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Aozora Bank Reports First Quarter Profit

TOKYO July 31, 2009 – Aozora Bank, Ltd. (“Aozora” or “the Bank”), a leading Japanese commercial bank, today announced its financial results for the first three months of FY2009.

Despite the continuing difficult economic conditions, this fiscal year got off to a good start. This start follows the Bank’s refocus on domestic corporate lending and a return to profitability. The Bank reported consolidated net revenue of 21.5 billion yen and net income of 5.4 billion yen, representing progress of 29.9% and 108.4%, respectively, towards the FY2009 forecast of 72 billion yen in net revenue and 5 billion yen in net income.

Summary of First Quarter Results (Consolidated)

- Consolidated net revenue for the first quarter of FY2009 increased 4.0 billion yen year on year (+23.1%) to 21.5 billion yen. This result represents the first increase in 3 years. Consolidated net income in the first quarter of FY2009 increased 2.5 billion yen year on year (+88.1%) to 5.4 billion yen, the first increase in two years.
- Retail funding increased by 9.3% to 2,087.6 billion yen from end-FY2008, and the percentage to the Bank’s total funding has expanded from 42.2% to 49.6% achieving the mid-term goal of 50%. The Bank also retained ample liquidity of over 1.1 trillion yen as of June 30, 2009.
- Net fees and commissions increased 2.2 billion yen year on year (+87.9%) to 4.8 billion yen, due to increased fees from new loan business associated with the transition to a primary focus on domestic lending business.
- The Bank’s net interest margin showed a steady improvement trend and increased 3 basis points to 0.89%. This reflected a decrease in the yield on funding which exceeded the decrease in the yield on total investments due to a drop in foreign currency funding costs.
- General and administrative expenses decreased 1.4 billion yen year on year (-11.0%) to 11.1 billion yen, reflecting the continuation of cost saving initiatives.
- Credit-related expenses were 1.8 billion yen, down 2.0 billion yen year on year (-52.7%), largely as a result of the reduction of legacy and non-core assets and appropriate write-offs and reserves implemented in FY2008. Aozora’s loan loss reserve represented 3.39% of total loans as of June 30, 2009.
- The Financial Reconstruction Law (FRL) ratio (non-consolidated) was 3.75%, down 0.58% compared to March 31, 2009. The percentage of FRL claims covered by reserves, collateral and guarantees continued to be one of the highest among major Japanese banks at 92.5%.
- In the near future, Aozora will release its capital adequacy and Tier 1 ratios on a preliminary basis for the quarter ended June 30, 2009. Both ratios are expected to remain among the highest of the major Japanese banks.
- The net income result reported in the first quarter exceeded the Bank’s full year forecast of 5 billion yen. However, in consideration of continuing uncertainty in the market, the Bank has elected not to revise its full year forecast at this time.

Brian F. Prince, Representative Director, President and Chief Executive Officer of Aozora Bank commented, "We stated at the beginning of this fiscal year that one of our primary objectives was to return the Bank to profitability. Despite a challenging operating environment, we are pleased that we were able to accomplish this important milestone. During the first quarter, we continued to make progress in reducing the risk in our balance sheet while refocusing our efforts on the domestic Japanese market. While we expect to face difficult market conditions for the remainder of the year, we start the year in good shape to profitably deploy our strong capital and liquidity position."

Progress on Shinsei Integration

As announced by the Bank on July 1, 2009, Aozora Bank and Shinsei Bank have concluded an Alliance Agreement that is expected to result in the merger of the two companies in 2010. On July 7, both Aozora and Shinsei welcomed Mr. Norito Ikeda as Senior Advisor. Additional information regarding the announcement is available on the company's website at www.aozorabank.co.jp.

Q1 FY2009 Performance (April 1 to June 30, 2009):

Consolidated basis

(100 million yen)	Ordinary Income	Net Revenue	Business Profit	Ordinary Profit	Net Income
Q1 FY2009 (a)	403	215	104	42	54
Q1 FY2008 (b)	488	175	50	-21	29
Change (a) - (b)	-84	40	54	63	25
Percentage change ((a)-(b)) / (b)	-17.3%	23.1%	109.1%	-	88.1%
FY2009 Full-Year Forecast (c)	1,350	720	260	30	50
Progression (a) / (c)	29.9%	29.9%	39.9%	138.5%	108.4%

