

Summary of the 3rd Quarter Financial Statements for the First Nine Months of FY2019 [JGAAP] (Consolidated)

January 30, 2020

Company name	Aozora Bank, Ltd.	Listed exchange	Tokyo Stock Exchange
TSE code	8304	URL	https://www.aozorabank.co.jp/
Representative	Shinsuke Baba, President and CEO		
Contact person	Yoshinari Takasaki, Joint General Manager of Financial Control Division		
Scheduled filing date of securities report	Feb. 12, 2020	Dividend payable date	Mar. 16, 2020
Reference material	Affirmative	Trading accounts	Affirmative
Investor meeting	Affirmative	TEL	(03)6752-1111

(Unit: JPY millions, rounded down)

1. Business highlights for the first nine months of FY2019

(1) Consolidated business results

(Note: Percentages show year-on-year rates of change)

	Ordinary income		Ordinary profit		Profit attributable to owners of parent	
Nine months ended	Million Yen	%	Million Yen	%	Million Yen	%
Dec. 31, 2019	134,458	6.9	42,222	0.6	29,752	0.1
Dec. 31, 2018	125,815	11.9	41,971	(9.1)	29,723	(11.4)

(Note) Comprehensive income JPY 47,746 million —% (Nine months ended Dec. 31, 2019)
JPY (2,500) million —% (Nine months ended Dec. 31, 2018)

	Net income per common share (basic)	Net income per common share (diluted)
Nine months ended	Yen	Yen
Dec. 31, 2019	254.98	254.72
Dec. 31, 2018	254.76	254.55

(2) Consolidated financial condition

	Total assets	Total net assets	Net assets to total assets ratio	Net assets per common share
	Million Yen	Million Yen	%	Yen
Dec. 31, 2019	5,516,869	483,492	8.8	4,156.74
Mar. 31, 2019	5,255,048	448,710	8.5	3,844.08

(Ref.) Total net assets (less Share acquisition rights and Non-controlling interests) JPY 485,023 million (Dec. 31, 2019)
JPY 448,519 million (Mar. 31, 2019)

(Note) Net assets to total assets ratio = (Total net assets - Share acquisition rights - Non-controlling interests) / Total assets

(Note) The above Net assets to total assets ratio is different from the capital adequacy ratio prescribed in the notification of the Financial Services Agency.

2. Dividend

	Annual dividend				
	1Q end	2Q end	3Q end	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
FY2018(common share)	40.00	40.00	40.00	34.00	154.00
FY2019(common share)	39.00	39.00	39.00		
FY2019(common share) (Forecast)				39.00	156.00

(Note) Revision of dividends forecast to the latest announcement Affirmative

(Note) The dividend payment forecast for FY2019 was calculated by dividing the total dividend amount, which is set at 50% of Profit attributable to owners of parent for forecast FY2019, by the total number of common share issued, excluding treasury shares, as of December 31, 2019.

(Note) Because the dividend forecast for year-end of FY2019 has become a fixed amount, revision of dividends forecast to the latest announcement is shown as "Affirmative". The common share dividend forecast for FY2019 would be 156.00 yen per common share, which remains unchanged from the last forecast.

3. Consolidated earnings forecast for the year ending March 31, 2020 (FY2019)

(Note: Percentages show year-on-year rates of change)

	Ordinary profit		Profit attributable to owners of parent		Net income per common share
	Million Yen	%	Million Yen	%	Yen
FY2019 (Full Year)	51,000	6.7	36,500	1.0	312.81

(Note) Revision of consolidated earnings forecast to the latest announcement None

* Notes

- (1) Changes in material subsidiaries during the first nine months
(changes in specified subsidiaries which affect the scope of consolidation) None
- (2) Accounting treatments particularly used for the quarterly financial statements None
- (3) Changes in accounting policy, accounting estimates, or retrospective restatements
 - (a) Changes with revisions of accounting standards None
 - (b) Changes other than (a) above None
 - (c) Changes in accounting estimates None
 - (d) Retrospective restatements None
- (4) The number of common shares issued

	Dec. 31, 2019	Mar. 31, 2019
(a) The number of common shares issued (including treasury shares)	118,289,418	118,289,418
(b) The number of treasury shares	1,606,157	1,611,667

	Nine months ended Dec. 31, 2019	Nine months ended Dec. 31, 2018
(c) The average number of common shares outstanding (9 months)	116,681,392	116,671,169

*Quarterly summary is out of scope of quarterly review (by CPAs or audit firms).

*Notes and remarks for the proper use of earnings projection

The above earnings forecast involves certain risks and uncertainties since the calculations are based on management's assumptions and beliefs in light of information currently available. This should not be interpreted as a promise or guarantee that the forecast will be achieved. Please be aware that actual results may be materially different from the forecast presented herein due to various factors.

