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Aozora Bank Announces Revision of Full-Year Earnings Forecasts for FY2008, Revision of FY2008 Dividend Payments Forecast, and Financial Results for the First Nine Months of FY2008
"Next Steps for Return to Profitability"

TOKYO, February 10, 2009 – Aozora Bank, Ltd. ("Aozora" or "the Bank"), a leading Japanese commercial bank, today announced its revision of full-year earnings forecasts for FY2008, revision of FY2008 common share dividend payments forecast, and financial results for the first nine months of the fiscal year ending March 31, 2009. The full-year net income forecast on a consolidated basis has been revised to -196.0 billion yen; and third quarter net income was -109.4 billion yen. These results were extremely disappointing, and it is with regret that the Bank has revised its common share dividend forecast to zero. The Bank has taken proactive measures to significantly address legacy and non-core assets, such as GMAC, CDOs, hedge fund investments, credit to Lehman Brothers, and ETF investments by the end of FY2008 in order to secure a return to profitability in FY2009.
The Bank's consolidated capital adequacy ratio remains at 13.71%, and Tier 1 at 14.81%, as of the end of December, maintaining its position as one of the highest amongst major Japanese banks. After addressing legacy and non-core assets by the end of FY2008, the Bank projects that its capital adequacy ratio will remain over 12%. Aozora Bank continues to maintain ample liquidity, with a level of over 1 trillion yen as of the end of January 2009.

To complement these actions, the following announcements have been made today, in order to best position the Bank for further development:

- Enhancing Aozora's Management Structure
  - Federico J. Sacasa has resigned with immediate effect, and is succeeded by Brian F. Prince as Acting President and Acting Chief Executive Officer. In addition, the Bank will make other changes at its next general shareholders meeting to strengthen its management framework in order to best carry out its new business model. (Please refer to news release dated February 10, "Next Steps for Return to Profitability").
- Pursuing a new business model
  - The Bank will pursue a new business model focused on stable and profitable domestic lending (please refer to news release dated February 10, "Next Steps for Return to Profitability").

The management team commented, " We would like to offer our sincere apologies to all of our stakeholders, including our customers and shareholders, for the extremely disappointing full-year forecasts and third quarter results, which have led to our decision to revise the common share dividend forecast to zero for this fiscal year. The new management believe that the decisive actions taken during this fiscal year, begun on November 14, 2008, are necessary to secure a return to profitability from FY2009 onwards. A reduction in remuneration for the management has remained in place since October 2008. The management team will continue to review the cost structure and together with the employees of the Bank, are committed to realizing growth and a stable, profitable business model based on domestic lending through an effective use of the Bank's ample capital. We would like to express our gratitude for the continuing support of our customers and stakeholders."

I. Revision of Full-Year Earnings Forecasts for FY2008

Breakdown of full-year FY2008 revised earnings forecasts

The significant addressing of legacy and non-core assets to be carried out by March 31, 2009 has led to the revision of the full-year forecasts. The major factors in the revision are as follows:

- Write-downs of the Bank's GMAC investment amounted to 36.4 billion yen (recognition of losses on our investment was completed in the third quarter). The remaining book value was 1.4 billion yen (3.2% of original book value) as of December 31, 2008.
- Write-downs on CDO investments of 9.0 billion yen. The remaining CDO balance will be USD15.6 million, or 2.7% of the original book value, as of end-FY2008.
- Losses from hedge fund investments totaling 46.0 billion yen. Included in the total is a loss of 11.7 billion yen related to the write-off of the Bank's indirect exposure to Madoff Securities in the third quarter. The decision has been made to redeem all hedge funds.
- Recognition of losses related to Lehman Brothers of 9.6 billion yen (Total credit expenses of 29.6 billion yen, which will be largely offset by gains recognized on the Lehman CDS hedge of 22.2 billion yen. The Bank also incurred 2.2 billion yen in losses on accounts receivable arising from terminated derivatives transactions with Lehman).
- Credit-related expenses, excluding the above claims to Lehman Brothers of 29.6 billion yen, will be 71.4 billion yen.
- Recognition of losses from ETF investments amounting to 30.7 billion yen (Unrealized valuation loss of 30.7 billion yen reflected in net assets as of December 31, 2008.).

