

. Revenue and Expenses

The consolidated net revenue fell 9.3 billion yen to 48.8 billion yen in the first half of FY2007 resulting from a 6.2 billion increase in net interest income and a 14.7 billion yen decrease in gains (losses) on bond transactions compared with the same period of FY2006. Expenses were reduced by 0.3 billion yen to 26.0 billion yen. Business profit fell 9.0 billion yen to 22.7 billion yen.

Profit on stock transactions amounted to 3.3 billion yen, unchanged from the same period of FY2006. Credit-related expenses decreased 9.6 billion yen to 4.7 billion yen (income) as the level of credit reserve releases slowed compared to the prior year. Deferred income taxes increased by 14.6 billion yen to 15.0 billion yen as more of the deferred tax asset was recognized. As a consequence, net income fell 10.6 billion yen to 42.7 billion yen, representing 91.9% of the half year forecast.

1. Net Revenue

	1H of FY2007	1Q of FY2007	2Q of FY2007	1H of FY2006	1Q of FY2006	2Q of FY2006	Change
(billions of yen)							-
Net revenue	48.8	27.1	21.6	58.1	28.7	29.4	-9.3
Net interest income	27.9	14.4	13.6	21.7	10.8	11.0	6.2
Net fees and commissions	7.2	3.0	4.2	7.8	3.6	4.2	-0.6
Net trading revenues	3.8	-0.9	4.7	3.1	1.3	1.9	0.7
Gains (losses) on bond transactions	-7.7	-2.1	-5.6	7.1	4.6	2.5	-14.7
Net other operating income	17.5	12.8	4.7	18.3	8.5	9.8	-0.9

Net revenue fell 16.0%, or 9.3 billion yen, to 48.8 billion yen in the first half of FY2007 compared with the same period of FY2006, primarily due to losses reflecting the impairment of collateralized debt obligations (CDOs) and losses on bond transactions. Net interest income rose 28.7%, or 6.2 billion yen, to 27.9 billion yen, due to growth in the Bank's loan book, enhanced net interest margin, and rise in dividends on securities. Net revenue excluding losses on bond transactions increased 10.7% or 5.4 billion yen to 56.5 billion yen from 51.0 billion yen in the same period of the previous year.

(1) Net Interest Income

(billions of yen)	1H of FY2007	1H of FY2006	Change
Interest income	69.5	51.1	18.4
Interest on loans and discounts	49.3	34.7	14.6
Interest and dividends on securities	15.9	11.7	4.2
Other interest income	4.0	2.6	1.4
Interest on interest swaps	0.3	2.1	-1.8
Interest expenses	41.6	29.4	12.2
Interest on deposits and NCDs	10.5	6.6	3.9
Interest on debenture	7.4	3.4	4.0
Other interest expenses	10.2	9.6	0.6
Interest on currency swaps	13.6	9.8	3.8
Net interest income -	27.9	21.7	6.2

Net interest income rose 28.7%, or 6.2 billion yen, to 27.9 billion yen, comprising of 1.0 billion yen from the Bank's loan book growth, a 2.4 billion yen rise in dividends on securities and a 2.9 billion yen from others, including enhanced net interest margin.

(1) Net Interest Margin

	1H of FY2007	1H of FY2006	Change
Yield on total investments	2.20%	1.70%	0.50%
Yield on funding	1.51%	1.13%	0.38%
Net interest margin -	0.69%	0.57%	0.12%

Net interest margins rose over 10bps as the increase of yield on total investment exceeded the increase of yield on funding due to the increase of the higher margin overseas loan book.

(2) Net Fees and Commissions

(billions of yen)	1H of FY2007	1H of FY2006	Change
Fees and commissions received	8.0	8.7	-0.7
Loan business-related	4.6	6.1	-1.5
Securities-related and agency	2.0	1.5	0.5
Others	1.4	1.1	0.3
Fees and commission paid	0.8	0.9	-0.1
Net fees and commissions	7.2	7.8	-0.6

Net fees and commissions fell 0.6 billion yen to 7.2 billion yen due to the decrease of loan business related fees. However, it increased from 3.0 billion yen in the Q1 to 4.2 billion yen in the Q2, as loan business related fees increased from 1.8 billion yen to 2.8 billion yen.

