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Aozora Reports Net Earnings for FY2019; Announces FY2019 Dividend Payment, FY2020 Earnings and Dividend Forecast

TOKYO May 14, 2020 – Aozora Bank, Ltd. (“Aozora” or “the Bank”), a leading Japanese commercial bank, today announced its financial results for FY2019, its FY2019 full-year dividend payment, as well as the Bank’s FY2020 earnings and dividend forecasts.

Financial results for FY2019

Shinsuke Baba, Representative Director, President and Chief Executive Officer of Aozora Bank commented, “While Japan’s economy began fiscal year 2019 with positive momentum, the COVID-19 pandemic that soon after spread across the world resulted in heightened levels of volatility across most financial markets as well as a sharp drop in global economic activity. These sudden events in turn created widespread concerns over further deterioration in economic and market conditions. In the face of these challenges, this past fiscal year Aozora was able to report net revenue of 95.7 billion yen, above our original forecast, mainly due to a strong level of customer-based transactions. However, net earnings for the year were only 28.1 billion yen, below our original forecast, principally the result of our decision to provide a conservative level of reserves against the potentially adverse impact of COVID-19 on our customers as well as broader economic conditions.

In view of the relative business performance achieved this past year and our strong financial condition, we’ve elected to declare a full-year dividend of 156 yen per common share for fiscal year 2019, in line with our original forecast, despite our net earnings falling below the original forecast. As a result, the fourth quarter dividend payment will be 39 yen.”

Baba continued, “Aozora’s new mid-term plan for 2020-22, entitled ‘Aozora 2022’, was also announced today, and is the result of an internal review completed one year earlier than scheduled. We remain committed to enhancing our business performance through the ongoing refinement of our business model based on our 6 Areas of Focus as well as implementing new initiatives for growth, established on a foundation of sound risk-taking and strong risk controls.”

Baba concluded, “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 full-year results (Consolidated)

- For FY2019, net revenue was 95.7 billion yen, an increase of 11.8 billion yen, or 14.2% year on year, and business profit was 42.3 billion yen, an increase of 7.9 billion yen, or 23.0%. Profit attributable to owners of parent was 28.1 billion yen, a decrease of 7.9 billion yen, or 22.1%.
 - Net interest income was 48.7 billion yen, a decrease of 1.4 billion yen, or 3.0% year on year. The decline was primarily due to lower interest and dividends on securities, which offset the higher level of interest on loans and discounts.
 - Non-interest income was 46.9 billion yen, an increase of 13.3 billion yen, or 39.8%, reflecting strong performance particularly from retail-related income and loan fees during the fourth quarter (Jan.-Mar.), and continued a trend of positive results generated from customer-based transactions during the first nine months.
 - General and administrative expenses were 53.3 billion yen, an increase of 3.9 billion yen, or 8.0%, mainly due to incremental expenses associated with our internet banking subsidiary and our new retail banking smartphone app, BANK™. Overall expenses for FY2019 were in line with the original full-year plan. The overhead ratio for the full year was 55.8%.
 - Credit-related expenses were a net expense of 11.7 billion yen, mainly due to loss reserves established during the fourth quarter (Jan.-Mar.) as a result of the potential impact of COVID-19 on customer credit quality and business conditions. Gains/losses on stock transactions were a gain of 11.6 billion yen.

- Total loans were 2,954.1 billion yen, an increase of 174.2 billion yen, or 6.3%, compared to March 31, 2019. Domestic loans increased by 181.8 billion yen compared to March 31, 2019, while overseas loans decreased by 7.6 billion yen.
- Total core funding (deposits, negotiable certificates of deposit, debentures and bonds) was 3,656.8 billion yen, an increase of 142.1 billion yen, or 4.0%, from March 31, 2019. The percentage of retail funding to total core funding was 57%.
- Non-performing claims as defined by the Financial Reconstruction Law (FRL) were 28.3 billion yen, an increase of 12.7 billion yen from March 31, 2019. Of the increase in FRLs, 4.4 billion yen was from bankruptcy-related recovery finance investments, an important line of business at Aozora. The FRL ratio increased by 0.40 points to 0.95%. The ratio of loan loss reserves to total loans on a consolidated basis remained relatively high at 1.82%.
- The Bank's consolidated capital adequacy ratio (domestic standard) as of March 31, 2020 remained at an adequate level at 10.29% (preliminary basis).

