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Aozora Reports Net Earnings of 29.7 billion yen for the First Nine Months of FY2019; 82% of Full-year Forecast

TOKYO January 30, 2020 – Aozora Bank, Ltd. (“Aozora” or “the Bank”), a leading Japanese commercial bank, today announced its financial results for the first nine months of FY2019.

Financial Results for the first nine months of FY2019

In the first nine months of FY2019, Aozora reported consolidated net revenue of 75.0 billion yen and profit attributable to owners of parent of 29.7 billion yen, representing progress of 85% and 82%, respectively, towards the full-year forecasts.

Shinsuke Baba, Representative Director, President and Chief Executive Officer of Aozora Bank commented, “We are pleased to report net revenue and net earnings for the first nine months of fiscal year 2019 that represents progress of 85% and 82%, respectively, towards our full-year forecast. These results were mainly driven by strong performance in our corporate finance and retail businesses, as well as positive results from our financial markets business. Today we also announced a third quarter dividend of 39 yen per common share, the same as the first and second quarter dividends and equivalent to a quarter of the full-year dividend forecast of 156 yen per common share.

Aozora’s management team remains committed to enhancing the performance of each business area through a selection and concentration strategy while remaining focused on business initiatives providing for future growth. In addition to the successful launch of our new retail banking smartphone app, BANK™, in July, 2019, Aozora has decided to make strategic investments in Vietnam in order to better capitalize on its growing economy.”

Baba concluded, “While we expect business conditions to remain somewhat challenging for the foreseeable future, we remain committed to working towards sustainable future growth while maintaining our long-standing focus on disciplined risk management. At this time, I would like to express my gratitude to all of our stakeholders for their understanding and continued support.”

1. Summary of the results for the first nine months (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, somewhat higher than the prior year.
- 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, offsetting an 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%, 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-initiated 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 money service smartphone app. Overall expenses for the first nine months of FY2019 represented 72% of the full-year budget of 53.0 billion yen as the Bank continued its focus on cost control.
- 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.

- Total loans were 2,938.4 billion yen, an increase of 158.5 billion yen, or 5.7%, from March 31, 2019. Domestic loans increased by 168.8 billion yen compared to March 31, 2019, while overseas loans decreased by 10.2 billion yen (a \$41 million increase on a U.S. dollar basis).
- 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. The percentage of retail funding to total core funding was 55%.
- Non-performing claims as defined by the Financial Reconstruction Law (FRL) were 18.6 billion yen, an increase of 3.0 billion yen from March 31, 2019 and a decrease of 1.9 billion yen from September 30, 2019. The FRL ratio increased by 0.07 points to 0.62% (a decrease of 0.09 points from September 30, 2019). The ratio of loan loss reserves to total loans on a consolidated basis remained adequate at 1.41%.
- Aozora will announce its December 31, 2019 consolidated capital adequacy ratio (domestic standard) at a future date. As of September 30, 2019, the ratio was 10.34% and is expected to remain at an adequate level.

Note: All amounts stated in 1 billion yen have been rounded down to the nearest 0.1 billion yen.

2. FY2019 First Nine Months Performance (April 1, 2019 to December 31, 2019)

Consolidated basis

(billion yen)	Net revenue	Business profit	Ordinary profit	Profit attributable to owners of parent	Profit attributable to owners of parent per common share
FY2019 nine months (Apr.-Dec.) (a)	75.0	36.8	42.2	29.7	254.98 yen
FY2018 nine months (Apr.-Dec.) (b)	62.7	26.9	41.9	29.7	254.76 yen
Change (a) - (b)	12.2	9.9	0.2	0.0	0.22 yen
Percentage change ((a)-(b)) / (b)	19.5%	37.0%	0.6%	0.1%	0.1%
FY2019 full-year forecast (c)	88.0	35.0	51.0	36.5	312.81 yen
Progress (a)/(c)	85.2%	105.3%	82.8%	81.5%	81.5%

Non-consolidated basis

(billion yen)	Net revenue	Business profit before general loan-loss reserve	Ordinary profit	Profit	Profit per common share
FY2019 nine months (Apr.-Dec.) (a)	69.7	38.5	43.8	30.2	259.03 yen
FY2018 nine months (Apr.-Dec.) (b)	58.3	28.4	43.0	29.9	256.73 yen
Change (a) - (b)	11.3	10.1	0.8	0.2	2.30 yen
Percentage change ((a)-(b)) / (b)	19.4%	35.7%	1.9%	0.9%	0.9%
FY2019 full-year forecast (c)	80.5	37.5	52.0	36.5	312.81 yen
Progress (a)/(c)	86.6%	102.8%	84.4%	82.8%	82.8%

