

# NEWS RELEASE

## **Aozora Bank Reports Financial Results for the First Three Months of FY2008**

**TOKYO July 31, 2008** – Aozora Bank, Ltd (“Aozora” or “the Bank”), a leading Japanese commercial bank, today reported financial results for the first three months of the fiscal year ending March 31, 2009.

Aozora delivered profit and revenue in the fiscal first-quarter that were consistent with the Bank’s full-year targets despite continuing difficult global market conditions for the financial industry. The Bank recorded net revenue of 23.9 billion yen and generated net income of 9.3 billion yen. The Bank’s net revenue and net income results stood at 22.2% and 21.2% respectively of the full-year forecasts reflecting the seasonal trend for lower overall levels of financing activity in the fiscal first quarter.

Aozora Bank’s President and Chief Executive Officer Federico J. Sacasa commented, “Aozora’s core businesses have performed well this quarter, and the Bank’s earnings base remains strong. Although our earnings are down on the corresponding period last year, we are now in a totally new operating environment presenting new challenges and opportunities. With an ample level of liquidity and one of the highest capital adequacy ratios of any Japanese bank Aozora is well positioned to pursue our business model that delivers high-quality, predictable and sustainable, client-driven earnings.”

Net interest income, representing the core earnings of the Bank, remained healthy with a year-on-year increase of 2.0 billion yen, or 14.2%, boosted by net interest margin growth. Aozora was able to grow core earnings while achieving cost savings. Management efforts to maintain tight controls on expenses resulted in business and administrative expenses of 12.5 billion yen, down 3.6%, or 500 million yen, compared with the corresponding quarter a year earlier.

Aozora successfully maintained very tight credit controls in the quarter. The ratio of total non-performing claims disclosed under the Financial Reconstruction Law decreased by 0.10 percentage points to 0.89% on a non-consolidated basis.

Funding from retail customers continued to expand strongly, standing at 1,560.6 billion yen, an increase of 66.6 billion yen, or 4.5%, compared to March 31, 2008. The Bank continues to maintain very high levels of liquidity and an exceptionally strong Tier 1 Capital Adequacy ratio.

Aozora’s loan book decreased 1.6%, or 69.8 billion yen, to 4,214.7 billion yen compared to March 31, 2008, reflecting normal seasonal factors as well as the current challenging financial environment. However, on an annualized basis Aozora’s loan book expanded by 550.5 billion yen, or 15.0%.

Aozora recognized additional valuation losses of 1.8 billion yen on its portfolio of collateralized debt obligations (CDOs) in the fiscal first quarter. Including the valuation losses booked in FY2007, the book value of the investments has declined to 10.4 billion yen, of which Asset-Backed CDOs are only 3.7 billion yen. Given these valuations, the Bank considers the possible impact of any additional losses to be limited.

### FY2008 Q1 Financial Results and FY2008 Full Year Forecast (Consolidated)

(100 million yen)	Ordinary Income	Net Revenue	Business Profit	Ordinary Profit	Net Income
Q1 FY2008 (a)	488	239	114	43	93
Q1 FY2007 (b)	571	271	141	172	370
Change (a)- (b)	-83	-32	-27	-128	-276
Percentage Change	-14.6%	-11.8%	-19.3%	-74.9%	-74.7%
FY2008 Full Year Forecast (c)	2,100	1,080	540	410	440
Achievement Rate (a)/(c)	23.2%	22.2%	21.1%	10.5%	21.2%

### FY2008 Q1 Financial Results and FY2008 Full Year Forecast (Non-Consolidated)

(100 million yen)	Ordinary Income	Business Profit before general loan-loss reserve	Ordinary Profit	Net Income
Q1 FY2008 (a)	473	112	31	87
Q1 FY2007 (b)	523	111	141	340
Change (a)-(b)	-50	0	-110	-254
Percentage Change	-9.5%	0.4%	-77.7%	-74.4%
FY2008 Full Year Forecast (c)	2,000	510	390	430
Achievement Rate (a)/(c)	23.7%	21.9%	8.1%	20.1%

※ All amounts presented in this news release are rounded to the nearest 100 million yen. Therefore individual amounts do not always sum to the totals.