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

2. FY2019 Performance (April 1, 2019 to March 31, 2020)

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* ¹
FY2019 results (a)	95.7	42.3	43.3	28.1	241.18 yen
FY2018 results (b)	83.8	34.4	47.7	36.1	309.67 yen
Change (a) - (b)	11.8	7.9	-4.4	-7.9	-68.49 yen
Percentage change ((a)-(b)) / (b)	14.2%	23.0%	-9.3%	-22.1%	-22.1%
FY2019 full-year forecast (c)* ²	88.0	35.0	51.0	36.5	312.80 yen
Progress (a)/(c)	108.8%	120.9%	85.0%	77.1%	77.1%

Non-consolidated basis

(billion yen)	Net revenue	Business profit before general loan-loss reserve	Ordinary profit	Profit	Profit per common share* ¹
FY2019 results (a)	87.9	44.4	45.3	28.6	245.70 yen
FY2018 results (b)	78.3	37.4	51.3	38.0	326.06 yen
Change (a) - (b)	9.5	6.9	-5.9	-9.3	-80.36 yen
Percentage change ((a)-(b)) / (b)	12.2%	18.5%	-11.7%	-24.6%	-24.6%
FY2019 full-year forecast (c)* ²	80.5	37.5	52.0	36.5	312.80 yen
Progress (a)/(c)	109.2%	118.5%	87.2%	78.5%	78.5%

3. FY2019 Dividend Payment

	Dividend per common share				
Record date	1 st quarter	2 nd quarter	3 rd quarter	Year-end	Total
Previous forecast				39.00 yen	156.00 yen
Year-end payment				39.00 yen	156.00 yen
Payments in FY2019	39.00 yen	39.00 yen	39.00 yen		
Payments in FY2018	40.00 yen	40.00 yen	40.00 yen	34.00 yen	154.00 yen

4. Earnings Forecast for FY2020

Consolidated basis

(billion yen)	Net revenue	Business profit*	Ordinary profit	Profit attributable to owners of parent	Per share
FY2020 forecast (a)	90.0	34.5	40.0	28.5	244.24 yen
FY2019 results (b)	95.7	42.3	43.3	28.1	241.18 yen
Change (a) - (b)	-5.7	-7.8	-3.3	0.3	3.06 yen
Percentage change ((a)-(b)) / (b)	-6.0%	-18.5%	-7.7%	1.3%	1.3%

*Including gains/losses on equity method investments

Non-consolidated basis

(billion yen)	Net revenue	Business profit before general loan-loss reserve	Ordinary profit	Profit	Per share
FY2020 forecast (a)	82.0	37.0	42.0	28.5	244.24 yen
FY2019 results (b)	87.9	44.4	45.3	28.6	245.70 yen
Change (a) - (b)	-5.9	-7.4	-3.3	-0.1	-1.46 yen
Percentage change ((a)-(b)) / (b)	-6.7%	-16.7%	-7.4%	-0.6%	-0.6%

5. FY2020 Dividend Forecast

Management's mid- to long-term intent is to deliver a cash dividend with a target dividend payout ratio of 50%.

	Full-year dividend per common share
FY2020 Forecast	122.00 yen
FY2019 Payment	156.00 yen

The dividend policy based on a dividend payout ratio of 50% will be flexibly managed, along with maintaining our full year dividend forecast of 122 yen, in light of the uncertain economic environment. While the dividend forecast is only disclosed on a full-year basis, the Bank intends to continue paying dividends on a quarterly basis.

Note: The dividend forecast is based on the total dividend amount, which is 50% of the consolidated earnings forecast for the full year divided by the total number of common shares issued, excluding treasury stock, as of March 31, 2020.