I. Revenue and Expenses

(billion yen)	FY2018		FY2019		Change (B) – (A)		Page
	3 months Oct.-Dec.	9 months Apr.-Dec. (A)	3 months Oct.-Dec.	9 months Apr.-Dec. (B)	Amount	%	
Net revenue	17.9	62.7	24.8	75.0	12.2	19.5%	-
Net interest income	12.8	39.9	12.4	37.1	-2.8	-7.0%	5
Net interest margin	1.25%	1.33%	1.16%	1.17%	-0.16%	-	5
Non-interest income	5.1	22.8	12.4	37.8	15.0	65.7%	-
Net fees and commissions	3.0	7.7	3.0	9.5	1.7	23.2%	6
Net trading revenues	0.0	5.4	6.6	12.5	7.1	129.8%	6
Gains/losses on bond transactions	2.0	4.1	2.6	12.3	8.2	197.0%	7
Net other ordinary income excluding gains/losses on bond transactions	-0.0	5.4	0.0	3.3	-2.0	-38.4%	7
General & administrative expenses	-12.2	-35.8	-12.9	-38.1	-2.2	-6.3%	7
Business profit	5.6	26.9	11.8	36.8	9.9	37.0%	-
Credit-related expenses	-1.3	1.6	-0.9	0.5	-1.1	-	8
Gains/losses on stock transactions	6.0	11.2	2.0	4.6	-6.6	-	8
Other gains/losses	1.9	2.1	0.0	0.2	-1.8	-	-
Ordinary profit	12.3	41.9	13.1	42.2	0.2	0.6%	-
Extraordinary profit/loss	-	-	-0.0	-0.0	-0.0	-	-
Profit before income taxes	12.3	41.9	13.1	42.2	0.2	0.6%	-
Taxes	-4.5	-13.6	-4.2	-14.2	-0.6	-	8
Profit attributable to owners of parent	8.3	29.7	9.5	29.7	0.0	0.1%	-

In the first nine months of FY2019, the Bank recorded consolidated net revenue of 75.0 billion yen, an increase of 12.2 billion yen, or 19.5% year on year.

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% 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. 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, somewhat higher than the prior year, and representing progress of 82% towards the full-year forecast of 36.5 billion yen.

1. Net Revenue

(1) (i) Net Interest Income

(billion yen)	FY2018		FY2019		Change (B)–(A)
	3 months Oct.-Dec.	9 months Apr.-Dec. (A)	3 months Oct.-Dec.	9 months Apr.-Dec. (B)	
Net interest income (a)-(b)	12.8	39.9	12.4	37.1	-2.8
Interest income (a)	25.5	73.8	23.9	73.8	-0.0
Interest on loans and discounts	15.3	43.5	15.1	46.9	3.4
Interest and dividends on securities	9.6	28.8	8.2	24.8	-3.9
Other interest income	0.5	1.4	0.5	2.0	0.5
Interest on swaps	-	-	-	-	-
Interest expenses (b)	-12.7	-33.9	-11.5	-36.7	-2.7
Interest on deposits and NCDs	-1.9	-5.5	-1.8	-5.5	-0.0
Interest on debentures and bonds	-0.6	-1.3	-0.8	-2.1	-0.7
Interest on borrowings and rediscount	-0.2	-0.8	-0.2	-0.8	0.0
Other interest expenses	-2.9	-7.5	-2.9	-9.4	-1.9
Interest on swaps	-6.8	-18.6	-5.6	-18.8	-0.1

Net interest income was 37.1 billion yen, a decrease of 2.8 billion yen, or 7.0%. Interest income was almost the same level as the prior year. Interest on loans and discounts increased as a result of the higher yield earned on domestic loans as well as higher average balances. Interest and dividends on securities decreased primarily due to a decrease in gains from the early redemption of investment trusts. Interest expense increased by 2.7 billion yen, largely the result of an increase in foreign currency funding costs compared to the previous year.

