etc. who report to the Members will not be treated unfairly due to any such reporting.

10. Ensure Effective Auditing by the Audit & Supervisory Board Members

(1) Directors and employees, etc. cooperate with Members when auditing based on an annual and any other audit program including a budget which the Members prepare.

(2) The Members may request advice as needed from external professionals including lawyers and certified accountants about auditing for effective audits.

(3) The Bank incurs the various costs for execution of the Members' responsibilities (including the expense related to the above (2)).

(Summary of Framework for Ensuring the Appropriateness of Business Operations)

The following is a summary of the operational status of the Bank's basic policy for the development of internal control systems:

1. Framework for Ensuring that Directors and Employees Perform Their Duties in Accordance with Laws, Regulations and the Articles of Incorporation

- The Bank has a Code of Conduct and Ethics, which comes under the Master Policy, and other internal rules related to compliance. The Bank confirms that all management and employees read and understand the Code of Conduct and Ethics and acknowledges such understanding by signing it annually to ensure compliance with such guidelines in conducting our businesses. The Board of Directors prepares a compliance program annually and verifies its progress semi-annually.
- With consideration to independence, the Bank nominates several members as outside directors, who are then approved at the General Meeting of Shareholders. The Board of Directors comprises eight directors, including four independent outside directors, as of March 31, 2017. The Nomination and Remuneration Committee, whose majority members are outside directors, and the Audit and Compliance Committee, which comprises outside directors, are entrusted by the Board of Directors to check and verify responsible areas multi-dimensionally and professionally, report their deliberations to the Board of Directors and perform supplementary supervision and maintain checks and balances for the Representative Directors and Executive Officers.
- The Compliance Management Division conducts "Compliance Training for Officers" and "Compliance Leaders Training." The Division also maintains a training environment through e-learning and conducts compliance seminars regularly to ensure thorough understanding and awareness of new laws and regulations and key compliance issues. The Division supervises the prevention of transactions with anti-social elements and addresses insider trading through centralized control of insider information.
- The Customer Protection Committee, which comprises members including the Executive Officer in charge of compliance and governance, meets once a month and verifies the framework for customer protection.
- The Bank has the Aozora Whistleblower Hotline Program as a whistle-blower program. The Bank also has a Compliance Monitoring Program, which enables the General Manager of the Compliance Management Division to ask employees via e-mail if there are any improper incidences.
- The Internal Audit Division conducts an internal audit based on the Annual Internal Audit Plan approved by the Board of Directors each fiscal year. The Division reports monthly to the Chief Executive Officer and the Management Committee, as well as semi-annually to the Audit & Compliance Committee, the Board of Directors and the Audit & Supervisory Board (ASB).

2. Framework for Ensuring that Directors Perform Their Duties Efficiently

- The Management Committee, which comprises members from amongst our Directors and Executive Officers who are approved and appointed by the Board of Directors, holds a weekly meeting to make decisions on important issues in daily operations based on the policy of the Board of Directors. The Management Committee delegates its authority to sub-committees, such as the Asset and Liability Committee, the Integrated Risk Committee, the Credit Committee, the Investment Committee, the CAPEX Committee and the Customer Protection Committee, which comprises members who have professional knowledge, experience and sound judgment.

