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Company name: Aozora Bank, Ltd.
Name of representative: Brian F. Prince, President and CEO
Listed exchange: TSE, Code 8304
Enquiries: Masaaki Harada
Corporate Communication Group
Financial Management Division (03 3263 1111)

Aozora Bank Returns to Profitability in FY2009; Exceeds Full Year Profit Forecast; Forecasts Increased Earnings for FY2010

TOKYO May 14, 2010 – Aozora Bank, Ltd. ("Aozora" or "the Bank"), a leading Japanese commercial bank, today announced its financial results for FY2009 and its earnings forecast for FY2010.

I. FY2009 Financial Results

The Bank recorded positive consolidated net revenue, ordinary profit, and net income following losses in the previous fiscal year, and exceeded the FY2009 full-year earnings forecast. The ability to post positive net income for four consecutive quarters contributed to the Bank's achievement of its key objective of returning to profitability.

Brian F. Prince, Representative Director, President and Chief Executive Officer of Aozora Bank commented, "We are pleased to have achieved all the major goals we established for ourselves this year. Returning to profitability was a top priority. We were able to post four consecutive quarters of positive profits in the face of a difficult operating environment. We also exceeded our earnings target for the year. Our liquidity and funding situation has continued to improve, with retail funding now representing 63% of total core funding. General and administrative expenses were reduced 6.5% this year and are 13.3% lower than they were two years ago. We ended the year with one of the highest capital ratios in Japan – a major source of strength. As we enter FY2010, we expect that economic conditions will remain challenging. That being said, we feel confident that by continuing to focus on our core businesses, controlling operational expenses, and continuing to be disciplined from a risk management perspective, we can achieve our profit targets for FY2010."

Summary of Full-Year Results (Consolidated)

- Despite difficult economic conditions, the Bank reported ordinary profit of 6.5 billion yen and net income of 8.3 billion yen. The favorable results reflected growth in core earnings, strict cost controls and a decrease in the Bank's credit-related expenses. The Bank's FY2009 full-year results exceeded its revised forecast for ordinary profit and net income of 5.0 billion yen and 7.0 billion yen, respectively.

- The Bank's capital position remained among the highest in the Japanese banking industry. The consolidated capital adequacy ratio was 14.03% and the Tier 1 ratio was 15.23% (both on a preliminary basis), increasing 2.43% and 2.66%, respectively, relative to March 31, 2009. The 'Core Tier 1' ratio (which excludes the net amount of deferred tax assets) was 14.06%. The tangible equity ratio (defined on page 14) was 10.43%.

- Retail funding increased by 449.5 billion yen, or 23.5%, to 2,360.3 billion yen from end-FY2008, and the percentage of retail funding to total core funding expanded from 42.2% to 62.9%. The Bank resumed issuance of debentures in September 2009, having previously suspended issuance in October 2008. While the Bank maintained a strong liquidity reserve of 828.2 billion yen as of March 31, 2010, it intends to gradually reduce the level of the reserve as its funding sources and the markets continue to improve.

- The Bank's net interest margin showed a steadily improving trend and increased 5 bps to 0.90%. This improvement reflected a decrease in the yield on funding which exceeded the decrease in the yield on total investments.

- Net fees and commissions increased 3.7 billion yen (+36.4%) year on year to 13.7 billion yen, contributing to net revenue growth. The improvement was due to increased fees on the Bank's loan related business associated with new loan disbursements and roll-overs, as well as steady fees from the sale of investment trusts and annuity insurance.

- General and administrative expenses decreased 3.1 billion yen (-6.5%) year on year to 44.8 billion yen, reflecting continued strict cost controls.

- Credit-related expenses decreased by 109.7 billion yen year on year to 24.7 billion yen. This result was in contrast to the significant expenses recorded in FY2008, including the costs related to addressing legacy and non-core assets and the decisive action taken by the Bank to provide for existing credit going forward and a strengthening of preventative measures. The main factor in the fourth quarter increase of 12.5 billion yen, following the first nine months result of 12.3 billion yen, was credit related to the Aiful Group. The ratio of loan loss reserves to total loans was 3.87% as of March 31, 2010. This ratio continued to be one of the highest among major Japanese banks.

