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Aozora Bank Reports Increased Profits for the First Nine Months of FY2009; Announces Upward Revision to FY2009 Full-Year Earnings Forecasts

TOKYO January 29, 2010 – Aozora Bank, Ltd. ("Aozora" or "the Bank"), a leading Japanese commercial bank, today announced its financial results for the first nine months of FY2009.

The Bank reported consolidated ordinary profit of 7.5 billion yen and consolidated net income of 7.3 billion yen, as a result of growth in core earnings, effective cost controls and signs of stabilization in the Bank's credit-related expenses. The results for the first nine months remain ahead of the FY2009 full-year forecasts for ordinary profit and net income of 3.0 billion yen and 5.0 billion yen, respectively. The Bank's strong performance in the face of a difficult economic environment places Aozora in a good position to achieve its primary goal of returning to profitability this fiscal year. In light of these factors, the Bank has revised its consolidated full-year earnings forecast for ordinary profit and net income upward to 5.0 billion yen and 7.0 billion yen, respectively.

Summary of the First Nine Months of FY2009 (Consolidated)

- Consolidated net revenue was 54.1 billion yen (a 52.2 billion yen increase yoy). The Bank's ordinary profit was 7.5 billion yen (a 110.9 billion yen increase yoy) and net income was 7.3 billion yen (a 116.7 billion yen increase yoy). The Bank has recorded positive earnings for three consecutive quarters this fiscal year.
- Funding from retail customers continued to improve, represented by an increase of 355.4 billion yen, or 18.6%, from March 31, 2009, to 2,226.1 billion yen. The percentage of retail funding to total core funding further expanded above the mid-term goal of 50%, to 56.8% as of December 31, 2009, as compared to 42.2% as of March 31, 2009. The Bank maintained a strong liquidity reserve of 898.1 billion yen as of December 31, 2009. Given the improvements in the Bank's funding stability and in the markets in general, the Bank has been able to moderately reduce the level of its reserve.
- Net fees and commissions were 10.7 billion yen (a 2.0 billion yen increase yoy) due to increased fees on the Bank's loan related business associated with rollovers of existing loans, as well as new lending. Loan fees and commissions remain an important contributor to the growth in core earnings, together with the Bank's net interest income.
- General and administrative expenses were 32.3 billion yen (a 5.0 billion yen, or 13.4%, decrease yoy) reflecting strict cost controls. General and administrative expenses for the nine-month period represented 70% of the full-year plan of 46.0 billion yen.
- Credit-related expenses were 12.3 billion yen (a 49.7 billion yen, or 80.2%, decrease yoy), representing 56% of the full-year plan of 22.0 billion yen. The ratio of loan loss reserves to total loans was 3.32% as of December 31, 2009. This ratio continued to be one of the highest among major Japanese banks.
- Financial Reconstruction Law (FRL) claims (non-consolidated) stood at 189.3 billion yen and the FRL ratio (non-consolidated) was 6.34% (a 2.01% increase from March 31, 2009). The majority of the 49.1 billion yen increase consisted of claims to the Aiful Group, whose ADR procedure was approved in December 2009.

- In the near future, Aozora will release its capital adequacy and Tier 1 ratios on a preliminary basis for the quarter ended December 31, 2009. Both ratios are expected to remain among the highest of the major Japanese banks.

Brian F. Prince, Representative Director, President and Chief Executive Officer of Aozora Bank commented, "We are pleased to be able to report a third consecutive quarterly profit this year as a result of strong growth in core earnings, effective cost controls, and signs of stabilization in our credit-related expenses. This performance puts our Bank in a good position to reach our primary goal of returning to profitability this year. Funding from retail customers continues to show favorable performance and remains an important contributor to our liquidity position. Market conditions remain difficult for all banks. However, we believe that Aozora's strong capital and liquidity, and the fact that we addressed our problems early, will enable us to capitalize on the opportunities that are, and will be, available in the market. In light of these factors, the Bank has revised its consolidated full-year earnings forecast upward."