3. Framework for Keeping and Managing Information Regarding the Directors' Execution of Duties
 - The Bank keeps important documents, such as the minutes of the Board of Directors meeting, the Management Committee, for preset storage lives based on relevant laws and regulations, as well as internal rules.
4. Internal Rules and Framework for Managing Risk of Loss
 - By risk category, the Bank has established the Asset and Liability Committee, the Integrated Risk Committee, the Credit Committee and the Investment Committee, to understand, evaluate and control the risks. The Bank appoints the Chief Risk Officer from amongst Executive Officer Directors as a responsible person for risk management.
 - The Board of Directors has set in place master policies that stipulate the scope of risks to be controlled, their definitions, risk characteristics and evaluations, monitoring and control. Each risk management division controls the risks in an appropriate manner within the framework. The Board of Directors, the Audit and Compliance Committee and the Management Committee receive risk control reports from the risk management divisions to understand, evaluate and control the risks in an appropriate manner.
 - The Internal Audit Division conducts risk-based internal audits and reports on the effectiveness and legitimacy of risk controls to the Chief Executive Officer (CEO) and the Management Committee monthly and to the Audit & Compliance Committee, the Board of Directors and the ASB semi-annually.
 - The Bank has drawn up a Business Contingency Plan (BCP) and verifies its effectiveness on an as-needed basis. The Bank conducts various trainings and seminars to raise awareness of crisis management and improve its effectiveness, including weekend drills, headed by the Chief Executive Officer.
5. Framework for Ensuring the Appropriateness of Business Operations of the Bank and Subsidiaries
 - The Bank has a Master Policy "Management of Group Companies" which encompasses management, compliance and risk management frameworks. Executive officers and divisions in charge of group subsidiaries supervise management of the subsidiaries, and each risk management division conducts separate risk management. The Bank has signed a "Basic Agreement for Advisory and Governance" with the group subsidiaries, which defines specific issues to be complied by the Bank and the subsidiaries, to ensure effectiveness of management. The Bank has established a group management council for the CEO of the Bank, the Executive Officers and the presidents of the subsidiaries to share information and discuss the issues related to the management of the Bank and its subsidiaries.
 - The Bank has formulated the Procedure "Conflict of Interest Management and Compliance with Arm's Length Rule," in order to properly manage any transactions which may result in conflicts of interests and ensure that terms and conditions of such transactions do not infringe upon the arm's length rule. The Customer Protection Committee, which comprises the Executive Officer in charge of compliance and governance, verifies semi-annually the management of conflicts of interests.

- The Bank is committed to developing and maintaining a proper internal control system in line with the Procedure “Internal Control Over Financial Reporting” to ensure the appropriateness and reliability of financial reporting. The Bank also evaluates the effectiveness of internal control for financial reporting and discloses the internal control report annually.
- The Internal Audit Division conducts internal audits on the Bank and the subsidiaries in accordance with the Master Policy “Internal Audit” and the Procedure “Supervision and Governance of Group Companies.”

6. Framework for Ensuring the Effectiveness of Audit by ASB members

- The Bank has assigned a full-time general manager and staff to establish the Office of Audit & Supervisory Board (OASB). Under the supervision of the ASB members and ASB, the OASB is in charge of supporting the ASB members and administering the ASB meetings.
- The OASB and its General Manager report on a day-to-day basis with a direct reporting line to the full-time ASB member. Their performance reviews are conducted by the full-time ASB member, and decisions on such matters as personnel and performance appraisals require the consent of the full-time ASB member (and the ASB, if necessary).
- All directors and employees of the Bank and the subsidiaries can report directly to the ASB members and the ASB about important issues on management and business operations and others issues which the ASB members consider necessary, including internal audit results and whistle-blowing. They are not subject to any unfair treatment for such reporting.
- The Bank reimburses for any expenses incurred by the ASB members and the ASB in the ordinary course of their audits, including fees for external professionals, such as lawyers, which they consider necessary for an effective and professional audit.

9. Matters Concerning Wholly-owned Subsidiaries

None.

10. Matters Concerning Transactions with the Parent Company

None.

11. Matters Concerning Accounting Advisor

None.

12. Other

Policy on Execution of Authority Granted to the Board of Directors in accordance with the Articles of Incorporation Based on Article 459-1 of the Companies Act

(Policy on distribution of retained earnings and purchases of treasury stock)

The Bank has stipulated in the Articles of Incorporation that the Board of Directors is authorized to make resolutions in respect to Article 459-1 of the Companies Act, in order to secure the timely implementation of capital-related measures.

The Bank makes it a principle to give back performance-based returns to the shareholders through dividend payments. The Bank makes it a policy to set the ratio at 50% of consolidated net income (profit attributable to owner of parent) and continue to pay dividends on common shares on a quarterly basis.

Regarding the execution by the Board of Directors of its entrusted authority for the distribution of retained earnings and purchases of treasury stock, the Bank considers comprehensively the business performance and business prospects as well as the capital policy, in order to enhance corporate value and make an appropriate return of profits to its shareholders.