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1. Qualitative information

(1) Operating results

Aozora reported consolidated net revenue was 75.0 billion yen, an increase of 12.2 billion yen, or 19.5% year on year, and business profit was 36.8 billion yen, an increase of 9.9 billion yen, or 37.0%. Profit attributable to owners of parent was 29.7 billion yen, an increase of 0.0 billion yen, or 0.1%.

Net interest income was 37.1 billion yen, a decrease of 2.8 billion yen, or 7.0%. The decline was primarily due to lower interest and dividends on securities, which offset the increase in interest on loans and discounts.

Non-interest income was 37.8 billion yen, an increase of 15.0 billion yen, or 65.7%. The increase was mainly due to a higher level of net fees and commissions and net trading revenues compared to the previous year, reflecting strong performance from customer-based transactions.

General and administrative expenses were 38.1 billion yen, an increase of 2.2 billion yen, or 6.3%, mainly due to incremental expenses associated with our internet banking subsidiary and the launch of our new retail banking smartphone app. Expenses for the first nine months of FY2019 represented 72.0% of the full-year budget of 53.0 billion yen.

Consolidated business profit was 36.8 billion yen, an increase of 9.9 billion yen, or 37.0% year on year.

Credit-related expenses were a net reversal of 0.5 billion yen, mainly due to the reversal of general loan loss reserves. Gains/losses on stock transactions were a gain of 4.6 billion yen. Ordinary profit and profit before income taxes were both 42.2 billion yen, an increase of 0.2 billion yen, or 0.6% year on year.

Total income taxes (corporation tax, resident tax, business tax and deferred income taxes) were a net expense of 14.2 billion yen.

As a result of the above factors, profit attributable to owners of parent was 29.7 billion yen, an increase of 0.0 billion yen, or 0.1% year on year, and representing progress of 81.5% towards the full-year forecast of 36.5 billion yen. Net income per common share (basic) was 254.98 yen, as compared to 254.76 yen per share (basic) for the first nine months of FY2018.

(2) Financial condition

Total assets were 5,516.8 billion yen as of December 31, 2019, an increase of 261.8 billion yen, or 5.0%, compared to March 31, 2019.

Loans were 2,938.4 billion yen, an increase of 158.5 billion yen, or 5.7%, from March 31, 2019. Domestic loans increased 168.8 billion yen, while overseas loans decreased 10.2 billion yen. Securities increased by 5.3 billion yen, or 0.4%, from March 31, 2019, to 1,246.1 billion yen.

Total liabilities were 5,033.3 billion yen, an increase of 227.0 billion yen, or 4.7%, compared to March 31, 2019. Total core funding (deposits, negotiable certificates of deposit, debentures and bonds) was 3,651.9 billion yen, an increase of 137.2 billion yen, or 3.9%, from March 31, 2019.

Net assets were 483.4 billion yen, representing an increase of 34.7 billion yen, or 7.8%, from March 31, 2019.

Net assets per common share were 4,156.74 yen, as compared to 3,844.08 yen per common share as of March 31, 2019.

(3) Consolidated earnings forecast

No change has been made to the full-year consolidated earnings forecast of FY2019 announced on May 16, 2019 (consolidated net revenue of 88.0 billion yen, consolidated business profit of 35.0 billion yen, ordinary profit of 51.0 billion yen and profit attributable to owners of parent of 36.5 billion yen).

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

(Reference)

Summary of consolidated revenue and expenses

(JPY 100 million)

	FY2018 9 months Apr.-Dec.	FY2019 9 months Apr.-Dec.	Change
Net revenue ※1	627	750	122
Net interest income	399	371	(28)
Net fees and commissions	77	95	17
Net trading income	54	125	71
Gains/losses on bond transactions	41	123	82
Net other ordinary income excluding gains/losses on bond transactions	54	33	(20)
General and administrative expenses	(358)	(381)	(22)
Business profit ※2	269	368	99
Credit-related expenses	16	5	(11)
Gains/losses on stock transactions	112	46	(66)
Other	21	2	(18)
Ordinary profit	419	422	2
Extraordinary profit/loss	-	(0)	(0)
Profit before income taxes	419	422	2
Total income taxes	(136)	(142)	(6)
Profit	283	279	(4)
Loss attributable to non-controlling interests	13	18	4
Profit attributable to owners of parent	297	297	0

※1 Net revenue = (Interest income – Interest expenses)

+ (Trust fees + 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, income or profits are shown as positive and expenses or losses are shown as negative amount on the table above.