FY2009 Performance (April 1 to December 31, 2009):

Consolidated basis

(100 million yen)	Ordinary Income	Net Revenue	Business Profit	Ordinary Profit	Net Income	Net Income per common share
Q3 FY2009 (a)	1,048	541	218	75	73	4.88 Yen
Q3 FY2008 (b)	1,555	19	-354	-1,034	-1,094	-66.48 Yen
Change (a)-(b)	-507	522	573	1,109	1,167	71.36 Yen
Percentage change ((a)-(b)) / (b)	-32.6%	2,781.9%	-	-	-	-
FY2009 Full-Year Forecast (c)	1,350	720	280	50	70	3.23 Yen
Progression (a) / (c)	77.6%	75.2%	78.0%	150.8%	104.4%	151.1%

Non-Consolidated basis

(100 million yen)	Ordinary Income	Business Profit before general allowance for loan-losses	Ordinary Profit	Net Income	Net Income per common share
Q3 FY2009 (a)	1,007	217	51	57	3.80 Yen
Q3 FY2008 (b)	1,523	15	-1,070	-1,125	-68.38 Yen
Change (a)-(b)	-516	202	1,121	1,182	72.18 Yen
Percentage change ((a)-(b)) / (b)	-33.9%	1,385.3%	-	-	-
FY2009 Full-Year Forecast (c)	1,300	245	25	50	1.89 Yen
Progression (a) / (c)	77.4%	88.5%	202.6%	113.6%	201.1%

Upward Revision of FY2009 Full-Year Earnings Forecasts (Consolidated)

As a result of growth in core earnings, such as net fees and commissions, and the stabilization of credit-related expenses, Aozora Bank has made the following upward revision to its FY2009 full-year earnings forecasts, announced on May 15, 2009, on a consolidated basis. No revision to the non-consolidated earnings forecast has been made at this time.

FY2009 Full-Year Earnings Forecasts (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
Previous Forecast (a)	1,350	720	260	30	50	1.89 Yen
Revised Forecast (b)	**1,350**	**720**	**280**	**50**	**70**	3.23 Yen
Change (b-a)	-	-	20	20	20	1.34 Yen
Percentage Change	-	-	7.7%	66.7%	40.0%	70.9%

Ⅰ. Revenue and Expenses

(100 million yen)	FY2008 Oct.–Dec.	FY2008 FY to date (A)	FY2009 Oct.–Dec.	FY2009 FY to date (B)	Change (B)－(A) Amount	Change (B)－(A) %	Page
Net revenue	**-346**	**19**	**121**	**541**	**522**	**2,781.9%**	-
Net interest income	136	457	122	353	-104	-22.7%	5
Net interest margin	*0.82%*	*0.84%*	*0.93%*	*0.88%*	-	*0.04%*	5
Net fees and commissions	15	87	29	107	20	23.2%	6
Net trading revenues	26	347	-40	62	-285	-82.1%	6
Net other ordinary income	-523	-872	10	19	891	-	6,7
General & administrative expenses	-123	-373	-100	-323	50	-13.4%	7
Business profit	**-469**	**-354**	**21**	**218**	**573**	**-**	-
Gains/losses on stock transactions	-7	-9	-0	-1	8	-	-
Ordinary profit	**-678**	**-1,034**	**-1**	**75**	**1,109**	**-**	-
Net income	**-813**	**-1,094**	**9**	**73**	**1,167**	**-**	-

Credit-related expenses incl. recoveries of written-off claims	-204	-620	-16	-123	497	-80.2%	8
Taxes	-134	-59	4	-11	48	-	8

In the first nine months of FY2009 the Bank achieved consolidated net revenue of 54.1 billion yen (a 52.2 billion yen increase yoy), reflecting strong growth in core earnings.

