

## The Convocation Notice for The 75<sup>th</sup> FY Ordinary General Meeting of Shareholders

Dear Shareholders

Federico J. Sacasa  
President, Representative Director  
Aozora Bank, Ltd.  
3-1, Kudan-minami 1-chome, Chiyoda-ku, Tokyo

You are cordially invited to attend Aozora Bank, Ltd.'s 75<sup>th</sup> FY Ordinary General Meeting of Shareholders, as described below.

If you are unable to attend the meeting, you may exercise your voting right in writing, via the Internet or other means. We will ask for your cooperation in exercising your voting right, in consideration of the following "Reference Material for the General Meeting of Shareholders" by 5:15 p.m. of June 25th (Wed) 2008.

**【In the case of exercise your voting right in writing】**

Please write your vote of approval or disapproval on the enclosed "Exercise of Voting Rights Form" and return the form to us by mail.

**【In the case of exercise your voting right via the Internet】**

If you decide to exercise your voting right via the Internet, please read through the following "Procedure to Exercise the Voting Right via the Internet".

Thank you.

Best Regards,

1. Date & Time                      Thursday, June 26, 2008 at 10:00 AM-
  2. Place                                Diamond Room on the 2<sup>nd</sup> floor of Hotel Grand Palace  
1-1, Iidabashi 1-chome, Chiyoda-ku, Tokyo
  3. Purpose of the meeting  
Reports      1. Business Report, Consolidated Financial Documents and Reports of Audit Results of Consolidated Financial Documents by Accounting Auditor and Board of Auditors for the 75<sup>th</sup> FY (from April 1, 2007 to March 31, 2008)  
                  2. Reports on the Financial Documents for the 75<sup>th</sup> FY (from April 1, 2007 to March 31, 2008)
- Proposals for Resolution:
- Proposal No.1 : Partial Amendment to the Articles of Incorporation
  - Proposal No.2 : Appointment of Thirteen Directors
  - Proposal No.3 : Appointment of Two Auditors
  - Proposal No.4 : Appointment of One Alternate Auditor
  - Proposal No.5 : Payment of Retirement Allowance to Resigning Director

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- ◎ For those attending, please present the enclosed Voting Rights Exercise Form at the reception desk on arrival at the meeting.
  - ◎ In case of substitution, please present a document that proves the delegated authority at the reception desk as well as Voting Rights Exercise Form [Under the Articles of Incorporation, only one (1) other shareholder with the voting right is entitled to attend the General Meeting of Shareholders].
  - ◎ Please note that, in the event of any necessary revision to the consolidated and other financial documents, we will inform you of such revision on the company website on the Internet (<http://www.aozorabank.co.jp/>).

### **Procedure to Exercise the Voting Right via the Internet**

If you decide to exercise your voting right via the Internet, please note the following:

1. Exercise of the voting right via the Internet is possible only on the following website dedicated to exercise of the voting right designated by Aozora Bank. You can also exercise your voting right via the Internet from a cell phone.

**【URL of the website dedicated to exercise of the voting right】** <http://www.webdk.net>

※ You can also access to the website from a cell phone and read “QR Code” shown on the right. Please read an operating manual for your cell phone for detailed operating procedure.



2. When you decide to exercise your voting right via the Internet, use the “Voting Right Exercise Code” and the “Password” shown on the Voting Right Exercise Form, and register whether you agree or disagree with the agendas following the instructions displayed on the screen.
3. When you exercised your voting right both in writing and via the Internet redundantly, the exercise made via the Internet shall prevail.
4. When you exercised your voting right more than once, or both from a PC and a cell phone redundantly, the last exercise made shall be the effective.
5. Shareholders shall bear a fee for an Internet connection provider for access and a communication fee (such as telephone charges).

### **【System Environment to Exercise the Voting Right via the Internet】**

You will need the following system environment to use the website decided to exercise of the voting right:

- ① The accessibility to the Internet.
- ② When you decide to exercise the voting right from a PC, you shall be able to use Microsoft<sup>®</sup> Internet Explorer 5.5 SP2 or higher versions, or Netscape 6.2 or higher versions, as Internet browser software. You shall be also able to use the above Internet browser software as the hardware environment.
- ③ When you decide to exercise the voting right from a cell phone, you shall be able to use 128bitSSL communications (encrypted communication) from your cell phone model.  
(To ensure security, exercise of the voting right can be made only from models compatible with 128bitSSL communication. Cell phone models without this compatibility cannot be used).

(Microsoft is a registered trade mark of the Microsoft Corporation of the U.S. in the U.S. and other countries. Netscape is a registered trade mark of Netscape Communications Corporation in the U.S. and other countries) .

### **【Questions about Exercise of the Voting Right via the Internet】**

If you have any question about exercise of the voting right via the Internet, please contact the following manager of register of shareholders.

**Manager of Register of Shareholders:**

**Stock Transfer Agency Department of Sumitomo Trust & Banking Co., Ltd.**

**【Toll Free Number】 0120—186—417 (available 24 hours a day)**

### **【The electronic platform for executing voting rights】**

In addition to above mentioned executing voting rights through Internet, the nominee shareholders (including standing proxy) of trust banks, etc. who registered beforehand to use the electronic platform operated by ICJ Inc. (Joint corporation established by TSE, etc.) shall be able to execute their voting rights through electromagnetic form in our bank's General Meeting of Shareholders.

(Attached Documents)

**Business Report**  
**— Fiscal Year 2007 —**  
(April 1, 2007 — March 31, 2008)

1. Current Status of the Bank

(1) Business Developments and Results of the Corporate Group

[Financial Economic Environment]

The Japanese Economy was enjoying a gentle broad-based recovery at the beginning of the Fiscal Year 2007 (“FY2007”). Exports and productivity were increasing and capital expenditures also continued to rise based on high levels of corporate profit. However, after the summer of 2007, we began to see some instability in the global economies; oil prices continued to rise and the US appeared to enter an economic recession as the sub-prime crisis began to unfold. Stock prices fell at the same time as the yen began to appreciate giving rise to concerns about overflow into the Japanese economy.

Long-term interest rates temporarily rose to 1.9% , however an expectation of falling prices caused them to fall to 1.2% at the end of FY2007. This was the lowest level since July 2005, and was barely enough to keep the government’s quantitative easing policy. The Cabinet Office of Japan announced that the Japanese economy has entered the “mezzanine” stage in the monthly economic report in March 2008.

The Bank of Japan sets an overnight call rate without collateral at approximately 0.5%, admitting a temporary slowdown; however, they maintained their stance that the economy would continue to grow in the long term. .

At the beginning of FY2007, the Japanese yen was at 124 to the U.S. dollar. However, as concerns grew over the weakening of the U.S. economy, the dollar began to fall. On March 13<sup>th</sup> 2008 it broke through the 100 yen mark for the first time in over 12 years.

[Main Business Activities of the Corporate Group]

The group consists of the Bank and 16 consolidated subsidiaries. In addition to our primary banking business, we provide a variety of financial services businesses such as securities and trust services. Our subsidiaries provide debt collection services, venture capital as well as overseas businesses.

In FY2007, Acorn holdings and Acorn One were established as SPCs which conduct securitization backed by pool of loans.

[Business Developments and Results of the Corporate Group]

In FY2007, our activities included the expansion of products, services, business lines, the maintenance of a customer-oriented strategy, and the strengthening of our corporate governance, internal controls, and risk management policies and procedures. The Group leverages its neutral position within the Japanese banking community to promote strategic, mutually beneficial alliances with regional financial institutions.

The Group formed a comprehensive business alliance in the investment banking area with the Bank of Yokohama, Ltd. on May 24, 2007. The Group subsequently concluded a business alliance agreement with Toho Bank Ltd. on August 6, 2007. Strategic alliances have been formed first in the area of real estate collateral loan business with First Credit Co. and subsequently for real estate business with Sumitomo Trust & Banking Co., Ltd., and Sumishin Real Estate Co., all as part of a comprehensive business alliance with Sumitomo Trust & Banking Co., Ltd.

The segment information regarding the operations has been omitted here as the proportion of the operations other than banking is minimal.

The Group's total assets increased by ¥715.0 billion during this fiscal year, to ¥7,259.0 billion. The balance of loans and bills discounted increased by ¥599.8 billion from the previous fiscal year end, to ¥4,284.4 billion due to increased loan balance for overseas and financial institutions. The balance of investment securities decreased by ¥266.7 billion from the previous fiscal year end to ¥1,652.1 billion due to a decrease in securities in particular the Japanese national government bonds and foreign bonds.

The Group's total liabilities increased by ¥739.5 billion during this fiscal year, to ¥6,491.0 billion. Deposits and negotiable certificates of deposits increased by ¥85.4 billion, to ¥3,319.3 billion, and bonds and notes increased by ¥615.1 billion, to ¥2,065.6 billion.

The balance of net assets decreased by ¥24.4 billion from the previous fiscal year end, to ¥768.0 billion as net unrealized losses on available-for-sale securities increased by ¥25.2 billion.

Operating income increased by ¥3.4 billion from the previous fiscal year to ¥201.0 billion. This was due to an increase of interest income, up ¥27.6 billion from the previous year, mainly led by an increase in the balance of loans and bills discounted. For non-interest income, income from both fees and commissions and trading profits exceeded the result from the previous fiscal year (increased by ¥0.3 billion and ¥4.2 billion, respectively), but other operating income decreased by ¥27.6 billion from the previous fiscal year. This resulted from decreased profits on the disposition of bonds and the decreased operating profit from partnerships and funds.