Non-Consolidated basis

(100 million yen)	Ordinary Income	Business Profit before general loan-loss reserve	Ordinary Profit	Net Income
Q1 FY2009 (a)	383	101	32	42
Q1 FY2008 (b)	473	112	-40	15
Change (a)-(b)	-91	-11	72	27
Percentage change ((a)-(b)) / (b)	-19.1%	-9.8%	-	178.6%
FY2009 Full-Year Forecast (c)	1,300	245	25	50
Progression (a) / (c)	29.5%	41.2%	127.4%	83.4%

I. Revenue and Expenses

(100 million yen)	FY2008 Q1 A	FY2009 Q1 B	Change B—A		FY2009 12 Month Earnings Forecast	%	Page
			Amt.	%			
Net revenue	175	215	41	23.1%	720	29.9%	-
Net interest income	164	119	-45	-27.2%	-	-	4
<i>Net interest margin</i>	<i>0.86%</i>	<i>0.89%</i>	<i>0.03%</i>	-	-	-	4
Net fees and commissions	25	48	22	87.9%	-	-	5
Net trading revenues	8	4	-3	-45.0%	-	-	5
Net other ordinary income	-22	44	66	-	-	-	5,6
General & administrative expenses	-125	-111	14	11.0%	-460	24.2%	6
Business profit	50	104	54	109.1%	260	39.9%	-
Gains / losses on stock transactions	8	0	-8	-95.4%	-	-	7
Ordinary profit	-21	42	63	-	30	138.5%	-
Net income	29	54	25	88.1%	50	108.4%	-
Credit-related expenses incl. recoveries of written-off claims	-37	-18	20	52.7%	-220	8.0%	7
Taxes	49	-20	-69	-	-	-	7

As a result of the significant addressing of legacy and non-core assets in FY2008 and an operational change in line with the policy to refocus on the domestic lending market in which the Bank excels, in the first quarter of FY2009 the Bank achieved consolidated net revenue of 21.5 billion yen, an increase of 4.0 billion yen (+23.1%) year on year and the first increase in 3 years.

Net interest income decreased by 4.5 billion yen to 11.9 billion yen, due to a decrease in the average balance of interest-earning assets. Trading income decreased by 0.3 billion yen to 0.4 billion yen, while net fees and commissions increased 2.2 billion yen to 4.8 billion yen, reflecting an increase in fees related to new loan business. Net other ordinary income increased by 6.6 billion yen to 4.4 billion yen as a result of the completion of the significant addressing of legacy and non-core assets in FY2008.

General and administrative expenses stood at 11.1 billion yen, a decrease of 1.4 billion yen year on year, as a result of continued strict controls on costs. Business profit increased 5.4 billion yen to 10.4 billion yen.

Credit-related expenses were 1.8 billion yen, a year on year decrease of 2.0 billion yen. Gains/losses on stock transactions fell 0.8 billion yen to 0.0 billion yen, and tax expense, including deferred income tax credits decreased 6.9 billion yen to -2.0 billion yen. As a result, consolidated net income increased 2.5 billion yen (+88.1%) year on year to 5.4 billion yen, the first such increase in 2 years.

1. Net Revenue

(1)① Net Interest Income

(100 million yen)	FY2008 Q1 A	FY2009 Q1 B	Change B-A
Net interest income (a)-(b)	164	119	-45
Interest income (a)	347	240	-107
Interest on loans and discounts	265	178	-87
Interest and dividends on securities	62	50	-11
Other interest income	21	6	-15
Interest on swaps	-	7	7
Interest expenses (b)	183	121	-63
Interest on deposits and NCDs※	63	65	2
Interest on debentures	56	40	-16
Interest on borrowings and rediscount	5	5	-0
Other interest expenses	29	6	-23
Interest on swaps	30	5	-25

※ Negotiable certificates of deposit

The significant addressing of legacy and non-core assets in FY2008, together with a decrease in the average balance of interest-earning assets resulted in net interest income of 11.9 billion yen, down 4.5 billion yen, or 27.2%, year on year. Major factors were a decrease of approximately 4.8 billion yen due to a decrease in the average balance of interest-earning assets and other factors, such as an enhanced net interest margin, which contributed approximately 0.3 billion yen.

(1)② Net Interest Margin

(100 million yen)	FY2008 Q1 A	FY2009 Q1 B	Change B-A
Yield on total investments (a)	2.07%	1.88%	-0.19%
Yield on loans (b)	2.48%	2.02%	-0.46%
Yield on securities	1.40%	1.65%	0.25%
Yield on funding (c)	1.21%	0.99%	-0.22%
Net interest margin (a)-(c)	0.86%	0.89%	0.03%
Loan margin (b)-(c)	1.27%	1.03%	-0.24%

The net interest margin, showing a steady improvement trend, increased by 3 bps to 0.89%. This result reflected 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 full-year result. The loan margin decreased 24 bps from 1.27% to 1.03% reflecting a decrease in the yield on loans.