Net interest income was 35.3 billion yen (a 10.4 billion yen decrease yoy), almost in line with the plan, due to a decrease in the average balance of interest-earning assets. The result for net fees and commissions was a strong 10.7 billion yen (a 2.0 billion yen increase yoy), reflecting a significant increase in fees on the Bank's loan related businesses, which has contributed to the growth in core earnings. Net trading revenues were 6.2 billion yen (a 28.5 billion yen decrease yoy), and net other ordinary income was 1.9 billion yen (an 89.1 billion yen improvement yoy) as a result of the absence of special factors due to the significant addressing of non-performing assets in the previous fiscal year.

General and administrative expenses were 32.3 billion yen (a 5.0 billion yen decrease yoy) as a result of continued strict cost controls. As a result of the above factors, consolidated business profit was 21.8 billion yen (-35.4 billion yen for the same period last year).

Credit-related expenses were 12.3 billion yen (a 49.7 billion yen decrease yoy), and the Bank's tax expense was 1.1 billion yen (5.9 billion yen for the same period last year). As a result, consolidated net income was 7.3 billion yen (-109.4 billion yen for the same period last year).

For the third quarter ended December 31, 2009, a loss was recorded for net trading revenues reflecting a reduction of unrealized gain on the Bank's CDS positions for hedging credit exposure to Aiful Corporation. These CDS positions are required to be accounted for as 'trading assets' and marked-to-market. Strong core earnings enabled the Bank to absorb the trading loss. As a result, business profit and net income of 2.1 billion yen and 0.9 billion yen, respectively, were recorded. The Bank has reported positive net income for three consecutive quarters this fiscal year.

1. Net Revenue

(1)①Net Interest Income

(100 million yen)	FY2008 Oct.–Dec.	FY2008 FY to date (A)	FY2009 Oct.–Dec.	FY2009 FY to date (B)	Change (B)－(A)
Net interest income (a)-(b)	136	457	122	353	-104
Interest income (a)	303	990	222	686	-305
Interest on loans and discounts	245	773	167	525	-248
Interest and dividends on securities	41	162	35	112	-50
Other interest income	16	55	8	21	-33
Interest on swaps	1	1	11	28	26
Interest expenses (b)	-167	-533	-100	-332	201
Interest on deposits and NCDs※	-60	-185	-67	-200	-14
Interest on debentures	-55	-168	-25	-96	73
Interest on borrowings and rediscount	-7	-17	-2	-11	6
Other interest expenses	-24	-84	-5	-17	67
Interest on swaps	-21	-79	-1	-9	70

※ Negotiable certificates of deposit

As a result of the significant reduction in the average balance of interest-earning assets associated with the addressing of legacy and non-core assets during the second half of FY2008, net interest income was 35.3 billion yen (a 10.4 billion yen, or 22.7%, decrease yoy), almost in line with the plan.

(1)②Net Interest Margin

	FY2008 Oct.–Dec.	FY2008 FY to date (A)	FY2009 Oct.–Dec.	FY2009 FY to date (B)	Change (B)－(A)
Yield on total investments (a)	2.03%	2.05%	1.83%	1.83%	-0.22%
Yield on loans (b)	2.40%	2.44%	2.02%	2.06%	-0.38%
Yield on securities	1.24%	1.34%	1.14%	1.16%	-0.18%
Yield on funding (c)	1.21%	1.21%	0.90%	0.95%	-0.26%
Net interest margin (a)-(c)	0.82%	0.84%	0.93%	0.88%	0.04%
Loan margin (b)-(c)	1.19%	1.23%	1.12%	1.11%	-0.12%

Funding costs declined at a faster pace than the decline in yields on total investments, resulting in a 4 bps improvement in the net interest margin to 0.88%. The loan margin decreased 12 bps year on year from 1.23% to 1.11%, reflecting a decrease in the yield on loans. However, the loan margin showed improvement at 1.12% for the third quarter ended December 31, 2009, against the interim result of 1.11%.