Consolidated balance sheet as of March 31, 2017

(In millions of yen)

(Assets)		(Liabilities)	
Cash and due from banks	573,048	Deposits	2,718,589
Call loans and bills bought	8,637	Negotiable certificates of deposit	134,513
Monetary claims bought	46,193	Debentures	120,660
Trading assets	210,700	Call money and bills sold	93,747
Money held in trust	31,269	Payables under securities lending transactions	306,327
Securities	937,949	Trading liabilities	197,711
Loans and bills discounted	2,521,874	Borrowed money	276,624
Foreign exchanges	32,617	Bonds payable	125,609
Other assets	187,143	Other liabilities	148,733
Tangible fixed assets	23,257	Provision for bonuses	3,166
Buildings, net	9,339	Provision for directors' bonuses	95
Land	9,235	Net defined benefit liability	9,231
Lease assets, net	325	Provision for directors' retirement benefits	1
Construction in progress	2,718	Provision for credit losses on off-balance-sheet instruments	1,553
Other tangible fixed assets	1,638	Provision for contingent loss	360
Intangible fixed assets	13,601	Reserve under the special laws	8
Software	13,531	Deferred tax liabilities	4
Other intangible fixed assets	69	Acceptances and guarantees	28,723
Deferred debenture discounts	61	Total liabilities	4,165,661
Net defined benefit asset	1,508	(Net assets)	
Deferred tax assets	20,769	Capital stock	100,000
Customers' liabilities for acceptances and guarantees	28,723	Capital surplus	87,315
Allowance for loan losses	(50,627)	Retained earnings	221,940
Allowance for investment loss	(721)	Treasury shares	(3387)
		Total shareholders' equity	405867
		Valuation difference on available-for-sale securities	23757
		Deferred gains or losses on hedges	(11052)
		Foreign currency translation adjustment	(84)
		Remeasurements of defined benefit plans	(199)
		Total accumulated other comprehensive income	12,421
		Subscription rights to shares	296
		Non-controlling interests	1,759
		Total net assets	420,345
Total assets	4,586,007	Total liabilities and net assets	4,586,007

Consolidated statement of income

(for the year ended March 31, 2017)

(In millions of yen)

Ordinary income		134,704
Interest income	67,154	
Interest on loans and discounts	42,557	
Interest and dividends on securities	23,593	
Interest on call loans and bills bought	1	
Interest on receivables under resale agreements	(0)	
Interest on receivables under securities borrowing transactions	0	
Interest on deposits with banks	276	
Other interest income	723	
Fees and commissions	10,547	
Trading income	20,433	
Other ordinary income	22,442	
Other income	14,125	
Reversal of allowance for loan losses	9,732	
Recoveries of written-off claims	2,158	
Other	2,234	
Ordinary expenses		82,939
Interest expenses	21,507	
Interest on deposits	6,096	
Interest on negotiable certificates of deposit	30	
Interest on debentures	437	
Interest on call money and bills sold	917	
Interest on payables under securities lending transactions	2,198	
Interest on borrowings and rediscounts	935	
Interest on bonds	132	
Other interest expenses	10,759	
Fees and commissions payments	1,256	
Other ordinary expenses	12,540	
General and administrative expenses	44,363	
Other expenses	3,271	
Transfer to provision for credit losses on off-balance-sheet instruments	158	
Other	3,112	
Ordinary profit		51,764
Extraordinary loss		1
Loss on disposal of noncurrent assets	1	
Transfer to reserve for financial products transaction liabilities	0	
Profit before income taxes		51,762
Income taxes-current	9,458	
Income taxes-deferred	(1,379)	
Total income taxes		8,079
Profit		43,683
Loss attributable to non-controlling interests		(165)
Profit attributable to owners of parent		43,849

Consolidated statement of changes in net assets
(for the year ended March 31, 2017)

(In millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at the beginning of current period	100,000	87,313	199,785	(3,388)	383,710
Changes of items during period					
Dividends of surplus			(21,694)		(21,694)
Profit attributable to owners of parent			43,849		43,849
Purchase of treasury shares				(0)	(0)
Disposal of treasury shares		1		1	3
Net changes of items other than shareholders' equity					
Total changes of items during period	-	1	22,154	0	22,157
Balance as of March 31, 2017	100,000	87,315	221,940	(3,387)	405,867