- Financial Reconstruction Law (FRL) claims (non-consolidated) increased 31.7 billion yen year on year to 171.8 billion yen. The FRL ratio (non-consolidated) was 5.52%, representing an increase of 1.19% from March 31, 2009. The majority of this increase consisted of claims to the Aiful Group, whose ADR plan was approved in December 2009. However, as compared to end-December 2009, FRL claims as of end-March 2010 decreased by 17.5 billion yen and the FRL ratio decreased 0.82%. The percentage of FRL claims covered by reserves, collateral and guarantees was 85.4%, a 13.9% improvement from the end-December 2009 level of 71.5%.

FY2009 Performance (April 1, 2009 to March 31, 2010):

Consolidated basis

(100 million yen)	Ordinary Income	Net Revenue	Business Profit	Ordinary Profit	Net Income	Net Income per common share
FY2009 (a)	1,461	784	336	65	83	4.10 Yen
FY2008 (b)	1,826	-50	-529	-2,321	-2,426	-150.92 Yen
Change (a) - (b)	-365	833	865	2,385	2,509	155.02 Yen
Percentage change ((a)-(b)) / (b)	-20.0%	-	-	-	-	-
FY2009 Full-Year Forecast (c)	1,350	720	280	50	70	3.23 Yen
Achievement (a) / (c)	108.2%	108.9%	119.8%	129.6%	118.6%	126.9%

Non-Consolidated basis

(100 million yen)	Ordinary Income	Business Profit before general loan-loss reserve	Ordinary Profit	Net Income	Net Income per common share
FY2009 (a)	1,408	335	50	76	3.66 Yen
FY2008 (b)	1,778	-196	-2,359	-2,453	-152.61 Yen
Change (a)-(b)	-370	531	2,409	2,529	156.27 Yen
Percentage change ((a)-(b)) / (b)	-20.8%	-	-	-	-
FY2009 Full-Year Forecast (c)	1,300	245	25	50	1.89 Yen
Achievement (a) / (c)	108.3%	136.7%	200.4%	152.9%	193.7%

II. Earnings Forecast for FY2010

Aozora also announced today its fiscal year 2010 earnings forecast.

FY2009 Financial Results and FY2010 Earnings Forecast (Consolidated)

(100 million yen)	Ordinary Income	Net Revenue	Business Profit	Ordinary Profit	Net Income	Net Income per common share
FY2010 Forecast (a)	1,250	760	310	110	140	7.91 Yen
FY2009 Actual Result (b)	1,461	784	336	65	83	4.10 Yen
Change (a)-(b)	-211	-24	-26	45	57	3.81 Yen
Percentage Change	-14.4%	-3.0%	-7.6%	69.7%	68.6%	92.9%
FY2008 Actual Results	1,826	-50	-529	-2,321	-2,426	-150.92 Yen

FY2009 Financial Results and FY2010 Earnings Forecast (Non-consolidated)

(100 million yen)	Ordinary Income	Business Profit before general loan-loss reserve	Ordinary Profit	Net Income	Net Income per common share
FY2010 Forecast (a)	1,200	300	110	140	7.91 Yen
FY2009 Actual Result (b)	1,408	335	50	76	3.66 Yen
Change (a)-(b)	-208	-35	60	64	4.25 Yen
Percentage Change	-14.8%	-10.4%	119.5%	83.2%	116.1%
FY2008 Actual Results	1,778	-196	-2,359	-2,453	-152.61 Yen

III. Comparison of FY2009 Full-Year Earnings Forecast and Actual Results

1. Difference between FY2009 Full-Year Earnings Forecast and Actual Results

Consolidated basis

(100 million yen)	Ordinary Income	Net Revenue	Business Profit	Ordinary Profit	Net Income	Net Income per common share
Actual Results (a)	1,461	784	336	65	83	4.10 Yen
Full-Year Forecast (b)	1,350	720	280	50	70	3.23 Yen
Difference (a)-(b)	111	64	56	15	13	0.87 Yen
Percentage difference ((a)-(b))/ (b)	8.2%	8.9%	19.8%	29.6%	18.6%	26.9%