2. Quarterly consolidated financial statements and main notes

(1) Quarterly consolidated balance sheet

(In millions of yen)

	As of Mar. 31, 2019	As of Dec. 31, 2019
Assets		
Cash and due from banks	618,716	658,502
Monetary claims bought	51,121	75,891
Trading assets	199,928	198,632
Money held in trust	35,098	66,789
Securities	1,240,838	1,246,170
Loans and bills discounted	2,779,894	2,938,457
Foreign exchanges	49,480	45,921
Other assets	232,697	240,495
Tangible fixed assets	23,641	23,853
Intangible fixed assets	18,572	19,207
Retirement benefit asset	3,671	4,051
Deferred tax assets	23,368	17,302
Customers' liabilities for acceptances and guarantees	23,825	23,560
Allowance for loan losses	(45,004)	(41,669)
Allowance for investment loss	(800)	(298)
Total assets	5,255,048	5,516,869
Liabilities		
Deposits	3,102,804	3,292,159
Negotiable certificates of deposit	127,927	56,933
Debentures	51,360	51,360
Call money and bills sold	51,723	38,746
Payables under repurchase agreements	49,658	78,456
Payables under securities lending transactions	450,860	465,994
Trading liabilities	177,764	170,685
Borrowed money	320,559	346,324
Bonds payable	232,586	251,522
Other liabilities	202,680	244,367
Provision for bonuses	3,460	1,933
Provision for bonuses for directors (and other officers)	82	52
Retirement benefit liability	9,784	10,185
Provision for retirement benefits for directors (and other officers)	2	3
Provision for credit losses on off-balance-sheet instruments	860	674
Provision for contingent loss	387	383
Reserves under special laws	8	8
Deferred tax liabilities	1	25
Acceptances and guarantees	23,825	23,560
Total liabilities	4,806,337	5,033,376
Net assets		
Share capital	100,000	100,000
Capital surplus	87,377	87,387
Retained earnings	259,021	275,706
Treasury shares	(3,312)	(3,300)
Total shareholders' equity	443,087	459,793
Valuation difference on available-for-sale securities	23,501	37,632
Deferred gains or losses on hedges	(17,111)	(11,239)
Foreign currency translation adjustment	(291)	(620)
Remeasurements of defined benefit plans	(667)	(543)
Total accumulated other comprehensive income	5,431	25,229
Share acquisition rights	357	447
Non-controlling interests	(166)	(1,978)
Total net assets	448,710	483,492
Total liabilities and net assets	5,255,048	5,516,869

(2) Quarterly consolidated statement of income and quarterly consolidated statement of comprehensive income
 (Quarterly consolidated statement of income)
 (For the nine months ended Dec. 31)

(In millions of yen)

	For the nine months ended Dec. 31, 2018	For the nine months ended Dec. 31, 2019
Ordinary income	125,815	134,458
Interest income	73,885	73,862
Interest on loans and discounts	43,541	46,977
Interest and dividends on securities	28,848	24,849
Trust fees	273	354
Fees and commissions	8,675	10,892
Trading income	10,627	15,734
Other ordinary income	16,331	24,645
Other income	16,022	8,969
Ordinary expenses	83,844	92,236
Interest expenses	33,968	36,751
Interest on deposits	5,515	5,535
Fees and commissions payments	1,192	1,693
Trading expenses	5,145	3,139
Other ordinary expenses	6,699	8,901
General and administrative expenses	35,818	38,380
Other expenses	1,018	3,370
Ordinary profit	41,971	42,222
Extraordinary income	—	0
Gain on disposal of non-current assets	—	0
Extraordinary losses	—	4
Loss on disposal of non-current assets	—	4
Profit before income taxes	41,971	42,218
Income taxes - current	11,933	13,991
Income taxes - deferred	1,669	277
Total income taxes	13,603	14,269
Profit	28,368	27,948
Loss attributable to non-controlling interests	(1,355)	(1,804)
Profit attributable to owners of parent	29,723	29,752

(Quarterly consolidated statement of comprehensive income)
 (For the nine months ended Dec. 31)

(In millions of yen)

	For the nine months ended Dec. 31, 2018	For the nine months ended Dec. 31, 2019
Profit	28,368	27,948
Other comprehensive income	(30,868)	19,797
Valuation difference on available-for-sale securities	(42,381)	14,130
Deferred gains or losses on hedges	10,836	5,872
Foreign currency translation adjustment	751	(328)
Remeasurements of defined benefit plans, net of tax	(74)	123
Comprehensive income	(2,500)	47,746
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(1,145)	49,550
Comprehensive income attributable to non-controlling interests	(1,355)	(1,804)

(3) Notes to quarterly consolidated financial statements

(Information on going concern assumption)

None

(Changes in shareholders' equity)

None