	Accumulated other comprehensive income					Subscription rights to shares	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at the beginning of current period	16,258	4,438	(3)	139	20,833	182	772	405,498
Changes of items during period								
Dividends of surplus								(21,694)
Profit attributable to owners of parent								43,849
Purchase of treasury shares								(0)
Disposal of treasury shares								3
Net changes of items other than shareholders' equity	7,499	(15,490)	(81)	(338)	(8,411)	114	987	(7,310)
Total changes of items during period	7,499	(15,490)	(81)	(338)	(8,411)	114	987	14,846
Balance as of March 31, 2017	23,757	(11,052)	(84)	(199)	12,421	296	1,759	420,345

Non-consolidated balance sheet as of March 31, 2017

(In millions of yen)

(Assets)			(Liabilities)	
Cash and due from banks	532,532	Deposits	2,731,921	
Cash	13,909	Current deposits	24,858	
Due from banks	518,623	Ordinary deposits	465,521	
Call loans	8,637	Deposits at notice	3,640	
Monetary claims bought	16,795	Time deposits	2,218,514	
Trading assets	210,698	Other deposits	19,385	
Derivatives of trading securities	1,388	Negotiable certificates of deposit	134,513	
Securities related to trading transactions	2,008	Debtentures	120,660	
Derivatives of securities related to trading transactions	1,299	Debenture issuance	120,666	
Trading-related financial derivatives	206,001	Call money	93,747	
Money held in trust	10,008	Payables under securities lending transactions	306,327	
Securities	1,010,660	Trading liabilities	197,711	
Government bonds	8,020	Derivatives of trading securities-assets	1,101	
Local government bonds	26,652	Derivatives of securities related to trading transactions	3,269	
Corporate bonds	27,829	Trading-related financial derivatives	193,341	
Stocks	80,587	Borrowed money	275,537	
Other securities	867,571	Borrowings from other banks	275,537	
Loans and bills discounted	2,538,325	Bonds payable	125,609	
Bills discounted	500	Other liabilities	143,802	
Loans on bills	28,641	Income taxes payable	7,003	
Loans on deeds	2,341,726	Accrued expenses	8,112	
Overdrafts	167,457	Unearned revenue	301	
Foreign exchanges	32,617	Variation margins of futures markets	28	
Due from foreign banks (our accounts)	32,617	Derivatives other than for trading-liabilities	67,918	
Other assets	187,459	Cash collateral received for financial instruments	45,673	
Prepaid expenses	680	Lease obligations	335	
Accrued income	9,066	Asset retirement obligations	1,614	
Initial margins of futures markets	540	Other	12,813	
Variation margins of futures markets	87	Provision for bonuses	3,039	
Derivatives other than for trading-assets	65,198	Provision for directors' bonuses	85	
Cash collateral paid for financial instruments	81,999	Provision for retirement benefits	8,694	
Bond issuance cost	365	Provision for credit losses on off-balance-sheet instruments	1,519	
Other	29,521	Acceptances and guarantees	28,556	
Tangible fixed assets	23,137			
Buildings, net	9,293	Total liabilities	4,171,725	
Land	9,235	(Net assets)		
Leased assets, net	325	Capital stock	100,000	
Construction in progress	2,706	Capital surplus	87,315	
Other tangible fixed assets	1,576	Legal capital surplus	87,313	
Intangible fixed assets	12,465	Other capital surplus	1	
Software	12,397	Retained earnings	214,892	
Other intangible fixed assets	67	Legal retained earnings	12,686	
Deferred debenture discounts	61	Other retained earnings	202,206	
Debenture issuance cost	61	Retained earnings brought forward	202,206	
Prepaid pension cost	1,372	Treasury shares	(3,387)	
Deferred tax assets	21,222	Total shareholders' equity	398,820	
Customers' liabilities for acceptances and guarantees	28,556	Valuation difference on available-for-sale securities	23,613	
Allowance for loan losses	(50,427)	Deferred gains or losses on hedges	(11,052)	
Allowance for investment loss	(721)	Total valuation and translation adjustments	12,561	
		Subscription rights to shares	296	
		Total net assets	411,678	
Total assets	4,583,403	Total liabilities and net assets	4,583,403	