The aforementioned losses amounting to 203.1 billion yen will be major factors in the full-year ordinary loss forecast for FY2008 of 191.0 billion yen.

Earnings Forecasts for Full Fiscal Year 2008 (April 1, 2008 to March 31, 2009)

Consolidated basis

(100 million yen)	Ordinary Income	Net Revenue	Business Profit	Ordinary Profit	Net Income
Previous Forecast (a)	2,150	600	100	-490	-270
Revised Forecast (b)	**1,850**	**-20**	**-520**	**-1,910**	**-1,960**
Change (b-a)	-300	-620	-620	-1,420	-1,690
Percentage Change	-14.0%	-	-	-	-

Non-consolidated basis

(100 million yen)	Ordinary Income	Business Profit before general loan-loss reserve	Ordinary Profit	Net Income
Previous Forecast (a)	2,100	300	-550	-320
Revised Forecast (b)	**1,800**	**-160**	**-1,940**	**-1,990**
Change (b-a)	-300	-460	-1,390	-1,670
Percentage Change	-14.3%	-	-	-

<Reference>

See the following table for the main factors in this revision.

(Consolidated, 100million yen)	Previous full-year forecast (12 months)	Revised full-year forecast (12 months)	FY2008 FY to date (9 months)
Net revenue	**600**	**-20**	**19**
GMAC investment only (*)	-233	-364	-364
CDO (debt) only (*)	-70	-90	-75
Fund investment only (*)	-154	-460	-413
Hedge Fund (general) only	-154	-343	-296
Madoff Securities only	0	-117	-117
CDS hedge (Lehman Brothers) only (*)	226	222	222
G&A expenses	-500	-500	-373
Business profit	**100**	**-520**	**-354**
Credit-related expenses	-532	-1,010	-622
Lehman Brothers related only	-261	-296	-261
Lehman Brothers derivatives only	-21	-22	-21
ETFs only	-8	-307	-7
Ordinary profit	**-490**	**-1,910**	**-1,034**
Taxes	224	-34	-59
Net income	**-270**	**-1,960**	**-1,094**

(*) Note: Excluding the factors marked with an asterisk, the adjusted full-year net revenue projection is 67.3 billion yen.

II. Revision of common stock dividend payments forecast

Details of Revisions

	Dividends per share (yen)		
Record date	Interim	Term end	Full term
Previous forecast (announced October 3, 2008)		2.50yen	2.50yen
Revised forecast		0.00yen	0.00yen
Payments in current term			
Payments in previous term (FY2007)		3.50yen	3.50yen

Reason for revisions to the forecast dividend payments

The Bank has revised its common stock dividend payment reflecting the significant downward revision in the earnings forecasts.

III. Q3 FY2008 Performance (April to December 2008)

Summary of results

- Net interest income was 45.7 billion yen, up 12.5% year on year, and core business remains positive.
- As part of the Bank's business restructuring, the consolidated balance sheet saw total assets decrease 908.4 billion yen in comparison to end-FY2007, to 6,350.7 billion yen, as the Bank addressed non-core and poorly performing assets.
- On the liabilities side, funding from retail customers has grown well, increasing 209.5 billion yen in comparison to end-FY2007.
- The main factors in the significant addressing of legacy and non-core assets (an explanation of which can be found under 'Revision of Full-Year Forecast') are as follows. During the first nine months of FY2008 (April 1 to December 31, 2008), the Bank incurred GMAC related losses of 36.4 billion yen, CDO related losses of 7.5 billion yen, losses related to hedge fund investments of 41.3 billion yen, Lehman Brothers related losses of 6.0 billion yen, and recognized credit-related expenses of 35.9 billion yen. The factors above, totaling 127.1 billion yen, contributed to ordinary loss of 103.4 billion yen.
- The FRL Ratio (non-consolidated) was up 2.07% from end-FY2007 to 3.06%, reflecting the impact of factors including Lehman Brothers. The ratio of non-consolidated claims disclosed under the FRL which are covered by reserves, collateral and guarantees, increased 7.0% from end-FY2007 to 92.4%.
- A total of 82.4 million shares, 50.0% of the buyback target, were repurchased between November 17 and January 31 under Aozora's previously announced share repurchase program.