Non-consolidated basis

(100 million yen)	Ordinary Income	Business Profit before general loan-loss reserve	Ordinary Profit	Net Income	Net Income per common share
Actual Results (a)	1,408	335	50	76	3.66 Yen
Full-Year Forecast (b)	1,300	245	25	50	1.89 Yen
Difference (a)-(b)	108	90	25	26	1.77 Yen
Percentage difference ((a)-(b))/ (b)	8.3%	36.7%	100.4%	52.9%	93.7%

2. Reasons for differences

The Bank announced its revised consolidated earnings forecast on January 29, 2010 and its non-consolidated earnings forecast on May 15, 2009. Major factors in the difference between the Bank’s non-consolidated earnings forecast on May 15, 2009 and the FY2009 actual results include strong growth related to the domestic corporate lending business, such as increased fees related to the Bank’s loan business, an increase in gains on securities transactions, and the continuation of strict cost controls.

Ⅰ. Revenue and Expenses

(100 million yen)	FY2008		FY2009		Change (B)－(A)		Page
	Jan.–Mar.	Full-Year (A)	Jan.–Mar.	Full-Year (B)	Amount	%	
Net revenue	**-68**	**-50**	**243**	**784**	**833**	**-**	**-**
Net interest income	122	578	114	467	-111	-19.2%	7
Net interest margin	*0.89%*	*0.85%*	*0.93%*	*0.90%*	-	*0.05%*	7
Net fees and commissions	14	101	30	137	37	36.4%	8
Net trading revenues	-39	308	109	171	-137	-44.5%	8
Net other ordinary income	-164	-1,037	-11	8	1,045	-	8,9
General & administrative expenses	-107	-480	-126	-448	31	-6.5%	9
Business profit	**-175**	**-529**	**117**	**336**	**865**	**-**	**-**
Gains/losses on stock transactions	-336	-345	-0	-1	344	-	-
Ordinary profit	**-1,287**	**-2,321**	**-11**	**65**	**2,385**	**-**	**-**
Net income	**-1,332**	**-2,426**	**10**	**83**	**2,509**	**-**	**-**

Credit-related expenses incl. recoveries of written-off claims	-724	-1,345	-125	-247	1,097	-81.6%	10
Taxes	-12	-72	19	8	80	-	10

In FY2009 the Bank recorded consolidated net revenue of 78.4 billion yen, an increase of 83.3 billion yen year on year and the first annual increase in three years. Similarly, in the fourth quarter of FY2009, consolidated net revenue increased 31.1 billion yen to 24.3 billion yen, also the first year on year increase in three years.

Net interest income decreased within the expected range by 11.1 billion yen (-19.2%) to 46.7 billion yen, due to a decrease in the average balance of interest-earning assets. Net fees and commissions increased 3.7 billion yen to 13.7 billion yen, reflecting a significant increase in fees on loan related business and steady fees from the sale of investment trusts and annuity insurance. Net trading revenues decreased by 13.7 billion yen (-44.5%) to 17.1 billion yen due to the absence of profit from CDS hedges for Lehman Brothers recorded in FY2008. As a result of the significant addressing of investments including hedge funds, GMAC and CDOs in FY2008, net other ordinary income improved by 104.5 billion yen to 0.8 billion yen.

General and administrative expenses were 44.8 billion yen, a decrease of 3.1 billion yen (-6.5%), as a result of continued strict cost controls. Consolidated business profit increased 86.5 billion yen to 33.6 billion yen.

Credit-related expenses decreased by 109.7 billion yen year on year to 24.7 billion yen. This result was in contrast to the significant expenses recorded in FY2008, including the write-off of loans to Lehman Brothers and the decisive action taken by the Bank to provide for existing credit going forward and a strengthening of preventative measures. A net tax benefit of 0.8 billion yen was recognized as compared to an expense of 7.2 billion yen in FY2008.

