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Company name: Aozora Bank, Ltd.
Name of representative: Shinsuke Baba, President and CEO
Listed exchange: TSE, Code 8304
Contact: Hiroyuki Kajitani
Corporate Communication Division (03 6752 1111)

Aozora Reports Net Earnings of 20.2 billion for First Half of FY2019; 55% of Full-year Forecast

TOKYO November 14, 2019 – Aozora Bank, Ltd. (“Aozora” or “the Bank”), a leading Japanese commercial bank, today announced its interim financial results for FY2019.

FY2019 Interim Financial Results

In the first half of FY2019, Aozora reported consolidated net revenue of 50.1 billion yen, business profit of 24.9 billion yen, and profit attributable to owners of parent of 20.2 billion yen, representing progress of 57%, 71%, and 55%, respectively, towards the full-year forecasts of 88.0 billion yen, 35.0 billion yen, and 36.5 billion yen.

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 half of fiscal year 2019 that represents progress of 57% and 55%, respectively, towards our full-year forecast. These results were mainly driven by strong performance in our corporate finance and financial markets businesses under the Bank’s “6 Areas of Focus” business model. Today we also announced a second quarter dividend of 39 yen per common share, the same as the first quarter dividend 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 new business initiatives providing for future growth. In July, we successfully launched BANK™, our new smartphone application-enabled retail banking money service.”

Baba concluded, “While we expect business conditions to remain uncertain for the foreseeable future, we remain committed to meeting our financial targets while responding appropriately to changes in the business environment as well as maintaining our 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 Interim Results (Consolidated)

- Net revenue was 50.1 billion yen, an increase of 5.3 billion yen, or 11.8%, and business profit was 24.9 billion yen, an increase of 3.7 billion yen, or 17.5%. Profit attributable to owners of parent was 20.2 billion yen, a decrease of 1.1 billion yen, or 5.3%.
 - Net interest income was 24.7 billion yen, a decrease of 2.3 billion yen, or 8.8%. 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 25.4 billion yen, an increase of 7.6 billion yen, or 43.2%, mainly due to gains on bond transactions and net fees and commissions, while net trading revenues and gains from limited partnerships remained strong.
 - General and administrative expenses were 25.2 billion yen, an increase of 1.5 billion yen, or 6.7%, mainly due to incremental expenses associated with our internet banking subsidiary. Expenses for the first half of FY2019 represented 48% 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 1.4 billion yen, mainly due to the reversal of general loan loss reserves. Gains/losses on stock transactions were a gain of 2.5 billion yen.

- Total loans were 2,838.4 billion yen, an increase of 58.5 billion yen, or 2.1%, compared to March 31, 2019. Domestic loans increased by 90.1 billion yen compared to March 31, 2019, while overseas loans decreased by 31.5 billion yen (almost unchanged on a U.S. dollar basis).
- Total core funding (deposits, negotiable certificates of deposit, debentures and bonds) was 3,525.0 billion yen, an increase of 10.3 billion yen, or 0.3%, from March 31, 2019. The percentage of retail funding to total core funding was 54%.
- Non-performing claims as defined by the Financial Reconstruction Law (FRL) were 20.6 billion yen, an increase of 5.0 billion yen from March 31, 2019. The FRL ratio increased incrementally to 0.71%. The ratio of loan loss reserves to total loans on a consolidated basis remained adequate at 1.47%.
- The Bank's consolidated capital adequacy ratio (domestic standard) as of September 30, 2019 was 10.34% (preliminary basis).

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

2. FY2019 Interim Performance (April 1, 2019 to September 30, 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
1H FY2019 (Apr.-Sept.) (a)	50.1	24.9	29.1	20.2	173.54 yen
1H FY2018 (Apr.-Sept.) (b)	44.8	21.2	29.6	21.3	183.23 yen
Change (a) - (b)	5.3	3.7	-0.5	-1.1	-9.69 yen
Percentage change ((a)-(b)) / (b)	11.8%	17.5%	-1.8%	-5.3%	-5.3%
FY2019 full-year forecast (c)	88.0	35.0	51.0	36.5	312.81 yen
Progress (a)/(c)	57.0%	71.3%	57.1%	55.5%	55.5%

