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Aozora Bank Announces Financial Results for the First Six Months of FY2008, Revision of Earnings Forecasts for Full Fiscal Year 2008 and Strategic Focus

TOKYO November 14 2008 – Aozora Bank, Ltd (“Aozora” or “the Bank”), a leading Japanese commercial bank, today announced its financial results for the first six months of the fiscal year ending March 31, 2009. The Bank recorded net revenue of 36.4 billion yen, ordinary profit of -35.6 billion yen and net income of -28.0 billion yen on a consolidated basis. Aozora is taking all necessary measures, including the implementation of management changes and timely recognition of losses in order to improve its financial strength as quickly as possible during the current fiscal year.

Aozora has made significant management and organizational changes designed to achieve its primary goal of returning to sustainable profitability. Aozora is pleased to announce that Brian Prince, Shinsuke Baba and Kunimi Tokuoka have each been named Deputy President, who together will manage day-to-day operations of the Bank. Additionally, Brian Prince has also been named Chief Operating Officer and Chief Investment Officer. Masaki Tanabe has been promoted to Senior Managing Executive Officer and named Chief Financial Officer. Organizationally, Aozora has integrated its Global Investment Group and its Investment Banking Group as a result of the de-emphasizing of its international and alternative investment businesses, while still retaining the ability to execute on superior opportunities globally. In addition, Aozora will be undertaking a further review of its Board composition and will consider changes to members of its Board of Directors in June 2009 in order to support the Bank’s re-focus on its core business in the Japanese market.

In the first half alone, the Bank aggressively wrote-down four non-core exposures – GMAC, CDOs, Hedge Funds and Lehman Brothers – to minimize residual exposure and potential future losses. The Bank’s investment in GMAC has been written-down to 30% of its original cost or US\$150 million. Additionally, Aozora has no additional direct exposure to GM, Ford or Chrysler. The Bank’s residual CDO portfolio has been written down to 5 billion yen or 8.6% of original cost. Aozora expects the net loss incurred on its loan exposure to Lehman Brothers will be in-line with its previously announced estimates. Finally, the Bank has decided to redeem 53% of its hedge fund portfolio versus the September end balance. The Bank intends to continue to reduce the hedge fund portfolio over time. Without the effect of these four factors, the Bank would have recorded an ordinary profit in the first half.

The Bank’s core lending businesses are performing well despite difficult credit market conditions. Net interest income at 32.1 billion yen, a year-on-year increase of 4.2 billion yen, or 14.9%, was boosted by net interest margin growth. The Bank’s Tier 1 Capital Ratio of 14.71% as of September 30, 2008 remains one of the highest in Japan. Aozora continues to

keep a liquidity buffer, saw retail deposits increase throughout the first half, and is maintaining a flexible asset-liability management structure against its high-quality asset portfolio. The Bank continues to have a relatively low level of unhedged exposure to equity investments as well as a similarly low direct exposure to emerging markets. The Bank's non-recourse real estate exposure showed continued stability thanks to a relatively low portfolio Loan-To-Value and center-city concentration of underlying assets.

Aozora's recent announcement of a stock buy-back program, starting on November 17th, was made possible as a result of its strong capital position and demonstrates its commitment to enhancing shareholder value. Going forward, the Bank will focus on strengthening its domestic secured lending businesses, while commensurately actively managing its international exposures and improving its risk management capabilities. Aozora is also committed to implementing expense reductions and cost-control initiatives. Additionally, compensation for the Board of Directors and Executive Officers will be reduced by 30% and an average of 20%, respectively, effective October 1st.

To allow for a more focused approach to developing its core business while recognizing the challenges that the current market presents and will continue to present for the foreseeable future, the Bank now forecasts Business Profit of 10 billion yen and a net loss of 27.0 billion yen on a consolidated basis for the financial year ending March 31, 2009.

The Bank is committed to taking all necessary measures to enhance its core businesses, maintain its financial strength, increase corporate value, repay public monies and return to sustainable profitability. Aozora retains strong relationships with regional financial institutions, and is continually open to exploring all possible strategic partnerships and alliances that would be synergistic and accretive to earnings and deliver corporate value.