Non-consolidated statement of income (for the year ended March 31, 2017)

(In millions of yen)

Ordinary income		130,272
Interest income	66,018	
Interest on loans and discounts	41,514	
Interest and dividends on securities	23,534	
Interest on call loans	1	
Interest on receivables under resale agreements	(0)	
Interest on receivables under securities borrowing transactions	0	
Interest on deposits with banks	243	
Other interest income	723	
Fees and commissions	12,359	
Fees and commissions on domestic and foreign exchanges	161	
Other fees and commissions	12,198	
Trading income	17,300	
Gains on trading account securities transactions	208	
Income from securities and derivatives related to trading transactions	2,113	
Income from trading-related financial derivatives transactions	14,978	
Other ordinary income	21,822	
Gains on sales of bonds	7,276	
Income from derivatives other than for trading or hedging	1,333	
Other	13,212	
Other income	12,770	
Reversal of allowance for loan losses	8,874	
Recoveries of written off claims	1,911	
Gain on sales of stocks and other securities	474	
Gain on money held in trust	120	
Other	1,389	
Ordinary expenses		80,191
Interest expenses	21,494	
Interest on deposits	6,097	
Interest on negotiable certificates of deposit	30	
Interest on debentures	437	
Interest on call money	917	
Interest on payables under securities lending transactions	2,198	
Interest on borrowings and rediscounts	921	
Interest on bonds	132	
Interest on interest swaps	8,098	
Other interest expenses	2,660	
Fees and commissions payments	3,136	
Fees and commissions on domestic and foreign exchanges	93	
Other fees and commissions	3,043	
Other ordinary expenses	12,661	
Loss on foreign exchange transactions	5,125	
Loss on sales of bonds	4,364	
Loss on redemption of bonds	524	
Amortization of debenture issuance cost	56	
Amortization of bond issuance cost	88	
Other	2,502	
General and administrative expenses	40,342	
Other expenses	2,556	
Written-off of loans	385	
Transfer to provision for credit losses on off-balance-sheet instruments	120	
Losses on devaluation of stocks and other securities	365	
Other	1,685	
Ordinary profit		50,081
Extraordinary losses		1
Loss on disposal of non-current assets	1	
Profit before income taxes		50,079
Income taxes-current	9,064	
Income taxes-deferred	(2,461)	
Total income taxes		6,603
Profit		43,475

Non-consolidated statement of changes in net assets
(for the year ended March 31, 2017)

(In millions of yen)

(in millions of yen)

	Shareholders' equity								
	Capital stock	Capital surplus			Retained earnings			Treasury shares	Total shareholders' equity
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings	Total retained earnings		
						Retained earnings brought forward			
Balance at the beginning of current period	100,000	87,313	-	87,313	12,686	180,425	193,112	(3,388)	377,037
Changes of items during period									
Dividends of surplus						(21,694)	(21,694)		(21,694)
Profit						43,475	43,475		43,475
Purchase of treasury shares								(0)	(0)
Disposal of treasury shares			1	1				1	3
Net changes of items other than shareholders' equity									
Total changes of items during period	-	-	1	1	-	21,780	21,780	0	21,783
Balance as of March 31, 2017	100,000	87,313	1	87,315	12,686	202,206	214,892	(3,387)	398,820

(In millions of yen)

	Valuation and translation adjustments			Subscription rights to shares	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments		
Balance at the beginning of current period	16,084	4,438	20,523	182	397,742
Changes of items during period					
Dividends of surplus					(21,694)
Profit					43,475
Purchase of treasury shares					(0)
Disposal of treasury shares					3
Net changes of items other than shareholders' equity	7,528	(15,490)	(7,961)	114	(7,847)
Total changes of items during period	7,528	(15,490)	(7,961)	114	13,935
Balance as of March 31, 2017	23,613	(11,052)	12,561	296	411,678

Independent Auditors' Report for the Consolidated Financial Statements (COPY)

This represents a translation, for convenience only, of the original report issued in the Japanese language.