Non-consolidated basis

(billion yen)	Net revenue	Business profit before general loan-loss reserve	Ordinary profit	Profit	Profit per common share
1H FY2019 (Apr.-Sept.) (a)	46.7	26.0	29.9	20.0	172.10 yen
1H FY2018 (Apr.-Sept.) (b)	42.1	22.1	30.5	21.9	188.21 yen
Change (a) - (b)	4.5	3.8	-0.6	-1.8	-16.11 yen
Percentage change ((a)-(b)) / (b)	10.8%	17.4%	-2.0%	-8.5%	-8.6%
FY2019 full-year forecast (c)	80.5	37.5	52.0	36.5	312.81 yen
Progress (a)/(c)	58.0%	69.4%	57.6%	55.0%	55.0%

I. Revenue and Expenses

(billion yen)	FY2018		FY2019		Change (B)–(A)		Page
	3 months Jul.-Sept.	Interim (A)	3 months Jul.-Sept.	Interim (B)	Amount	%	
Net revenue	22.7	44.8	26.8	50.1	5.3	11.8%	-
Net interest income	13.0	27.0	12.0	24.7	-2.3	-8.8%	5
Net interest margin	1.29%	1.36%	1.12%	1.17%	-0.19%	-	5
Non-interest income	9.7	17.7	14.7	25.4	7.6	43.2%	-
Net fees and commissions	3.0	4.6	4.5	6.4	1.8	38.7%	6
Net trading revenues	3.1	5.4	4.1	5.9	0.5	9.8%	6
Gains/losses on bond transactions	0.6	2.1	4.8	9.7	7.5	349.9%	7
Net other ordinary income excluding gains/losses on bond transactions	2.8	5.5	1.2	3.2	-2.2	-40.6%	7
General & administrative expenses	-11.9	-23.6	-12.8	-25.2	-1.5	-6.7%	7
Business profit	10.7	21.2	13.9	24.9	3.7	17.5%	-
Credit-related expenses	2.2	3.0	-3.0	1.4	-1.5	-	8
Gains/losses on stock transactions	0.0	5.1	1.4	2.5	-2.6	-	8
Other gains/losses	0.0	0.2	-0.0	0.1	-0.0	-	-
Ordinary profit	13.0	29.6	12.2	29.1	-0.5	-1.8%	-
Extraordinary profit/loss	-	-	-	0.0	0.0	-	-
Profit before income taxes	13.0	29.6	12.2	29.1	-0.5	-1.8%	-
Taxes	-3.5	-9.0	-4.5	-10.0	-1.0	-	8
Profit attributable to owners of parent	10.0	21.3	8.3	20.2	-1.1	-5.3%	-

In the first half of FY2019, the Bank recorded consolidated net revenue of 50.1 billion yen, an increase of 5.3 billion yen, or 11.8%.

Net interest income was 24.7 billion yen, a decrease of 2.3 billion yen, or 8.8%. The decline was primarily due to lower interest and dividends on securities, despite an increase in interest on loans and discounts.

Non-interest income was 25.4 billion yen, an increase of 7.6 billion yen, or 43.2%, mainly due to gains on bond transactions and net fees and commissions, while net trading revenues and gains from limited partnerships remained strong.

General and administrative expenses were 25.2 billion yen, an increase of 1.5 billion yen, or 6.7%, mainly due to incremental expenses associated with our internet banking subsidiary. Total expenses represented 48% of the full-year budget of 53.0 billion yen.

Consolidated business profit was 24.9 billion yen, an increase of 3.7 billion yen, or 17.5%.

Credit-related expenses were a net reversal of 1.4 billion yen, mainly due to the reversal of general loan loss reserves. Gains/losses on stock transactions were a gain of 2.5 billion yen. Ordinary profit and profit before income taxes were both 29.1 billion yen, a decrease of 0.5 billion yen, or 1.8%. Taxes were a net expense of 10.0 billion yen.