**I. Revenue and Expenses**

(100 million yen)	FY2007 Q1 A	FY2008 Q1 B	Change B-A		Page
			Amount	%	
<b>Net revenue</b>	<b>271</b>	<b>239</b>	<b>-32</b>	<b>-11.8%</b>	<b>4</b>
Net interest income	144	164	20	14.2%	4
<i>Net interest margin</i>	<i>0.73%</i>	<i>0.85%</i>	<i>+0.12%</i>	<i>-</i>	<i>4</i>
Net fees and commissions	30	25	-5	-15.2%	5
Net trading revenues	-9	8	17	-	5
Net other ordinary income	107	42	-65	-60.4%	5
General & administrative expenses	130	125	-5	-3.6%	6
<b>Business profit</b>	<b>141</b>	<b>114</b>	<b>-27</b>	<b>-19.3%</b>	<b>-</b>
Gains / losses on stock transactions	37	8	-29	-78.3%	7
<b>Ordinary profit</b>	<b>172</b>	<b>43</b>	<b>-128</b>	<b>-74.9%</b>	<b>-</b>
<b>Net income</b>	<b>370</b>	<b>93</b>	<b>-276</b>	<b>-74.7%</b>	<b>-</b>
Credit-related expenses incl. recoveries of written-off claims	-47	37	84	-	6
Deferred income taxes	149	54	-96	64.1%	7

Consolidated net revenue for the first quarter stood at 23.9 billion yen, 3.2 billion yen below the first quarter of FY2007, reflecting a 2.0 billion increase in net interest income as well as the effects of a 6.5 billion yen decrease in net other ordinary income. General and administrative expenses stood at 12.5 billion yen, a decrease of 0.5 billion yen, and business profit decreased 2.7 billion yen to 11.4 billion yen.

Credit-related expenses were 3.7 billion yen compared with a negative 4.7 billion yen in the first quarter of FY2007, reflecting the normalization of credit-related expenses. Profit on stock transactions fell 2.9 billion yen to 0.8 billion yen, and deferred income tax credits decreased 9.6 billion yen to 5.4 billion yen. As a result, net income fell 27.6 billion yen to 9.3 billion yen.

## 1. Net Revenue

### (1)①Net Interest Income

(100 million yen)	FY2007 Q1 A	FY2008 Q1 B	Change B-A
Net interest income (a)-(b)	144	164	20
Interest income (a)	347	347	0
Interest on loans and discounts	237	265	28
Interest and dividends on securities	91	62	-30
Other interest income	16	21	5
Interest on swaps	2	-	-2
Interest expenses (b)	204	183	-20
Interest on deposits and NCDs※	50	63	13
Interest on debentures	33	56	23
Interest on borrowings and rediscount	4	5	1
Other interest expenses	50	29	-20
Interest on swaps	67	30	-37

※ Negotiable certificates of deposit

Net interest income stood at 16.4 billion yen, representing an increase of 2.0 billion yen, or 14.2%, from the same period last year. This resulted from an increase in the Bank's loan book which generated approximately 0.37 billion yen of net interest income, a decrease of approximately 1.26 billion yen in dividends from securities, and other factors such as an enhanced net interest margin, contributing approximately 2.93 billion yen.

### (1)②Net Interest Margin

	FY2007 Q1 A	FY2008 Q1 B	Change B-A
Yield on total investments (a)	2.23%	2.06%	-0.17%
Yield on loans (b)	2.54%	2.48%	-0.06%
Yield on securities	1.93%	1.39%	-0.54%
Yield on funding (c)	1.50%	1.21%	-0.29%
Net interest margin (a)-(c)	0.73%	0.85%	0.12%
Loan margin (b)-(c)	1.04%	1.27%	0.23%

The net interest margin increased by 12bps 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. The loan margin increased 23 bps from 1.04% to 1.27%.