Q3 FY2008 Performance (April 1, 2008 to December 31, 2008):

Consolidated basis

(100 million yen)	Ordinary Income	Net Revenue	Business Profit	Ordinary Profit	Net Income
Q3 FY2008 (a)	**1,555**	**19**	**-354**	**-1,034**	**-1,094**
Q3 FY2007 (b)	1,588	436	46	13	249
Change (a)- (b)	-33	-417	-400	-1,047	-1,342
Percentage Change	-2.1%	-95.7%	-	-	-

Non-Consolidated basis

(100 million yen)	Ordinary Income	Business Profit before general loan-loss reserve	Ordinary Profit	Net Income
Q3 FY2008 (a)	**1,523**	**15**	**-1,070**	**-1,125**
Q3 FY2007 (b)	1,492	16	-9	238
Change (a)-(b)	31	-1	-1,061	-1,363
Percentage Change	2.1%	-8.7%	-	-

Ⅰ. Revenue and Expenses

(100 million yen)	FY2007 Oct.-Dec.	FY2007 FY to date (A)	FY2008 Oct.-Dec.	FY2008 FY to date (B)	Change (B)－(A) Amount	Change (B)－(A) %	Page
Net revenue	**-52**	**436**	**-346**	**19**	**-417**	**-95.7%**	-
Net interest income	127	406	136	457	51	12.5%	6
Net interest margin	*0.59%*	*0.65%*	*0.82%*	*0.84%*	-	*0.19%*	6
Net fees and commissions	38	110	15	87	-23	-21.2%	7
Net trading revenues	14	52	26	347	295	564.1%	7
Net other ordinary income	-230	-133	-523	-872	-740	-	7,8
General & administrative expenses	-130	-390	-123	-373	17	4.5%	8
Business profit	**-182**	**46**	**-469**	**-354**	**-400**	-	-
Gains / losses on stock transactions	-9	23	-7	-9	-32	-	9
Ordinary profit	**-218**	**13**	**-678**	**-1,034**	**-1,047**	-	-
Net income	**-179**	**249**	**-813**	**-1,094**	**-1,342**	-	-

Credit-related expenses incl. recoveries of written-off claims	45	94	-204	-620	-714	-	9
Taxes	-3	137	-134	-59	-196	-	9

To facilitate a refocus on the domestic lending market in which the Bank excels, and return to profitability in the next fiscal year, the Bank conducted a review of certain legacy assets during the third quarter. As a result, a consolidated net revenue loss of 34.6 billion yen was recognized.

A 5.1 billion yen increase in net interest income, and a 29.5 billion yen increase in net trading revenues (including 22.2 billion yen in profits from credit default swaps hedging credit exposures to Lehman Brothers) were offset by a 74.0 billion yen decrease in net other ordinary income due mainly to further write-downs of the GMAC related investment and losses from hedge fund investments. As a result, the Bank's consolidated net revenue fell 41.7 billion yen year on year to 1.9 billion yen for the first nine months of FY2008.

General and administrative expenses stood at 37.3 billion yen, a decrease of 1.7 billion yen year on year, following the implementation of a number of tight cost control initiatives. Overall, business profit decreased by 40.0 billion yen to 35.4 billion yen.

Credit-related expenses were 62.0 billion yen, 26.1 billion yen relating to credit to Lehman Brothers, representing an increase of 71.4 billion yen year on year. Gains / losses on stock transactions fell 3.2 billion yen to -0.9 billion yen, and taxes including deferred income tax credits decreased 19.6 billion yen to -5.9 billion yen. As a result, consolidated net income fell 134.2 billion yen to -109.4 billion yen.