As a result of the above factors, consolidated net income increased 250.9 billion yen to 8.3 billion yen, the first increase in net income in four years.
From the beginning of FY2009, positive net income for four consecutive quarters contributed to the Bank’s achievement of its key objective of returning to profitability.

1. Net Revenue

(1)①Net Interest Income

(100 million yen)		FY2008 Jan.–Mar.	FY2008 Full-Year (A)	FY2009 Jan.–Mar.	FY2009 Full-Year (B)	Change (B)−(A)
Net interest income	(a)-(b)	122	578	114	467	-111
Interest income	(a)	255	1,245	207	892	-353
Interest on loans and discounts		199	971	160	684	-287
Interest and dividends on securities		40	202	32	144	-59
Other interest income		13	68	3	25	-43
Interest on swaps		2	4	12	40	36
Interest expenses	(b)	-133	-667	-93	-425	242
Interest on deposits and NCDs※		-60	-246	-65	-265	-19
Interest on debentures		-48	-216	-20	-116	101
Interest on borrowings and rediscount		-8	-25	-1	-12	12
Other interest expenses		-8	-92	-5	-22	70
Interest on swaps		-9	-88	-1	-10	78

※ Negotiable certificates of deposit

As a result of the significant reduction in the average balance of interest-earning assets associated with addressing legacy and non-core assets in the second half of FY2008, net interest income decreased within the expected range by 11.1 billion yen (-19.2%) year on year to 46.7 billion yen.

(1)②Net Interest Margin

		FY2008 Jan.–Mar.	FY2008 Full-Year (A)	FY2009 Jan.–Mar.	FY2009 Full-Year (B)	Change (B)−(A)
Yield on total investments	(a)	1.95%	2.03%	1.78%	1.82%	-0.21%
Yield on loans	(b)	2.17%	2.38%	2.05%	2.06%	-0.32%
Yield on securities		1.40%	1.35%	1.00%	1.12%	-0.23%
Yield on funding	(c)	1.06%	1.18%	0.85%	0.92%	-0.26%
Net interest margin	(a)-(c)	0.89%	0.85%	0.93%	0.90%	0.05%
Loan margin	(b)-(c)	1.11%	1.20%	1.20%	1.14%	-0.06%

Funding costs declined at a faster pace than the decline in yield on total investments, resulting in a 5 bps improvement in the net interest margin to 0.90%. While the loan margin decreased 6 bps year on year from 1.20% to 1.14%, reflecting a decrease in the yield on loans, a fourth quarter year on year comparison showed an improvement of 9 bps, from 1.11% to 1.20%. In addition, the loan margin in the FY2009 fourth quarter improved 8 bps as compared to the third quarter result of 1.12%.

(2) Net Fees and Commissions

(100 million yen)	FY2008 Jan.–Mar.	FY2008 Full-Year (A)	FY2009 Jan.–Mar.	FY2009 Full-Year (B)	Change (B)－(A)
Net fees and commissions (a)-(b)	14	101	31	137	37
Fees and commissions received (a)	16	116	33	147	31
Loan business-related	8	74	24	116	41
Securities-related and agency	4	19	5	14	-5
Others	5	22	4	17	-5
Fees and commissions paid (b)	-3	-15	-2	-10	5

Net fees and commissions were 13.7 billion yen, an increase of 3.7 billion yen (+36.4%) year on year. Contributing factors were the significant increase in fees on the Bank's loan related business associated with new loan disbursements and roll-overs, as well as steady fees from the sale of investment trusts and annuity insurance to retail customers throughout the year.

(3) Net Trading Revenues

(100 million yen)	FY2008 Jan.–Mar.	FY2008 Full-Year (A)	FY2009 Jan.–Mar.	FY2009 Full-Year (B)	Change (B)－(A)
Net trading revenues	-39	308	109	171	-137
Net income on trading-related financial derivatives transactions	-40	308	109	170	-138
Net other trading income	0	-0	-0	-0	0

Net trading revenues decreased by 13.7 billion yen (-44.5%) year on year to 17.1 billion yen. The FY2009 result includes 5.1 billion yen in CDS profit from hedging the Bank's credit exposures, including exposure to the Aiful Group. The FY2008 full-year result of 30.8 billion yen included a profit of 22.2 billion yen from CDS hedges for Lehman Brothers. Excluding this profit, the FY2009 results improved as compared to the prior year's results.