As a result of the above factors, profit attributable to owners of parent was 20.2 billion yen, a decrease of 1.1 billion yen, or 5.3%, representing progress of 55% of 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 Jul.-Sept.	Interim (A)	3 months Jul.-Sept.	Interim (B)	
Net interest income (a)-(b)	13.0	27.0	12.0	24.7	-2.3
Interest income (a)	24.2	48.3	24.3	49.9	1.5
Interest on loans and discounts	14.6	28.1	15.7	31.8	3.6
Interest and dividends on securities	9.1	19.1	7.8	16.6	-2.5
Other interest income	0.5	0.9	0.7	1.4	0.4
Interest on swaps	-	-	-	-	-
Interest expenses (b)	-11.1	-21.2	-12.2	-25.2	-3.9
Interest on deposits and NCDs	-1.8	-3.5	-1.8	-3.6	-0.1
Interest on debentures and bonds	-0.3	-0.7	-0.6	-1.2	-0.5
Interest on borrowings and rediscount	-0.2	-0.5	-0.2	-0.5	0.0
Other interest expenses	-2.4	-4.5	-3.1	-6.5	-1.9
Interest on swaps	-6.2	-11.7	-6.2	-13.1	-1.3

Net interest income was 24.7 billion yen, a decrease of 2.3 billion yen, or 8.8%. Interest income increased by 1.5 billion yen. Interest on loans and discounts increased as a result of the higher yield on overseas loans as well as higher average balances. Interest and dividends on securities decreased largely due to a decrease in dividends on investment trusts. Interest expense increased by 3.9 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 Jul.-Sept.	Interim (A)	3 months Jul.-Sept.	Interim (B)	
Yield on total investments (a)	2.34%	2.37%	2.20%	2.29%	-0.08%
Yield on loans	2.17%	2.12%	2.20%	2.25%	0.13%
Yield on securities	3.05%	3.29%	2.55%	2.71%	-0.58%
Yield on funding (b)	1.05%	1.01%	1.08%	1.12%	0.11%
Net interest margin (a)-(b)	1.29%	1.36%	1.12%	1.17%	-0.19%

The yield on total investments declined by 8 bps. The change was due to a decline in the yield on securities mainly resulting from a decrease in dividends on investment trusts, while the yield on loans increased by 13 bps as the Bank maintained its focus on risk and return. Funding costs increased by 11 bps over the prior year due to increased foreign currency funding costs. The net interest margin declined to 1.17%, largely as a result of lower dividends on investment trusts.

(2) Net Fees and Commissions

(billion yen)	FY2018		FY2019		Change (B) – (A)
	3 months Jul.-Sept.	Interim (A)	3 months Jul.-Sept.	Interim (B)	
Net fees and commissions (a)-(b)	3.0	4.6	4.5	6.4	1.8
Fees and commissions received (a)	3.4	5.4	5.0	7.4	2.0
Loan business-related and deposits	1.9	2.6	3.4	4.3	1.7
Securities-related and agency	1.0	1.9	0.8	1.6	-0.2
Others	0.4	0.8	0.8	1.4	0.5
Fees and commissions payments (b)	-0.3	-0.7	-0.5	-0.9	-0.2

Net fees and commissions were 6.4 billion yen, an increase of 1.8 billion yen, or 38.7%, while loan related fees remained strong as a result of an increased focus on delivering high value-added loan proposals to our corporate customers.

Earnings from the sale of investment products to our mass affluent retail customers were 2.8 billion yen, a decrease of 0.3 billion yen. The decline was mainly the result of a decrease in earnings from the sale of investment trusts and insurance compared to the previous year under continued uncertainties in the market, while 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 Jul.-Sept.	Interim (A)	3 months Jul.-Sept.	Interim (B)	
Earnings from the sale of investment trusts, insurance and structured bonds	1.5	3.2	1.5	2.8	-0.3

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 Jul.-Sept.	Interim (A)	3 months Jul.-Sept.	Interim (B)	
Net trading revenues	3.1	5.4	4.1	5.9	0.5

Net trading revenues were 5.9 billion yen, an increase of 0.5 billion yen, or 9.8%. 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, while the Bank's trading business remained strong due to further growth in customer transactions.

(4) Gains/Losses on Bond Transactions

(billion yen)	FY2018		FY2019		Change (B) – (A)
	3 months Jul.-Sept.	Interim (A)	3 months Jul.-Sept.	Interim (B)	
Gains/losses on bond transactions	0.6	2.1	4.8	9.7	7.5
Japanese government bonds	-0.0	-0.0	-	-	0.0
Foreign government bonds and mortgage bonds	-	0.1	2.5	5.8	5.6
Others	0.6	1.9	2.2	3.8	1.9

Gains/losses on bond transactions were a gain of 9.7 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 six months of FY2018, gains/losses on bond transactions were a gain of 2.1 billion yen.