I. Revenue and Expenses

(billion yen)	FY2018		FY2019		Change (B) – (A)		Page
	3 months Jan.-Mar.	Full-year (A)	3 months Jan.-Mar.	Full-year (B)	Amount	%	
Net revenue	21.0	83.8	20.7	95.7	11.8	14.2%	-
Net interest income	10.3	50.2	11.6	48.7	-1.4	-3.0%	6
Net interest margin	1.04%	1.25%	1.07%	1.14%	-0.11%	-	6
Non-interest income	10.6	33.5	9.0	46.9	13.3	39.8%	-
Net fees and commissions	5.1	12.9	3.1	12.6	-0.2	-2.3%	7
Net trading revenues	2.8	8.3	5.4	18.0	9.7	116.7%	7
Gains/losses on bond transactions	0.7	4.9	2.2	14.5	9.6	197.3%	8
Net other ordinary income excluding gains/losses on bond transactions	1.8	7.3	-1.7	1.6	-5.7	-78.2%	8
General & administrative expenses	-13.5	-49.4	-15.2	-53.3	-3.9	-8.0%	8
Business profit	7.5	34.4	5.4	42.3	7.9	23.0%	-
Credit-related expenses	-2.7	-1.0	-12.2	-11.7	-10.7	-	9
Gains/losses on stock transactions	2.0	13.2	7.0	11.6	-1.6	-	9
Other gains/losses	-1.0	1.1	0.8	1.0	-0.0	-	-
Ordinary profit	5.8	47.7	1.1	43.3	-4.4	-9.3%	-
Extraordinary profit/loss	-0.0	-0.0	-	-0.0	-0.0	-	-
Profit before income taxes	5.8	47.7	1.1	43.3	-4.4	-9.4%	-
Taxes	-0.1	-13.7	-3.4	-17.7	-3.9	-	9
Profit attributable to owners of parent	6.4	36.1	-1.6	28.1	-7.9	-22.1%	-

In FY2019, the Bank recorded consolidated net revenue of 95.7 billion yen, an increase of 11.8 billion yen, or 14.2% year on year.

Net interest income was 48.7 billion yen, a decrease of 1.4 billion yen, or 3.0% year on year. The decline was primarily due to lower interest and dividends on securities, which offset the higher level of interest on loans and discounts.

Non-interest income was 46.9 billion yen, an increase of 13.3 billion yen, or 39.8%, reflecting strong performance particularly from retail-related income and loan fees during the fourth quarter (Jan.-Mar.), and continued a trend of positive results generated from customer-based transactions during the first nine months.

General and administrative expenses were 53.3 billion yen, an increase of 3.9 billion yen, or 8.0%, approximately equal to the original full-year plan. This was mainly due to incremental expenses associated with our internet banking subsidiary and our new retail banking smartphone app, BANK™.

Consolidated business profit was 42.3 billion yen, an increase of 7.9 billion yen, or 23.0%.

Credit-related expenses were a net expense of 11.7 billion yen, mainly due to loss reserves established during the fourth quarter (Jan.-Mar.) as a result of the potential impact of COVID-19 on customer credit quality and business conditions. Gains/losses on stock transactions were a gain of 11.6 billion yen. Ordinary profit was 43.3 billion yen, a decrease of 4.4 billion yen, or 9.3%. Taxes were a net expense of 17.7 billion yen.

As a result of the above factors, profit attributable to owners of parent was 28.1 billion yen, a decrease of 7.9 billion yen, or 22.1% year on year.

1. Net Revenue

(1) (i) Net Interest Income

(billion yen)	FY2018		FY2019		Change (B)–(A)
	3 months Jan.-Mar.	Full-year (A)	3 months Jan.-Mar.	Full-year (B)	
Net interest income (a)-(b)	10.3	50.2	11.6	48.7	-1.4
Interest income (a)	23.5	97.4	21.5	95.4	-2.0
Interest on loans and discounts	15.6	59.1	14.4	61.4	2.2
Interest and dividends on securities	7.3	36.1	6.5	31.4	-4.7
Other interest income	0.5	2.0	0.5	2.5	0.4
Interest on swaps	-	-	-	-	-
Interest expenses (b)	-13.1	-47.1	-9.8	-46.6	0.5
Interest on deposits and NCDs	-1.8	-7.3	-1.7	-7.2	0.1
Interest on debentures and bonds	-0.6	-1.9	-0.6	-2.8	-0.8
Interest on borrowings and rediscount	-0.2	-1.1	-0.2	-1.0	0.0
Other interest expenses	-3.3	-10.8	-2.2	-11.7	-0.9
Interest on swaps	-7.0	-25.7	-4.8	-23.6	2.0

Net interest income was 48.7 billion yen, a decrease of 1.4 billion yen, or 3.0% year on year. Interest on loans and discounts increased by 2.2 billion yen compared to the previous year as a result of the higher yield earned on domestic loans as well as higher average balances. Interest and dividends on securities decreased by 4.7 billion yen primarily due to a decrease in gains from the early redemption of investment trusts compared to the previous year. Interest expenses decreased by 0.5 billion yen year on year, largely the result of a decline in U.S. dollar interest rates.