(1) (ii) Net Interest Margin

	FY2018		FY2019		Change (B)–(A)
	3 months Oct.-Dec.	9 months Apr.-Dec. (A)	3 months Oct.-Dec.	9 months Apr.-Dec. (B)	
Yield on total investments (a)	2.42%	2.39%	2.16%	2.25%	-0.14%
Yield on loans	2.26%	2.17%	2.09%	2.19%	0.02%
Yield on securities	3.08%	3.22%	2.69%	2.70%	-0.52%
Yield on funding (b)	1.17%	1.06%	1.00%	1.08%	0.02%
Net interest margin (a)-(b)	1.25%	1.33%	1.16%	1.17%	-0.16%

The yield on total investments declined by 14 bps. The change was due to a decline in the yield on securities mainly resulting from a decrease in gains from the early redemption of investment trusts, while the yield on loans increased by 2 bps as the Bank maintained its focus on risk and return. Funding costs increased by 2 bps over the prior year due to increased foreign currency funding costs. The net interest margin declined to 1.17% compared to the previous year, largely as a result of lower gains from the early redemption of investment trusts.

(2) Net Fees and Commissions

(billion yen)	FY2018		FY2019		Change (B) – (A)
	3 months Oct.-Dec.	9 months Apr.-Dec. (A)	3 months Oct.-Dec.	9 months Apr.-Dec. (B)	
Net fees and commissions (a)-(b)	3.0	7.7	3.0	9.5	1.7
Fees and commissions received (a)	3.4	8.9	3.7	11.2	2.2
Loan business-related and deposits	1.8	4.4	2.0	6.4	1.9
Securities-related and agency	1.0	3.0	0.8	2.5	-0.4
Others	0.5	1.3	0.8	2.2	0.8
Fees and commissions payments (b)	-0.4	-1.1	-0.6	-1.6	-0.5

Net fees and commissions were 9.5 billion yen, an increase of 1.7 billion yen, or 23.2%, while loan related fees remained strong as a result of the Bank's progress in delivering higher value-added financing proposals to our corporate customers.

Earnings from the sale of investment products (investment trusts, insurance, structured bonds, etc.) to our mass affluent retail customers were 5.8 billion yen, an increase of 1.3 billion yen. The increase was mainly the result of strong earnings from the sale of structured bonds, despite a decrease in earnings from the sale of investment trusts and insurance compared to the previous year.

[Ref.] Earnings from Financial Product Sales to Retail Customers

(billion yen)	FY2018		FY2019		Change (B) – (A)
	3 months Oct.-Dec.	9 months Apr.-Dec. (A)	3 months Oct.-Dec.	9 months Apr.-Dec. (B)	
Earnings from the sale of investment trusts, insurance and structured bonds	1.2	4.4	2.9	5.8	1.3

Note: Earnings from the sale of structured bonds are recorded as net trading revenues.

(3) Net Trading Revenues

(billion yen)	FY2018		FY2019		Change (B) – (A)
	3 months Oct.-Dec.	9 months Apr.-Dec. (A)	3 months Oct.-Dec.	9 months Apr.-Dec. (B)	
Net trading revenues	0.0	5.4	6.6	12.5	7.1

Net trading revenues were 12.5 billion yen, an increase of 7.1 billion yen, or 129.8%. This result was mainly due to an increase in gains associated with the sale of derivative-related products to our corporate and financial institution customers as well as gains associated with the sale of structured bonds to our retail customers. The Bank's trading business also remained strong due to further growth in customer-based transactions.

(4) Gains/Losses on Bond Transactions

(billion yen)	FY2018		FY2019		Change (B) – (A)
	3 months Oct.-Dec.	9 months Apr.-Dec. (A)	3 months Oct.-Dec.	9 months Apr.-Dec. (B)	
Gains/losses on bond transactions	2.0	4.1	2.6	12.3	8.2
Japanese government bonds	0.0	0.0	-	-	-0.0
Foreign government bonds and mortgage bonds	0.4	0.5	0.8	6.3	5.7
Others	1.5	3.5	1.7	6.0	2.5

Gains/losses on bond transactions were a gain of 12.3 billion yen, mainly due to gains on the sale of REITs and U.S. government bonds in response to changes in market conditions. For the first nine months of FY2018, gains/losses on bond transactions were a gain of 4.1 billion yen.