Aozora Bank's President and Chief Executive Officer Federico J. Sacasa commented: "Against the background of difficult market conditions, the Bank's core business continued to perform relatively well. However, the Bank incurred a loss at the ordinary profit level for the first half of FY 2008 from the write-down of specific asset classes outside the Bank's core Japanese business. While we are disappointed with these results and the revisions to the full year estimates, we are taking the necessary steps to restore profitability. Management accepts responsibility for these results and appropriate actions will be taken that will negatively impact remuneration and bonuses."

H1 FY 2008 Performance:**FY2008 H1 Financial Results (Consolidated)**

(100 million yen)	Ordinary Income	Net Revenue	Business Profit	Ordinary Profit	Net Income
H1 FY2008 (a)	1,168	364	115	-356	-280
H1 FY2007 (b)	1,101	488	227	231	427
Change (a)-(b)	67	-123	-113	-586	-708
Percentage Change	6.1%	-25.3%	-49.6%	-	-

FY2008 H1 Financial Results (Non-Consolidated)

(100 million yen)	Ordinary Income	Business Profit before general loan-loss reserve	Ordinary Profit	Net Income
Q1 FY2008 (a)	1,140	342	-397	-316
Q1 FY2007 (b)	1,020	183	190	402
Change (a)-(b)	120	159	-586	-718
Percentage Change	11.8%	86.6%	-	-

※ 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.

Full-Year Forecasts

Consolidated basis

(April 1, 2008 to March 31, 2009)

(100 million yen)	Ordinary Income	Net Revenue	Business Profit	Ordinary Profit	Net Income
Previous Forecast (a)	2,200	970	430	200	150
Revised Forecast (b)	2,150	600	100	-490	-270
Change (b-a)	-50	-370	-330	-690	-420
Percentage Change	-2.3%	-38.1%	-76.7%	-	-

【Non-consolidated basis】

(100 million yen)	Ordinary Income	Business Profit before general loan- loss reserve	Ordinary Profit	Net Income
Previous Forecast (a)	2,100	580	140	105
Revised Forecast (b)	2,100	300	-550	-320
Change (b-a)	0	-280	-690	-425
Percentage Change	0.0%	-48.3%	-	-

I. Revenue and Expenses

(100 million yen)	FY2007		FY2008		Change (B) – (A)		Page
	2 nd Quarter	Interim (A)	2 nd Quarter	Interim (B)	Amount	%	
Net revenue	216	488	190	364	-123	-25.3%	-
Net interest income	136	279	157	321	42	14.9%	6
<i>Net interest margin</i>	<i>0.65%</i>	<i>0.69%</i>	<i>0.82%</i>	<i>0.83%</i>	<i>0.14%</i>	-	6
Net fees and commissions	42	72	46	71	-1	-1.1%	7
Net trading revenues	47	38	313	321	283	738.1%	7
Net other ordinary income	-9	98	-327	-349	-447	-	7,8
General & administrative expenses	130	260	125	250	-11	-4.0%	8
Business profit	86	227	65	115	-113	-49.6%	-
Gains / losses on stock transactions	-4	33	-10	-2	-34	-	9
Ordinary profit	59	231	-334	-356	-586	-	-
Net income	58	427	-309	-280	-708	-	-

Credit-related expenses incl. recoveries of written-off claims	-2	-49	380	417	466	-	9
Taxes	-8	140	26	75	-65	-46.4%	10

The turbulence in global markets has continued to have a significant impact on the banking sector as a whole and Aozora's interim results reflect the significant challenges in the current operating environment. Aozora recorded consolidated net revenue for the interim period of 36.4 billion yen, 12.3 billion yen below the interim period of FY2007.

While the Bank's core business performed relatively strongly, the 4.2 billion yen increase in net interest income and a 28.3 billion yen increase in net trading revenues (including 22.6 billion yen in profits from Credit Default Swaps hedging credit exposures to Lehman Brothers) was offset by a number of specific non-core items, including a 44.7 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 (see (5) below for details).

General and administrative expenses stood at 25.0 billion yen, a decrease of 1.1 billion yen on the prior year period, following a number of tight cost control initiatives being implemented. Overall, business profit decreased by 11.3 billion yen to 11.5 billion yen.