(2) Net Fees and Commissions

(100 million yen)	FY2008 Q1 A	FY2009 Q1 B	Change B-A
Net fees and commissions (a)-(b)	25	48	22
Fees and commissions received (a)	29	51	21
Business-related loans	18	44	26
Securities-related and agency	5	2	-3
Others	6	4	-2
Fees and commission paid (b)	4	3	-1

Net fees and commissions were 4.8 billion yen, an increase of 2.2 billion yen year on year. An increase in fees from business-related loans (+2.6 billion yen, +141.7%), reflecting an increase in fees from new loan business, was the main factor in the overall year on year increase.

(3) Net Trading Revenues

(100 million yen)	FY2008 Q1 A	FY2009 Q1 B	Change B-A
Net trading revenues	8	4	-3
Net income on trading-related financial derivatives transactions	11	4	-6
Net other trading income	-3	-0	3

Net trading revenues decreased by 0.3 billion yen year on year to 0.4 billion yen, reflecting a decrease in gains from derivatives transactions.

(4) Gains/losses on Bond Transactions

(100 million yen)	FY2008 Q1 A	FY2009 Q1 B	Change B-A
Gains/losses on bond transactions	-24	51	76
Japanese government bonds	-1	15	16
Foreign government bonds and mortgage bonds	1	9	8
Others	-24	27	52
Collateralized Debt Obligations (CDOs) only	-17	15	32
Profit from hedge funds (Available For Sale)	-4	6	10
Others	-3	6	9

Gains/losses on bond transactions increased 7.6 billion yen year on year to 5.1 billion yen, as a result of a reduction in the burden from losses owing to the completion of the significant disposal of non-performing assets in FY2008, and gains from the sale of Japanese government bonds.

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

(100 million yen)	FY2008 Q1 A	FY2009 Q1 B	Change B-A
Net other ordinary income excluding gains/losses on bond transactions	2	-8	-10
Gains /losses on foreign currency transactions	-10	-23	-13
Gains /losses on derivatives other than trading, net	-2	1	4
Profit from hedge funds (Trading)	66	-	-66
Profit from limited partnerships	8	-5	-13
Real estate related	3	-3	-7
Distressed loan related	8	6	-2
Other (venture capital, etc.)	-3	-7	-4
Gains on distressed loans (Aozora Loan Services)	6	3	-3
Debenture issue cost	-1	-1	0
Profit (losses) on GMAC investment	-65	-0	65
Others	-1	17	18

A loss of 0.8 billion yen, down 1.0 billion yen year on year, was recorded for net other ordinary income, excluding gains/losses on bond transactions. Following the addressing of legacy and non-core assets in the second half of FY2008, profit from hedge funds (Trading) and profit (losses) on GMAC were both zero this term, in comparison with profit of 6.6 billion yen and losses 6.5 billion yen, respectively, that were recorded in FY2008.

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

(100 million yen)	FY2008 Q1 A	FY2009 Q1 B	Change B-A
G & A expenses	-125	-111	-14
Personnel	-63	-50	-13
Non-personnel expense	-54	-54	0
Tax	-8	-7	-1

General and administrative expenses decreased by 1.4 billion yen, or 11.0% year on year, to 11.1 billion yen, as a result of the continuation of stringent cost controls. This represents 24.2% of the full-year forecast of 46.0 billion yen.

3. Credit-Related Expenses

(100 million yen)	FY2008 Q1 A	FY2009 Q1 B	Change B-A
Reversal of reserve for possible loan losses, etc incl. recoveries of written-off claims	-37	-18	20
Write-off of loans	-24	-49	-26
Loss on disposition of loans	0	-1	-1
Specific reserve for possible loan losses	-6	5	11
General reserve for possible loan losses	-9	22	31
Reversal of reserve for credit losses on off-balance- sheet instruments	1	6	5
Recoveries of written-off claims	1	0	-0

Credit-related expenses stood at 1.8 billion yen, down 2.0 billion yen, representing 8.0% of the full-year forecast of 22.0 billion yen. This included a reversal of the general reserve for possible loan losses of 2.2 billion yen, largely the result of a decrease in domestic loans, and a reversal of the specific reserve for loan losses of 0.5 billion yen in connection with the sale of problem loans. The ratio of loan loss reserves to total loans decreased to 3.39% as of June 30, 2009, in comparison to 3.73% as of March 31, 2009. It continued to be one of the highest among major Japanese banks.