(1) (ii) Net Interest Margin

	FY2018		FY2019		Change (B)–(A)
	3 months Jan.-Mar.	Full-year (A)	3 months Jan.-Mar.	Full-year (B)	
Yield on total investments (a)	2.28%	2.36%	1.94%	2.17%	-0.19%
Yield on loans	2.34%	2.21%	1.94%	2.13%	-0.08%
Yield on securities	2.44%	3.02%	2.29%	2.60%	-0.42%
Yield on funding (b)	1.24%	1.11%	0.87%	1.03%	-0.08%
Net interest margin (a)-(b)	1.04%	1.25%	1.07%	1.14%	-0.11%

The yield on total investments decreased by 19 bps year on year. The change was due to an 8 bps decrease in the yield on loans reflecting a decrease in U.S. dollar interest rates, as well as a decrease in the yield on securities compared to the previous year, mainly due to a decrease in income from the early redemption of investment trusts. Funding costs decreased by 8 bps over the prior year due to a decrease in foreign currency funding costs. As a result of these factors, the net interest margin declined by 11 bps to 1.14%.

(2) Net Fees and Commissions

(billion yen)	FY2018		FY2019		Change (B) – (A)
	3 months Jan.-Mar.	Full-year (A)	3 months Jan.-Mar.	Full-year (B)	
Net fees and commissions (a)-(b)	5.1	12.9	3.1	12.6	-0.2
Fees and commissions received (a)	5.6	14.6	3.3	14.6	0.0
Loan business-related and deposits	3.9	8.4	1.7	8.1	-0.2
Securities-related and agency	0.9	4.0	0.9	3.4	-0.5
Others	0.7	2.1	0.7	2.9	0.8
Fees and commissions payments (b)	-0.4	-1.6	-0.2	-1.9	-0.3

Net fees and commissions were 12.6 billion yen, while loan related fees remained strong.

Earnings from the sale of investment products (investment trusts, insurance, and structured bonds) to our mass affluent retail customers were 8.7 billion yen. While the sale of investment trusts and insurance decreased compared to the previous year, earnings from the sale of structured bonds remained strong.

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

(billion yen)	FY2018		FY2019		Change (B) – (A)
	3 months Jan.-Mar.	Full-year (A)	3 months Jan.-Mar.	Full-year (B)	
Earnings from the sale of investment trusts, insurance and structured bonds	1.1	5.6	2.9	8.7	3.1

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 Jan.-Mar.	Full-year (A)	3 months Jan.-Mar.	Full-year (B)	
Net trading revenues	2.8	8.3	5.4	18.0	9.7

Net trading revenues were 18.0 billion yen, an increase of 9.7 billion yen, or 116.7% year on year. This result was mainly due to increased earnings from the sale of derivative-related products to our financial institution and corporate customers and 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 Jan.-Mar.	Full-year (A)	3 months Jan.-Mar.	Full-year (B)	
Gains/losses on bond transactions	0.7	4.9	2.2	14.5	9.6
Japanese government bonds	-	0.0	-	-	-0.0
Foreign government bonds and mortgage bonds	0.4	1.0	2.2	8.5	7.5
Others	0.2	3.8	-0.0	5.9	2.1

Gains/losses on bond transactions were a gain of 14.5 billion yen, as compared to 4.9 billion yen in FY2018, mainly due to gains on the sale of U.S. government bonds and REITs in response to changes in market conditions.