(Translation)

INDEPENDENT AUDITOR'S REPORT

May 10, 2017

To the Board of Directors of
Aozora Bank, Ltd.:

Deloitte Touche Tohmatsu LLC

Designated Unlimited Liability Partner
Engagement partner

Designated Unlimited Liability Partner
Engagement partner

Designated Unlimited Liability Partner
Engagement partner

Certified
Public

Accountant : Kentaro Fukada

Certified
Public

Accountant : Tatsuya Hiraki

Certified
Public

Accountant : Masashi Tsurumi

Pursuant to the fourth paragraph of Article 444 of the Companies Act, we have audited the consolidated financial statements, namely, the consolidated balance sheet as of March 31, 2017 of Aozora Bank, Ltd. (the "Company") and its consolidated subsidiaries, and the related consolidated statements of income and changes in net assets for the fiscal year from April 1, 2016 to March 31, 2017, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Audit Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Aozora Bank, Ltd. and its consolidated subsidiaries as of March 31, 2017, and the results of their operations for the year then ended in accordance with accounting principles generally accepted in Japan.

Interest

Our firm and the engagement partners do not have any interest in the Company for which disclosure is required under the provisions of the Certified Public Accountants Act.

End

Independent Auditors' Report for the Financial Statements (COPY)

This represents a translation, for convenience only, of the original report issued in the Japanese language.

(Translation)

INDEPENDENT AUDITOR'S REPORT

May 10, 2017

To the Board of Directors of
Aozora Bank, Ltd.:

Deloitte Touche Tohmatsu LLC

Designated Unlimited Liability Partner
Engagement partner

Designated Unlimited Liability Partner
Engagement partner

Designated Unlimited Liability Partner
Engagement partner

Certified
Public

Accountant : Kentaro Fukada

Certified
Public

Accountant : Tatsuya Hiraki

Certified
Public

Accountant : Masashi Tsurumi

Pursuant to the first item, second paragraph of Article 436 of the Companies Act, we have audited the financial statements, namely, the balance sheet as of March 31, 2017 of Aozora Bank, Ltd. (the "Company"), and the related statements of income and changes in net assets for the 84th fiscal year from April 1, 2016 to March 31, 2017 and a summary of significant accounting policies and other explanatory information, and the accompanying supplemental schedules.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements and the accompanying supplemental schedules in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of financial statements and the accompanying supplemental schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements and the accompanying supplemental schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the accompanying supplemental schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the accompanying supplemental schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements and the accompanying supplemental schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements and the accompanying supplemental schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the accompanying supplemental schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Audit Opinion

In our opinion, the financial statements and the accompanying supplemental schedules referred to above present fairly, in all material respects, the financial position of Aozora Bank, Ltd. as of March 31, 2017, and the results of its operations for the year then ended in accordance with accounting principles generally accepted in Japan.

Interest

Our firm and the engagement partners do not have any interest in the Company for which disclosure is required under the provisions of the Certified Public Accountants Act.

End

The Audit & Supervisory Board's Report (COPY)

(Translation)

The Audit & Supervisory Board's Report

The Audit & Supervisory Board (hereafter "ASB") prepared this ASB's Report, following deliberation, based on the Audit & Supervisory Board Member's (hereafter "ASB Member") Report prepared by each ASB Member, and make the following report on the execution of duties by Directors for the 84th business year that commenced on April 1, 2016 and ended on March 31, 2017.