Operating expenses increased by ¥87.4 billion from the previous fiscal year to ¥222.5 billion. This was a result of the recognition of a large amount of write-off for CDOs in light of the sub-prime problems in U.S. Interest expense increased by ¥17.8 billion from the previous year to ¥83.3 billion due to an increase in foreign currency-denominated assets. Other operating expenses rose by ¥61.2 billion from the previous fiscal year to ¥67.2 billion due to write-offs of CDOs, investment loss on FIM LLC (which holds 51% of GMAC LLC), and disposition losses of bonds when interest rate was increasing.

General and administrative expenses decreased by ¥1.0 billion from the previous fiscal year to ¥51.7 billion, as a result of our strict cost management, although we continuously made forward-looking investments in human resources and infrastructure. Other operating expenses increased by ¥9.2 billion from the previous year to ¥18.2 billion due to an increased disposition loss of securities. As a result, net operating loss of ¥21.5 billion, was recognized, down ¥83.9 billion from the previous fiscal year.

Extra-ordinary profit was decreased by ¥9.0 billion from the previous year to ¥10.9 billion. This was mainly due to a decrease of ¥6.7 billion in the reversal of reserve for possible loan losses the previous fiscal year to ¥9.7 billion.

Net loss before taxes of ¥12.7 billion was recognized following decrease of ¥93.8 billion from the previous year.

Since we extended the estimate period for future taxable income from 1 year to 3 year, deferred income taxes increased by ¥19.1 billion to ¥20.7 billion.

As a result of the aforementioned causes, net income after taxes was decreased by ¥75.5 billion to ¥5.9 billion. Net income per share was ¥2.28

[Challenges to Face]

In the fiscal year ended March 31, 2008, Aozora made a substantial increase in net interest income with strong loan growth, while non-interest income declined sharply in the turbulent market conditions resulting from the U.S. sub-prime loan problem. The net income on consolidation basis fell down significantly from the previous year to ¥5.9 billion due to unrealized valuation losses on asset backed Collateralized Debt Obligations (CDOs) for ¥45.3 billion, investment loss on FIM LLC for ¥14.8 billion as well as other losses on bonds and provisions for the deterioration on the value of investments. On a non-consolidation basis, we failed to achieve the net income projection of ¥76 billion for FY 2007 stipulated in the Business Revitalization Plan. Notwithstanding these losses, the bank remained profitable, and profits from core businesses remained in line with expectations. We face the future with strong asset quality, a strong capital base and a high level of liquidity that protects us from downside risks and positions us well to take advantage of market opportunities.

Aozora is a Japanese wholesale bank that operates in Japan. Its key objective is to create a financial services platform focused on building sustainable corporate value.

Aozora's takes a leading position in secured corporate finance and senior corporate loans to mid to large cap. Japanese corporations. Aozora also participates in syndicated loans in selected international markets. The source of growth and superior returns come from the specialty finance business lines, underpinned by our customer base. The Bank is also focused on distributing diverse products and providing financial solutions by leveraging our regional financial institutions network. Retail banking operations focus on affluent customers and support a high quality source of funding.

The Bank has built a well-diversified foreign currency asset portfolio through investments in syndicated loans, securities and fund investments.

Further, Aozora will explore growth opportunities through the development of strategic alliances with other financial institutions. Aozora formed a comprehensive business alliance with the Sumitomo Trust Banking Co. in November 2007 following strategic alliances with the Bank of Yokohama in May 2007 and with the Toho Bank in August 2007. Furthermore, Aozora agreed to form a mutual business alliance with RBC Capital Markets (the Investment Banking arms of the Royal Bank of Canada, the largest financial institution in Canada) in April 2008 in the field of Public Private Partnership "PPP." The alliance will focus on new business opportunities through future partnership between the public and private sectors in Japan.

Aozora is targeting markets where substantial growth opportunity exists and will use our skills, experience, execution efficiency and corporate culture to compete rather than scale. Core profitability growth is expected to continue and Aozora expects to become a full tax-payer in the future as it realizes the benefit of its remaining carried forward tax losses.

Since re-privatization the Bank has accumulated an adequate level of retained earnings for repayment of public funds as a strategic priority. The Bank re-listed its shares on the first section of the Tokyo Stock Exchange on November 14, 2006. Aozora currently has industry high levels of regulatory capital. Aozora will utilize this capital prudently and “right-size” it over time. Aozora aims to maintain a capital buffer that satisfies internal risk management controls as well as regulatory requirements to minimize the cost of capital and maximize shareholder value. Aozora has identified the repayment of public funds in the form of convertible preference shares as a strategic priority. Aozora will also consider the appropriate levels for all components of its capital base and the establishment of a competitive dividend policy.

Risk management, corporate governance and internal controls are all key requirements to enable Aozora to realize its full potential. Aozora is committed to the further development of these key areas. Aozora has increased the capability and scope of our Internal Audit and finance functions to prepare for the introduction of JSOX in FY 2008.

People are also key to the execution of Aozora’s strategy, and the Bank continues its focus on the development of human resource policies that makes Aozora the employer of choice for both existing staff and potential recruits. A full human resource management program is being implemented to include recruitment, training and development, objectives setting, performance appraisal, reward and promotion. Aozora will create a working environment that values meritocracy, personal responsibility and accountability.

The Bank is making necessary renovations and measures to our system infrastructures in line with our Mid-term IT Roadmap and business strategies.

In FY 2008 cost control and process improvement will become strategic priorities. Under the framework of operational risk, operational processes and internal controls will be reviewed, assessed and remediated to improve their efficiency and effectiveness. Cost drivers will be reviewed for opportunities to reduce the ongoing cost base of the bank without taking undue operational risk.

(Note) The amounts in this passage are rounded down to the nearest unit specified.

(2) Assets and Profit or Loss of the Corporate Group and the Bank

A. Assets and Profit or Loss of the Corporate Group

(Unit : JPY 100 million)

	FY2004	FY2005	FY2006	FY2007
Consolidated Operating Income	1,236	1,719	1,975	2,010
Consolidated Operating Profits (or Consolidated Operating losses)	456	614	624	(215)
Consolidated Net Income	898	1,201	815	59
Consolidated Capital Stock	6,118	7,233	7,924	7,680
Consolidated Total Assets	47,754	59,959	65,439	72,590

- (Notes)
1. The figures are rounded down to the nearest unit specified.
  2. From FY2006, ASBJ Statement No. 5, "Accounting Standards for Presentation of Net Assets in the Balance Sheet" and ASBJ Guidance No. 8, "Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet" was adopted in order to present consolidated net asset and total asset.
  3. Consolidated Operating Profit fell from ¥62.4 billion for FY 2006 to the loss of ¥21.5 billion for FY2007. This was mainly a result of the recognition of a large amount of write-off for CDOs in light of the sub-prime problems in U.S. Consolidated Net Income also fell from ¥81.5 billion for FY2006 to ¥5.9 billion for FY2007 due to the same reason.

B. Assets and Profit or Loss of the Bank

(Unit : JPY 100 million)

	FY2004	FY2005	FY2006	FY2007
Deposits	23,894	32,117	32,521	33,602
Time Deposits	14,697	18,189	19,712	20,588
Other	9,197	13,927	12,808	13,014
Debentures (Long-Term Credit Bank Bond)	8,519	10,643	14,545	20,696
Corporate Bonds ( Excluding Long-Term Credit Bank Bond)	-	-	999	999
Loans and Bills Discounted	26,053	30,253	33,625	39,503
Individuals	264	343	359	294
Small/Medium Companies	10,211	13,552	15,524	21,174
Other	15,578	16,358	17,740	18,034
Trading Assets	3,547	938	675	2,164
Trading Liabilities	889	1,049	645	1,034
Investment Securities	12,346	17,976	23,328	20,909
Government Bonds	5,381	7,320	10,227	8,814
Other	6,964	10,655	13,101	12,094
Total Assets	47,843	60,052	65,588	72,772
Domestic Exchange Transactions	146,112	121,683	179,554	156,706
Foreign Exchange Transactions	USD million 15,404	USD million 10,043	USD million 13,372	USD million 14,476
Operating Profits (Losses)	JPY million 43,733	JPY million 60,729	JPY million 61,960	JPY million (25,076)
Net Income	JPY million 86,859	JPY million 119,920	JPY million 82,168	JPY million 3,538
Net Income per Share	JPY 58.83	JPY 82.15	JPY 53.03	JPY 0.83

- (Notes)
- The figures are rounded down to the nearest unit specified.
  - The balance of "Deposits" and the breakdown of deposits, "Other", include negotiable certificates of deposit.
  - "Long-Term Credit Bank Bond" means long-term credit bank bond classified according to the Deposit Insurance Law, Article 2, paragraph 2, -item 5.
  - We declared a reverse stock split of the Company's common stock, forth preferred stock and fifth preferred stock on September 11, 2006 (consolidate two shares into one share). "Net Income per Share" prior or contemporaneous to FY 2006, was calculated assuming that the reverse stock split had been declared at the beginning of each fiscal year.
  - Operating Profit fell from ¥61,960 million for FY 2006 to the loss of ¥25,076 million for FY2007. This was mainly a result of the recognition of a large amount of write-off for CDOs in light of the sub-prime problems in U.S. Consolidated Net Income also fell from ¥82,168 million for FY2006 to ¥3,538 million for FY2007 due to the same reason.

( 3 ) Employees of the Corporate Group

	March 31, 2008		March 31, 2007	
	Banking Business	Other Operations	Banking Business	Other Operations
Number of Employees	1,715	171	1,384	484

(Notes) 1. The Number of Employees includes overseas local employees.

2. From the current year end, subsidiaries whose businesses are dependent on the Bank and subsidiaries operating businesses which the Bank can operate alternatively, are classified as the "Banking Business." Other subsidiaries are classified as "Other Operations."