(2) Net Fees and Commissions

(100 million yen)	FY2008 Oct.–Dec.	FY2008 FY to date (A)	FY2009 Oct.–Dec.	FY2009 FY to date (B)	Change (B)－(A)
Net fees and commissions (a)-(b)	15	87	29	107	20
Fees and commissions received (a)	20	99	31	114	15
Loan business-related	12	66	24	92	26
Securities-related and agency	2	15	3	10	-6
Others	5	17	4	13	-4
Fees and commissions paid (b)	-4	-13	-2	-8	5

Net fees and commissions were 10.7 billion yen (a 2.0 billion yen, or 23.2%, increase yoy). In particular, the significant increase in fees on the Bank's loan related business, associated with rollovers of existing loans and on new lending, was a contributing factor. In the first nine months of FY2009, overall fees on loan related businesses were 9.2 billion yen (a 2.6 billion yen, or 38.4%, increase yoy).

(3) Net Trading Revenues

(100 million yen)	FY2008 Oct.–Dec.	FY2008 FY to date (A)	FY2009 Oct.–Dec.	FY2009 FY to date (B)	Change (B)－(A)
Net trading revenues	26	347	-40	62	-285
Net income on trading-related financial derivatives transactions	26	348	-40	62	-286
Net other trading income	1	-1	-0	-0	0

Net trading revenues were 6.2 billion yen (a 28.5 billion yen, or 82.1%, decrease yoy). The result for the first nine months of FY2008 of 34.7 billion yen included gains of 22.2 billion yen from CDS transactions with Lehman Brothers as the reference entity. For the third quarter ended December 31, 2009, a loss of 4.0 billion yen was recorded for net trading revenues. The loss reflected a revaluation of the Bank's CDS positions for hedging credit exposure to Aiful Corporation following the approval of its ADR procedure.

(4) Gains/losses on Bond Transactions

(100 million yen)	FY2008 Oct.–Dec.	FY2008 FY to date (A)	FY2009 Oct.–Dec.	FY2009 FY to date (B)	Change (B)－(A)
Gains/losses on bond transactions	-61	-119	39	104	223
Japanese government bonds	2	13	30	53	40
Foreign government bonds and mortgage bonds	0	8	8	19	11
Others	-63	-141	1	32	173
Collateralized Debt Obligations (CDOs) only	-10	-75	-0	15	89
Profit from hedge funds (Available For Sale)	-51	-55	1	12	67
Others	-3	-11	1	5	16

Gains on bond transactions were 10.4 billion yen compared to a loss of 11.9 billion yen at the end of the third quarter FY2008 (a 22.3 billion yen increase yoy). This result reflects the absence of losses from CDOs and hedge fund investments that had a major impact in the previous fiscal year, as well as an increase in gains from the sale of government bonds.

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

(100 million yen)	FY2008		FY2009		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	-462	-753	-30	-85	668
Gains /losses on foreign currency transactions	-59	-64	-2	-49	15
Gains /losses on derivatives other than trading, net	2	3	0	2	-1
Profit from hedge funds (Trading)	-269	-334	-	-	334
Profit from limited partnerships	16	19	-3	-7	-26
Real estate related	1	7	2	-5	-11
Distressed loan related	3	8	0	13	5
Other (venture capital, etc.)	12	5	-5	-15	-20
Gains on distressed loans (Aozora Loan Services)	7	20	7	14	-6
Debenture issue cost	-1	-3	-0	-2	2
Profit (losses) on GMAC investment	-131	-364	-0	-0	364
Others	-27	-30	-32	-44	-13

Net other ordinary income, excluding gains/losses on bond transactions, was a loss of 8.5 billion yen (a 66.8 billion yen improvement yoy) from a loss of 75.3 billion yen. Major factors in the improvement were the absence of losses from hedge funds and GMAC this year, in comparison to losses of 36.4 billion yen and 33.8 billion yen, respectively, that were recorded in the first nine months of FY2008. The main factor in the 3.2 billion yen loss recorded in 'Others' during the third quarter ended December 31, 2009, was increased reserves for possible investment securities losses related to overseas corporate bonds and CMBS.