1. The Method and Contents of the Audit by ASB Members and the ASB

- (1) The ASB defined the audit policy, the division of duties, received reports on how audits were actually implemented and results thereof from each ASB Member, received reports on the actual execution of duties from Directors, etc. and the Accounting Auditor (Independent Auditor Tohmatsu), and sought any necessary explanations.
- (2) Each ASB Member complied with the standard of ASB audit predefined by the ASB, followed the audit policy and the division of duties, communicated with Directors, Internal Audit Division and employees, etc., gathered information and improved the auditing environment, and implemented the audit in the following method:
 - 1) The ASB Member attended the Board of Directors meetings and other important meetings, received reports on the actual execution of duties from Directors and employees, etc. and sought any necessary explanations, inspected important documents for approval, and examined operations and assets of the Head Office and principal offices. As to subsidiaries, the ASB communicated and exchanged information with Directors and ASB Members, etc. of these subsidiaries, and received any necessary reports from them.
 - 2) The ASB periodically received reports on the conditions of the establishment and operations of the system that has been installed and improved based on the resolution of the Board of Directors, that is written in the Business Report, on the improvement of the system provided in Article 100.1 and 100.3 of the Enforcement Regulation of the Companies Act (the internal control system) and contents thereof, to secure the system to ensure the compliance of the execution of duties by Directors with applicable laws and regulations of Japan as well as the Articles of Incorporation, and to secure the appropriateness of other operations of the corporation, from Directors and employees, etc. and sought any necessary explanations. And as for internal control over financial reporting, the ASB received reports of progress and assessment on it from Directors, etc. and the Auditor Deloitte Touche Tohmatsu LLC and sought any necessary explanation and expressed opinion.
 - 3) The ASB monitored and examined to see whether the Accounting Auditor retains its independent position and implements adequate audit, as well as received from the Accounting Auditor Reports on the actual execution of its duties, and sought any necessary explanation from the Accounting Auditor. The ASB also was informed by the Accounting Auditor that the Accounting Auditor has improved its "Systems to Ensure the Proper Conduct of Professional Duties" (the item listed in the each section of Article 131 of the Corporate Accounting Rules) in accordance with "Standards for Audit Quality Control" (by Business Accounting Council on October 28, 2005), etc., and the ASB sought any necessary explanation from the Accounting Auditor.

Based on the above-mentioned method, the ASB examined the Business Report and its supplementary schedule, the financial statements for the said business year (Balance Sheet, Income Statement, Statement of Changes in Net Assets, Significant accounting policies and other Notes) and their Supplementary schedule, as well as the consolidated financial statements (Consolidated Balance Sheet, Consolidated Income Statement, Consolidated Statements of Changes in Net Assets, Significant accounting policies applied in the preparation of the consolidated financial statements and other Notes).

2. Results of the Audit

- (1) Results of the Audit on the Business Report and its Supplementary Schedule
 - 1) The ASB acknowledges that the Business Report and its supplementary schedule present the correct conditions of the Company in accordance with applicable laws and regulations of Japan as well as the Articles of Incorporation.
 - 2) There is no illegal act in the execution of duties of Directors or material fact in violation of applicable laws and regulations of Japan or the Articles of Incorporation.
 - 3) The ASB acknowledges that contents of the resolutions of the Board of Directors on the internal control system are reasonable, and there is no finding in the contents written in the Business Report and the execution of duties of Directors related to the said internal control system. And as for internal control over financial reporting, no material weakness has been reported neither from Directors, etc. nor the Auditor Deloitte Touche Tohmatsu LLC at the time of writing this report.
- (2) Results of the Audit on the Financial Statements and their Supplementary Schedule
The ASB acknowledges that the method and results of the audit implemented by the Accounting Auditor Deloitte Touche Tohmatsu LLC are reasonable.
- (3) Results of the Audit on the Consolidated Financial Statements
The ASB acknowledges that the method and results of the audit implemented by the Accounting Auditor Deloitte Touche Tohmatsu LLC are reasonable.

May 25, 2017

The Audit & Supervisory Board of Aozora Bank, Ltd.

Standing Audit & Supervisory Board Member

Audit & Supervisory Board Member (Outside Audit & Supervisory Board Member)

Audit & Supervisory Board Member (Outside Audit & Supervisory Board Member)

Shinichi Fujihira

Kiyoto Hagiwara

Toraki Inoue

The above represents a translation, for convenience only, of the original report issued in the Japanese language.

End

This image shows a full page of white paper with horizontal dashed lines, typical of primary-ruled notebook paper. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

Guide to the Venue for Ordinary General Meeting of Shareholders

Place : **Diamond Room on the 2nd floor of Hotel Grand Palace**

1-1, Iidabashi 1-chome, Chiyoda-ku, Tokyo

Phone : 03-3264-1111 (General Number for Hotel)

Access : **“Kudanshita” Station**

Subway Tozai Line (Exit No.7) One (1) minute walk

Hanzomon Line, Toei Shinjuku Line (Exit No.3a)

Three (3) minutes walk