( 4 ) Major Branches and Offices of the Corporate Group

A) Banking operations

i. Major Branches and Number of Branches

The Bank :

Domestic : Head office, Sapporo, Sendai, Nihonbashi, Shinjuku, Shibuya, Ueno, Ikebukuro, Chiba, Yokohama, Kanazawa, Nagoya, Kyoto, Kansai, Osaka, Umeda, Hiroshima, Takamatsu, Fukuoka total 19 (19 as of March 31, 2007)

Overseas : - (0 as of March 31, 2007)

In addition, the Bank has 4 overseas representative offices as of March 31, 2008 (4 as of March 31, 2007)

New York Representative Office, Singapore Representative Office, Jakarta Representative Office, Shanghai Representative Office

(In FY 2007, Seoul Representative Office was closed and Shanghai Representative Office was opened.)

Aozora Information Systems Co., Ltd. : Tokyo Head office

AOZORA SOFTWARE CORPORATION : Tokyo Head office

Aozora Asia Pacific Finance Limited : Hong Kong

Aozora Investment Management Limited : London

AZURE Funding North America I : Cayman Islands, British West Indies

AZURE Funding North America II : Cayman Islands, British West Indies

Azure Funding Europe S.A. : Luxembourg

Aozora GMAC Investment Limited : London  
 Aozora GMAC Investment ,Inc. : Delaware, USA  
 Aozora GMAC Investments LLC : Delaware, USA  
 Acorn Holdings : Tokyo Head office  
 Acorn One : Tokyo Head office

ii. As of the end of the 2007 fiscal year, there is no bank agency belonging to Aozora Bank

B) Other operations

Aozora Trust Bank, Ltd. : Tokyo Head office  
 AOZORA Loan Services Co., Ltd. : Tokyo Head office  
 Aozora Securities Co., Ltd. : Tokyo Head office  
 Aozora Investment Co., Ltd. : Tokyo Head office

(5) Capital Investments of the Corporate Group

A) Total Capital Investments

(Unit : JPY million)

Operation Segment	Amount
Banking	4,349
Other	-
Total	4,349

B) Important New Capital Investments and Other Investments

(Unit : JPY million)

Operation Segment	Description	Amount
Banking	Moving for Kyoto branch	217
	Renovation of ITV at branches	137
	Disposition related to the moving for Kyoto branch	(76)
	Disposition related to sales for company's apartment in Higashi Ikoma	(251)
	JGAAP System development	2,373
	BIS II System (SA)	501
	Upgrade BOJ net and Yen settlement system	206

(6) Major parent companies and subsidiaries

A) Parent companies

None

B) Subsidiaries

(March 31, 2007)

Company Name	Address	Principal Business	Incorporation Date	Stated Capital (JPY millions)	Voting Rights held by the Bank (%)	Other
Aozora Trust Bank, Ltd.	3-1, Kudan-minami 1-chome, Chiyoda-ku, Tokyo	Trust, Banking	February 28, 1994	5,437	100.00%	—
Aozora Loan Services Co., Ltd.	13-5, Kudan-kita 1-chome, Chiyoda-ku, Tokyo	Loan Maintenance, Collection	June 18, 1996	500	67.60%	—
AZURE Funding North America I	Cayman Islands, British West Indies	Investment vehicle	August 6, 2004	0	—	—
Aozora GMAC Investment Limited	London, UK	Investment and loan services	November 6, 2006	58,794	100.00%	—
Aozora GMAC Investments LLC	Delaware, USA	Investment and loan services	November 22, 2006	58,240	—	—
Aozora Securities Co., Ltd.	17-11, Kanda-nishiki machi 3-chome, Chiyoda-ku, Tokyo	Securities business	April 27, 2006	3,000	100.00%	—
Azure Funding Europe S.A.	Luxembourg, Luxembourg	Investment vehicle	April 3, 2006	4	99.96%	—
AZURE Funding North America II	Cayman Island	Investment vehicle	October 10, 2006	0	—	—

(Notes) The amounts are rounded down to the nearest unit specified. Percentages are rounded down to two decimal places.

[Principal Business Alliances]

1. The Bank has an arrangement with Shinsei Bank and the Central Bank for Commercial and Industrial Cooperatives to provide a cash withdrawal service through the mutual use of cash dispensers.
2. The Bank has joined with Resona Bank, Saitama Resona Bank, Mizuho Bank, Mitsubishi Tokyo UFJ Bank, Mitsui-Sumitomo Bank, Mizuho Corporate Bank, Sumitomo Trust & Banking, Chuo-Mitsui Trust Banking, Mitsubishi UFJ Trust & Banking and Mizuho Trust & Banking, to provide a cash withdrawal service through the mutual use of cash dispensers.
3. The Bank has cooperated with the Japan Post Bank, and provides cash deposit/withdrawal services through the mutual use of cash dispensers.
4. The Bank has arranged with Aozora Securities Co., Ltd. to enter brokerage business such as structured notes for corporate customers from August, 2006.
5. The Bank has engaged in an advisory and loan employee contract with Spring Mountain Capital, L.P. to seek out new business deals related to hedge fund investments and monitor progress.
6. The Bank formed a comprehensive business alliance with the Bank of Yokohama, Ltd. in the investment banking area on May 24, 2007.
7. The Bank formed a comprehensive business alliance with Toho Bank Ltd. relating to loan business on August 6, 2007.
8. The Bank has concluded business alliances in the real estate collateral loan business area with First Credit Co., Sumitomo Trust & Banking Co., Ltd. and Sumishin Real Estate Co., based on the business tie-up with Sumitomo Trust & Banking Group.

(7) Assignment of operations

None

(8) Other important matters regarding the current state of the Corporate Group

None

2 Matters concerning Directors and Statutory Auditors

( 1 ) Directors and Statutory Auditors

(as of March 31, 2008)

Name	Title and Line of Business	Major Concurrent Post	Other
Kimikazu Noumi	Chairman	—	Resigned on May 21, 2008
Federico J. Sacasa	President	Non- Executive Director, Aozora Information Systems Co., Ltd.	
		Non- Executive Director, Aozora Investment Management Limited	
		Non- Executive Director, Aozora GMAC Investment Limited	
		Non- Executive Director, Aozora GMAC Investment ,Inc	
James Danforth Quayle	Director (external director)	Chairman, Cerberus Global Investments, LLC	
Frank W. Bruno	Director (external director)	Managing Director, Cerberus Capital Management, L.P.	
Pieter Korteweg	Director (external director)	Consultant and Vice Chairman , Cerberus Global Investment Advisors LLC	
Lawrence B. Lindsey	Director (external director)	President and CEO, The Lindsey Group	
John L. Steffens	Director (external director)	Founder and Managing Director (Representative), Spring Mountain Capital, L.P.	
Kiyoshi Tsugawa	Director (external director)	Executive Advisor and a Member of the Advisory Board , Lehman Brothers Japan Inc.	
Marius J.L.Jonkhart	Director (external director)	Chairman and CEO , NOB Holding N.V.	
Lee Millstein	Director	Managing Director, Cerberus Capital Management, L.P	
Hiroshi Amemiya	Director (external director)	Managing Director, Tokio Marine Insurance Co.	Resigned on April 14, 2008
Gerardus Johannes Schipper	Director (external director)	Managing Director, Promontria Holding IV B.V.	
Shunsuke Takeda	Director (external director)	Senior Adviser, ORIX Corporation	
Tadaaki Satoyoshi	Standing Auditor	—	
Mitch R. Fulscher	Auditor (external auditor)	—	
Akira Tachimoto	Auditor (external auditor)	—	Holds CPA qualification

(2) Director and Statutory Auditor Remuneration and Benefits

(Unit : JPY million)

Category	Remunerations and Benefits
Directors	311 (4)
Auditors	83 (-)
Total	395 (4)

Note) 1. "Remuneration and Benefits" includes a retirement allowance for this current year for the amount of ¥ 163 million yen. (¥ 116 million yen for 7 Directors and ¥ 47 million yen for 3 Statutory Auditors) Please note that executive bonuses for Directors and Statutory Auditors are not scheduled to be paid.

2. In addition to the remuneration above, ¥ 54 million in insurance premiums on D&O insurance policies has been provided during the year.