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

(100 million yen)	FY2008		FY2009		Change (B)－(A)
	Oct.–Dec.	FY to date (A)	Oct.–Dec.	FY to date (B)	
G & A expenses	-123	-373	-100	-323	50
Personnel	-61	-187	-51	-154	33
Non-personnel expense	-58	-168	-45	-154	14
Tax	-5	-18	-4	-15	3

General and administrative expenses were 32.3 billion yen (a 5.0 billion yen, or 13.4%, decrease yoy) as a result of the continuation of strict cost controls. Year to date expenses represented 70% of the full year plan of 46.0 billion yen.

3. Credit-Related Expenses

(100 million yen)	FY2008		FY2009		Change (B)－(A)
	Oct.–Dec.	FY to date (A)	Oct.–Dec.	FY to date (B)	
Credit-related expenses Incl. recovery of written-off claims	-204	-620	-16	-123	497
Write-off of loans	-20	-322	-69	-110	212
Loss on disposition of loans	-	-46	-3	-7	39
Specific allowance for loan losses	-111	-170	-39	-24	146
General allowance for loan losses	-73	-79	88	9	88
Reversal of reserve for credit losses on off-balance- sheet instruments	-1	-5	4	4	9
Recoveries of written-off claims	0	-1	1	5	4

Credit-related expenses were 12.3 billion yen (a 49.7 billion yen, or 80.2%, decrease yoy), representing 56% of the full-year plan of 22.0 billion yen. In the third quarter ended December 31, 2009, total credit-related expenses were 1.6 billion yen, which included loan write-offs of 6.9 billion yen, mainly as a result of the bankruptcy of ANABUKI CONSTRUCTION Inc., 3.9 billion yen of specific allowance for loan losses, and an 8.8 billion yen reversal of the general allowance for loan losses.

There was a net reversal of the general allowance for loan losses of 0.9 billion yen for the first nine months, and 8.8 billion yen in the third quarter ended December 31, 2009, reflecting (a) the transfer of loan loss reserves to the write-off of loans category as a result of the bankruptcy of ANABUKI CONSTRUCTION Inc., and (b) a partial reduction in reserves required for Aiful Group following the approval of its ADR procedure.

The ratio of loan loss reserves to total loans was 3.32% as of December 31, 2009, remaining one of the highest among major Japanese banks.

4. Taxes

(100 million yen)	FY2008		FY2009		Change (B)－(A)
	Oct.–Dec.	FY to date (A)	Oct.–Dec.	FY to date (B)	
Taxes	-134	-59	4	-11	48

A taxation expense of 1.1 billion yen was recognized in the first nine months of FY2009, due to a calculation of deferred tax assets based on the current market environment.

Ⅱ. Balance Sheet

(100 million yen)	Mar. 31, 2009 (A)	Sept. 30, 2009	Dec. 31, 2009 (B)	Change (B)－(A) Amount	Change (B)－(A) %	Dec. 31, 2008	Page
Total assets	**60,773**	**55,292**	**54,585**	**-6,188**	**-10.2%**	**63,507**	-
Loan and bills discounted	34,849	33,341	31,900	-2,949	-8.5%	38,193	10
Securities	11,266	12,995	12,606	1,340	11.9%	10,788	11
Cash and due from banks	6,725	1,737	2,958	-3,767	-56.0%	4,995	-
Others	7,933	7,220	7,121	-812	-10.2%	9,531	-
Total liabilities	**55,477**	**49,893**	**49,187**	**-6,291**	**-11.3%**	**57,079**	-
Deposits	26,256	28,828	28,765	2,509	9.6%	24,120	10
Negotiable certificates of deposit	2,842	1,316	2,494	-348	-12.2%	2,478	
Debentures	14,897	9,187	7,583	-7,314	-49.1%	17,814	
Bonds payable	1,150	988	943	-208	-18.1%	1,213	
Others	10,332	9,575	9,402	-930	-9.0%	11,454	-
Total net assets	**5,296**	**5,399**	**5,399**	**103**	**1.9%**	**6,428**	-
Capital stock	4,198	4,198	4,198	-	-	4,198	-
Capital surplus	333	333	333	-	-	333	-
Retained earnings	967	1,010	1,018	51	5.3%	2,299	-
Valuation difference on available-for-sale securities	-8	57	43	51	-	-336	-
Others	-194	-199	-194	0	-	-67	-
Total liabilities and net assets	**60,773**	**55,292**	**54,585**	**-6,188**	**-10.2%**	**63,507**	-