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

(billion yen)	FY2018		FY2019		Change (B) – (A)
	3 months Oct.-Dec.	9 months Apr.-Dec. (A)	3 months Oct.-Dec.	9 months Apr.-Dec. (B)	
Net other ordinary income excluding gains/losses on bond transactions	-0.0	5.4	0.0	3.3	-2.0
Incl. Gains from limited partnerships	2.2	7.2	1.3	6.4	-0.7
Real estate-related	0.7	1.9	0.4	1.3	-0.5
Distressed loan-related	1.1	3.2	0.8	3.2	-0.0
Others (buyout, etc.)	0.3	1.9	0.0	1.8	-0.1

Net other ordinary income, excluding gains/losses on bond transactions, was 3.3 billion yen, a decrease of 2.0 billion yen, or 38.4%. Gains from limited partnerships were 6.4 billion yen, largely due to distressed loan-related gains as well as gains from buyout-related investments.

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

(billion yen)	FY2018		FY2019		Change (B) – (A)
	3 months Oct.-Dec.	9 months Apr.-Dec. (A)	3 months Oct.-Dec.	9 months Apr.-Dec. (B)	
G&A expenses	-12.2	-35.8	-12.9	-38.1	-2.2
Personnel expense	-5.9	-17.6	-6.1	-18.0	-0.3
Non-personnel expense	-5.6	-16.0	-6.0	-17.6	-1.6
Tax	-0.6	-2.2	-0.7	-2.4	-0.2

General and administrative expenses were 38.1 billion yen, an increase of 2.2 billion yen, or 6.3%, compared to the previous year. The increase was mainly due to incremental expenses associated with the Bank's internet banking subsidiary and the launch of our new retail banking smartphone app. General and administrative expenses for the first nine months of FY2019 represented 72% of the full-year budget of 53.0 billion yen as the Bank continued its focus on cost control. The Overhead Ratio (OHR) was 50.9%.

3. Credit-Related Expenses

(billion yen)	FY2018		FY2019		Change (B) – (A)
	3 months Oct.-Dec.	9 months Apr.-Dec. (A)	3 months Oct.-Dec.	9 months Apr.-Dec. (B)	
Credit-related expenses	-1.3	1.6	-0.9	0.5	-1.1
Write-off of loans	-0.0	-0.1	-0.0	-0.4	-0.2
Reserve for possible loan losses	-2.1	0.5	-0.3	0.9	0.3
Specific reserve for possible loan losses	0.0	-0.4	0.4	-2.9	-2.5
General reserve for possible loan losses	-2.2	0.9	-0.7	3.8	2.8
Gains/losses on disposition of loans	-0.0	-0.0	-0.6	-0.6	-0.5
Recoveries of written-off claims	0.6	1.0	0.1	0.4	-0.5
Reserve for credit losses on off-balance-sheet instruments	0.2	0.3	0.0	0.1	-0.1

Credit-related expenses were a net reversal of 0.5 billion yen for the first nine months of FY2019, mainly due to the reversal of general loan loss reserves, and offset the higher provisions made to specific loan loss reserves resulting from several new non-performing claims in the first half of FY2019. This result compares with the net reversal of 1.6 billion yen recorded in the previous year. In the third quarter, credit-related expenses were an overall net expense of 0.9 billion yen, mainly due to higher provisions to the general loan loss reserve as a result of higher loan balances, while there were no new non-performing claims. The ratio of loan loss reserves to total loans remained adequate at 1.41% and reflected the Bank's conservative allocation of reserves.

4. Gains/losses on Stock Transactions

(billion yen)	FY2018		FY2019		Change (B) – (A)
	3 months Oct.-Dec.	9 months Apr.-Dec. (A)	3 months Oct.-Dec.	9 months Apr.-Dec. (B)	
Gains/losses on stock transactions	6.0	11.2	2.0	4.6	-6.6

Gains/losses on stock transactions were a gain of 4.6 billion yen, a decrease of 6.6 billion yen compared to the previous year.

5. Taxes

(billion yen)	FY2018		FY2019		Change (B) – (A)
	3 months Oct.-Dec.	9 months Apr.-Dec. (A)	3 months Oct.-Dec.	9 months Apr.-Dec. (B)	
Taxes	-4.5	-13.6	-4.2	-14.2	-0.6

Taxes were a net expense of 14.2 billion yen. The effective tax rate was 33.8%.