3. Numbers in parentheses in remuneration section describe the amount other than remuneration.

4. Remuneration Ceiling for Directors is determined as ¥ 600 million yen at the shareholder's meeting held on June 23, 2006

5. Remuneration Ceiling for Auditors is determined as ¥ 60 million yen at the shareholder's meeting held on June 23, 2006

3. Matters concerning External Directors and Statutory Auditors

(1) Concurrent Post and Other Status of External Directors and Statutory Auditors

(March 31, 2008)

Name	Concurrent Post and Other Status	Relationship with the Bank
James Danforth Quayle	Chairman, Cerberus Global Investments, LLC	Major Shareholder related party
Frank W. Bruno	Managing Director, Cerberus Capital Management L.P.	Major Shareholder related party
	President, Cerberus Global Investments, Advisors, LLC	Major Shareholder related party
Pieter Korteweg	Consultant to and Vice Chairman, Cerberus Global Investment Advisors LLC	Major Shareholder related party
	Chairman, AerCap Holdings N.V.	Related party of a Customer (loans)
Lawrence B. Lindsey	President and CEO of the Lindsey Group	
John L. Steffens	Founder and Managing Director (Representative), Spring Mountain Capital L.P.	Fund investment business related party
	Managing Member, Spring Mountain Capital LLC	Fund investment business related party
Kiyoshi Tsugawa	Executive Advisor and Advisory Board Member, Lehman Brothers Japan Inc.	Counterparty of market related transactions
Marius J.L. Jonkhart	Chairman and CEO, NOB Holding N.V.	
	Director, AerCap Holdings N.V.	Related party of a Customer (loans)
Hiroshi Amemiya	Managing Director, Tokio Marine & Nichido Fire Insurance Co., Ltd.	Major Shareholder related party, Customer (debentures etc.)
	Director, Millea Holdings, Inc.	Holding company of major shareholder
Gerardus Johannes Schipper	Managing Director, Promontria Holding IV B.V.	Major Shareholder related party
	Director, Showa Jisho Corporation	Major Shareholder related party, Customer (loans, etc)
Shunsuke Takeda	Senior Adviser, ORIX Corporation	Major Shareholder related party, Customer (loans, etc)
Mitch R. Fulscher	Non-executive (outside) Auditor, Showa Jisho Corporation	Major Shareholder related party, Customer (loans, etc)
Akira Tachimoto	Member of supervisory board, National Federation Agricultural Cooperative Associations (Zen-Noh)	—

( 2 ) Activity Status of External Directors and Statutory Auditors

Name	Term served	Board meeting attendance	Remarks or other activities performed at a Board meeting
James Danforth Quayle	7y7m	Attended most of the Board meetings during the relevant fiscal year	There are no important issues that affect a change in the basic policy of the Bank.
Frank W. Bruno	3y10m	Attended most of the Board meetings during the relevant fiscal year	There are no important issues that affect a change in the basic policy of the Bank.
Pieter Korteweg	3y10m	Attended almost all of the Board meetings during the relevant fiscal year	There are no important issues that affect a change in the basic policy of the Bank.
Laurence B. Lindsey	3y10m	Attended most of the Board meetings during the relevant fiscal year	There are no important issues that affect a change in the basic policy of the Bank.
John L. Steffens	3y10m	Attended all of the Board meetings during the relevant fiscal year	There are no important issues that affect a change in the basic policy of the Bank.
Kiyoshi Tsugawa	3y10m	Attended all of the Board meetings during the relevant fiscal year	There are no important issues that affect a change in the basic policy of the Bank.
Marius J.L. Jonkhart	2y2m	Attended almost all of the Board meetings during the relevant fiscal year	There are no important issues that affect a change in the basic policy of the Bank.
Hiroshi Amemiya	10m	Attended almost all of the Board meetings during the relevant fiscal year	There are no important issues that affect a change in the basic policy of the Bank.
Gerardus Johannes Schipper	10m	Attended almost all of the Board meetings during the relevant fiscal year	There are no important issues as to affect a change in the basic policy of the Bank.
Shunsuke Takeda	10m	Attended almost all of the Board meetings during the relevant fiscal year	There are no important issues as to affect a change in the basic policy of the Bank.
Mitch R. Fulscher	3y10m	Attended almost all of the Board meetings during the relevant fiscal year Attended all of the Board of Statutory Auditors' meetings during the relevant fiscal year	Relevant remarks were made in the discussion.
Akira Tachimoto	3y10m	Attended all of the Board meetings during the relevant fiscal year Attended all of the Board of Statutory Auditors' meetings during the relevant fiscal year	Relevant remarks were made in the discussion.

( 3 ) Limited Liability Contract

None

## (4) Remuneration and Benefits to External Directors and Statutory Auditors

(Unit : JPY million)

	Remuneration and Benefits from the Bank	Remuneration and Benefits from the Bank's Parent, etc.
Total Remuneration and Benefits	167 (-)	- (-)

Note) 1. "Remuneration and Benefits" includes a retirement allowance for this current year for the amount of ¥ 86 million yen (¥ 56 million yen for 5 Directors and ¥ 30 million yen for 2 Statutory Auditors). Please note that executive bonuses for Directors and Statutory Auditors are not scheduled to be paid.

2. In addition to the remuneration from the Bank above, ¥ 40 million in insurance premiums on D&O insurance policies has been provided during the year.

3. Numbers in parentheses in the remuneration section describe amount other than remuneration.

## 4. Stock Data of the Bank

(1) Number of Shares		(in thousands)
Authorized Shares		4,054,871
	Common Stock	3,772,000
	Preferred Stock	457,405
	(Koushu preferred)	24,072
	(Heishu preferred)	433,333
Number of Stocks Issued		1,933,018
	Common Stock	1,650,147
	Preferred Stock	282,871
	(Koushu Preferred)	24,072
	(4th. Preferred)	24,072)
	(Heishu Preferred)	258,799
	(5th. Preferred)	258,799)

(Note) The number of shares is presented in thousands and is rounded down to the nearest thousand.

(2) Number of Stockholders as of the End of This Fiscal Year		45,026
	Common Stock	45,024
	Preferred Stock	2
	(4th. Preferred)	1)
	(5th. Preferred)	1)

## (3) Major Shareholders

## ① Common Stock Holders (Top ten)

(March 31, 2008)

Name of Shareholder	Contributed Capital	
	Number of Shares held (in thousands)	Percentage of Total Outstanding Shares
Cerberus NCB Acquisition, L.P., General Partner Cerberus Aozora GP LLC	618,659	37.49%
ORIX Corporation	149,981	9.08%
Tokio Marine & Nichido Fire Insurance Co., Ltd.	149,974	9.08%
GOLDMAN SACHS INTERNATIONAL	43,255	2.62%
UBS AG LONDON A/C IPB SEGREGATED CLIENT ACCOUNT	31,796	1.92%
Japan Trustee Services Bank, Ltd. (Trust Account)	29,730	1.80%
The Master Trust Bank of Japan, Ltd. (Trust Account)	27,879	1.68%
NOMURA INTERNATIONAL PLC A/C JAPAN FLOW(A/C F6- 910384)	25,915	1.57%
MORGAN STANLEY & CO. INC	21,612	1.30%
BNY FOR GCM CLIENT ACCOUNTS (E) ILM	20,500	1.24%

- (Notes) 1. "Number of shares held" is presented in thousands and is rounded down to the nearest thousand.
2. "Percentages of total outstanding share" are rounded down to two decimal places.
3. "Percentages of total outstanding share" are calculated without shares of Aozora Bank owned by the Bank (5,131 share)
4. The Bank received a copy of "major share holder's report (amend)" from Cerberus NCB Acquisition, L.P., General Partner Cerberus Aozora GP LLC (Cerberus) on April 14, 2008. (Date of reporting obligation occurred on April 7, 2008. According to this report, the number of shares owned by aforementioned company is 750,659,000.
5. The Bank received a copy of "major share holder's report (amend)" from Tokio Marine & Nichido Fire Insurance Co., Ltd. on April 14, 2008. (Date of reporting obligation occurred on April 14, 2008. According to this report, the number of shares owned by aforementioned company is 99,045,500

## ② Preferred Stock Holders

## A. 4th. Preferred Stock

(March 31, 2008)

Name of Shareholder	Contributed Capital	
	Number of Shares (in thousands)	Percentage of Total Outstanding Shares
Deposit Insurance Corporation	24,072	100.00%

- (Notes) 1. Number of shares is presented in thousands and is rounded down to the nearest thousand.
2. 4th. Preferred Stock holds no voting power.

B. 5th. Preferred Stock

(March 31, 2008)

Name of Shareholder	Contributed Capital	
	Number of Shares (in thousands)	Percentage of Total Outstanding Shares
Resolution and Collection Corporation	258,799	100.00%

(Notes) 1. Number of shares is presented in thousands and rounded down to the nearest thousand.  
2. 5th Preferred Stock bears no voting power.

(4) Other Major Issues Concerning Stock  
None

5. The Bank's Share Warrant or Similar Instruments.

- (1) The Bank's share warrants or similar instruments held by directors and statutory auditors of the Bank as of the end of March 31, 2008  
None.
- (2) The Bank's share warrants or similar instruments issued to employees during this fiscal year.  
None.

6 Matters concerning Accounting Auditors

(1) Accounting Auditors

(Unit : JPY million)

Name	Remuneration and Benefits for This Fiscal Year	Other
Deloitte Touche Tohmatsu Yoshiyuki Higuchi Takashi Nonaka Kentaro Fukada	173	Non-audit related services: consulting service rendered for internal control structure, etc.

(Notes) 1. The amounts are presented in millions of yen and are rounded down to the nearest million.  
2. For this fiscal year, the aggregate amount of proprietary benefits payable to the accounting auditors from the Bank and its subsidiaries is 199 million yen.  
3. "Remunerations and Benefits for This Fiscal Year" as classified above includes the fees related to the audit under the Company Law as well as under the Financial Instruments and Exchange Law since separation of such audit fees is not clearly identifiable.

(2) Limited Liability Contract  
None

( 3 ) Other Matters Related to Accounting Auditors

a). The determination for the dismissal of auditors will be made when there is a violation of the Company Law article 340-1. The determination of non-reappointment of auditors will be made when an overall evaluation concludes that an auditor may not carry out an assignment with judgement required.

b) In accordance with the Corporate Law, Article 459, the Bank stipulates "the distribution of retained earnings can be made after determining the record date" in the Article of Association.

The Bank is committed to delivering shareholder value, and recognizes that the payment of a competitive level of dividends is an important part of the overall investment proposition. During the period that the government owns the convertible preference shares, The Bank continues to ensure the achievement of the Business Revitalization Plan and to determine an appropriate level of dividend payment. The Bank aims for a payout ratio at least comparable to Japanese major banks in the medium term.