## (2) Net Fees and Commissions

(100 million yen)	FY2007 Q1 A	FY2008 Q1 B	Change B-A
Net fees and commissions (a)-(b)	30	25	-5
Fees and commissions received (a)	33	29	-4
Business-related loans	18	18	1
Securities-related and agency	9	5	-3
Others	7	6	-1
Fees and commission paid (b)	4	4	1

Net fees and commissions stood at 2.5 billion yen, a decrease of 0.5 billion yen from the previous year. Fees related to loan business increased 0.1 billion yen, or 3.7%, year on year, whereas fees from securities-related transactions decreased by 0.3 billion yen, resulting in an overall year on year decrease.

## (3) Net Trading Revenues

(100 million yen)	FY2007 Q1 A	FY2008 Q1 B	Change B-A
Net trading revenues	-9	8	17
Net income on trading-related financial derivatives transactions	-7	11	18
Net other trading income	-2	-3	-1

Net trading revenues increased 1.7 billion yen year on year to 0.8 billion yen helped by gains from derivatives transactions, resulting from increased volatility in global markets.

## (4) Losses on Bond Transactions

(100 million yen)	FY2007 Q1 A	FY2008 Q1 B	Change B-A
Losses on bond transactions	-21	-24	-4
Japanese government bonds	-17	-1	16
Foreign government bonds and mortgage bonds	-10	1	10
Others	6	-24	-30
Collateralized Debt Obligations (CDOs) only	-1	-17	-16
Others	7	-7	-14

Losses on bond transactions stood at -2.4 billion yen, an increase of 0.4 billion yen year on year, reflecting valuation losses on CDOs of 1.7 billion yen.

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

(100 million yen)	FY2007 Q1 A	FY2008 Q1 B	Change B-A
Net other ordinary income excluding gains (losses) on bond transactions	128	67	-61
Gains (losses) on foreign currency transactions	-2	-10	-8
Gains (losses) on derivatives other than trading, net	-3	-2	1
Profit from non-JPY fund investments	73	66	-7
Profit from limited partnerships	35	8	-27
Real estate related	20	3	-16
Distressed loan related	12	8	-4
Other (venture capital, etc.)	4	-3	-7
Gains on distressed loans (Aozora Loan Services)	5	6	1
Debenture issue cost	-1	-1	0
Profit (losses) on GMAC investment	17	0	-17
Others	4	-1	-4

Net other ordinary income excluding losses on bond transactions fell 6.1 billion yen or 47.8% year on year, to 6.7 billion yen. Returns on hedge fund investments fell 0.7 billion yen or 9.5% to 6.6 billion yen, and returns from investments in limited partnerships fell 2.7 billion yen or 76.3% to 0.8 billion yen. The Bank did not record any losses related to a deterioration in value of its investment in FIM LLC (the 51% owner of GMAC LLC) for which significant losses were posted in the previous term. The Bank will continue to closely track this investment and make appropriate disclosures.

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

(100 million yen)	FY2007 Q1 A	FY2008 Q1 B	Change B-A
G & A expenses	130	125	-5
Personnel	63	63	0
Non-personnel expense	58	54	-4
Tax	9	8	-1

General and administrative expenses decreased by 0.5 billion yen or 3.6% year on year, to 12.5 billion yen, remaining within management targets as the Bank continued to invest in personnel and information technology.

### 3. Credit-Related Expenses

(100 million yen)	FY2007 Q1 A	FY2008 Q1 B	Change B-A
Reversal of reserve for possible loan losses, etc incl. recoveries of written-off claims	-47	37	84

Credit-related expenses were 3.7 billion yen compared with a negative 4.7 billion yen in the first quarter of FY2007, due to the normalization of credit costs. Loan write-offs, net of recoveries, increased to 2.3 billion yen from 0.3 billion yen, specific reserves increased to 0.6 billion yen from a negative 1.3 billion yen and general reserves increased to 0.8 billion yen from negative 3.7 billion yen.