(4) Gains/losses on Bond Transactions

(100 million yen)	FY2008 Jan.–Mar.	FY2008 Full-Year (A)	FY2009 Jan.–Mar.	FY2009 Full-Year (B)	Change (B)－(A)
Gains/losses on bond transactions	-58	-177	-91	13	191
Japanese government bonds	4	17	0	53	37
Foreign government bonds and mortgage bonds	1	10	5	24	14
Others	-63	-204	-96	-64	140
Collateralized Debt Obligations (CDOs) only	-23	-98	1	16	114
Profit from hedge funds (Available For Sale)	-20	-76	3	15	91
Others	-19	-30	-100	-95	-65

Gains on bond transactions increased 19.1 billion yen year on year to 1.3 billion yen. The increase reflected gains from the sale of government bonds as well as the absence of losses from CDO and hedge fund investments, while losses from write-downs on overseas corporate bonds and CMBS (included in 'Others') were recorded in the fourth quarter of FY2009 in accordance with the broader scope of fair value accounting. A reversal of the allowance for investment loss of 6.8 billion yen, which was built up during the first nine months of FY2009, was recorded in net other ordinary income excluding gains (losses) on bond transactions in the fourth quarter of FY2009 (Refer to page 9 (5) Net other ordinary income excluding Gains (Losses) on Bond Transactions).

(5) Net other ordinary income excluding Gains (Losses) on Bond Transactions

(100 million yen)	FY2008 Jan.–Mar.	FY2008 Full-Year (A)	FY2009 Jan.–Mar.	FY2009 Full-Year (B)	Change (B)－(A)
Net other ordinary income excluding gains/losses on bond transactions	-106	-859	80	-5	854
Gains /losses on foreign currency transactions	24	-40	-3	-52	-12
Gains /losses on derivatives other than trading, net	2	5	-0	2	-3
Profit from hedge funds (Trading)	-15	-348	-	-	348
Profit from limited partnerships	-54	-35	11	4	39
Real estate related	-13	-6	4	-0	6
Distressed loan related	-18	-11	5	18	29
Other (venture capital, etc.)	-23	-18	2	-13	5
Gains on distressed loans (Aozora Loan Services)	21	41	4	18	-23
Debenture issue cost	-1	-4	-0	-2	2
Profit (losses) on GMAC investment	6	-358	0	-0	358
Others	-89	-120	69	25	145

Net other ordinary income, excluding gains/losses on bond transactions, improved by 85.4 billion yen year on year, from a loss of 85.9 billion yen to a loss of 0.5 billion yen. The major factor in this result was the absence of losses from GMAC and hedge funds, which stood at 35.8 billion yen and 34.8 billion yen, respectively, in FY2008. In the fourth quarter of FY2009, a reversal of the allowance for investment loss of 6.8 billion yen was recorded in ‘Others’, related to the recording of write-downs on overseas corporate bonds and CMBS (please refer to page 8, (4) Gains/losses on Bond Transactions).

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

(100 million yen)	FY2008 Jan.–Mar.	FY2008 Full-Year (A)	FY2009 Jan.–Mar.	FY2009 Full-Year (B)	Change (B)－(A)
G & A expenses	-107	-480	-126	-448	31
Personnel	-39	-226	-65	-219	8
Non-personnel expense	-61	-229	-56	-210	19
Tax	-7	-25	-5	-20	5

General and administrative expenses decreased by 3.1 billion yen (-6.5%) year on year, to 44.8 billion yen, as a result of the continuation of strict cost controls.