4. Stock Transactions

(100 million yen)	FY2008 Q1 A	FY2009 Q1 B	Change B-A
Exchange Traded Funds	9	-	-9
Japanese stocks	0	0	0
Others	-1	0	1
CDO equities only	-1	-	1
Total	8	0	-8

Gains / (losses) on stock transactions stood at 0.0 billion yen. All exchange traded funds (ETFs) held by the Bank were sold in the previous term.

5. Other Transactions

(100 million yen)	FY2008 Q1 A	FY2009 Q1 B	Change B-A
Gains/losses on stock futures transactions	-37	-5	33
Gains on money held in trust	1	2	1
Others	-4	-9	-5
Total	-41	-12	29

Losses from other transactions improved 2.9 billion yen to 1.2 billion yen from the previous period's 4.1 billion yen. A major factor in this 1.2 billion yen loss was the recording of expenses related to the conclusion of an alliance agreement with Shinsei Bank.

6. Taxes

(100 million yen)	FY2008 Q1 A	FY2009 Q1 B	Change B-A
Taxes	49	-20	-69

While a tax benefit was recognized in the first quarter of FY2008, a loss of 2.0 billion yen was recognized in the first quarter of FY 2009, largely due to a more conservative approach to valuing deferred tax assets.

II. Balance Sheet

(100 million yen)	Mar. 31, 2009 (A)	June 30, 2009 (B)	Change (B) – (A)		June 30, 2008	Page
			Amount	%		
Total assets	60,773	56,715	-4,058	-6.7%	70,251	-
Loan and bills discounted	34,849	34,050	-800	-2.3%	42,147	9
Securities	11,266	12,317	1,051	9.3%	16,846	10
Others	14,658	10,349	-4,309	-29.4%	11,258	-
Total liabilities	55,477	51,354	-4,123	-7.4%	62,635	-
Deposits	26,256	27,508	1,252	4.8%	23,511	} 9
Negotiable certificates of deposit	2,842	1,580	-1,263	-44.4%	6,879	
Debentures	14,897	11,761	-3,136	-21.0%	20,936	
Bonds payable	1,150	1,123	-27	-2.4%	1,240	
Others	10,322	9,382	-950	-9.2%	10,070	
Total net assets	5,296	5,361	65	1.2%	7,616	-
Capital stock	4,198	4,198	-	-	4,198	-
Capital surplus	333	333	-	-	333	-
Retained earnings	967	1,000	33	3.4%	3,422	-
Valuation difference on available-for-sale securities	-8	22	29	-	-280	-
Others	-194	-191	3	-	-57	-
Total liabilities and net assets	60,773	56,715	-4,058	-6.7%	70,251	-

Total assets amounted to 5,671.5 billion yen as of June 30, 2009, a decrease of 6.7%, or 405.8 billion yen. This result included an increase in securities of 105.1 billion yen (+9.3%) compared to March 31, 2009, a decrease in loans and bills discounted of 80.0 billion yen (-2.3%), and a decrease in cash and due from banks of 460.1 billion yen (-68.4%). On the funding side, deposits increased by 4.8% since March 31, 2009, mainly due to an increase of approximately 180 billion yen in retail deposits. The continuing suspension of debenture issuance and adjustments to the Bank's funding operations led to a decrease in debentures of 313.6 billion yen, or 21.0%, and negotiable certificates of deposits decreased by 126.3 billion yen, or 44.4%. As a result of these actions, total liabilities fell 412.3 billion yen, or 7.4%, to 5,135.4 billion yen.

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

(100 million yen)	Mar. 31, 2009 (A)	June 30, 2009 (B)	Change (B)–(A)	June 30, 2008
Retail	19,107	20,876	1,769	15,606
Corporate, etc.	3,891	3,245	-646	3,339
Public Institutions	2,984	946	-2,038	2,967
Financial Institutions (Debentures)	15,563	12,427	-3,136	21,590
Financial Institutions (Deposits)	3,780	4,607	827	9,223
Deposits and Debentures total	45,325	42,101	-3,224	52,726

A focus on the retail market helped funding from retail customers increase markedly by 176.9 billion yen. The sale of debentures to financial institutions decreased by 313.6 billion, funding from public institutions decreased by 203.8 billion yen and funding from corporate customers decreased by 64.6 billion yen. Due to continuing unfavorable debt market conditions, the debenture issuance balance has decreased since the Bank elected to suspend issuance in October 2008. As a result of this, retail funding as a proportion of the Bank's core funding profile has increased from 42.2% to 49.6%, achieving the mid-term goal of 50%.