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

(billion yen)	FY2018		FY2019		Change (B) – (A)
	3 months Jan.-Mar.	Full-year (A)	3 months Jan.-Mar.	Full-year (B)	
Net other ordinary income excluding gains/losses on bond transactions	1.8	7.3	-1.7	1.6	-5.7
Incl. Gains from limited partnerships	2.5	9.7	1.0	7.4	-2.2
Real estate-related	0.5	2.5	0.5	1.9	-0.5
Distressed loan-related	1.3	4.6	0.1	3.3	-1.2
Others (buyout, etc.)	0.6	2.6	0.3	2.1	-0.4

Net other ordinary income, excluding gains/losses on bond transactions, was 1.6 billion yen, a decrease of 5.7 billion yen, or 78.2% year on year. Gains from limited partnerships were 7.4 billion yen.

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

(billion yen)	FY2018		FY2019		Change (B) – (A)
	3 months Jan.-Mar.	Full-year (A)	3 months Jan.-Mar.	Full-year (B)	
G&A expenses	-13.5	-49.4	-15.2	-53.3	-3.9
Personnel expense	-6.3	-24.0	-7.3	-25.3	-1.3
Non-personnel expense	-6.5	-22.6	-7.1	-24.7	-2.1
Tax	-0.5	-2.8	-0.8	-3.3	-0.4

General and administrative expenses were 53.3 billion yen, an increase of 3.9 billion yen, or 8.0%, compared to the previous year. The increase was mainly due to incremental expenses associated with the Bank's internet banking subsidiary and our new retail banking smartphone app, BANK™. The level of expenses was close to the original full-year plan of 53.0 billion yen. The Overhead Ratio (OHR) was 55.8%.

3. Credit-Related Expenses

(billion yen)	FY2018		FY2019		Change (B)－(A)
	3 months Jan.-Mar.	Full-year (A)	3 months Jan.-Mar.	Full-year (B)	
Credit-related expenses	-2.7	-1.0	-12.2	-11.7	-10.7
Write-off of loans	-0.0	-0.2	-0.6	-1.0	-0.8
Reserve for possible loan losses	-2.2	-1.6	-11.6	-10.7	-9.0
Specific reserve for possible loan losses	-3.7	-4.1	-5.1	-8.0	-3.8
General reserve for possible loan losses	1.5	2.5	-6.5	-2.6	-5.2
Gains/losses on disposition of loans	-0.2	-0.3	-0.0	-0.7	-0.3
Recoveries of written-off claims	0.0	1.0	0.0	0.5	-0.5
Reserve for credit losses on off-balance-sheet instruments	-0.2	0.1	0.1	0.2	0.1

Credit-related expenses were a net expense of 11.7 billion yen, mainly due to loss reserves established during the fourth quarter (Jan.-Mar.) as a result of the potential impact of COVID-19 on customer credit quality and business conditions, offsetting the reversal of general loan loss reserves reflecting lower loan-loss experience. The ratio of loan loss reserves to total loans was 1.82%, an increase of 0.41 points compared to December 31, 2019.

4. Gains/losses on Stock Transactions

(billion yen)	FY2018		FY2019		Change (B)－(A)
	3 months Jan.-Mar.	Full-year (A)	3 months Jan.-Mar.	Full-year (B)	
Gains/losses on stock transactions	2.0	13.2	7.0	11.6	-1.6

Gains/losses on stock transactions were 11.6 billion yen, a decrease of 1.6 billion yen compared to the previous year.

5. Taxes

(billion yen)	FY2018		FY2019		Change (B)－(A)
	3 months Jan.-Mar.	Full-year (A)	3 months Jan.-Mar.	Full-year (B)	
Taxes	-0.1	-13.7	-3.4	-17.7	-3.9

Taxes were a net expense of 17.7 billion yen.