Credit-related expenses were 41.7 billion yen, with 26.1 billion yen relating to Lehman Brothers, representing an increase of 46.6 billion yen from interim FY2007. Gains / losses on stock transactions fell 3.4 billion yen to -0.2 billion yen, and taxes including deferred income tax credits decreased 6.5 billion yen to 7.5 billion yen income. As a result, consolidated net income fell 70.8 billion yen to -28.0 billion yen.

Net Revenue

(1)① Net Interest Income

(100 million yen)	FY2007		FY2008		Change (B) - (A)
	2 nd Quarter	Interim (A)	2 nd Quarter	Interim (B)	
Net interest income (a)-(b)	136	279	157	321	42
Interest income (a)	348	695	340	687	-8
Interest on loans and discounts	256	493	263	527	34
Interest and dividends on securities	68	159	59	121	-38
Other interest income	23	40	18	39	-1
Interest on swaps	1	3	-	-	-3
Interest expenses (b)	212	416	183	367	-49
Interest on deposits and NCDs※	55	105	62	125	20
Interest on debentures	41	74	58	113	40
Interest on borrowings and rediscount	4	8	5	10	2
Other interest expenses	44	94	30	59	-34
Interest on swaps	69	136	28	58	-78

※ Negotiable certificates of deposit

Core lending businesses are performing well despite market conditions and net interest income stood at 32.1 billion yen, representing an increase of 4.2 billion yen, or 14.9%, from the same period last year. This resulted from a decrease of approximately 1.4 billion yen in dividends from securities, and other factors such as an enhanced net interest margin, contributing approximately 5.6 billion yen.

(1)② Net Interest Margin

	FY2007		FY2008		Change (B) - (A)
	2 nd Quarter	Interim (A)	2 nd Quarter	Interim (B)	
Yield on total investments (a)	2.17%	2.20%	2.04%	2.05%	-0.15%
Yield on loans (b)	2.65%	2.60%	2.45%	2.46%	-0.14%
Yield on securities	1.52%	1.73%	1.36%	1.38%	-0.35%
Yield on funding (c)	1.52%	1.51%	1.22%	1.22%	-0.29%
Net interest margin (a)-(c)	0.65%	0.69%	0.82%	0.83%	0.14%
Loan margin (b)-(c)	1.13%	1.09%	1.23%	1.24%	0.15%

The net interest margin increased by 14bps 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 15 bps from 1.09% to 1.24%.

(2) Net Fees and Commissions

(100 million yen)	FY2007		FY2008		Change (B) – (A)
	2 nd Quarter	Interim (A)	2 nd Quarter	Interim (B)	
Net fees and commissions (a)-(b)	42	72	46	71	-1
Fees and commissions received (a)	46	80	50	79	-0
Business-related loans	28	46	36	54	9
Securities-related and agency	11	20	8	13	-7
Others	7	14	6	12	-2
Fees and commission paid (b)	4	8	4	8	0

Japanese traditional corporate lending volume and performance has remained stable. Net fees and commissions stood at 7.1 billion yen, a decrease of 0.1 billion yen from the previous year. Fees related to loan business increased 0.9 billion yen, or 18.7%, year on year, whereas fees from securities-related and agency transactions decreased by 0.7 billion yen, resulting in an overall year on year decrease.

(3) Net Trading Revenues

(100 million yen)	FY2007		FY2008		Change (B) – (A)
	2 nd Quarter	Interim (A)	2 nd Quarter	Interim (B)	
Net trading revenues	47	38	313	321	283
Net income on trading-related financial derivatives transactions	46	39	311	322	283
Net other trading income	1	-1	2	-1	-0

Net trading revenues increased 28.3 billion yen year on year to 32.1 billion yen helped by gains from derivatives transactions including CDS transactions. Gains totaling 22.6 billion yen arose from CDS transactions with Lehman Brothers as the reference entity.

(4) Losses on Bond Transactions

(100 million yen)	FY2007		FY2008		Change (B) – (A)
	2 nd Quarter	Interim (A)	2 nd Quarter	Interim (B)	
Losses on bond transactions	-56	-77	-34	-58	18
Japanese government bonds	-12	-29	13	12	41
Foreign government bonds and mortgage bonds	-8	-17	7	8	25
Others	-37	-31	-54	-78	-47
Collateralized Debt Obligations (CDOs) only	-46	-46	-48	-65	-18
Others	9	16	-6	-13	-29

Losses on bond transactions stood at 5.8 billion yen, reflecting gains for this period in JGBs, foreign government bonds and mortgage bonds and losses from recognizing additional impairment of CDOs of 6.5 billion yen.