3. Credit-Related Expenses

(100 million yen)	FY2008		FY2009		Change
	Jan.–Mar.	Full-Year (A)	Jan.–Mar.	Full-Year (B)	(B)－(A)
Credit-related expenses Incl. recovery of written-off claims	-724	-1,345	-125	-247	1,097
Write-off of loans	-137	-459	-4	-114	345
Loss on disposition of loans	-25	-71	-6	-13	58
Specific allowance for loan losses	-182	-352	-131	-155	197
General allowance for loan losses	-374	-453	14	22	476
Reversal of reserve for credit losses on off-balance- sheet instruments	-6	-11	1	5	16
Recoveries of written-off claims	-0	1	1	6	5

Credit-related expenses were 24.7 billion yen, down 109.7 billion yen (-81.6%). The main factor in the fourth quarter expense of 12.5 billion yen was claims related to the Aiful Group. Gains of 5.1 billion yen from CDS transactions, mainly from hedging claims to the Aiful Group, were included in net revenue. If these gains were taken into account, credit-related expenses would be 19.6 billion yen, a level approximately 10% below the initial FY2009 plan of 22 billion yen.

The ratio of loan loss reserves to total loans was 3.87% as of March 31, 2010. This ratio continued to be one of the highest among major Japanese banks.

6. Taxes

(100 million yen)	FY2008		FY2009		Change
	Jan.–Mar.	Full-Year (A)	Jan.–Mar.	Full-Year (B)	(B)－(A)
Taxes	-12	-72	19	8	80

A net tax benefit of 0.8 billion yen was recognized at the end of FY2009.

Ⅱ. Balance Sheet

(100 million yen)	Mar. 31, 2009 (A)	Mar. 31, 2010 (B)	Change (B)－(A) Amount	%	Dec. 31, 2009	Page
Total assets	**60,773**	**51,573**	**-9,200**	**-15.1%**	**54,585**	-
Loan and bills discounted	34,849	30,702	-4,147	-11.9%	31,900	12
Securities	11,266	12,763	1,497	13.3%	12,606	13
Cash and due from banks	6,725	2,438	-4,287	-63.7%	2,958	-
Others	7,933	5,670	-2,264	-28.5%	7,121	-
Total liabilities	**55,477**	**46,186**	**-9,291**	**-16.7%**	**49,187**	-
Deposits	26,256	29,460	3,204	12.2%	28,765	12
Negotiable certificates of deposit	2,842	1,416	-1,427	-50.2%	2,494	
Debentures	14,897	5,621	-9,276	-62.3%	7,583	
Bonds payable	1,150	912	-238	-20.7%	943	
Others	10,332	8,777	-1,554	-15.0%	9,402	-
Total net assets	**5,296**	**5,387**	**91**	**1.7%**	**5,399**	-
Capital stock	4,198	4,198	-	-	4,198	-
Capital surplus	333	333	-	-	333	-
Retained earnings	967	1,028	61	6.3%	1,018	-
Valuation difference on available-for-sale securities	-8	29	37	-	43	-
Others	-194	-201	-7	-	-194	-
Total liabilities and net assets	**60,773**	**51,573**	**-9,200**	**-15.1%**	**54,585**	-

Total assets were 5,157.3 billion yen as of March 31, 2010, a decrease of 920.0 billion yen (-15.1%), reflecting an increase in securities of 149.7 billion yen (+13.3%), a decrease in loans and bills discounted of 414.7 billion yen (-11.9%), and a decrease of 428.7 billion yen (-63.7%) in cash and due from banks.

On the funding side, deposits and negotiable certificates of deposit increased by 177.7 billion yen year on year, offset by a decrease of 927.6 billion yen in debentures. Total liabilities decreased by 929.1 billion yen (-16.7%) to 4,618.6 billion yen.

The ratio of loans to deposits and negotiable certificates of deposit improved from 119.8% as of end-March 2009 to 99.4% as of end-March 2010.

Total net assets stood at 538.7 billion yen, an increase of 9.1 billion yen during FY2009, largely due to the positive net earnings.