### 4. Stock Transactions

(100 million yen)	FY2007 Q1 A	FY2008 Q1 B	Change B-A
Exchange Traded Funds	37	9	-28
Japanese stocks	0	0	0
Others	-	-1	-1
CDO equities only	-	-1	-1
Total	37	8	-29

Gains on stock transactions were 0.8 billion yen, a 2.9 billion yen decrease compared to a gain of 3.7 billion yen a year earlier. Gains on the sale of Exchange Traded Funds (ETFs) stood at 0.9 billion yen, and losses on CDO investments amounted to 0.1 billion yen.

### 5. Other Transactions

(100 million yen)	FY2007 Q1 A	FY2008 Q1 B	Change B-A
Losses on stock futures transaction	-3	-37	-34
Gains on money held in trust	1	1	0
Others	0	-4	-3
Total	-3	-41	-37

Losses from other transactions increased 3.7 billion yen from the previous year's -0.3 billion yen to -4.1 billion yen largely as a result of losses on stock futures transactions, hedging against Exchange Traded Funds (ETFs) falling from the previous year's -0.3 billion yen to -3.7 billion yen.

### 6. Deferred Income Taxes

(100 million yen)	FY2007 Q1 A	FY2008 Q1 B	Change B-A
Deferred income taxes	149	54	-96

Deferred income tax credits decreased 9.6 billion yen to 5.4 billion yen, in comparison with the previous year's 14.9 billion yen, which included the effect of the change of accounting period for the estimation of future taxable income for the calculation of deferred tax assets from 1 year to 3 years in Q1 of FY2007.

## II. Balance Sheet

(100 million yen)	FY2007 A	FY2008 Q1 B	Change B—A		FY2007 Q1	Page
			Amount	%		
<b>Total assets</b>	<b>72,591</b>	<b>70,317</b>	<b>-2,274</b>	<b>-3.1%</b>	<b>65,482</b>	-
Loan and bills discounted	42,845	42,147	-698	-1.6%	36,642	9
Securities	16,522	16,912	390	2.4%	18,282	10
Others	13,224	11,258	-1,967	-14.9%	10,558	-
<b>Total liabilities</b>	<b>64,910</b>	<b>62,635</b>	<b>-2,275</b>	<b>-3.5%</b>	<b>57,341</b>	-
Deposits	23,655	23,511	-144	-0.6%	21,850	} 9
Negotiable certificates of deposit	9,539	6,879	-2,660	-27.9%	6,929	
Debentures	20,656	20,936	279	1.4%	16,883	
Bonds payable	1,240	1,240	0	0%	995	
Others	9,820	10,070	250	2.5%	10,684	
<b>Total net assets</b>	<b>7,681</b>	<b>7,681</b>	<b>1</b>	<b>0%</b>	<b>8,141</b>	-
Capital stock	4,198	4,198	-	-	4,198	-
Capital surplus	333	333	-	-	333	-
Retained earnings	3,472	3,486	14	0.4%	3,783	-
Valuation difference on available-for-sale securities	-278	-280	-3	-	-151	-
Others	-45	-56	-11	-	-22	-
<b>Total liabilities and net assets</b>	<b>72,591</b>	<b>70,317</b>	<b>-2,274</b>	<b>-3.1%</b>	<b>65,482</b>	-

Total assets amounted to 7,031.7 billion yen as of June 30, 2008, a decrease of 3.1%, or 227.4 billion yen compared to March 31, 2008. A decrease of 1.6%, or 69.8 billion yen, in the loan book was partially offset by an increase of 39.0 billion yen or 2.4%, in the securities balance. On the funding side, retail deposits increased steadily and debentures increased by 27.9 billion yen, or 1.4%. In contrast, negotiable certificates of deposits decreased by 266.0 billion yen, or 27.9%. Total liabilities fell 227.5 billion yen, or 3.5%, to 6,263.5 billion yen.