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

(100 million yen)	FY2007		FY2008		Change (B) – (A)
	2 nd Quarter	Interim (A)	2 nd Quarter	Interim (B)	
Net other ordinary income excluding gains (losses) on bond transactions	47	175	-293	-291	-465
Gains (losses) on foreign currency transactions	27	25	4	-5	-31
Gains (losses) on derivatives other than trading, net	-15	-18	4	1	19
Profit from non-JPY fund investments	-7	66	-131	-65	-131
Profit from limited partnerships	40	75	-6	3	-73
Real estate related	17	37	2	5	-31
Distressed loan related	12	24	-3	5	-19
Other (venture capital, etc.)	11	15	-5	-8	-23
Gains on distressed loans (Aozora Loan Services)	8	13	8	14	1
Debenture issue cost	-1	-2	-1	-2	-0
Profit (losses) on GMAC investment	0	17	-169	-233	-250
Others	-6	-3	-2	-3	-0

Net other ordinary income excluding losses on bond transactions fell 46.5 billion yen year on year, to -29.1 billion yen. Profits on limited partnerships stood at 300 million yen, a decrease of 7.3 billion yen (96.3%), and profits from hedge fund investments decreased 13.1 billion yen to -6.5 billion yen. The Bank wrote down its investment in FIM LLC (51% owner of GMAC LLC) by a further 23.3 billion yen. The book value of the investment in FIM LLC as of September 2008 was USD150 million on a consolidated basis. The investment has now been written down by a cumulative 70%.

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

(100 million yen)	FY2007		FY2008		Change (B) – (A)
	2 nd Quarter	Interim (A)	2 nd Quarter	Interim (B)	
G & A expenses	130	260	125	250	-11
Personnel	62	125	63	126	1
Non-personnel expense	62	120	57	111	-10
Tax	6	15	5	13	-2

General and administrative expenses decreased by 1.1 billion yen or 4.0% year on year, to 25.0 billion yen, as a result of stringent cost controls, although the Bank has continued to invest in key personnel and information technology.

3. Credit-Related Expenses

(100 million yen)	FY2007		FY2008		Change (B) - (A)
	2 nd Quarter	Interim (A)	2 nd Quarter	Interim (B)	
Reversal of reserve for possible loan losses, etc incl. recoveries of written-off claims	-2	-49	380	417	466

Credit-related expenses stood at 41.7 billion yen in contrast with a 4.9 billion yen profit in the interim period of FY2007. Major factors in this increase were increased loan write-off of 30.2 billion yen, including 26.1 billion yen in loans to Lehman Brothers, an increase in reserves of 6.6 billion yen, and a loss of 4.6 billion yen on the sale of claims.

(1) Loss on Lehman Brothers related loans

(100 million yen)	Loans	P/L
Lehman Brothers Holdings Japan Inc.	500	-175
Lehman Brothers Holdings Inc.	100	-86
Sub Total (a)	600	-261
CDS hedge transactions (b)	-	226
Total (a)+(b)	-	-35

The Lehman Brothers Holdings Japan Inc. loan is guaranteed by Lehman Brothers Holdings Inc.

The gross loss from loans totaling 60.0 billion yen to Lehman Brothers is estimated at 26.1 billion yen. The net loss after taking into account gains from hedge transactions was 3.5 billion yen.

In addition, a loss of 2.1 billion yen was recognized on 2.5 billion yen of accounts receivable arising from terminated derivative transactions with Lehman Brothers.
(Recorded as Other Expenses)

4. Stock Transactions

(100 million yen)	FY2007		FY2008		Change (B) - (A)
	2 nd Quarter	Interim (A)	2 nd Quarter	Interim (B)	
Exchange Traded Funds	3	40	0	9	-31
Japanese stocks	0	0	0	0	0
Others	-7	-7	-10	-10	-3
∴ CDO equities only	-7	-7	-0	-1	6
Total	-4	33	-10	-2	-34

Gains / (losses) on stock transactions were 0.2 billion yen loss, a 3.4 billion yen decrease compared to a gain of 3.3 billion yen a year earlier. Gains on the sale of Exchange Traded Funds (ETFs) stood at 0.9 billion yen, and losses on the equity tranches of CDO investments amounted to 0.1 billion yen.