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

(billion yen)	FY2018		FY2019		Change (B) – (A)
	3 months Jul.-Sept.	Interim (A)	3 months Jul.-Sept.	Interim (B)	
Net other ordinary income excluding gains/losses on bond transactions	2.8	5.5	1.2	3.2	-2.2
Incl. Gains from limited partnerships	2.1	4.9	2.2	5.0	0.1
Real estate-related	0.3	1.2	0.7	0.9	-0.2
Distressed loan-related	1.2	2.1	1.0	2.3	0.2
Others (buyout, etc.)	0.6	1.6	0.4	1.7	0.1

Net other ordinary income, excluding gains/losses on bond transactions, was 3.2 billion yen, a decrease of 2.2 billion yen, or 40.6%. Gains from limited partnerships remained strong overall at 5.0 billion yen, mainly supported by distressed loan-related gains.

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

(billion yen)	FY2018		FY2019		Change (B) – (A)
	3 months Jul.-Sept.	Interim (A)	3 months Jul.-Sept.	Interim (B)	
G&A expenses	-11.9	-23.6	-12.8	-25.2	-1.5
Personnel expense	-6.0	-11.6	-6.2	-11.8	-0.1
Non-personnel expense	-5.3	-10.3	-5.9	-11.5	-1.1
Tax	-0.5	-1.5	-0.7	-1.7	-0.1

General and administrative expenses were 25.2 billion yen, an increase of 1.5 billion yen, or 6.7%, compared to the previous year. The increase was mainly due to incremental expenses associated with the Bank's internet banking subsidiary. General and administrative expenses for the first six months represented 48% of the full-year budget of 53.0 billion yen as the Bank continued its focus on cost control. The Overhead Ratio (OHR) was 50.3%.

3. Credit-Related Expenses

(billion yen)	FY2018		FY2019		Change (B)–(A)
	3 months Jul.-Sept.	Interim (A)	3 months Jul.-Sept.	Interim (B)	
Credit-related expenses	2.2	3.0	-3.0	1.4	-1.5
Write-off of loans	0.0	-0.1	-0.3	-0.3	-0.2
Reserve for possible loan losses	2.1	2.7	-2.8	1.3	-1.4
Specific reserve for possible loan losses	-0.3	-0.4	-2.2	-3.3	-2.8
General reserve for possible loan losses	2.4	3.2	-0.6	4.6	1.4
Gains/losses on disposition of loans	-0.0	-0.0	0.0	-0.0	-0.0
Recoveries of written-off claims	0.1	0.3	0.1	0.3	0.0
Reserve for credit losses on off-balance-sheet instruments	-0.0	0.0	0.0	0.1	0.0

Credit-related expenses were a net reversal of 1.4 billion yen, 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. This result compares with the net reversal of 3.0 billion yen recorded in the previous year. The ratio of loan loss reserves to total loans remained adequate at 1.47% and reflected the Bank's conservative allocation of reserves.

4. Gains/losses on Stock Transactions

(billion yen)	FY2018		FY2019		Change (B)–(A)
	3 months Jul.-Sept.	Interim (A)	3 months Jul.-Sept.	Interim (B)	
Gains/losses on stock transactions	0.0	5.1	1.4	2.5	-2.6

Gains/losses on stock transactions were a gain of 2.5 billion yen, a decrease of 2.6 billion yen.

5. Taxes

(billion yen)	FY2018		FY2019		Change (B)–(A)
	3 months Jul.-Sept.	Interim (A)	3 months Jul.-Sept.	Interim (B)	
Taxes	-3.5	-9.0	-4.5	-10.0	-1.0

Taxes were a net expense of 10.0 billion yen. The effective tax rate was 34.5%.