This year, the Bank is planning to declare a cash dividend of 3.50 yen per common share, 10.0 yen per 4<sup>th</sup> preferred share, and 7.44 yen per 5<sup>th</sup> preferred share.

c) Of all the Bank's major subsidiaries, AZURE Funding North America I and AZURE Funding North America II are under Deloitte & Touche audit, as are Aozora GMAC Investment Limited and Aozora GMAC Investments LLC under a Deloitte & Touche LLP audit. Azure Funding Europe S.A. is under Deloitte SA.

- 7 Policy towards an Individuals who can Influence the Financial and Operational Decision-making Process  
None

## 8 System to Ensure that Operations are Appropriate

The Bank states the main components for internal control system development (classified in the Corporate Law Article 362 sec.4-6 The summary is as follows.

### **Fundamentals of Internal Control Programs**

#### **Purpose :**

Aozora Bank determined the following fundamentals of internal control program for appropriate business of the Bank and subsidiaries, principally for the purpose of the following:

- ( 1 ) Effective and appropriate business
- ( 2 ) Reliability of financial reports
- ( 3 ) Compliance with laws and regulations and
- ( 4 ) Preservation of asset

#### **Fundamentals:**

### **1. Ensure Execution of Fiduciary Responsibilities by Directors and Employees in Compliance with Laws, Regulations and the Articles of Incorporation**

#### **(Corporation Law Article 362-4-6) (Enforcement Regulation Article 100-1-4)**

- The Board of Directors is committed to good corporate governance and internal controls to ensure compliance with external laws& regulations and internal policies and procedures.
- The Board of Directors includes outside Directors and has established a Nomination and Remuneration Committee, Special Audit Committee and Audit & Compliance Committee to review and monitor activities related to each of these areas. Where appropriate, these committees make reports to the full Board.
- The Aozora Bank is in the process of up-dating Master Policies, Level Two Policies and Level three Procedures to comply with external laws & regulations. The "Code of Conduct and Ethics" has been up-dated to reflect the bank's commitment to professional standards.
- Legal and Compliance Division establishes and implements an annual "Compliance Program" which is approved by the Board of Directors and incorporates specific action plans and compliance standards., including extensive training throughout the bank and subsidiaries. The Legal & Compliance Division prepares periodic reports, as requested, for the Audit and Compliance Committee and the Board of Directors.
- Internal Audit Division, which functions as an independent division, monitors the status of compliance and reports directly to the Chairman, the President, and when appropriate, to the Audit & Compliance Committee and the Board of Directors. The Internal Audit Division's annual plan is approved by the Board of Directors and conducts surprise audits to assess the bank's compliance with external regulations & internal policies & procedures.
- The "Aozora Whistle-Blower Hotline" Program enables the Directors and Employees to report violations, inappropriate activities by staff, on an anonymous basis, without being disadvantaged.
- The Aozora Bank is committed to prevent Anti-Social Elements in loan, deposit, expense and any other transactions and ensure appropriate conduct of business to meet social responsibility.

**2- Safekeeping and Management of Records regarding Execution of Fiduciary Responsibilities of Directors (Enforcement Regulation Article 100-1-1)**

- Minutes of meetings of the Board of Directors, Management Committee, and various committees delegated by the Board of Directors or Management Committee and are available to the stakeholders and others as appropriate.

**3- Policies and Procedures to Manage Risks of Loss (Enforcement Regulation Article 100-1-2)**

- Acknowledging the importance of risk management activities, the Aozora Bank Group has established the basic policy on comprehensive risk management to properly measure and control each risk separately and the overall risk in an integrated way. The basic policy on comprehensive risk management sets forth the scope of target risk categories such as credit risk, market risk and operational risk, and their definitions. The policy also defines the risk management procedure which consists of the identification, assessment, monitoring and controls of the target risks.
- Each of target risk categories such as credit risk, market risk, operational risk and others, a master policy (level 1), a policy (level 2), and a procedure (level 3), stipulate clear definitions and requirements.
- As the core components of the Group's risk management structure, we have established some risk management committees which have authority to implement risk management activities delegated to perform the function by the Board of Directors, such as the Credit Committee, Investment Committee, Asset Liability Management Committee, New Products and New Businesses Committee, etc, and the Divisions in charge of risk Management such as the Integrated Risk Management Division, the Credit Risk Management Division, the Market Risk Management Division and the Operational Risk Management Division etc, to monitor risks and approve appropriate activities or transactions in their respective areas.
- The Crisis Management Division is responsible for establishing the Business Continuity Plan and Contingency Plan as a main office, to anticipate possible emergencies including natural disasters and system failures.

**4- Ensure Efficient Execution of Duties & Responsibilities by the Directors (Enforcement Regulation Article 100-1-3)**

- The Board of Directors includes outside Directors, appoints Officers and delegates authority to the Management Committee. The Management Committee is comprised of Executive Officers and designed to clarify authorities & responsibilities to manage the execution of business strategies and action plans.
- The Management Committee further delegates some of the authority concerning the execution of businesses to the Credit Committee, Investment Committee, Asset Liability Management Committee, New Products and New Businesses Committee and the Customer Protection Committee.

**5 Ensure Appropriate Business Practices of the Company and the Corporate Group including its Parent and its Subsidiaries (Enforcement Regulation Article 100-1-5)**

- The bank maintains a comprehensive internal audit and compliance program that endeavors to ensure compliance, management of risks, and management of financial information including those of subsidiaries and affiliates while their individual and independent management are respected.
- The bank maintains a risk management program throughout the Aozora Group and, among other processes, monitors and risk rates loans, compliance with the capital adequacy ratios, large lending limits and arm's length rule, among others.
- Master Policies, Policies (Level 2), and Procedures (Level 3) of the Bank are applicable (where there are no inconsistencies or violations of laws) to, the Bank's subsidiaries and affiliated companies. The Bank's Legal and Compliance Division, etc evaluate existing policies & procedures of the subsidiaries prior to implementing new ones. The Bank's Internal Audit Division audits subsidiaries.
- Accidents, misconduct and violations of policies or procedures found at the subsidiaries and affiliates are reported to the Bank. Legal and Compliance Division meets with Affiliated Companies on a regular basis to monitor status of compliance of the subsidiaries and affiliates.
- Policies and Procedures to enforce, on an Aozora Group basis, the internal control program and appropriate disclosure of the financial condition shall be established.

**6- Matters related to Personnel in cases where Statutory Auditors request Staff to Support the Execution of the Statutory Auditors' Duties (Enforcement Regulation Article 100-3-1)**

- The Bank has established an administrative office for the statutory auditors.

**7- Matters related to Independence of Employees to Support Directors (Enforcement Regulation Article 100-3-2)**

- The Representative Directors ensure:
  1. *The statutory audit staff are interviewed and evaluated by the standing auditor.*
  2. *Decisions on transfer, promotion, demotion, compensation and punishment of the statutory audit staff require the consent of the standing auditor.*

**8 Reporting by Directors and Employees to the Statutory Auditors (Enforcement Regulation Article 100-3-3)**

- The representative directors ensure the Statutory Auditors are provided with a work environment suitable for auditing.
- *The statutory auditors may request a report directly from employees, and directors may not obstruct employees from reporting directly to the statutory auditors.*
- *Directors may disclose to the statutory auditors the status of the Whistle-Blower Program and any details of Whistle-Blower reports.*

**9- Ensure Effective Auditing by the Statutory Auditors (Enforcement Regulation Article 100-3-4)**

The Directors, Executive Officers and employees cooperate Corporate Auditors when auditing based on an annual and any other audit program including a budget which the Corporate Auditors prepare. The directors support cooperation between the statutory auditors and external professionals including lawyers and external auditors.

Consolidated Balance Sheet as of March 31, 2008

( In millions of yen )

( Assets )		( Liabilities )	
Cash and due from banks	117,761	Deposits	2,365,462
Call loans and bills bought	239,004	Negotiable certificates of deposit	953,910
Receivables under securities borrowing transactions	376,361	Debentures	2,065,648
Monetary claims bought	129,632	Call money and bills sold	259,466
Trading assets	216,157	Payables under repurchase agreements	16,468
Money held in trust	9,582	Payables under securities lending transactions	172,527
Securities	1,652,171	Trading liabilities	103,472
Loans and bills discounted	4,284,498	Borrowed money	237,215
Foreign exchanges	17,055	Foreign exchanges	1
Other assets	141,567	Corporate bonds	123,975
Tangible fixed assets	23,476	Other liabilities	128,897
Buildings	11,711	Reserve for employees' bonuses	3,768
Land	9,448	Reserve for employees' retirement benefits	16,442
Other tangible fixed assets	2,316	Reserve for directors' retirement benefits	193
Intangible fixed assets	13,034	Reserve for credit losses on off-balance-sheet instruments	1,086
Software	12,934	Acceptances and guarantees	42,480
Other intangible fixed assets	99	<b>Total liabilities</b>	<b>6,491,016</b>
Deferred charges for debentures	531	<b>( Net assets )</b>	
Deferred tax assets	48,139	Capital stock	419,781
Customers' liabilities for acceptances and guarantees	42,480	Capital surplus	33,333
Reserve for possible loan losses	(51,594)	Retained earnings	347,235
Reserve for possible investment losses	(783)	Treasury stock	(1)
		Total owners' equity	800,348
		Net unrealized gains(losses) on available-for-sale securities, net of taxes	(27,755)
		Net deferred gains(losses) on hedging instruments, net of taxes	2,623
		Foreign currency translation adjustments	(7,877)
		Total valuation and translation adjustments	(33,009)
		Minority interests	720
		<b>Total net assets</b>	<b>768,060</b>
<b>Total assets</b>	<b>7,259,076</b>	<b>Total liabilities and net assets</b>	<b>7,259,076</b>