II. Balance Sheet

(billion yen)	Mar. 31, 2019 (A)	Sept.30, 2019	Dec. 31, 2019 (B)	Change (B) — (A)		Page
				Amount	%	
Total assets	5,225.0	5,392.5	5,516.8	261.8	5.0%	-
Loan and bills discounted	2,779.8	2,838.4	2,938.4	158.5	5.7%	10
Securities	1,240.8	1,284.9	1,246.1	5.3	0.4%	11
Cash and due from banks	618.7	587.8	658.5	39.7	6.4%	-
Trading assets	199.9	251.1	198.6	-1.2	-0.6%	-
Others	415.6	430.1	475.1	59.4	14.3%	-
Total liabilities	4,806.3	4,916.4	5,033.3	227.0	4.7%	-
Deposits and negotiable certificates of deposit	3,230.7	3,220.5	3,349.0	118.3	3.7%	10
Debentures, Bonds	283.9	304.4	302.8	18.9	6.7%	10
Borrowed money	320.5	320.7	346.3	25.7	8.0%	-
Payables under securities lending transactions	450.8	489.4	465.9	15.1	3.4%	-
Trading liabilities	177.7	212.9	170.6	-7.0	-4.0%	-
Others	342.4	368.2	398.3	55.9	16.3%	-
Total net assets	448.7	476.0	483.4	34.7	7.8%	-
Capital stock	100.0	100.0	100.0	-	0.0%	-
Capital surplus	87.3	87.3	87.3	0.0	0.0%	-
Retained earnings	259.0	270.7	275.7	16.6	6.4%	-
Treasury stock	-3.3	-3.3	-3.3	0.0	-	-
Valuation difference on available-for-sale securities	23.5	35.0	37.6	14.1	60.1%	-
Others	-17.8	-13.7	-13.9	3.9	-	-
Total liabilities and net assets	5,255.0	5,392.5	5,516.8	261.8	5.0%	-

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.

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

(billion yen)	Mar. 31, 2019 (A)	Sept. 30, 2019	Dec. 31, 2019 (B)	Change (B)–(A)
Total core funding	3,514.6	3,525.0	3,651.9	137.2

Funding sources by product

(billion yen)	Mar. 31, 2019 (A)	Sept. 30, 2019	Dec. 31, 2019 (B)	Change (B)–(A)
Deposits/NCDs	3,230.7	3,220.5	3,349.0	118.3
Debentures/Bonds	283.9	304.4	302.8	18.9

Funding sources by customer

(billion yen)	Mar. 31, 2019 (A)	Sept. 30, 2019	Dec. 31, 2019 (B)	Change (B)–(A)
Retail	1,852.2	1,905.8	2,020.7	168.4
Corporate	689.6	618.9	634.4	-55.1
Financial Institutions	972.7	1,000.2	996.7	23.9

Note: Corporate includes public entities.

Aozora continued to flexibly manage its funding position in light of its asset requirements. 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. The percentage of retail funding to total core funding was 55%.

In July, 2019, we successfully launched our new retail banking smartphone app as a way to further expand our retail customer base. Since the launch, we have seen a steady increase in new account openings.

As of December 31, 2019, Aozora maintained adequate liquidity reserves of 704.0 billion yen.

2. Loans

(billion yen)	Mar. 31, 2019 (A)	Sept. 30, 2019	Dec. 31, 2019 (B)	Change (B)–(A)
Loans	2,779.8	2,838.4	2,938.4	158.5
Domestic loans	1,687.2	1,777.3	1,856.0	168.8
Overseas loans	1,092.6	1,061.1	1,082.4	-10.2
U.S. dollar basis (\$ million)	\$9,844	\$9,828	\$9,885	\$41

Note: Overseas loans refer to those with no final risk residing in Japan.

Loans were 2,938.4 billion yen, an increase of 158.5 billion yen, or 5.7%, from March 31, 2019.

Domestic loans increased by 168.8 billion yen from March 31, 2019, reflecting the Bank's ongoing focus on disciplined balance sheet management.

From March 31, 2019, overseas loans decreased by 10.2 billion yen on a yen basis and increased by \$41 million on a U.S. dollar basis. Aozora remains committed to disciplined risk management and continued selective approach to new originations and, as a result, has rebalanced a portion of its North American corporate loan exposure in order to improve overall asset quality and downside risk exposure.