1. Funding (Deposits and Debentures) ***(non-consolidated)***

（100 million yen）	Mar. 31, 2009 (A)	Mar. 31, 2010 (B)	Change (B)－(A)	Dec. 31, 2009
Retail	19,107	23,603	4,495	22,661
Corporate, etc.	3,891	3,161	-730	2,859
Public Institutions	2,984	1,123	-1,861	2,442
Financial Institutions (Debentures)	15,563	6,275	-9,288	8,227
Financial Institutions (Deposits)	3,780	3,371	-409	3,689
Deposits and Debentures total	45,325	37,533	-7,792	39,877

A focus on the retail market contributed to a marked increase of 449.5 billion yen in funding from retail customers, reaching a total of 2,360.3 billion yen. Adjustments to the Bank's overall funding operations led to a decrease in debenture and deposit funding from financial institutions of 969.7 billion yen, and a 186.1 billion yen decrease in funding from public institutions. As a result, retail funding as a proportion of the Bank's core funding profile increased from 42.2% to 62.9%.

The Bank resumed its monthly issuance of debentures in September 2009, having previously suspended issuance in October 2008 due to market turmoil.

While the Bank maintained a strong liquidity reserve of 828.2 billion yen as of March 31, 2010, it intends to gradually reduce the level of the reserve as its funding sources and the markets continue to improve.

In comparison with FY2008, a shift in the focus of liquidity reserve operations, from low yielding cash and due from banks to securities such as JGBs, has enabled the Bank to increase the efficiency of its liquidity operations.

2. Loans

(100 million yen）	Mar. 31, 2009 (A)	Mar. 31, 2010 (B)	Change (B)－(A)	Dec. 31, 2009
Loans outstanding	34,849	30,702	-4,147	31,900

The loan book decreased 11.9%, or 414.7 billion yen, to 3,070.2 billion yen from end-FY2008, as the Bank continued to reduce the balance of overseas loans, as well as domestic unsecured loans, and took a more conservative approach to new lending in an unstable financial environment. In comparison to end-FY2008, overseas loans and lending to the finance/insurance industry decreased by 130.3 billion yen and 49.8 billion yen, respectively. While lending to the real estate sector decreased by 48.8 billion yen, non-recourse loans increased by 27.1 billion yen.

The Bank exceeded its Business Revitalization Plan target for loans to SMEs in FY2009.

3. Securities

(100 million yen)	Book value				Unrealized gains/losses			
	Mar. 31, 2009 (A)	Mar. 31, 2010 (B)	Change (B)−(A)	Dec. 31, 2009	Mar. 31, 2009 (A)	Mar. 31, 2010 (B)	Change (B)−(A)	Dec. 31, 2009
JGBs	7,052	7,940	888	7,459	32	55	23	72
Municipal bonds	52	50	-2	45	0	1	1	1
Corporate bonds	495	472	-23	445	-3	-0	3	0
Equities	296	273	-23	275	-1	-0	1	-1
Foreign bonds	1,900	2,644	744	3,227	-32	-43	-11	-34
Others	1,471	1,384	-87	1,155	-4	39	43	35
Hedge funds	527	265	-262	290	-	39	39	35
ETFs (Linked to Japanese stock indices)	-	-	-	30	-	-	-	-0
Investment in limited partnerships	866	786	-81	805	1	2	1	2
Others	77	334	256	30	-4	-2	2	-2
GMAC only	14	14	-1	13	-	-	-	-
Total	11,266	12,763	1,497	12,606	-8	52	60	73

Securities increased by 149.7 billion yen in comparison with end-FY2008, primarily due to the increases in JGBs of 88.8 billion yen and foreign bonds, such as U.S. Treasury bonds, of 74.4 billion yen. This increase was the result of a change in the Bank's liquidity reserve operations, from a focus on cash and due from banks to government bonds. A major factor in the 25.6 billion yen increase in the 'Others' item of 'Others' was the commencement of investing in investment trusts, assets comparable to the liquidity reserve.

Total unrealized gains amounted to 5.2 billion yen as of March 31, 2010, including gains on JGBs and hedge funds of 5.5 billion yen and 3.9 billion yen, respectively.

Floating rate JGBs were valued, as in FY2009, on the basis of internal calculations pursuant to Practical Issues Task Force No.25, 'Practical Solution on Measurement of Fair Value for Financial Assets' issued by the Accounting Standards Board of Japan. As of end-March 2010, a portion of beneficial interests in investment trusts within 'monetary claims bought' are marked at fair value, but the amount (balance sheet total 33.0 billion yen; valuation loss 1.3 billion yen) is not included in the table above.