## Consolidated Statement of Income

( For the year ended March 31, 2008 )

( In millions of yen )

Operating income		201,019
Interest income	138,026	
Interest on loans and discounts	102,635	
Interest and dividends on securities	27,404	
Interest on call loans and bills bought	934	
Interest on receivables under securities borrowing transactions	1,706	
Interest on deposits with banks	3,110	
Other interest income	2,235	
Fees and commissions	18,221	
Trading income	9,726	
Other operating income	26,393	
Other income	8,650	
Operating expenses		222,581
Interest expenses	83,376	
Interest on deposits	17,252	
Interest on negotiable certificates of deposit	5,250	
Interest on debentures	17,373	
Interest on call money and bills sold	6,124	
Interest on payables under repurchase agreements	1,166	
Interest on payables under securities lending transactions	7,691	
Interest on borrowed money	1,856	
Interest on corporate bonds	1,813	
Other interest expenses	24,846	
Fees and commissions	1,619	
Trading expenses	327	
Other operating expenses	67,265	
General and administrative expenses	51,734	
Other expenses	18,259	
Others	18,259	
Operating losses		21,562
Extraordinary profits		10,952
Gains on dispositions of fixed assets	544	
Reversal of reserve for possible loan losses	9,790	
Recoveries of written-off claims	331	
Reversal of reserve for credit losses on off-balance-sheet instruments	285	
Extraordinary losses		2,178
Losses on dispositions of fixed assets	2,178	
Losses before income taxes and minority interests		12,787
Current taxes		1,902
Deferred taxes		(20,715)
Minority interests		96
Net income		5,929

## Consolidated Statement of Changes in Net Assets

( from April 1, 2007 to March 31, 2008 )

( In millions of yen )

	Owners' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total owners' equity
Balance as of March 31, 2007	419,781	33,333	346,410	(0)	799,524
Changes of items during the period					
Cash dividends			(5,103)		(5,103)
Net income			5,929		5,929
Purchase of treasury stock				(1)	(1)
Net changes of items other than owners' equity					
Total changes of items during the period			825	(1)	824
Balance as of March 31, 2008	419,781	33,333	347,235	(1)	800,348

	Valuation and translation adjustments				Minority interests	Net assets total
	Net unrealized gains(losses) on available-for-sale securities, net of taxes	Net deferred gains(losses) on hedging instruments, net of taxes	Foreign currency translation adjustments	Total valuation and translation adjustments		
Balance as of March 31, 2007	(6,774)	(2,378)	1,392	(7,760)	717	792,480
Changes of items during the period						
Cash dividends						(5,103)
Net income						5,929
Purchase of treasury stock						(1)
Net changes of items other than owners' equity	(20,980)	5,002	(9,269)	(25,248)	3	(25,244)
Total changes of items during the period	(20,980)	5,002	(9,269)	(25,248)	3	(24,420)
Balance as of March 31, 2008	(27,755)	2,623	(7,877)	(33,009)	720	768,060

## 1.Principles of Consolidation

### (1) Scope of Consolidation

- ① Consolidated subsidiaries 16

Major subsidiaries:

Aozora Trust Bank,Ltd.  
AOZORA Loan Services Co., Ltd.  
AZURE Funding North America I  
AZURE Funding North America II  
Azure Funding Europe S.A.  
Aozora GMAC Investment Limited  
Aozora GMAC Investments LLC

In addition, Acorn holdings and Acorn One have been established and consolidated since this fiscal year.

- ② Unconsolidated subsidiaries

Major unconsolidated subsidiaries:

NCM Investments Corporation

The consolidated financial statements do not include the accounts of unconsolidated subsidiaries because combined total assets, total income, net income, retained earnings would not have had a material effect on the consolidated financial statements.

### (2) Affiliates accounted for under the equity method

- ① Unconsolidated subsidiaries accounted for by the equity method : 0  
② Affiliated companies accounted for by the equity method : 0  
③ Unconsolidated subsidiaries not accounted for using the equity method :

Major unconsolidated subsidiaries  
NCM Investments Corporation

- ④ Affiliated companies not accounted for using the equity method :

Major unconsolidated subsidiaries  
Vietnam International Leasing, Co., Ltd.

Investments in the remaining unconsolidated subsidiaries and affiliated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

### (3)Fiscal year ends of consolidated subsidiaries

- ①Fiscal year end dates of consolidated subsidiaries are as listed below:

End of February	2
End of March	14

- ②For consolidated subsidiaries for which the fiscal year closes on the end of February, the financial statements as of the period end were consolidated. Necessary adjustments have been made for significant transactions undertaken between this March 31 and the fiscal year end dates shown above.

(4) Valuation of assets and liabilities for consolidated subsidiaries

All assets and liabilities of consolidated subsidiaries are appraised at fair value at the time of consolidation.

(5) Goodwill and negative goodwill

Goodwill and negative goodwill are fully expensed within the year it was recorded.

The amounts are presented in millions of yen and are rounded down to the nearest million.

The definition of subsidiaries and related companies is based on the Banking Law, Article 2, Paragraph 8 and the enforcement regulation of Banking Law, Article 4, Paragraph 2.

1. Basis of preparation

(1) Valuation of Trading assets and liabilities

Transactions performed in the pursuit of gains from short-term movements of interest rates, currency exchange rates, securities market prices and other indices (“the trading purpose” hereinafter) are booked in “Trading Assets” or “Trading Liabilities” on the consolidated balance sheet on the trade date.

Gains or losses on the transactions of “Trading Assets” or “Trading Liabilities” (interest received/paid, dividend, gains/losses on sales, and valuation gains/losses) have been recorded in “Trading income” or “Trading expenses” on the transaction date basis in the consolidated statement of income.

“Trading Assets” and “Trading Liabilities” are valued based on the mark-to-market method.

(2) Valuation of Securities

(a) Valuation methods for the securities are as follows. The mark-to-market method is applied for “trading securities” (except the positions booked in the “Trading Assets” and “Trading Liabilities” (see item 1)) with the costs calculated on a moving average basis. The amortized cost method (with straight-line amortization) is applied for “held-to-maturity bonds”. The cost method (with moving average cost-base) is applied for “stocks in subsidiaries and affiliates”. The mark-to-market method is applied for securities held for other purposes (“available-for-sale securities”), if market price (with the costs basically calculated on a moving average basis) is available, and either the cost method or the amortized cost method if not. However, the Bank’s U.S subsidiary, Aozora GMAC Investments LLC, applies the equity method of accounting for investments made in limited liability companies.

For interests in investment business limited partnerships, associations under the Civil Code and silent partnerships, Aozora Bank, Ltd. (“the Bank”), in principle, records net assets and net income of those partnerships as assets and profits or losses in proportion to the Bank’s shares of interests based on their financial statements or interim financial statements.

The valuation gains or losses, net of applicable taxes, from these positions are directly booked into the net assets.

(b) Securities that are components of trust assets recorded in “Money held in trust” are marked by the same method in items (a) shown above.

(3) Accounting for Derivatives

Derivative transactions booked outside “Trading Assets” or “Trading Liabilities” are valued based on the mark-to-market method.

(4) Depreciation of fixed assets

①Tangible fixed assets

For depreciation of tangible fixed assets, the Bank adopts the straight-line method for buildings and the declining-balance method for other tangible fixed assets. The main useful life is as follows:

Buildings: 15~50 years

Equipment: 5~15 years

Consolidated subsidiaries adopt the declining-balance method based on the estimated useful life of tangible fixed assets.

(Change in accounting policy)

Depreciation expenses for tangible fixed assets obtained after April 1, 2007, were calculated in accordance with the method set forth in a 2007 tax law revision. The effect of this change is not material.

(Additional information)

The salvage value of fully depreciated premises and equipment obtained prior to March 31, 2007, is depreciated over 5 years using the straight-line method in accordance with the provisions of the 2007 tax law revision. The effect of this change is not material.

②Intangible fixed assets

Intangible fixed assets are amortized using the straight-line method. Software for internal use is depreciated over the estimated useful life (mainly five years) using the straight-line method by the Bank and consolidated subsidiaries.

(5) Amortization of deferred assets

Deferred assets related to debentures and corporate bonds issued by the Bank are amortized as follows:

(a)Deferred issuance costs for debentures classified as “Deferred charges for debentures” were recorded as assets and amortized using the straight-line method over the life of debentures.

Deferred issuance costs for debentures as of March 31, 2006, have been amortized by the straight-line method over the 3 years period stipulated in the Enforcement Regulations of the Commercial Code of Japan

(b)Deferred corporate bond issue cost in “Other assets” is amortized over the life of the corporate bond.

(6) Reserve for possible loan losses

Write-offs of loans and reserves for possible loan losses are provided as follows according to the internal procedures for write-offs and reserves:

Loans to borrowers under legal proceedings, such as bankruptcy or liquidation, and to borrowers in similar conditions, are written off except for collectible collateral upon disposition and guarantees. Such amounts are deemed irrecoverable and deducted from the loan. As of the consolidated balance sheet date, the written off irrecoverable amount totaled ¥ 8,835 million.

For loans to borrowers not yet bankrupt but likely to fall into bankruptcy, the necessary specific reserve is determined from the amount of loans, except for collectible collateral upon their disposition and guarantees depending on the assessment of the borrower’s payment ability.