1. Net Revenue

(1)①Net Interest Income

(100 million yen)	FY2007 Oct.-Dec.	FY2007 FY to date (A)	FY2008 Oct.-Dec.	FY2008 FY to date (B)	Change (B)−(A)
Net interest income (a)-(b)	127	406	136	457	51
Interest income (a)	348	1,043	303	990	-53
Interest on loans and discounts	271	764	245	773	9
Interest and dividends on securities	57	216	41	162	-54
Other interest income	22	62	16	55	-8
Interest on swaps	-3	1	1	1	0
Interest expenses (b)	-221	-637	-167	-533	103
Interest on deposits and NCDs※	-59	-164	-60	-185	-21
Interest on debentures	-47	-121	-55	-168	-47
Interest on borrowings and rediscount	-5	-13	-7	-17	-4
Other interest expenses	-43	-136	-24	-84	53
Interest on swaps	-66	-202	-21	-79	123

※ Negotiable certificates of deposit

An increase in the average loan balance together with a decline in the foreign currency funding yield resulted in net interest income of 45.7 billion yen, up 5.1 billion yen, or 12.5%, year on year. This resulted from an increase of approximately 0.3 billion yen from an increase in the average balance of interest-earning assets, a decrease of approximately 1.4 billion yen in dividends from securities, and other factors such as an enhanced net interest margin, contributing approximately 6.2 billion yen.

(1)②Net Interest Margin

	FY2007 Oct.-Dec.	FY2007 FY to date (A)	FY2008 Oct.-Dec.	FY2008 FY to date (B)	Change (B)−(A)
Yield on total investments (a)	2.12%	2.17%	2.03%	2.05%	-0.12%
Yield on loans (b)	2.74%	2.64%	2.40%	2.44%	-0.20%
Yield on securities	1.25%	1.57%	1.24%	1.34%	-0.23%
Yield on funding (c)	1.53%	1.52%	1.21%	1.21%	-0.31%
Net interest margin (a)-(c)	0.59%	0.65%	0.82%	0.84%	0.19%
Loan margin (b)-(c)	1.21%	1.12%	1.19%	1.23%	0.11%

The net interest margin increased by 19bps reflecting a decrease in the yield on funding which exceeded the decrease in the yield on total investments due to a drop in the foreign currency funding cost and other factors which also contributed to the FY2008 interim result. The loan margin increased 11 bps from 1.12% to 1.23%.

(2) Net Fees and Commissions

(100 million yen)	FY2007 Oct.-Dec.	FY2007 FY to date (A)	FY2008 Oct.-Dec.	FY2008 FY to date (B)	Change (B)－(A)
Net fees and commissions (a)-(b)	38	110	15	87	-23
Fees and commissions received (a)	42	122	20	99	-22
Business-related loans	26	72	12	66	-5
Securities-related and agency	8	28	2	15	-12
Others	8	22	5	17	-5
Fees and commission paid (b)	-4	-11	-4	-13	-1

Largely as a result of a cautious approach to new lending transactions in an unstable financial environment, net fees and commissions were 8.7 billion yen, a decrease of 2.3 billion yen year on year. Fees related to loan business decreased 0.5 billion yen, or 7.5%, year on year, and fees from securities-related and agency transactions decreased by 1.2 billion yen, resulting in an overall year on year decrease.

(3) Net Trading Revenues

(100 million yen)	FY2007 Oct.-Dec.	FY2007 FY to date (A)	FY2008 Oct.-Dec.	FY2008 FY to date (B)	Change (B)－(A)
Net trading revenues	14	52	26	347	295
Net income on trading-related financial derivatives transactions	16	55	26	348	293
Net other trading income	-2	-3	1	-1	2

Net trading revenues increased by 29.5 billion yen year on year, helped by gains from derivatives transactions, including gains totaling 22.2 billion yen arising from CDS transactions with Lehman Brothers as the reference entity, recorded in the FY2008 interim results.

(4) Gains/losses on Bond Transactions

(100 million yen)	FY2007 Oct.-Dec.	FY2007 FY to date (A)	FY2008 Oct.-Dec.	FY2008 FY to date (B)	Change (B)－(A)
Gains/losses on bond transactions	-291	-368	-61	-119	249
Japanese government bonds	3	-26	2	13	40
Foreign government bonds and mortgage bonds	1	-16	0	8	24
Others	-295	-325	-63	-141	185
Collateralized Debt Obligations (CDOs) only	-298	-345	-10	-75	270
Profit from hedge funds (Available For Sale)	4	17	-51	-55	-72
Others	-1	2	-3	-11	-13

In the third quarter, additional losses on bond transactions of 6.1 billion yen were recognized, including an additional impairment on CDOs of 1.0 billion yen, and 5.1 billion yen for hedge fund investments (available for sale). Losses on bond transactions were 11.9 billion yen in the first nine months of FY2008.