II. Balance Sheet

(billion yen)	Mar. 31, 2019 (A)	Jun.30, 2019	Sept. 30, 2019 (B)	Change (B)－(A)		Page
				Amount	%	
Total assets	5,255.0	5,297.9	5,392.5	137.4	2.6%	-
Loan and bills discounted	2,779.8	2,788.5	2,838.4	58.5	2.1%	10
Securities	1,240.8	1,267.1	1,284.9	44.0	3.6%	11
Cash and due from banks	618.7	568.0	587.8	-30.8	-5.0%	-
Trading assets	199.9	230.2	251.1	51.2	25.6%	-
Others	415.6	443.9	430.1	14.4	3.5%	-
Total liabilities	4,806.3	4,831.1	4,916.4	110.1	2.3%	-
Deposits and negotiable certificates of deposit	3,230.7	3,223.5	3,220.5	-10.1	-0.3%	10
Debentures, Bonds	283.9	282.0	304.4	20.5	7.2%	10
Borrowed money	320.5	333.2	320.7	0.2	0.1%	-
Payables under securities lending transactions	450.8	470.2	489.4	38.5	8.6%	-
Trading liabilities	177.7	191.4	212.9	35.2	19.8%	-
Others	342.4	330.6	368.2	25.7	7.5%	-
Total net assets	448.7	466.7	476.0	27.3	6.1%	-
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	266.9	270.7	11.7	4.5%	-
Treasury stock	-3.3	-3.3	-3.3	0.0	-	-
Valuation difference on available-for-sale securities	23.5	33.4	35.0	11.5	49.0%	-
Others	-17.8	-17.6	-13.7	4.0	-	-
Total liabilities and net assets	5,255.0	5,297.9	5,392.5	137.4	2.6%	-

Total assets were 5,392.5 billion yen as of September 30, 2019, an increase of 137.4 billion yen, or 2.6%, compared to March 31, 2019.

Loans were 2,838.4 billion yen, an increase of 58.5 billion yen, or 2.1%, from March 31, 2019. Domestic loans increased 90.1 billion yen, while overseas loans decreased 31.5 billion yen. Securities increased by 44.0 billion yen, or 3.6%, from March 31, 2019, to 1,284.9 billion yen.

Total liabilities were 4,916.4 billion yen, an increase of 110.1 billion yen, or 2.3%, compared to March 31, 2019. Total core funding (deposits, negotiable certificates of deposit, debentures and bonds) was 3,525.0 billion yen, an increase of 10.3 billion yen, or 0.3%, from March 31, 2019.

Net assets were 476.0 billion yen, representing an increase of 27.3 billion yen, or 6.1%, from March 31, 2019.

Net assets per common share were 4,087.70 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)	Jun. 30, 2019	Sept. 30, 2019 (B)	Change (B) – (A)
Total core funding	3,514.6	3,505.5	3,525.0	10.3

Funding sources by product

(billion yen)	Mar. 31, 2019 (A)	Jun. 30, 2019	Sept. 30, 2019 (B)	Change (B) – (A)
Deposits/NCDs	3,230.7	3,223.5	3,220.5	-10.1
Debentures/Bonds	283.9	282.0	304.4	20.5

Funding sources by customer

(billion yen)	Mar. 31, 2019 (A)	Jun. 30, 2019	Sept. 30, 2019 (B)	Change (B) – (A)
Retail	1,852.2	1,887.6	1,905.8	53.5
Corporate	689.6	629.4	618.9	-70.6
Financial Institutions	972.7	988.4	1,000.2	27.4

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 3,525.0 billion yen, an increase of 10.3 billion yen, or 0.3%, from March 31, 2019. The percentage of retail funding to total core funding was 54%.

In July, we successfully launched BANK™, our new smartphone application-enabled retail banking money service, as a way to further expand our retail customer base.

For foreign currency funding, Aozora is making ongoing efforts to further diversify and strengthen its funding base. In September, a third issue of U.S. dollar foreign currency bonds was completed.

As of September 30, 2019, Aozora maintained adequate liquidity reserves of 628.3 billion yen.

2. Loans

(billion yen)	Mar. 31, 2019 (A)	Jun. 30, 2019	Sept. 30, 2019 (B)	Change (B) – (A)
Loans	2,779.8	2,788.5	2,838.4	58.5
Domestic loans	1,687.2	1,707.1	1,777.3	90.1
Overseas loans	1,092.6	1,081.3	1,061.1	-31.5
U.S. dollar basis (\$ million)	\$9,844	\$10,035	\$9,828	-\$15

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

Loans were 2,838.4 billion yen, an increase of 58.5 billion yen, or 2.1%, from March 31, 2019.

Domestic loans increased by 90.1 billion yen from March 31, 2019, reflecting the Bank's ongoing focus on disciplined balance sheet management.