(3) Net Trading Revenues

(billions of yen)	1H of FY2007	1H of FY2006	Change
Net income on trading-related financial derivatives transactions	3.9	3.1	0.8
Net other trading income	-0.1	0.0	-0.1
Net trading revenues	3.8	3.1	0.7

Net trading revenues increased 21.7%, or 0.7 billion to 3.8 billion yen due to the gains on derivative transactions, primarily from the derivative sales division.

(4) Gains (Losses) on Bond Transactions

(billions of yen)	1H of FY2007	1H of FY2006	Change
Japanese Government bonds	-2.9	0.3	-3.2
Foreign Government bonds and mortgage bonds	-1.7	0.3	-2.0
Others	-3.1	6.5	-9.6
Collateralized Debt Obligations (CDOs) only	-4.6	0.0	-4.6
REITs only	0.0	4.4	-4.4
Total	-7.7	7.1	-14.7

Gains (losses) on bond transactions fell 14.7 billion yen to -7.7 billion yen compared with the same period FY2006. The bank recorded unrealized valuation losses on CDO debt securities of 4.6 billion yen. The losses on JGBs amounted to 2.9 billion yen and the losses of foreign bond such as US treasury bond was 1.7 billion yen. Gains on sale of REITs fell 4.4 billion yen to 30 million yen due to a reduction in the size of the portfolio.

(5) Net Other Operating Income Other Than Gains (Losses) on Bond Transactions

(billions of yen)	1H of FY2007	1H of FY2006	Change
Gains (losses) on foreign currency transactions	2.5	1.6	1.0
Profit from limited partnerships	7.5	10.9	-3.4
Profit from Overseas fund investments	6.6	4.0	2.6
Gains on distressed loans	1.3	1.5	-0.2
Gains/losses on derivatives other than trading	-1.8	0.3	-2.1
Others	1.3	0.0	1.2
Total	17.5	18.3	-0.9

Net other operating income excluding net gains (losses) on bond transactions fell 4.7%, or 0.9 billion yen, to 17.5 billion yen. Returns on hedge fund investment rose 65.7%, or 2.6 billion yen, to 6.6 billion yen, while returns on investments in limited partnerships fell 30.8%, 3.4 billion yen, to 7.5 billion yen. Losses on derivatives resulted mainly from futures transactions.

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

(billions of yen)	1H of FY2007	1Q of FY2007	2Q of FY2007	1H of FY2006	1Q of FY2006	2Q of FY2006	Change
G&A expenses	26.0	13.0	13.0	26.3	12.6	13.7	-0.3

While the Bank continued to invest in personnel and information technology, general and administrative expenses fell 1.1%, or 0.3 billion yen, to 26.0 billion yen, comfortably within management targets.

3. Credit-Related Expenses

(billions of yen)	1H of FY2007	1Q of FY2007	2Q of FY2007	1H of FY2006	1Q of FY2006	2Q of FY2006	Change
Reversal of reserve for possible loan losses, etc	4.7	4.5	0.1	14.3	12.3	1.5	-9.6

Credit related expenses amounted to income of 4.7 billion yen reflecting a decline in extraordinary profit from the reversal of reserve for possible loans losses, compared with the same period of previous fiscal year.

4. Stock Transactions

(billions of yen)	1H of FY2007	1Q of FY2007	2Q of FY2007	1H of FY2006	1Q of FY2006	2Q of FY2006	Change
ETFs	4.0	3.7	0.3	0.7	0.4	0.3	3.3
Japanese stocks	0.0	0.0	0.0	2.5	1.9	0.7	-2.5
Others	-0.7	-	-0.7	-	-	-	-0.7
CDO equities only	-0.7	-	-0.7	-	-	-	-0.7
Total	3.3	3.7	-0.4	3.3	2.3	1.0	0.0

Gains on stock transactions amounted to 3.3 billion yen. Gains on Exchange Traded Funds increased 3.3 billion yen to 4.0 billion yen from 0.7 billion yen and the losses on CDO equity impairment amounted to 0.7 billion yen.

5. Deferred Income Taxes

(billions of yen)	1H of FY2007	1Q of FY2007	2Q of FY2007	1H of FY2006	1Q of FY2006	2Q of FY2006	Change
Deferred income taxes	15.0	14.9	0.1	0.4	0.3	0.1	14.6

The Bank booked a 14.6 billion yen gain on deferred income taxes. As the forecast indicates sustainable earnings, the calculation term for possible deferred taxes changed from 1 year to 3 years.