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

(100 million yen)	FY2007		FY2008		Change (B)－(A)
	Oct.-Dec.	FY to date (A)	Oct.-Dec.	FY to date (B)	
Net other ordinary income excluding gains/losses on bond transactions	61	235	-462	-753	-988
Gains /losses on foreign currency transactions	-13	12	-59	-64	-76
Gains /losses on derivatives other than trading, net	11	-7	2	3	10
Profit from hedge funds (Trading)	27	93	-269	-334	-427
Profit from limited partnerships	38	113	16	19	-95
Real estate related	7	43	1	7	-36
Distressed loan related	15	38	3	8	-31
Other (venture capital, etc.)	17	32	12	5	-27
Gains on distressed loans (Aozora Loan Services)	5	17	7	20	3
Debenture issue cost	-1	-3	-1	-3	-0
Profit (losses) on GMAC investment	1	18	-131	-364	-382
Others	-6	-9	-27	-30	-21

A loss of 46.2 billion yen was recorded for net other ordinary income excluding gains/losses on bond transactions in the third quarter. The main contributors were a loss of 26.9 billion yen on hedge fund investments (for trading) and a loss of 13.1 billion on the GMAC investment. The total amount of loss related to indirect hedge fund transactions with Madoff Securities of 11.7 billion yen was also recognized during this period. As a result, the total loss related to hedge fund investments in the first nine months of FY2008 (April 1, 2008 to December 31, 2008) was 33.4 billion yen.

The Bank wrote down its investment in FIM LLC (51% owner of GMAC LLC) by a further 13.1 billion yen in the third quarter of FY2008 (October 1 to December 31). The book value of the investment in FIM LLC as of December 2008 was USD 16 million. The investment has now been written down by a cumulative 97%.

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

(100 million yen)	FY2007		FY2008		Change (B)－(A)
	Oct.-Dec.	FY to date (A)	Oct.-Dec.	FY to date (B)	
G & A expenses	-130	-390	-123	-373	17
Personnel	-69	-194	-61	-187	7
Non-personnel expense	-55	-176	-58	-168	7
Tax	-6	-20	-5	-18	3

General and administrative expenses decreased by 1.7 billion yen, or 4.5% year on year, to 37.3 billion yen, as a result of stringent cost controls.

3. Credit-Related Expenses

(100 million yen)	FY2007		FY2008		Change (B)−(A)
	Oct.-Dec.	FY to date (A)	Oct.-Dec.	FY to date (B)	
Reversal of reserve for possible loan losses, etc incl. recoveries of written-off claims	45	94	-204	-620	-714

Credit-related expenses stood at -62.0 billion yen in contrast with a 9.4 billion yen profit in the third quarter of FY2007. Major factors in this increase were an increased loan write-off of 32.2 billion yen, including 26.1 billion yen in loans to Lehman Brothers, an increase in reserves of 25.4 billion yen, and a loss of 4.6 billion yen on the sale of claims. The increased provisions taken in the third quarter of FY2008 enabled the Bank to strengthen its ratio of loan loss reserves to total loans to 1.96% as of December 31, 2008, in comparison to 1.20% at March 31, 2008.

As no changes have been made to the projected recovery rate of claims to Lehman Brothers, credit-related expenses remain unchanged in the third quarter of FY2008 (October 1, 2008 to December 31, 2008).

4. Stock Transactions

(100 million yen)	FY2007		FY2008		Change (B)−(A)
	Oct.-Dec.	FY to date (A)	Oct.-Dec.	FY to date (B)	
Exchange Traded Funds	2	42	-	9	-33
Japanese stocks	1	1	-8	-7	-9
Others	-13	-20	0	-10	10
¦ CDO equities only	-13	-20	0	-1	19
Total	-9	23	-7	-9	-32

In the third quarter of FY2008 (October 1, 2008 to December 31, 2008), gains / (losses) on stock transactions stood at -0.7 billion yen, mainly due to losses on the disposal of Japanese stocks.