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

(100 million yen)	March 31, 2008 A	June 30, 2008 B	Change B—A	June 30, 2007
Retail	14,940	15,606	666	14,672
Corporate, etc.	3,979	3,339	-640	3,478
Public Institutions	3,597	2,967	-630	1,631
Financial Institutions (Debentures)	21,293	21,590	297	17,463
Financial Institutions (Deposits)	11,490	9,223	-2,267	9,587
Deposits and Debentures total	55,299	52,726	-2,573	46,831

Funding from retail customers increased strongly by 66.6 billion yen and the sale of debentures to financial institutions also increased by 29.7 billion. In contrast, funding from financial institution deposits decreased by 226.7 billion yen, and funding from public institutions and corporate customers decreased by 63.0 billion yen and 64.0 billion yen respectively.

## 2. Loans

(100 million yen)	March 31, 2008 A	June 30, 2008 B	Change B—A	June 30, 2007
Loans outstanding	42,845	42,147	-698	36,642

The loan book grew 15.0%, or 550.5 billion yen, to 4,214.7 billion yen from the same period last year, despite falling 69.8 billion yen, or 1.6%, from the March 31, 2008 results, largely due to the usual seasonal factors as well as the unstable financial environment. Overseas lending rose by 72.0 billion yen, while lending to the financial and insurance industry sector decreased by 54.2 billion yen, and lending to various service industries and to the wholesale and retail industries declined by 37.5 billion yen and 22.8 billion yen respectively. Lending to the real estate sector decreased by 1.3 billion yen, of which non-recourse loans increased by 17.9 billion yen, as the Bank continued to change the focus of its lending to secured and structured lending.

### 3. Securities

(100 million yen)	Book value			Unrealized gains/losses		
	March 31, 2008 A	June 30, 2008 B	Change B-A	March 31, 2008 A	June 30, 2008 B	Change B-A
JGBs	8,855	9,022	167	-61	-87	-26
Municipal bonds	26	41	15	0	0	0
Corporate bonds	622	792	170	0	0	0
Equities	315	320	5	2	0	-2
Foreign bonds	2,822	2,868	46	-18	-35	-17
CDOs only	109	104	-5	-	3	3
Others	3,882	3,868	-14	-201	-158	43
Hedge funds	1,740	1,852	113	-26	-20	6
ETFs	579	492	-87	-175	-137	37
Investment in limited partnerships	1,018	997	-21	7	5	-1
REITs	84	40	-44	-9	-7	2
Others	462	488	26	2	1	-1
GMAC only	371	394	23	-	-	-
CDOs only	1	0	-1	-	-	-
Total	16,522	16,912	390	-278	-280	-3

Securities increased by 39.0 billion yen in comparison with March 31, 2008 results, primarily due to increases in JGBs and corporate bonds of 16.7 billion yen and 17.0 billion yen respectively. Total unrealized losses amounted to 28.0 billion yen as of June 30, 2008, including 13.7 billion yen relating to ETFs and 8.7 billion yen relating to JGBs.

(1) Collateralized Debt Obligation (CDO) Exposure

(100 million yen)	Number of deals	Historical cost as of June 30 ①	Book value as of June 30 ②	Book value to Hist. cost ②/①	Unrealized valuation loss	
					(P/L)	(Equity)
Debt	27	433	37	8.6%	-11	3
AAA	0	-	-	-	-	-
AA	0	-	-	-	-	-
A	3	24	2	7.8%	-1	-
BBB	1	5	0	0.0%	0	-
BB+or lower	23	404	35	8.8%	-10	3
Equity	3	24	0	0.0%	-	-
ABS CDOs	30	458	37	8.2%	-11	3
Total (a)						
SIVs (b)	2	32	0	0.0%	0	-
Sub Total (a)+(b)=(c)	32	490	37	7.6%	-12	3
Synthetic CDOs ※1 (d)	3	111	67	60.2%	-6	-
Total (c)+(d)	35	600	104	17.3%	-18	3

The CDO balance stood at 10.4 billion yen at the end of June. Within this total, debt securities amounted to 3.7 billion yen, equities were 0.0 billion yen, and synthetic CDOs were 6.7 billion yen. 1.8 billion yen was taken to the P/L as an unrealized valuation loss.