For other loans, a general reserve is calculated based on the estimated loan-loss ratio using historical loan-loss data over a certain period in the past. For loans to specific overseas borrowers, the amount of possible losses expected due to political or economic reasons in specific countries is calculated as reserve for loans to restructuring countries. All loans are monitored in line with the internal rating rule and the internal self-assessment standard. The front office reviews the internal credit ratings of debtors in accordance with the ‘borrower categories’ and the Credit Divisions approve them and the Credit Review Division, which is independent of the front office, examines the credit risk management, including the appropriateness of the internal credit ratings. Also, the Credit Review Division review the appropriateness of the internal credit ratings and borrower categories at the end of this fiscal year on a sampling basis.

Based upon the borrower categories at the end of this period, determined by the aforementioned process, the front office computes the write-offs and the reserves, and the Credit Review Division verifies and calculates the final figures.

With regard to the reserves for possible loan losses of the consolidated subsidiaries, the general reserve is calculated for the amount of estimated loan-loss using historical loan-loss data over a certain period in the past. For loans for in danger of bankruptcy borrowers and de facto bankrupt and bankrupt borrowers, the specific reserve is calculated or uncollectible loans are written off for the uncollectible amount after it has been individually estimated.

(7) Reserve for investment loss

The reserve for investment loss is booked for the necessary amount to cover losses from investment after considering the financial conditions of issuer companies.

(Change of presentation)

“Reserve for investment loss” is disclosed separately on the consolidated financial statements due to materiality. It was included as a part of “other liabilities” at the end of previous fiscal year. The amount of “reserve for investment loss” included in “other liability” was ¥ 562 million at the end of previous fiscal year.

(8) Reserve for employees’ bonus

The reserve for employees’ bonus is recorded for the payment of bonuses to employees based on estimated amounts of future payments attributable to the current period.

(9) Reserve for employee retirement benefit

The reserve for retirement benefits is recorded for the accrued amount at the consolidated balance sheet date based on actuarial estimates of retirement benefit obligations less accumulated pension assets as of the year-end date.

Prior service cost is amortized using the straight-line method over 9 years.

Unrecognized actuarial loss is amortized using the straight-line method over 5 years within the average remaining employment period of employees commencing from the next fiscal year after incurrence.

(10) Retirement benefits for directors

The estimated amount of retirement benefit that is incurred by the end of this period has been recorded as reserve for directors’ retirement benefits.

(Change in accounting policy)

Prior to April 1, 2007, retirement benefits for directors were recorded as expenses upon payment. On April 13, 2007, the Japanese Institute of Certified Public Accountants, (“JICPA”) Audit and Assurance Committee issued

opinion No.42, "Audit treatment for regulatory deposit, reserve or deposit and allowance for retirement benefit for officers." This new accounting regulation was implemented from the accounting period commencing April 1, 2007, and was applied by the Bank from this accounting period.

As a result, general and administrative expenses increased by ¥ 193 million, which led to increases of ¥ 193 million in operating losses and losses before taxes and others respectively.

(11) Reserve for credit losses on off-balance-sheet instruments

Reserve for credit losses on off-balance-sheet instruments is recorded for credit losses on commitments to extend loans and other off-balance-sheet financial instruments based on an estimated loss ratio or individually estimated loss amount determined by the same method used in determining the reserve for possible loan losses.

(12) Translation of assets and liabilities denominated in foreign currencies

Assets and liabilities denominated in foreign currencies held by the Bank are converted into Japanese yen at the exchange rates prevailing at the consolidated balance sheet date, except for equities of subsidiaries and affiliated companies which are converted at historical rates.

Assets and liabilities denominated in foreign currencies, held by consolidated subsidiaries are converted into Japanese yen at the exchange rates as of the consolidated balance sheet dates.

(Change in accounting policy)

Up to the previous year, the current rate at the consolidated balance sheet date was used to convert revenue and expenses of foreign subsidiaries' financial statements. However, beginning this term, the average rate over the period is applied.

This change was made due to the fact that the materiality of foreign subsidiaries increased as well as to reflect more accurately the revenue and expenses throughout the period on the consolidated financial statements.

As a result, both operating losses and losses before income taxes and others decreased by ¥ 1,231 million.

(13) Lease transactions

Finance leases of the Bank and the domestic subsidiaries under which the ownership of the property is not deemed transferred to the lessee are accounted for as operating leases.

(14) Accounting for hedging activities

(a) For hedge accounting to control interest rate risk arising from financial assets and liabilities, the Bank uses the deferral method of hedge accounting, in accordance with "Treatment for Accounting and Auditing of Application of Accounting Standard for Financial Instruments in Banking Industry" (JICPA Industry Audit Committee Report No.24, February 13, 2002). The effectiveness of hedging for the purpose of offsetting market fluctuation is assessed as follows: the Bank categorizes hedging objectives such as deposits or lending and hedging instruments such as interest rate swaps as groups with fixed remaining periods until maturity and determines the value of each group.

(b) For hedge accounting to control exchange rate risk arising from financial assets and liabilities denominated in foreign currencies, the Bank uses the deferral method of hedge accounting in accordance with "Accounting and Auditing Treatment to Accounting for Foreign Currency Transactions in Banking Industry" (JICPA Industry Audit Committee Report No.25, July 29, 2002). The effectiveness of hedging for the purpose of offsetting market fluctuation is assessed as follows: the Bank specifies currency swap transactions and forward exchange transactions, as hedging instruments, for the purpose of offsetting exchange rate risks of financial assets and liabilities denominated in foreign currencies, and the Bank verifies the effectiveness of hedging by confirming if foreign currency positions arising from hedging instruments are equivalent to hedged objects which are financial assets and liabilities denominated in foreign currencies.

Also, in order to hedge the exchange rate risk of “Available-for-sale securities” denominated in foreign currencies, except bonds, the Bank specifies the names of securities denominated in foreign currencies in advance, and applies fair value hedging to the specified securities as comprehensive hedging on the condition that foreign currency denominated liabilities, including forward contracts, exceed acquisition costs of those securities.

(c) For internal contracts and derivative transactions between the trading account and other accounts or between companies within the scope of consolidation, the Bank conducts operations in compliance with the standard for external cover transactions for interest rate swap transactions and currency rate swap transactions which the Bank has specified as hedging instruments. This standard, prescribed by JICPA Industry Audit Committee Report No.24 and No.25, excludes arbitrariness and enables the Bank to conduct strict hedging operations. Consequently, the Bank does not offset income and expenses incurred from such interest rate swap transactions or currency rate swap transactions, and instead recognizes or defers gain and loss.

#### (15) Consumption tax

Consumption tax and local consumption tax of the Bank and domestic consolidated subsidiaries are excluded from transaction amounts.

#### Change in Basic Items for Preparing Consolidated Financial Statements

On June 15, 2007, the ASBJ revised Accounting Standard No. 10 "Financial Instrument Accounting" and on July 4, 2007, JICPA revised JICPA report No. 14, "Practical guidelines for Financial Instrument Accounting" with regard to the scope of securities. These accounting regulations were to be applied from the accounting period which closes in the year following the implementation of the Financial Instruments and Exchange Law. The Bank applied this accounting regulation from this period.

#### Additional information

The estimated period accountable for possible future taxable income to calculate deferred tax assets was changed from one year to three years from this period since the Bank continuously has taxable income and expects to generate taxable income in the future.

#### Notes

##### (Consolidated Balance Sheet)

1. Equity (or investment) in related companies (excluding equity (or investment) in consolidated subsidiaries) totals ¥ 12,908 million.

2. There are no securities loaned in line with uncollateralized loan contracts for consumption, for use or for lease contracts.

Of uncollateralized securities borrowed, securities purchased under resale agreements and securities borrowed under repurchase agreements which can be sold or pledged, none of the securities were pledged or loaned as second collateral and the Bank still holds securities to the value of ¥ 414,288 million at the consolidated balance sheet date.

3. Loans to bankrupt companies total ¥ 1,178 million, and past due loans total ¥ 33,442 million.

“Loans to bankrupt companies” are loans for which uncollected interest has not been accrued because collection or payment of principal or interest cannot be anticipated due to substantial duration of the delay of the said payment, or due to any of the events specified in (a) through (e) in Article 96, Paragraph 1, Subsections 3 and 4 of the Corporation Tax Law Enforcement Regulations (Cabinet Order No.97, 1965). (This excludes the amounts already written off, which hereafter shall be called “non-accrual loans”.)

“Past due loans” refers to non-accrual loans except for loans to bankrupt companies and loans to companies for which concessions on payment of interests were made in order to assist the reorganization of borrowers.

4. There are no loans overdue for 3 months or more.

“Loans overdue for 3 months or more” refers to those loans for which principal or interest remains unpaid for at least three months, excluding loans to bankrupt companies and past due loans.

5. Restructured loans total ¥ 7,972 million.

“Restructured loans” refers to those loans, excluding loans to bankrupt companies, past due loans and loans overdue for 3 months or more, for which agreement was reached to provide a reduction or a moratorium on interest payments, or concessions in the borrower’s favor on interest or principal payments or to waive claims for the purpose of assisting the reconstruction of insolvent borrowers.

6. Loans to bankrupt companies, past due loans, loans overdue for 3 months or more and restructured loans total ¥ 42,592 million.

Reserve for possible loan losses is not deducted from the amounts of loans stated in items 3 to 6 above.

7. In accordance with JICPA Industry Audit Committee Report No.24, discounting bills are treated as monetary transactions. The face value of commercial bills, acquired by the Bank through discount, which the Bank has the right to sell or pledge, totals ¥ 2,510 million.

8. Pledged assets are as follows:

Pledged assets	
Securities	¥ 333,324 million
Loans and bills discounted	237,985
Liabilities related to the pledged assets	
Negotiable certificates of deposit	¥ 16,000million
Call money and bills sold	80,000
Payables under repurchase agreements	16,468
Payables under securities lending transactions	172,527
Borrowed money	100,600

In addition, cash and due from banks of ¥ 1,630 million and Securities of ¥ 131,164 million are pledged as collateral for exchange settlements, derivative transactions, etc. or as substitute for margin calls for futures transactions.