5. Other Transactions

(100 million yen)	FY2007		FY2008		Change (B)−(A)
	Oct.-Dec.	FY to date (A)	Oct.-Dec.	FY to date (B)	
Gains/losses on stock futures transactions	-13	-21	2	-20	2
Gains on money held in trust	3	4	1	2	-2
Others	-10	-23	-1	-32	-9
Total	-21	-40	2	-49	-9

In the first nine months of FY2008 (April 1, 2008 to December 31, 2008), losses from other transactions increased 0.9 billion yen to -4.9 billion yen from the previous period's -4.0 billion yen largely as a result of losses of 2.0 billion yen on stock futures transactions hedging exchange traded funds (ETFs), and losses of 2.1 billion yen from derivatives transactions with Lehman Brothers.

6. Taxes

(100 million yen)	FY2007		FY2008		Change (B)−(A)
	Oct.-Dec.	FY to date (A)	Oct.-Dec.	FY to date (B)	
Taxes	-3	137	-134	-59	-196

In the third quarter of FY2008 (October 1, 2008 to December 31, 2008), tax credits were -13.4 billion yen (reversal of deferred tax assets). This is due to a more conservative calculation of tax effects in consideration of the current market environment.

Ⅱ. Balance Sheet

(100 million yen)	Dec. 31, 2007	Mar. 31, 2008 (A)	Sept. 30, 2008	Dec. 31, 2008 (B)	Change (B)－(A) Amount	Change (B)－(A) %	Page
Total assets	68,974	**72,591**	**68,035**	**63,507**	**-9,084**	**-12.5%**	
Loan and bills discounted	41,194	42,845	42,604	38,193	-4,652	-10.9%	11
Securities	17,490	16,522	14,744	10,788	-5,734	-34.7%	12
Others	10,290	13,224	10,686	14,526	1,302	9.8%	
Total liabilities	60,913	**64,910**	**60,753**	**57,079**	**-7,831**	**-12.1%**	
Deposits	23,193	23,655	24,074	24,120	466	2.0%	11
Negotiable certificates of deposit	7,787	9,539	6,104	2,478	-7,062	-74.0%	
Debentures	19,535	20,656	20,253	17,814	-2,843	-13.8%	
Bonds payable	1,240	1,240	1,230	1,213	-26	-2.1%	
Others	9,158	9,820	9,092	11,454	1,634	16.6%	
Total net assets	8,061	**7,681**	**7,282**	**6,428**	**-1,253**	**-16.3%**	
Capital stock	4,198	4,198	4,198	4,198	-	-	
Capital surplus	333	333	333	333	-	-	
Retained earnings	3,662	3,472	3,113	2,299	-1,173	-33.8%	
Valuation difference on available-for-sale securities	-160	-278	-344	-336	-58	-	
Others	28	-45	-17	-67	-22	-	
Total liabilities and net assets	68,974	**72,591**	**68,035**	**63,507**	**-9,084**	**-12.5%**	

Total assets amounted to 6,350.7 billion yen as of December 31, 2008, a decrease of 12.5%, or 908.4 billion yen compared to March 31, 2008. Included was a decrease of 465.2 billion yen, or 10.9%, in the loan portfolio and a decrease of 573.4 billion yen, or 34.7%, in the securities portfolio. On the funding side, deposits have increased by 2.0% since end-FY2007, mainly due to a 210.0 billion yen increase in retail deposits. Adjustments to funding operations from corporate clients led to a decrease in debentures of 284.3 billion yen, or 13.8%, and negotiable certificates of deposits decreased by 706.2 billion yen, or 74.0%. As a result of these actions, total liabilities fell 783.1 billion yen, or 12.1%, to 5,707.9 billion yen.