5. Other Transactions

(100 million yen)	FY2007		FY2008		Change (B)–(A)
	2 nd Quarter	Interim (A)	2 nd Quarter	Interim (B)	
Losses on stock futures transaction	-5	-8	16	-21	-13
Gains on money held in trust	1	2	1	2	0
Others	-13	-13	-28	-31	-18
Total	-16	-20	-11	-51	-32

Losses from other transactions increased 3.2 billion yen from the previous year's 2.0 billion yen to 5.1 billion yen largely as a result of losses on stock futures transactions, hedging Exchange Traded Funds (ETFs) increasing from the previous year's 0.8 billion yen to 2.1 billion yen.

6. Taxes

(100 million yen)	FY2007		FY2008		Change (B)–(A)
	2 nd Quarter	Interim (A)	2 nd Quarter	Interim (B)	
Taxes	-8	140	26	75	-65

Tax credits decreased 6.5 billion yen to 7.5 billion yen, in comparison with the previous year's 14.0 billion yen, which included the effect of the change in the accounting period for the estimation of future taxable income for the calculation of deferred tax assets from 1 year to 3 years in FY2007.

II. Balance Sheet

(100 million yen)	March 31, 2008 (A)	Sept. 30, 2008 (B)	Change (B)–(A)		Sept. 30, 2007	Page
			Amount	%		
Total assets	72,591	68,035	-4,556	-6.3%	66,239	-
Loan and bills discounted	42,845	42,604	-241	-0.6%	39,717	12
Securities	16,522	14,744	-1,777	-10.8%	16,516	13
Others	13,224	10,686	-2,538	-19.2%	10,006	-
Total liabilities	64,910	60,753	-4,158	-6.4%	58,069	-
Deposits	23,655	24,074	419	1.8%	22,914	} 12
Negotiable certificates of deposit	9,539	6,104	-3,435	-36.0%	7,495	
Debentures	20,656	20,253	-404	-2.0%	17,835	
Bonds payable	1,240	1,230	-10	-0.8%	1,240	
Others	9,820	9,092	-728	-7.4%	8,586	
Total net assets	7,681	7,282	-398	-5.2%	8,170	-
Capital stock	4,198	4,198	-	-	4,198	-
Capital surplus	333	333	-	-	333	-
Retained earnings	3,472	3,113	-360	-10.4%	3,841	-
Valuation difference on available-for-sale securities	-278	-344	-66	-	-175	-
Others	-45	-17	28	-	-26	-
Total liabilities and net assets	72,591	68,035	-4,556	-6.3%	66,239	-

The bank's balance sheet still remains robust, even in light of recent write-downs and the continuing market turmoil, underpinning one of the strongest Tier 1 Capital Ratios in the Japanese banking sector.

Total assets amounted to 6,803.5 billion yen as of September 30, 2008, a decrease of 6.3%, or 455.6 billion yen compared to March 31, 2008. This included a decrease of 24.1 billion yen, or 0.6%, in the loan book and a decrease of 177.7 billion yen, or 10.8%, in the securities balance. The Bank has continued to focus on increasing its liquidity buffer in the short term through more efficient, matched funding. It has successfully grown its retail deposit base during the year, while debentures decreased by 40.4 billion yen, or 2.0%. Negotiable certificates of deposits decreased by 343.5 billion yen, or 36.0%. As a result of these actions, total liabilities fell 415.8 billion yen, or 6.4%, to 6,075.3 billion yen.

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

(100 million yen)	March 31, 2008 (A)	Sept. 30, 2008 (B)	Change (B)–(A)	Sept. 30, 2007
Retail	14,940	16,341	1,401	15,083
Corporate, etc.	3,979	3,113	-866	3,708
Public Institutions	3,597	3,997	400	2,878
Financial Institutions (Debentures)	21,293	20,937	-356	18,439
Financial Institutions (Deposits)	11,490	7,443	-4,047	9,546
Deposits and Debentures total	55,299	51,830	-3,469	49,653

A focused push on the retail market helped funding from retail customers increase steadily by 140.1 billion yen, replacing some of the funding from corporate customers and financial institutions. The sale of debentures to financial institutions decreased by 35.6 billion, financial institution deposits decreased by 404.7 billion yen and funding from corporate customers decreased by 86.6 billion yen.