. Balance Sheet

Total assets increased 1.2%, or 79.9 billion yen, in the first half of FY2007 to 6,623.9 billion yen mainly due to the increase of 287.1 billion yen in the loan book partially offset by a decrease of -267.3 billion yen in securities. On the funding side, debentures increased by 333.0 billion yen while deposits and negotiable certificates of deposits declined by 193.0 billion yen. Total liabilities rose 55.4 billion yen to 5,806.9 billion yen.

1. Loans

(billions of yen)	Sep.30, 2006	Mar.31, 2007	Jun.30, 2007	Sep.30, 2007	Change
Loans outstanding	3,489.3	3,684.6	3,664.2	3,971.7	287.1

The loan book rose 7.8%, or 287.1 billion yen, to 3,971.7 billion yen in the first half of the fiscal year, compared with -0.3% of the Japan's bank's average (based on publicly available information published by Japanese Bankers Association). Overseas lending rose by 247.2 billion yen and lending for financial and insurance industry rose 78.4 billion yen as lending for telecommunication fell 27.0 billion yen and lending for Japanese government fell 26.4 billion yen. The loan book rose 13.8% from a year earlier and exceeded the management target of low double-digit annual growth.

2. Securities

(billions of yen)	Book value			Unrealized gains/losses		
	Mar.31, 2007	Sep.30, 2007	Change	Mar.31, 2007	Sep.30, 2007	Change
			-			-
JGBs	1,022.8	816.4	-206.4	-5.3	-4.9	0.5
Municipal bonds	3.8	2.8	-1.1	-0.0	-0.0	-0.0
Corporate bonds	75.3	64.4	-11.0	0.0	0.0	-0.0
Equities	38.6	35.6	-3.0	0.6	0.3	-0.3
Foreign bonds	377.5	292.1	-85.4	-6.1	-11.6	-5.5
CDOs only	38.2	49.6	11.3	-1.3	-7.8	-6.5
Others	400.9	440.4	39.6	4.1	-1.3	-5.4
Hedge funds	186.1	196.8	10.7	1.3	0.8	-0.5
ETFs	56.0	76.9	20.9	1.1	-3.5	-4.7
Investment in limited partnerships	85.4	94.0	8.6	0.6	1.4	0.8
Others	73.4	72.7	-0.7	1.1	0.0	1.0
GMAC only	57.5	57.7	0.3	-	-	-
CDO only	3.5	2.6	-0.9	-	-	-
Total	1,918.9	1,651.6	-267.3	-6.8	-17.5	-10.8

Securities fell due primarily to the decrease of Japanese Government Bonds (-206.4 billion yen) and foreign bonds (-85.4 billion yen) such as foreign government bonds and mortgage bonds. Exchange Traded Funds or ETFs (+20.9 billion yen), hedge funds (+10.7 billion yen) and investment partnerships (+8.6 billion yen) all increased compared with a year earlier. Total unrealized losses were 17.5 billion yen due to write-downs of CDOs and ETFs which amounted to 7.8 billion yen and 3.5 billion yen respectively as of the end of September, 2007.

(1) Collateralized Debt Obligation (CDO) Exposure

(billions of yen)	Number of deals	Historical cost as of end Sept.	Book value as of end Sept.	Unrealized valuation loss			% of Mid-subprime
				(P/L)	(Reserve)	(Capital)	
Debt	29	50.5	38.3	-4.6	-	-7.6	38%
AAA	8	18.5	15.6	-	-	-3.0	41%
AA	6	16.9	12.9	-1.2	-	-2.8	40%
A	9	8.9	6.7	-0.7	-	-1.5	32%
BBB	3	2.6	2.2	-	-	-0.4	38%
BB+or lower	3	3.6	0.8	-2.8	-	-	25%
Equity	3	2.7	2.0	-0.7	-0.4	-	46%
ABS CDO							
Total	32	53.2	40.3	-5.4	-0.4	-7.6	38%
Synthetic							
CDO	3	12.0	11.8	-	-	-0.2	0%
Total	35	65.3	52.1	-5.4	-0.4	-7.8	31%

The CDO balance stood at 52.1 billion yen as of the end of September of which debt securities were 38.3 billion yen, equities were 2.0 billion yen and synthetic CDOs were 11.8 billion yen. 75% of debt securities are rated AA or higher. 5.4 billion yen was taken to the P/L as an unrealized valuation loss, and a reserve for possible investment losses of 0.4 billion yen was also recorded this period. In addition 7.8 billion yen of unrealized valuation loss was charged to capital. The proportion of US sub-prime related asset-backed CDOs on a weighted average basis was 31%.