4. Investment in Limited Partnerships and Hedge Funds

(100 million yen)	Mar. 31, 2009 (A)	Mar. 31, 2010 (B)	Change (B)−(A)	Dec. 31, 2009
Limited partnerships	866	786	-81	805
Real estate related	196	171	-25	172
Distressed loan related	412	379	-33	396
Others	259	236	-23	237
Hedge funds	527	265	-262	290

Investments in limited partnerships decreased by 8.1 billion yen to 78.6 billion yen from end-FY2008. Hedge fund investments decreased 26.2 billion yen, or 49.7%, from end-FY2008, to 26.5 billion yen, following the decision to redeem all hedge funds in FY2008. As a result of improved market conditions, unrealized gains of 3.9 billion yen were recorded in FY2009.

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

(100 million yen, %)		Mar. 31, 2009 (A)	Mar. 31, 2010 (B)	Change (B)－(A)	Dec. 31, 2009
Bankrupt and similar credit		437	418	-19	580
Doubtful credit		813	880	67	585
Special attention credit		152	420	268	728
FRL credit, total	(a)	1,401	1,718	317	1,893
Normal credit	(b)	30,956	29,359	-1,597	27,956
Total credit	(c)((a)+(b))	32,357	31,078	-1,279	29,849
FRL credit ratio	(a)/(c)	4.33%	5.52%	1.19%	6.34%

Non-performing claims as defined by the Financial Reconstruction Law (FRL) increased 31.7 billion yen to 171.8 billion yen from end-FY2008. The FRL Ratio increased by 1.19% from end-FY2008 to 5.52%. While FRL claims increased 49.1 billion yen in the first nine months of FY2009, the majority of this increase consisted of claims to the Aiful Group, whose ADR plan was approved in December 2009.

FRL claims decreased by 17.5 billion yen from end-December 2009, and the FRL ratio decreased 0.82%. The percentage of FRL claims covered by reserves, collateral and guarantees was 85.4%, a 13.8% improvement from the end-December 2009 level of 71.5%.

Ⅳ. Capital Adequacy Ratio (Preliminary)

	Mar. 31, 2009 (A)	Mar. 31, 2010 (B)	Change (B)－(A)	Dec. 31, 2009
Capital adequacy ratio	11.60%	14.03%	2.43%	13.40%
Tier 1 ratio	12.57%	15.23%	2.66%	14.38%
Core Tier 1 ratio (*)	11.59%	14.06%	2.47%	13.38%

(Reference)

	Mar. 31, 2009 (A)	Mar. 31, 2010 (B)	Change (B)－(A)	Dec. 31, 2009
Core Tier 1 ratio on an all preferred stock excluded basis(**)	7.29%	8.90%	1.61%	8.52%
Tangible equity ratio (***)	8.70%	10.43%	1.73%	9.87%

Note: Figures are calculated in accordance with FSA Notification Number 79 issued in 2008 (special treatment of FSA Notification Number 19 issued in 2006). Calculation using the prior methodology would result in a decrease in the capital adequacy ratio of approximately 0.02% as of March 31, 2009, and there would be no effect as of December 31, 2009 and March 31, 2010.
(*) Core Tier 1 ratio: (Tier 1 capital (excluding preferred securities and non-convertible preferred stock) minus deferred tax assets (net)) divided by risk-weighted assets
(**) Alternative calculation excluding all preferred stock: (Tier 1 capital (excluding preferred securities and all preferred stock) minus deferred tax assets (net)) divided by risk-weighted assets.
(***) The ratio of tangible equity divided by tangible assets.

Aozora's Tier 1 ratio is among the highest in the Japanese banking industry. As of March 31, 2010, the Bank's capital adequacy ratio was 14.03%, the Tier 1 ratio was 15.23%, and the Core Tier 1 ratio was 14.06%.

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. In 2003, it become majority owned by Cerberus NCB Acquisition, L.P. 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/en/company/

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 cost and the effectiveness of our operational, legal and other risk management policies.