II. Balance Sheet

(billion yen)	Mar. 31, 2019 (A)	Dec.31, 2019	Mar. 31, 2020 (B)	Change (B)－(A)		Page
				Amount	%	
Total assets	5,255.0	5,516.8	5,299.8	44.7	0.9%	-
Loan and bills discounted	2,779.8	2,938.4	2,954.1	174.2	6.3%	11
Securities	1,240.8	1,246.1	1,073.6	-167.1	-13.5%	12
Cash and due from banks	618.7	658.5	464.2	-154.4	-25.0%	-
Trading assets	199.9	198.6	259.3	59.4	29.7%	-
Others	415.6	475.1	548.3	132.6	31.9%	-
Total liabilities	4,806.3	5,033.3	4,875.0	68.7	1.4%	-
Deposits and negotiable certificates of deposit	3,230.7	3,349.0	3,396.8	166.1	5.1%	11
Debentures, Bonds	283.9	302.8	259.9	-24.0	-8.5%	11
Borrowed money	320.5	346.3	427.6	107.0	33.4%	-
Payables under securities lending transactions	450.8	465.9	281.3	-169.5	-37.6%	-
Trading liabilities	177.7	170.6	211.2	33.4	18.8%	-
Others	342.4	398.3	298.0	-44.4	-13.0%	-
Total net assets	448.7	483.4	424.7	-23.9	-5.3%	-
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	275.7	269.5	10.5	4.1%	-
Treasury stock	-3.3	-3.3	-3.2	0.0	-	-
Valuation difference on available-for-sale securities	23.5	37.6	-24.3	-47.8	-203.6%	-
Others	-17.8	-13.9	-4.5	13.3	-	-
Total liabilities and net assets	5,255.0	5,516.8	5,299.8	44.7	0.9%	-

Total assets were 5,299.8 billion yen as of March 31, 2020, an increase of 44.7 billion yen, or 0.9%, compared to March 31, 2019.

Loans were 2,954.1 billion yen, an increase of 174.2 billion yen, or 6.3%, from March 31, 2019. Domestic loans increased 181.8 billion yen, while overseas loans decreased 7.6 billion yen. Securities decreased by 167.1 billion yen, or 13.5%, from March 31, 2019, to 1,073.6 billion yen.

Total liabilities were 4,875.0 billion yen, an increase of 68.7 billion yen, or 1.4%, compared to March 31, 2019. Total core funding (deposits, negotiable certificates of deposit, debentures and bonds) was 3,656.8 billion yen, an increase of 142.1 billion yen, or 4.0%, from March 31, 2019.

Net assets were 424.7 billion yen, representing a decrease of 23.9 billion yen, or 5.3%, from March 31, 2019, reflecting a decreased valuation difference on available-for-sale securities.

Net assets per common share were 3,659.84 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)	Dec. 31, 2019	Mar. 31, 2020 (B)	Change (B) – (A)
Total core funding	3,514.6	3,651.9	3,656.8	142.1

Funding sources by product

(billion yen)	Mar. 31, 2019 (A)	Dec. 31, 2019	Mar. 31, 2020 (B)	Change (B) – (A)
Deposits/NCDs	3,230.7	3,349.0	3,396.8	166.1
Debentures/Bonds	283.9	302.8	259.9	-24.0

Funding sources by customer

(billion yen)	Mar. 31, 2019 (A)	Dec. 31, 2019	Mar. 31, 2020 (B)	Change (B) – (A)
Retail	1,852.2	2,020.7	2,076.0	223.7
Corporate	689.6	634.4	618.5	-71.0
Financial Institutions	972.7	996.7	962.1	-10.6

Note: Corporate includes public entities.

Total core funding (deposits, negotiable certificates of deposit, debentures and bonds) was 3,656.8 billion yen, an increase of 142.1 billion yen, or 4.0%, from March 31, 2019. The percentage of retail funding to total core funding was 57%.

In July, 2019, we successfully launched BANK™, 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. For foreign currency funding, the Bank is making ongoing efforts to further diversify and strengthen its funding base, including issuing U.S. dollar foreign currency bonds.

As of March 31, 2020, the Bank maintained adequate liquidity reserves of 603.3 billion yen.

2. Loans

(billion yen)	Mar. 31, 2019 (A)	Dec. 31, 2019	Mar. 31, 2020 (B)	Change (B) – (A)
Loans	2,779.8	2,938.4	2,954.1	174.2
Domestic loans	1,687.2	1,856.0	1,869.0	181.8
Overseas loans	1,092.6	1,082.4	1,085.0	-7.6
U.S. dollar basis (\$ million)	\$9,844	\$9,885	\$9,970	\$126

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

Loans were 2,954.1 billion yen, an increase of 174.2 billion yen, or 6.3%, from March 31, 2019.

Domestic loans increased by 181.8 billion yen from March 31, 2019 as the Bank maintained its focus on proper risk-return while responding to its customers' funding needs.

Overseas loans decreased by 7.6 billion yen from March 31, 2019. Aozora remains committed to disciplined risk management and a 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 reduce downside risk exposure.