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

（100 million yen）	Dec. 31, 2007	Mar. 31, 2008 (A)	Sept. 30, 2008	Dec. 31, 2008 (B)	Change (B)－(A)
Retail	15,058	14,940	16,341	17,035	2,095
Corporate, etc.	3,476	3,979	3,113	3,140	-839
Public Institutions	2,954	3,597	3,997	3,094	-503
Financial Institutions (Debentures)	20,159	21,293	20,937	18,518	-2,775
Financial Institutions (Deposits)	10,278	11,490	7,443	4,021	-7,469
Deposits and Debentures total	51,924	55,299	51,830	45,807	-9,492

A focus on the retail market helped funding from retail customers increase markedly by 209.5 billion yen, replacing some of the funding from corporate customers and financial institutions. The sale of debentures to financial institutions decreased by 277.5 billion, financial institution deposits decreased by 746.9 billion yen and funding from corporate customers decreased by 83.9 billion yen. Due to unfavorable debt market conditions, the Bank elected to suspend the issuance of debentures in October. Despite the decrease in debenture issuance, the Bank continued to maintain a level of liquidity in excess of 1 trillion yen as of January 31, 2008.

2. Loans

（100 million yen）	Dec. 31, 2007	Mar. 31, 2008 (A)	Sept. 30, 2008	Dec. 31, 2008 (B)	Change (B)－(A)
Loans outstanding	41,194	42,845	42,604	38,193	-4,652

The loan book decreased 10.9%, or 465.2 billion yen, from end-FY2007 as the Bank took a more conservative approach to new lending in the difficult financial environment. In comparison to end-FY2007, lending to the telecommunications industry increased (7.1 billion yen), while lending to the finance/insurance industry (-79.3 billion yen), Japan government (-74.9 billion yen), various service industries (-68.7 billion yen), overseas loans (-57.7 billion yen) and wholesale/retail sector (-45.7 billion yen) all decreased. Lending to the real estate sector also decreased (-91.7 billion yen), and this included a decrease in non-recourse loans of 27.8 billion yen.

3. Securities

(100 million yen)	Book value				Unrealized gains/losses			
	Mar. 31, 2008 (A)	Sept. 30, 2008	Dec. 31, 2008 (B)	Change (B)−(A)	Mar. 31, 2008 (A)	Sept. 30, 2008	Dec. 31, 2008 (B)	Change (B)−(A)
JGBs	8,855	7,889	5,552	-3,302	-61	13	40	101
Municipal bonds	26	48	53	27	0	0	1	1
Corporate bonds	622	695	618	-4	0	0	0	0
Equities	315	313	309	-6	2	-7	-4	-6
Foreign bonds	2,822	2,545	2,063	-759	-18	-63	-30	-12
CDOs only	109	50	23	-86	-	1	2	2
Others	3,882	3,254	2,193	-1,689	-201	-287	-343	-142
Hedge funds	1,740	1,619	776	-964	-26	-56	-34	-8
ETFs (Linked to Japanese stocks index)	579	407	384	-195	-175	-222	-307	-133
Investment in limited partnerships	1,018	960	926	-92	7	3	-0	-7
REITs	84	37	29	-55	-9	-11	-	9
Others	462	232	79	-383	2	1	-2	-4
GMAC only	371	155	14	-356	-	-	-	-
CDOs only	1	0	0	-1	-	-	-	-
Total	16,522	14,744	10,788	-5,734	-278	-344	-336	-58

Securities decreased by 573.4 billion yen in comparison with end-FY2007, primarily due to decreases in JGBs, hedge funds, foreign bonds and the GMAC related investment of 330.2 billion yen, 96.4 billion yen, 75.9 billion yen and 35.6 billion yen, respectively. Total unrealized losses amounted to 33.6 billion yen as of December 31, 2008, including losses of 30.7 billion yen on ETFs. Any impact from fluctuation in share prices is expected to be limited due to the Bank's small shareholding.

Floating rate JGBs were valued, as in the interim period, 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.

(1) Collateralized Debt Obligation (CDO) Exposure

(100 million yen)	Number of deals	Historical cost as of Dec. 31 (A)	B/S amount as of Dec. 31 (B)	B/S amount to Hist. cost (B)/(A)	Unrealized valuation loss	
					(P/L)	(Equity)
Debt	27	370	9	2.4%	-32	2
Equity	3	21	0	0.0%	-	-
ABS CDOs Total (a)	30	391	9	2.3%	-32	2
SIVs (b)	2	27	0	0.0%	-0	-
Sub Total (a)+(b)=(c)	32	418	9	2.1%	-32	2
Synthetic CDOs (d)	3	95	14	15.2%	-43	-
Total (c)+(d)	35	513	23	4.5%	-75	2

The CDO balance sheet amount stood at 2.3 billion yen as of December 31, 2008. Within this total, debt securities amounted to 0.9 billion yen, equities were 0.0 billion yen, and synthetic CDOs were 1.4 billion yen. 7.5 billion yen was taken to the P/L as a valuation loss in the first nine months of FY2008.