Total assets were 5,458.5 billion yen as of December 31, 2009 (a 618.8 billion yen, or 10.2%, decrease from March 31, 2009). Contributing to the decrease, loans and bills discounted stood at 3,190.0 billion yen (a 294.9 billion yen, or 8.5%, decrease from March 31, 2009) mainly due to the continuing reduction of overseas loans and a more conservative approach to new lending. Securities stood at 1,260.6 billion yen (a 134.0 billion yen, or 11.9%, increase) and cash and due from banks was 295.8 billion yen (a 376.7 billion yen, or 56.0%, decrease). The changes to the Bank's securities and cash balances reflected a shift in the focus of liquidity reserve operations from cash to JGBs and foreign bonds.

On the funding side, deposits were 2,876.5 billion yen (a 250.9 billion yen, or 9.6%, increase from March 31, 2009), mainly due to an increase of approximately 360.0 billion yen in retail deposits. Debentures stood at 758.3 billion yen (a 731.4 billion yen, or 49.1%, decrease), reflecting the suspension of debenture issuance between October 2008 and August 2009, and adjustments to the Bank's funding operations.

As a result of these factors, total liabilities fell 629.1 billion yen, or 11.3%, to 4,918.7 billion yen.

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

(100 million yen)	Mar. 31, 2009 (A)	Sept. 30, 2009	Dec. 31, 2009 (B)	Change (B)－(A)	Dec. 31, 2008
Retail	19,107	22,295	22,661	3,554	17,035
Corporate, etc.	3,891	3,429	2,859	-1,032	3,140
Public Institutions	2,984	880	2,442	-542	3,094
Financial Institutions (Debentures)	15,563	9,823	8,227	-7,336	18,518
Financial Institutions (Deposits)	3,780	3,987	3,689	-91	4,021
Deposits and Debentures total	45,325	40,414	39,877	-5,448	45,807

Funding from retail customers increased strongly by 355.4 billion yen, while funding from Corporate, etc. decreased by 103.2 billion yen. Funding from financial institutions through debentures decreased by 733.6 billion. As a result, funding from retail customers as a proportion of the Bank's core funding profile was 56.8%, representing a significant improvement from 42.2% as of end-FY2008.

The Bank maintained a strong liquidity reserve of 898.1 billion yen as of December 31, 2009. Given the improvements in the Bank's funding stability and in the markets in general, the Bank has been able to moderately reduce the level of its reserve. Within the liquidity reserve, a greater proportion was invested in securities such as JGBs, rather than low yielding cash and due from banks, as compared to March 31, 2009.

2. Loans

(100 million yen)	Mar. 31, 2009 (A)	Sept. 30, 2009	Dec. 31, 2009 (B)	Change (B)－(A)	Dec. 31, 2008
Loans outstanding	34,849	33,341	31,900	-2,949	38,193

The loan book decreased 294.9 billion yen (8.5%), to 3,190.0 billion yen from March 31, 2009 as the Bank continued to reduce the balance of overseas loans and took a more conservative approach to new lending in an uncertain financial environment. In comparison to March 31, 2009, overseas loans (-91.9 billion yen), and lending to the finance/insurance industry (-45.2 billion yen) decreased. Although lending to the real estate sector also decreased (-40.5 billion yen), non-recourse loans increased (+23.9 billion yen).
The Bank had exceeded its Business Revitalization Plan target for increasing loans to SMEs in FY2009 as of December 31, 2009.