2. Loans

(100 million yen)	March 31, 2008 (A)	Sept. 30, 2008 (B)	Change (B)–(A)	Sept. 30, 2007
Loans outstanding	42,845	42,604	-241	39,717

The loan book grew 7.3%, or 288.8 billion yen, to 4,260.4 billion yen year on year but fell 0.6%, or 24.1 billion yen, from the March 31, 2008 balance as the Bank took a more conservative approach to lending in the difficult financial environment. Overseas lending rose by 30.8 billion yen, while lending to the financial and insurance industry sector decreased by 12.5 billion yen, and lending to various service industries and to the wholesale and retail industries declined by 50.8 billion yen and 18.7 billion yen, respectively. Lending to the real estate sector decreased by 5.2 billion yen, of which non-recourse loans increased by 15.9 billion yen, as the Bank continued to focus on domestic secured and structured lending.

3. Securities

(100 million yen)	Book value			Unrealized gains/losses		
	March 31, 2008 (A)	Sept. 30, 2008 (B)	Change (B) – (A)	March 31, 2008 (A)	Sept. 30, 2008 (B)	Change (B) – (A)
JGBs	8,855	7,889	-966	-61	13	74
Municipal bonds	26	48	22	0	0	-0
Corporate bonds	622	695	73	0	0	-0
Equities	315	313	-2	2	-7	-9
Foreign bonds	2,822	2,545	-277	-18	-63	-45
CDOs only	109	50	-59	-	1	1
Others	3,882	3,254	-628	-201	-287	-86
Hedge funds	1,740	1,619	-121	-26	-56	-31
ETFs (Linked to Japanese stocks index)	579	407	-173	-175	-222	-48
Investment in limited partnerships	1,018	960	-57	7	3	-4
REITs	84	37	-46	-9	-11	-2
Others	462	232	-231	2	1	-2
GMAC only	371	155	-215	-	-	-
CDOs only	1	0	-1	-	-	-
Total	16,522	14,744	-1,777	-278	-344	-66

Securities decreased by 177.7 billion yen in comparison with the March 31, 2008 results, primarily due to decreases in JGBs, foreign bonds and the GMAC related investment of 96.6 billion yen, 27.7 billion yen and 21.5 billion yen, respectively. Total unrealized losses amounted to 34.4 billion yen as of September 30, 2008, including gains on JGBs of 1.3 billion yen, losses of 22.2 billion yen on ETFs, and losses of 6.3 billion yen on foreign bonds. At September 30, 2008, floating rate JGBs were valued 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 Sept. 30 (A)	B/S amount as of Sept. 30 (B)	B/S amount to Hist. cost (B)/(A)	Unrealized valuation loss	
					(P/L)	(Equity)
Debt	27	422	24	5.7%	-22	+1
AAA	-	-	-	-	-	-
AA	-	-	-	-	-	-
A	-	-	-	-	-	-
BBB	-	-	-	-	-	-
BB+or lower	27	422	24	5.7%	-22	+1
Equity	3	24	0	-	-	-
ABS CDOs Total (a)	30	445	24	5.4%	-22	+1
SIVs (b)	2	31	0	-	0	-
Sub Total (a)+(b)=(c)	32	477	24	5.0%	-22	+1
Synthetic CDOs (d)	3	108	26	24.3%	-44	-
Total (c)+(d)	35	584	50	8.6%	-66	+1

The CDO balance sheet amount stood at 5.0 billion yen at the end of September. Within this total, debt securities amounted to 2.4 billion yen, equities were 0.0 billion yen, and synthetic CDOs were 2.6 billion yen. 6.6 billion yen was taken to the P/L as a 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 (direct investment or lending), Asset Backed Commercial Paper (ABCP), or hedge funds with any significant US sub-prime mortgage exposure.

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

(100 million yen)	Sept. 30, 2008	
	Book value	Unrealized gains/losses
Total	747	-3
GNMA	85	-1
FNMA	342	-1
FHLMC	320	-2
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.