3. Securities

(billion yen)	Book Value				Unrealized Gains/Losses			
	Mar. 31, 2019(A)	Dec. 31, 2019	Mar. 31, 2020 (B)	Change (B) - (A)	Mar. 31, 2019(A)	Dec. 31, 2019	Mar.31, 2020 (B)	Change (B) - (A)
JGBs	5.0	-	-	-5.0	0.0	-	-	-0.0
Municipal bonds	31.8	36.3	37.8	6.0	0.2	0.1	0.1	-0.1
Corporate bonds	50.4	62.9	60.2	9.8	0.3	0.8	0.4	0.1
Equities	66.5	47.2	16.7	-49.7	48.5	38.2	10.1	-38.3
Foreign bonds	568.4	597.6	486.5	-81.8	-8.5	-0.0	14.3	22.8
Foreign government bonds	261.4	312.2	237.6	-23.7	-5.3	-2.6	11.6	16.9
Mortgage bonds	193.9	217.3	189.9	-3.9	-4.3	-0.8	4.5	8.9
Others	113.0	68.0	58.9	-54.0	1.1	3.4	-1.8	-2.9
Others	518.6	502.0	472.1	-46.4	-2.5	15.9	-43.7	-41.2
ETFs	254.3	238.2	207.9	-46.3	-10.4	-0.3	-27.7	-17.3
Investment in limited partnerships	69.9	72.1	79.0	9.1	0.2	0.5	1.7	1.4
REIT	65.1	82.5	73.4	8.2	5.3	8.5	-3.6	-8.9
Investment trusts	117.3	96.6	102.7	-14.6	-2.5	2.0	-16.8	-14.3
Others	11.9	12.4	8.9	-2.9	4.9	5.2	2.8	-2.0
Total	1,240.8	1,246.1	1,073.6	-167.1	37.9	55.1	-18.6	-56.6
Total unrealized gains, including unrealized gains/losses on hedging instruments					14.3	39.5	-18.6	-32.9

Securities were 1,073.6 billion yen as of March 31, 2020, a decrease of 167.1 billion yen, or 13.5%, compared to March 31, 2019 mainly due to a decrease in foreign bonds and ETFs.

Total unrealized gains were a net loss of 18.6 billion yen as of March 31, 2020, mainly due to the sharp decline of the financial markets towards the end of the fiscal period. Aozora remains committed to maintaining its focus on disciplined risk management while carefully monitoring market trends.

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

(billion yen)	Mar. 31, 2019 (A)	Dec. 31, 2019	Mar. 31, 2020 (B)	Change (B)–(A)
Bankrupt and similar credit	-	3.2	4.4	4.4
Doubtful credit	14.2	14.0	21.7	7.4
Special attention credit	1.4	1.4	2.2	0.8
FRL credit, total (a)	15.6	18.6	28.3	12.7
Normal credit (b)	2,805.0	2,961.8	2,951.5	146.4
Total credit (c)=((a)+(b))	2,820.6	2,980.5	2,979.8	159.2
FRL credit ratio (a)/(c)	0.55%	0.62%	0.95%	0.40%

Non-performing claims as defined by the Financial Reconstruction Law (FRL) were 28.3 billion yen, an increase of 12.7 billion yen from March 31, 2019. This includes the accumulation of 4.4 billion yen in bankruptcy-related recovery finance investments. The FRL ratio increased by 0.40 points to 0.95%. The percentage of FRL claims covered by reserves, collateral and guarantees was 97.1%. The ratio of loan loss reserves to total loans remained high at 1.82% on a consolidated basis.

IV. Capital Adequacy Ratio (Preliminary)

(billion yen)	Mar. 31, 2019 (A)	Dec. 31, 2019	Mar. 31, 2020 (B)	Change (B)–(A)
Capital adequacy ratio	10.27%	10.29%	10.29%	0.02%
Regulatory capital	461.8	473.2	473.1	11.2
Risk assets	4,493.1	4,595.2	4,594.9	101.7

Aozora's consolidated capital adequacy ratio (domestic standard) remained at an adequate level at 10.29% (preliminary basis). For reference purposes, the Bank's CET1 ratio (Tier 1 Common Capital Ratio) was approximately 8.7%.

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

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

Forward-Looking Statements

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