(2) GMAC

(USD million)	Initial investment amount	Book value as of Mar.31,2008	Book value as of Jun.30,2008	Book value as of Sep.30,2008	Book value as of Dec.31,2008
GMAC investment	500	370	308	150	16

Based on a precondition of the capital restructuring plan for GMAC, the Bank recorded additional impairment of 13.1 billion yen on its investment in GMAC and the book value of the investment stood at approximately USD 16 million as of December 31, 2008. This represented a cumulative impairment of approximately 97%. Total loss on the GMAC investment in the first nine months of FY2008 was 36.4 billion yen.

4. Investment in Limited Partnerships and Hedge Funds

(100 million yen)	Dec. 31, 2007	Mar. 31, 2008 (A)	Sept. 30, 2008	Dec. 31, 2008 (B)	Change (B)−(A)
Limited partnerships	1,026	1,018	960	926	-92
Real estate related	217	206	210	204	-2
Distressed loan related	513	525	462	434	-92
Others	296	286	289	288	2
Hedge funds	1,965	1,740	1,619	776	-964

Investments in limited partnerships decreased by 9.2 billion yen, or 9.0%, from end-FY2007. During the period, there was a general reduction in the volume of new distressed loans, real estate and venture investments due to unfavorable market conditions. Hedge fund investments decreased 96.4 billion yen, or 55.4%, from end-FY2007, to 77.6 billion yen. The decision has been made to redeem all hedge funds.

Approximately 11.7 billion yen among the Bank's hedge fund investments was indirectly invested with Madoff Securities (note: This amount differs from the estimated figure of 12.4 billion yen disclosed by the Bank on December 16, 2008 as a result of currency fluctuations). Based on currently available information, the anticipated recoverable amount of funds invested indirectly with Madoff Securities is zero, and as such, the total amount of 11.7 billion yen in loss was recognized in the third quarter of FY2008 (October 1 to December 31).

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

(100 million yen, %)	Dec. 31, 2007	Mar. 31, 2008 (A)	Sept. 30, 2008	Dec. 31, 2008 (B)	Change (B)−(A)
Bankrupt and similar credit	1	0	474	472	471
Doubtful credit	339	306	381	537	231
Special attention credit	31	93	132	96	3
FRL credit, total (a)	370	399	987	1,105	706
Normal credit (b)	37,642	39,688	38,932	34,917	-4,771
Total credit (c)((a)+(b))	38,012	40,087	39,919	36,022	-4,066
FRL credit ratio (a)/(c)	0.97%	0.99%	2.47%	3.06%	2.07%

Non-performing claims as defined by the Financial Reconstruction Law (FRL) increased 70.6 billion yen to 110.5 billion yen. The FRL Ratio was up 2.07% from end-FY2007 to 3.06%. As was the case in the interim period of FY2008, the major factors in the increase of disclosed claims were claims amounting to 33.9 billion yen to Lehman Brothers, and claims to New City Residence Investment Corporation of 12.1 billion yen.

Ⅳ. Capital Adequacy Ratio (Preliminary)

	Mar. 31, 2008 (A)	Sept. 30, 2008	Dec. 31, 2008 (B)	Change (B)−(A)
Capital adequacy ratio	14.29%	13.68%	13.71%	-0.58%
Tier1 ratio	15.23%	14.75%	14.81%	-0.42%

Note: Figures as of December 31, 2008 are also calculated in accordance with the 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 0.7%.

Aozora's Tier 1 ratio is among the highest in the Japanese banking industry. The Bank's capital adequacy ratio was 13.71% and Tier 1 ratio was 14.81%.
The ratio of tangible equity divided by tangible assets was 10.1%.

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.