Overseas loans decreased by 31.5 billion yen (approximately unchanged on a dollar basis) from March 31, 2019. This was the result of Aozora's disciplined risk management and continued selective approach to new originations.

3. Securities

(billion yen)	Book Value				Unrealized Gains/Losses			
	Mar. 31, 2019(A)	Jun. 30, 2019	Sept. 30, 2019 (B)	Change (B) - (A)	Mar. 31, 2019(A)	Jun. 30, 2019	Sept. 30, 2019 (B)	Change (B) - (A)
JGBs	5.0	4.0	-	-5.0	0.0	-0.0	-	-0.0
Municipal bonds	31.8	33.7	34.5	2.6	0.2	0.2	0.2	-0.0
Corporate bonds	50.4	54.9	60.1	9.6	0.3	0.7	0.9	0.6
Equities	66.5	56.4	46.6	-19.8	48.5	46.0	36.9	-11.5
Foreign bonds	568.4	581.7	617.8	49.4	-8.5	-0.1	3.9	12.5
Foreign government bonds	261.4	280.0	299.8	38.4	-5.3	-1.6	0.9	6.3
Mortgage bonds	193.9	188.5	220.2	26.3	-4.3	-1.8	-0.9	3.4
Others	113.0	113.2	97.6	-15.4	1.1	3.4	3.9	2.7
Others	518.6	536.1	525.8	7.1	-2.5	2.2	8.7	11.2
ETFs	254.3	274.1	258.5	4.1	-10.4	-4.4	-3.1	7.2
Investment in limited partnerships	69.9	73.6	69.4	-0.5	0.2	0.7	0.8	0.5
REIT	65.1	69.9	75.4	10.3	5.3	5.6	8.9	3.6
Investment trusts	117.3	106.6	110.9	-6.3	-2.5	-4.2	-2.3	0.2
Others	11.9	11.6	11.4	-0.4	4.9	4.7	4.4	-0.4
Total	1,240.8	1,267.1	1,284.9	44.0	37.9	49.1	50.7	12.7
Total unrealized gains, including unrealized gains/losses on hedging instruments					14.3	26.7	34.9	20.6

Securities were 1,284.9 billion yen, an increase of 44.0 billion yen, or 3.6%, compared to March 31, 2019. Compared with March 31, 2019, total unrealized gains increased by 12.7 billion yen to 50.7 billion yen as of September 30, 2019. A portion of Aozora's equity position is hedged. Total unrealized gains, including unrealized gains/losses on hedging instruments, were 34.9 billion yen, a 20.6 billion yen increase compared to March 31, 2019 and an 8.1 billion yen increase compared to June 30, 2019.

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

(billion yen)	Mar. 31, 2019 (A)	Jun. 30, 2019	Sept. 30, 2019 (B)	Change (B)–(A)
Bankrupt and similar credit	-	3.2	3.2	3.2
Doubtful credit	14.2	12.3	16.0	1.8
Special attention credit	1.4	1.4	1.4	-
FRL credit, total (a)	15.6	17.0	20.6	5.0
Normal credit (b)	2,805.0	2,821.1	2,873.3	68.3
Total credit (c)=((a)+(b))	2,820.6	2,838.1	2,893.9	73.3
FRL credit ratio (a)/(c)	0.55%	0.59%	0.71%	0.16%

Non-performing claims as defined by the Financial Reconstruction Law (FRL) were 20.6 billion yen, an increase of 5.0 billion yen from March 31, 2019. The FRL ratio increased incrementally to 0.71%. The percentage of FRL claims covered by reserves, collateral and guarantees was 92.2%. The ratio of loan loss reserves to total loans remained adequate at 1.47% on a consolidated basis.

IV. Capital Adequacy Ratio (Preliminary)

(billion yen)	Mar. 31, 2019 (A)	Jun. 30, 2019	Sept. 30, 2019 (B)	Change (B)–(A)
Capital adequacy ratio	10.27%	10.27%	10.34%	0.07%
Regulatory capital	461.8	462.8	467.0	5.2
Risk assets	4,493.1	4,503.1	4,513.3	20.1

Aozora's consolidated capital adequacy ratio (domestic standard) was 10.34% (preliminary basis). For reference purposes, the Bank's CET1 ratio (Common Equity Tier 1 Ratio) was approximately 9.8%.

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.