(3)GMAC related investment

(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
GMAC investment	500	370	308	150

The table above shows changes in the book value of FIM LLC (51% owner of GMAC LLC) investment during the first half of the year. The book value as of September 30, 2008, was 150 million dollars, representing an aggregate loss of approximately 70%.

4. Investment in Limited Partnerships and Hedge Funds

(100 million yen)	March 31, 2008 (A)	Sept. 30, 2008 (B)	Change (B)–(A)	Sept. 30, 2007
Limited partnerships	1,018	960	-57	940
Real estate related	206	210	4	212
Distressed loan related	525	462	-64	448
Others	286	289	2	280
Hedge funds	1,740	1,619	-121	1,968

Investments in limited partnerships decreased by 5.7 billion yen, or 5.6%, from March 31, 2008, to 96.0 billion yen. While distressed loan related transactions decreased, real estate related transactions and venture investments and others saw an increase. Hedge fund investments decreased 12.1 billion yen, or 7.0%, from March 31, 2008, to 161.9 billion yen as the Bank continues to wind down its exposure to these investments.

(1) Hedge Funds

FY2008 Interim performance	Aozora	HFRX index *
Return	-5.92%	-9.08%
Volatility	10.43%	10.66%
Sharp	-1.37	-1.89

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

Monthly performance	Apr.2008	May 2008	Jun.2008	Jul.2008	Aug.2008	Sep.2008
Aozora	1.44%	2.17%	-0.19%	-2.29%	-0.79%	-6.19%
HFRX Index	1.20%	1.44%	-0.83%	-2.82%	-1.28%	-6.90%

While the effects of the continuing turmoil in the financial markets led to returns of -5.92%, these results were 3.16% ahead of the HFRX index, which stood at -9.08%.

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

(100 million yen)	March 31, 2008 (A)	Sept. 30, 2008 (B)	Change (B)–(A)	Sept. 30, 2007
Bankrupt and similar credit	0	474	474	2
Doubtful credit	306	381	75	314
Special attention credit	93	132	39	62
FRL credit, total (a)	399	987	588	378
Normal credit (b)	39,688	38,932	-756	35,321
Total credit (c)((a)+(b))	40,087	39,919	-168	35,699
FRL credit ratio (a)/(c)	0.99%	2.47%	1.48%	1.05%

Non-performing claims as defined by the Financial Reconstruction Law (FRL) increased 58.8 billion yen to 98.7 billion yen. The FRL Ratio was up 1.48% from March 31, 2008 to 2.47%. 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 12.2 billion yen. The Bank expects a full recovery on all claims on New City Residence Investment Corporation per the October 10, 2008 announcement.

IV. Capital Adequacy Ratio (Preliminary)

	March 31, 2008 (A)	Sept. 30, 2008 (B)	Change (B)–(A)
Capital adequacy ratio	14.29%	13.65%	-0.64%
Tier1 ratio	15.23%	14.71%	-0.52%

Aozora's Tier 1 ratio is the highest among the Japanese banking industry. The Bank's capital adequacy ratio was 13.65% and Tier 1 ratio was 14.71%.

FISCAL YEAR 2008 INTERIM FINANCIAL RESULTS CONFERENCE CALL
FRIDAY NOVEMBER 14, 2008

8:30 AM (NEW YORK) / 1:30 PM (LONDON)/10:30 PM (TOKYO)

HOST: Federico J. Sacasa, President and CEO; Brian F. Prince, Deputy President, COO and CIO; Masaki Tanabe, SMEO and CFO

Aozora Bank Ltd., a leading Japanese commercial bank, provider of lending, securitization, business and asset revitalization, asset management, loan syndication and investment advisory services, will release its Fiscal Year 2008 interim results on Friday, November 14, 2008. On that day, at 8:30 AM (New York) / 1:30 PM (London) / 10:30 PM (Tokyo), senior management will review the results and discuss recent business activity during a conference call for global followers. For further information about Aozora Bank, please visit the website at: <http://www.aozorabank.co.jp/english/investors/ir/presentation>

For further information please contact Masaaki Harada or Richard Roylance at +81 3 5212 9252, 9253

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 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.