The Bank's US sub-prime related assets are limited to CDOs and its investment in FIM LLC, the 51% owner of GMAC LLC. The Bank has no investment in monoline insurers, Asset Back Commercial Paper (ABCP), or hedge funds with any significant US sub-prime mortgage exposure.

※1 Secured by high-grade corporate debt with no exposure to prime or sub-prime residential mortgage-backed securities.

(2) Mortgage bonds issued by US federal government organizations and GSEs

(100 million yen)	June 30, 2008	
	Book value	Unrealized gains/losses
MBS	986	0
GNMA	42	0
FNMA	598	1
FHLMC	345	-1
FHLB	-	-

The amount of mortgage bonds issued by US federal government organizations and US Government Sponsored Enterprises (GSE) held by the Bank is shown above.

#### 4. Investment in Limited Partnerships and Hedge Funds

(100 million yen)	March 31, 2008 A	June 30, 2008 B	Change B—A	June 30, 2007 A
Limited partnerships	1,018	997	-21	903
Real estate related	206	215	9	268
Distressed loan related	525	484	-41	371
Others	286	298	12	264
Hedge funds	1,740	1,852	113	1,996

The outstanding investment in limited partnerships decreased by 2.1 billion yen, or 2.1%, from March 31, 2008, to 99.7 billion yen. While distressed loan related transactions decreased, real estate related transactions and venture investments and others saw an increase. Hedge fund investments increased 11.3 billion yen, or 6.5%, from March 31, 2008, to 185.2 billion yen.

##### (1) Hedge Funds

FY2008 Q1 performance	Aozora	HFRX index *
Return	3.42%	1.80%
Volatility	4.27%	4.32%
Sharp	2.77	1.11

\*The HFRX Index is the industry standard benchmark of hedge fund performance.

Monthly performance	Apr.2007	May 2007	Jun.2007	Jul.2007	Aug.2007	Sep.2007
Aozora	1.38%	1.89%	1.12%	1.17%	-1.27%	1.00%
HFRX Index	2.21%	2.55%	-0.07%	-0.93%	-2.55%	1.28%

Monthly performance	Oct.2007	Nov.2007	Dec.2007	Jan.2008	Feb.2008	Mar.2008
Aozora	2.30%	-0.79%	0.22%	-2.39%	1.12%	-2.16%
HFRX Index	2.82%	-2.41%	-0.14%	-2.06%	1.77%	-2.46%

Monthly performance	Apr.2008	May 2008	Jun.2008
Aozora	1.44%	2.18%	-0.23%
HFRX Index	1.20%	1.44%	-0.83%

Aozora's policy is to limit hedge fund investments to 3% of total assets. The Bank's hedge fund portfolio has earned sustainable profits and the results have exceeded the HFRX Index, consistently demonstrating the quality of the portfolio. Aozora's hedge fund portfolio does not include any funds investing materially in US sub-prime loan-related assets.

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

(100 million yen)	March 31, 2008 A	June 30, 2008 B	Change B—A	June 30, 2007
Bankrupt and similar credit	0	11	10	3
Doubtful credit	306	250	-56	259
Special attention credit	93	90	-3	64
FRL credit, total (a)	399	351	-49	326
Normal credit (b)	39,688	38,913	-775	33,059
Total credit (c)((a)+(b))	40,087	39,263	-824	33,385
FRL credit ratio (a)/(c)	0.99%	0.89%	-0.10%	0.97%

Non-performing claims as defined by the Financial Reconstruction Law (FRL) decreased 4.9 billion yen to 35.1 billion yen. The FRL Ratio was down 0.10% from March 31, 2008 to 0.89%, and is well within the acceptable range of up to 3%.

*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 became 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.*