3. Securities

(billion yen)	Book Value				Unrealized Gains/Losses			
	Mar. 31, 2019(A)	Sept. 30, 2019	Dec. 31, 2019 (B)	Change (B) – (A)	Mar. 31, 2019(A)	Sept. 30, 2019	Dec.31, 2019 (B)	Change (B) – (A)
JGBs	5.0	-	-	-5.0	0.0	-	-	-0.0
Municipal bonds	31.8	34.5	36.3	4.4	0.2	0.2	0.1	-0.0
Corporate bonds	50.4	60.1	62.9	12.4	0.3	0.9	0.8	0.5
Equities	66.5	46.6	47.2	-19.2	48.5	36.9	38.2	-10.2
Foreign bonds	568.4	617.8	597.6	29.2	-8.5	3.9	-0.0	8.5
Foreign government bonds	261.4	299.8	312.2	50.7	-5.3	0.9	-2.6	2.6
Mortgage bonds	193.9	220.2	217.3	23.3	-4.3	-0.9	-0.8	3.5
Others	113.0	97.6	68.0	-44.9	1.1	3.9	3.4	2.3
Others	518.6	525.8	502.0	-16.5	-2.5	8.7	15.9	18.5
ETFs	254.3	258.5	238.2	-16.0	-10.4	-3.1	-0.3	10.1
Investment in limited partnerships	69.9	69.4	72.1	2.2	0.2	0.8	0.5	0.3
REIT	65.1	75.4	82.5	17.3	5.3	8.9	8.5	3.1
Investment trusts	117.3	110.9	96.6	-20.6	-2.5	-2.3	2.0	4.5
Others	11.9	11.4	12.4	0.4	4.9	4.4	5.2	0.3
Total	1,240.8	1,284.9	1,246.1	5.3	37.9	50.7	55.1	17.2
Total unrealized gains, including unrealized gains/losses on hedging instruments					14.3	34.9	39.5	25.2

Securities were 1,246.1 billion yen, an increase of 5.3 billion yen, or 0.4%, compared to March 31, 2019.

Compared with March 31, 2019, total unrealized gains increased by 17.2 billion yen to 55.1 billion yen as of December 31, 2019. A portion of Aozora's equity position is hedged. Total unrealized gains, including unrealized gains/losses on hedging instruments, were 39.5 billion yen, a 25.2 billion yen increase compared to March 31, 2019 and a 4.6 billion yen increase compared to September 30, 2019.

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

(billion yen)	Mar. 31, 2019 (A)	Sept. 30, 2019	Dec. 31, 2019 (B)	Change (B) – (A)
Bankrupt and similar credit	-	3.2	3.2	3.2
Doubtful credit	14.2	16.0	14.0	-0.1
Special attention credit	1.4	1.4	1.4	-
FRL credit, total (a)	15.6	20.6	18.6	3.0
Normal credit (b)	2,805.0	2,873.3	2,961.8	156.8
Total credit (c)=(a)+(b)	2,820.6	2,893.9	2,980.5	159.8
FRL credit ratio (a)/(c)	0.55%	0.71%	0.62%	0.07%

Non-performing claims as defined by the Financial Reconstruction Law (FRL) were 18.6 billion yen, an increase of 3.0 billion yen from March 31, 2019. The FRL ratio increased 0.07 points to 0.62% (a decrease of 0.09 points from September 30, 2019). The percentage of FRL claims covered by reserves, collateral and guarantees was 91.6%. The ratio of loan loss reserves to total loans remained adequate at 1.41% on a consolidated basis.

Aozora Bank, Ltd. is a leading provider of lending, securitization, business and asset revitalization, asset management, loan syndication and investment advisory services to financial institutions, corporate and retail customers. Originally established in 1957 as the Nippon Fudosan Bank, Ltd., the Bank changed its name to Aozora Bank, Ltd. in 2001. Aozora is proud of its heritage and the long-term relationships it has developed with corporate, financial and individual customers over the years. Building on this heritage, Aozora has created a strong customer-oriented and performance-based culture that will contribute to both innovative business solutions for customers and sustainable earnings growth for investors and shareholders.

News and other information about Aozora Bank, Ltd. is available at <https://www.aozorabank.co.jp/english/>

Forward-Looking Statements

This announcement contains forward-looking statements regarding the Bank's financial condition and results of operations. These forward-looking statements, which include the Bank's views and assumptions with respect to future events, involve certain risks and uncertainties. Actual results may differ from forecasts due to changes in economic conditions and other factors, including the effects of changes in general economic conditions, changes in interest rates, stock markets and foreign currency, and any ensuing decline in the value of our securities portfolio, incurrence of significant credit-related costs and the effectiveness of our operational, legal and other risk management policies.