3. Securities

(100 million yen)	Book value				Unrealized gains/losses			
	Mar. 31, 2009 (A)	Sept. 30, 2009	Dec. 31, 2009 (B)	Change (B)−(A)	Mar. 31, 2009 (A)	Sept. 30, 2009 (B)	Dec. 31, 2009 (B)	Change (B)−(A)
JGBs	7,052	8,131	7,459	407	32	64	72	40
Municipal bonds	52	61	45	-7	0	1	1	1
Corporate bonds	495	451	445	-50	-3	1	0	4
Equities	296	289	275	-21	-1	-0	-1	-0
Foreign bonds	1,900	2,854	3,227	1,327	-32	1	-34	-2
Others	1,471	1,209	1,155	-316	-4	29	35	39
Hedge funds	527	313	290	-237	-	30	35	35
ETFs (Linked to Japanese stock indices)	-	-	30	30	-	-	-0	-0
Investment in limited partnerships	866	867	805	-61	1	2	2	2
Others	77	28	30	-47	-4	-4	-2	2
GMAC only	14	13	13	-1	-	-	-	-
Total	11,266	12,995	12,606	1,340	-8	96	73	81

Securities increased by 134.0 billion yen in comparison with March 31, 2009, primarily due to increases in JGBs and foreign bonds, such as US Treasury bonds, of 40.7 billion yen and 132.7 billion yen, respectively. This increase was mainly as a result of a change in the Bank's liquidity reserve operations, from a focus on cash and due from banks to JGBs and foreign bonds.

Total unrealized gains amounted to 7.3 billion yen as of December 31, 2009, including gains on JGBs and hedge funds of 7.2 billion yen and 3.5 billion yen, respectively, and losses on foreign bonds such as US treasury bonds of 3.4 billion yen.

4. Investment in Limited Partnerships and Hedge Funds

(100 million yen)	Mar. 31, 2009 (A)	Sept. 30, 2009	Dec. 31, 2009 (B)	Change (B)−(A)	Dec. 31, 2008
Limited partnerships	866	867	805	-61	926
Real estate related	196	166	172	-23	204
Distressed loan related	412	457	396	-15	434
Others	259	244	237	-22	288
Hedge funds	527	313	290	-237	776

Investments in limited partnerships decreased 6.1 billion yen to 80.5 billion yen. Hedge fund investments decreased 23.7 billion yen, or 44.9%, from March 31, 2009, to 29.0 billion yen, following the decision in FY2008 to redeem all hedge funds.

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

(100 million yen, %)	Mar. 31, 2009 (A)	Sept. 30, 2009	Dec. 31, 2009 (B)	Change (B)－(A)	Dec. 31, 2008
Bankrupt and similar credit	437	461	580	143	472
Doubtful credit	813	462	585	-228	537
Special attention credit	152	178	728	576	96
FRL credit, total (a)	1,401	1,101	1,893	491	1,105
Normal credit (b)	30,956	30,080	27,956	-3,000	34,917
Total credit (c)((a)+(b))	32,357	31,181	29,849	-2,508	36,022
FRL credit ratio (a)/(c)	4.33%	3.53%	6.34%	2.01%	3.06%

Financial Reconstruction Law (FRL) claims stood at 189.3 billion yen (a 49.1 billion yen, or 35.1%, increase from March 31, 2009) and the FRL ratio (non-consolidated) was 6.34% (a 2.01% increase from March 31, 2009). The majority of the 49.1 billion yen increase consisted of claims to the Aiful Group, whose ADR procedure was approved in December 2009. The percentage of FRL claims covered by reserves, collateral and guarantees was 71.5% (22.0% decrease from March 31, 2009); however, this amount does not include the impact of the Bank's CDS positions for hedging credit exposure to Aiful Corporation, as of December 31, 2009.

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.