As of June 30, 2009, the Bank retained ample liquidity of in excess of 1.1 trillion yen,

2. Loans

(100 million yen)	Mar. 31, 2009 (A)	June 30, 2009 (B)	Change (B)–(A)	June 30, 2008
Loans outstanding	34,849	34,050	-800	42,147

The loan book decreased 2.3%, or 80 billion yen, to 3,405.0 billion yen from end-FY2008 as the Bank took a conservative approach to new lending in the unstable financial environment. In comparison to end-FY2008, lending to the Japanese government (+103.8 billion yen) and the transport industry (+1.8 billion yen) increased, while overseas loans (-39.6 billion yen), the finance/insurance industry (-21.9 billion yen), the wholesale/retail sector (-15.4 billion yen), and the manufacturing sector (-14.0 billion yen) all decreased. Although lending to the real estate sector also decreased (-17.3 billion yen), non-recourse loans increased (+7.3 billion yen).

3. Securities

(100 million yen)	Book value				Unrealized gains/losses			
	Mar. 31, 2009 (A)	June 30, 2009 (B)	(B) - (A)	June 30, 2008	Mar. 31, 2009 (A)	June 30, 2009 (B)	(B) - (A)	June 30, 2008
JGBs	7,052	8,049	997	9,022	32	46	15	-87
Municipal bonds	52	52	1	41	0	1	1	-0
Corporate bonds	495	465	-31	792	-3	-0	3	0
Equities	296	294	-2	320	-1	1	1	-0
Foreign bonds	1,900	2,168	268	2,868	-32	-28	4	-35
Others	1,471	1,288	-183	3,803	-4	17	21	-158
Hedge funds	527	371	-156	1,852	-	21	21	-20
ETFs (Linked to Japanese stocks index)	-	-	-	492	-	-	-	-137
Investment in limited partnerships	866	892	26	997	1	-0	-1	5
REITs	-	-	-	40	-	-	-	-7
Others	77	25	-52	422	-4	-4	0	1
GMAC only	14	14	-0	328	-	-	-	-
Total	11,266	12,317	1,051	16,846	-8	36	44	-280

Securities increased by 105.1 billion yen in comparison with end-FY2008, primarily due to increases in JGBs and foreign bonds, such as US Treasury bonds, of 99.7 billion yen and 26.8 billion yen, respectively. This came as a result of a change in liquidity buffer operations from a focus on cash and due from banks to JGBs.

Total unrealized gains amounted to 3.6 billion yen as of June 30, 2009, including gains on JGBs and hedge funds of 4.6 billion yen and 2.1 billion yen, respectively.

Floating rate JGBs were valued, as in FY2008, 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.

4. Investment in Limited Partnerships and Hedge Funds

(100 million yen)	Mar. 31, 2009 (A)	June 30, 2009 (B)	Change (B)-(A)	June 30, 2008
Limited partnerships	866	892	26	997
Real estate related	196	177	-19	215
Distressed loan related	412	462	50	484
Others	259	254	-5	298
Hedge funds	527	371	-156	1,852

Investments in limited partnerships increased by 2.6 billion yen, or 3.0 %, from end-FY2008. Hedge fund investments decreased 15.6 billion yen, or 29.6%, from end-FY2008, to 37.1 billion yen following the decision to redeem all hedge funds in FY2008.

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

(100 million yen, %)	Mar. 31, 2009 (A)	June 30, 2009 (B)	Change (B)–(A)	June 30, 2008
Bankrupt and similar credit	437	481	44	11
Doubtful credit	813	560	-253	250
Special attention credit	152	149	-3	90
FRL credit, total (a)	1,401	1,190	-212	351
Normal credit (b)	30,956	30,477	-480	38,913
Total credit (c)((a)+(b))	32,357	31,666	-691	39,263
FRL credit ratio (a)/(c)	4.33%	3.75%	-0.58%	0.89%

Non-performing claims as defined by the Financial Reconstruction Law (FRL) decreased 21.2 billion yen to 119.0 billion yen from end-FY2008. The FRL Ratio was down 0.58% from end-FY2008 to 3.75%. The percentage of FRL claims covered by reserves, collateral and guarantees was maintained as among the highest of the major Japanese banks at 92.5%

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.