3. Investment in Limited Partnerships and Hedge Funds

(billions of yen)	Sep.30, 2006	Mar.31, 2007	Jun.30, 2007	Sep.30, 2007	Change
Limited partnerships	62.8	85.4	90.3	94.0	8.6
Real estate related	19.4	22.0	26.8	21.2	-0.8
Distressed loan related	20.8	39.7	37.1	44.8	5.1
Others	22.6	23.7	26.4	28.0	4.3
Hedge funds	201.9	186.1	199.6	196.8	10.7

The outstanding investment in limited partnerships rose 10.1%, or 8.6 billion yen, to 94.0 billion yen and the hedge fund investment rose 5.8%, or 10.7 billion yen to 196.8 billion yen.

(1) Hedge Funds

H1 of FY2007 performance	Aozora	HFRX index *
6M return	5.37%	2.41%
Volatility	3.82%	6.81%
Sharp ratio	1.49	-0.07

* HFRX indices' are industry standard benchmarks of hedge fund performance.

Monthly performance	Apr.2007	May 2007	Jun.2007	Jul.2007	Aug.2007	Sep.2007
Aozora	1.40%	1.90%	1.10%	1.18%	-1.27%	0.98%
HFRX Index	2.21%	2.55%	-0.07%	-0.93%	-2.55%	1.28%

Aozora's policy is to limit hedge fund investments to 3% of total assets. Our hedge fund portfolio has earned sustainable profit and the results have exceeded the HFRX Index consistently demonstrating the quality of the portfolio. Our hedge fund portfolio does not include any funds investing materially in US sub-prime loan-related assets.

4 . Deposits and Debentures

(billions of yen)	Sep.30, 2006	Mar.31, 2007	Jun.30, 2007	Sep.30, 2007	Change
Deposits	2,339.3	2,330.9	2,185.0	2,291.4	-39.6
NCDs	982.0	903.0	692.4	749.5	-153.5
Debentures	1,232.5	1,450.5	1,688.3	1,783.5	333.0
Corporate bonds	99.5	99.5	99.5	124.0	24.5
Retail Funding	1,421.9	1,448.4	1,467.2	1,508.3	59.9

Debentures rose by 333.0 billion yen while deposits and negotiable certificates of deposit fell by 193.0 billion yen. The Bank continued to attract new deposits from retail customers with total retail funding growing by 59.9 to 1,508.3 billion yen in the first half FY2007.

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

(billions of yen)	Sep.30, 2006	Mar.31, 2007	Jun.30, 2007	Sep.30, 2007	Change
					-
Bankrupt and similar credit	3.8	0.4	0.3	0.2	-0.2
Doubtful credit	15.0	29.2	25.9	31.4	2.3
Special attention credit	4.0	3.4	6.4	6.2	2.7
FRL credit, total	22.8	33.0	32.6	37.8	4.8
Normal credit	3,248.5	3,373.4	3,305.9	3,532.1	158.7
Total credit (+)	3,271.4	3,406.4	3,338.5	3,569.9	163.5
FRL credit ratio /	0.69%	0.96%	0.97%	1.05%	0.09%

Non-performing claims as defined by the Financial Reconstruction Law (FRL) increased 4.8 billion yen to 37.8 billion yen. The FRL Ratio was up 0.09% from the previous year to 1.05%, and is well within the acceptable range of up to 3.00%.

. Capital Adequacy Ratio

	Sep.30, 2006	Mar.31, 2007	Jun.30, 2007	Sep.30, 2007	Change
					-
Capital adequacy ratio	18.74%	15.82%	16.33%	15.79%	-0.03%
Tier1 ratio	18.52%	17.50%	18.07%	16.97%	-0.53%

The Bank's capital adequacy ratio under the new Basel II regulations was 15.79% and Tier1 ratio was 16.97%. These ratios remain among the highest in the major Japanese banks.

The Bank uses the standardized approach for calculation of credit risk assets and the basic indication approach for calculation of operational risk equivalent.