9. Overdraft contracts and loan commitment line contracts, etc., are contracts whereby the Bank promises to extend loans up to certain credit lines in response to customers’ requests, without breach of contract. Unused amounts within the credit lines of these contracts total ¥ 716,912 million, including ¥ 537,564 million of less than 1 year duration.

10 Accumulated depreciation of tangible fixed assets totals ¥ 22,307 million.

11. Accumulated deferred gains of ¥ 846 million on sales of tangible fixed assets are deducted from the acquisition cost of newly acquired tangible fixed assets.

12. Corporate bonds includes subordinated bonds to the amount of ¥ 1,300 million.
13. Corporate bonds classified as “Securities” includes the guarantee obligation which the Bank accepted in the private offering (stipulated in the Financial Instruments and Exchange Law, Article 2, Paragraph 3), amounting to ¥ 10,205 million.
14. Net assets per share is ¥ 355.01.
15. In addition to fixed assets booked on the consolidated balance sheet, a proportion of computers within the Bank and its subsidiaries are used on finance lease contract without the transfer of ownership.
16. With regard to pension plan, the Bank adopts a retirement lump-sum grants system and a corporate pension fund system.

Retirement benefit obligations, etc. as of the balance sheet date are as follows:

Retirement benefit obligations	¥ (40,223) million
Pension assets	21,369
<hr/>	
Under-reserve retirement benefit obligations	(18,853)
Unrecognized actuarial loss	3,166
Unrecognized prior service cost	(754)
<hr/>	
Net liability recognized	(16,442)
Reserve for retirement benefits	(16,442)

Retirement benefits costs in this term are as follows:

Service cost	¥ 1,488 million
Interest cost	742
Expected investment revenue	(783)
Charge off of actuarial loss	750
Charge off of prior service cost	(188)
<hr/>	
Retirement benefits costs	2,009

(Consolidated Statement of Income)

1. “Other expenses” include written-off of claims amounting to ¥2,838 million and written-off of stocks amounting to ¥10,488 million.
2. Net income per share is ¥ 2.28.
3. Diluted net income per share is ¥ 2.26.

(Consolidated Statement of Changes in Net Assets)

1. Status of issued shares and number of treasury stocks are, as follows.

(Unit: thousand shares)

	Number of shares at the beginning of the period	Number of increased shares during the period	Number of decreased shares during the period	Number of shares at the end of the period	Notes
Outstanding stocks					
Common Stock	1,650,147	-	-	1,650,147	
4th Preferred Stock	24,072	-	-	24,072	
5th Preferred Stock	258,799	-	-	258,799	
Total	1,933,018	-	-	1,933,018	

(Unit: shares)

	Number of shares at the beginning of the period	Number of increased shares during the period	Number of decreased shares during the period	Number of shares at the end of the period	Notes
Treasury Stock					
Common Stock	1,752	3,379	-	5,131	Increase due to buy-in of odd lots securities
Total	1,752	3,379	-	5,131	

2. The Bank's dividends are as follows:

The dividends paid during the current period.

Resolution	Type of stocks	Dividends (Unit: million yen)	Dividends per share	Standard Date	Effective Date
Board meeting held on 2007/5/31	Common Stock	2,937	¥ 1.78	2007/3/31	2007/6/28
	4th Preferred Stock	240	10.00	2007/3/31	2007/6/28
	5th Preferred Stock	1,925	7.44	2007/3/31	2007/6/28

The dividends of which standard date falls in the current fiscal year and effective date comes after this fiscal year end is as follows:

Resolution	Type of stocks	Dividends (Unit: million yen)	Dividends per share	Standard Date	Effective Date
Board meeting scheduled on 2008/5/23	Common Stock	5,775	¥ 3.50	2008/3/31	2008/6/27
	4th Preferred Stock	240	10.00	2008/3/31	2008/6/27
	5th Preferred Stock	1,925	7.44	2008/3/31	2008/6/27

Note: The sources of dividends are other retained earnings.

(Securities)

Securities include "Securities" and claims on loan trust in "Monetary claims bought".

1. Trading securities (As of March 31, 2008)

	Book value (million yen)	Unrealized gains and losses booked in the current period (million yen)
Trading securities	114,169	23,896

2. Held-to-maturity bonds that have market prices or reasonably determinable prices (As of March 31, 2008)

	Book Value (million yen)	Fair Market Value (million yen)	Difference (million yen)	Unrealized gains (million yen)	Unrealized losses (million yen)
Japanese Government Bond	4,028	4,028	(0)	0	0
Total	4,028	4,028	(0)	0	0

Note 1. Fair Market Value is based on market price at the end of this fiscal year.

2. "Unrealized gains" and "Unrealized losses" are breakdown of "difference"

3. Available-for-sale securities that have market prices or reasonably determinable prices (As of March 31, 2008)

	Cost (million yen)	Book Value (million yen)	Difference (million yen)	Unrealized gains (million yen)	Unrealized losses (million yen)
Stocks	1,538	1,733	195	198	2
Bonds	890,063	883,967	(6,096)	277	6,374
Government bonds	887,549	881,438	(6,111)	255	6,366
Local government bonds	2,198	2,211	12	20	7
Corporate bonds	315	317	2	2	0
Others	405,898	380,657	(25,241)	2,671	27,912
Foreign bonds	255,071	249,915	(5,156)	1,150	6,307
Others	150,826	130,742	(20,084)	1,520	21,605
Total	1,297,500	1,266,358	(31,142)	3,147	34,289

Note 1. Fair Market Value is based on market price at the end of this fiscal year.

2. "Unrealized gains" and "Unrealized losses" are breakdown of "Difference"

3. The above "Others" include securities, which are component assets of partnerships recorded in "Securities" and are valued at the market price as available-for-sale securities. The above "Difference" is stated as "Net unrealized gains (or losses) on securities available-for-sale, net of taxes" in the net assets.

4. "Difference" above includes unrealized losses booked on profit and loss statement for the amount of ¥3,386 million due to the combined accounting treatment for embedded derivatives. Other unrealized gain and losses is booked as "Net unrealized gains (or losses) on securities available-for-sale, net of taxes" in net assets.

5. With regard to marketable securities, except for trading securities, if the market value falls as much as or more than 30% of the acquisition cost, the Bank deems that market value has fallen considerably and is irrecoverable and, in principle, writes down the carrying costs of securities. The Bank wrote off marketable securities in this term to the amount of ¥ 45,132 million.

4. Held-to-maturity bonds sold during the current term (from April 1, 2007 to March 31, 2008)

None

5. Available-for-sale securities sold during the current term (from April 1, 2007 to March 31, 2008)

	Sale value (million yen)	Gain on sale (million yen)	Loss on sale (million yen)
Available-for-sale	1,085,891	6,650	6,092

6. Securities that do not have market prices or reasonably determinable prices (As of March 31, 2008)

Type of securities	Book value (million yen)
Stocks in non-consolidated subsidiaries and affiliates:	
Stocks in subsidiaries	192
Stocks in affiliates	142
Investment in partnerships	12,573
Available-for-sale securities:	
Unlisted stocks	29,546
Unlisted foreign securities	75,751
Unlisted bonds	62,284
Claims on loan trust	33,790
Investments in partnerships	89,182
Others	11

7. Securities changed holding purpose

None

8. The redemption amount classified by residual period of available-for-sale securities (As of March 31, 2008)

	Less than 1 year (million yen)	1-5 years (million yen)	5-10 years (million yen)	Over 10 years (million yen)
Bonds	560,757	235,995	12,576	140,949
Government bonds	558,398	190,347	9,451	127,269
Local government bonds	265	1,121	825	378
Corporate bonds	2,093	44,527	2,300	13,301
Others	27,637	141,633	55,051	98,058
Foreign bonds	27,637	117,871	46,423	90,240
Others	—	23,762	8,627	7,818
Total	588,395	377,629	67,627	239,008

(Money held in trust)

1. Details of money held in trust classified by holding purpose (As of March 31, 2008)

	Book value (million yen)	Unrealized gains and losses (million yen)
Money held in trust for investment purpose	8,777	-

2. Money held in trust for held-to maturity purpose (As of March 31, 2008)

None

3. Available-for-sale money held in trust (As of March 31, 2008)

	Cost (million yen)	Book value (million yen)	Difference (million yen)	Unrealized gains (million yen)	Unrealized losses (million yen)
Available-for-sale money held in trust	804	804	-	-	-

Non-Consolidated Balance Sheet as of March 31, 2008

(In millions of yen)

( Assets )		( Liabilities )	
Cash and due from banks	<b>97,588</b>	Deposits	<b>2,406,331</b>
Cash	14,234	Current deposits	27,835
Due from banks	83,353	Ordinary deposits	284,059
Call loans	<b>239,004</b>	Deposits at notice	8,806
Receivables under securities borrowing transactions	<b>376,361</b>	Time deposits	2,058,829
Monetary claims bought	<b>86,432</b>	Other deposits	26,801
Trading assets	<b>216,498</b>	Negotiable certificates of deposit	<b>953,910</b>
Trading securities	0	Debentures	<b>2,069,648</b>
Derivatives of securities related to trading transactions	20	Debentures	2,069,648
Trading-related financial derivatives	216,477	Call money	<b>259,466</b>
Money held in trust	<b>7,690</b>	Payables under repurchase agreements	<b>16,468</b>
Securities	<b>2,090,937</b>	Payables under securities lending transactions	<b>172,527</b>
Government bonds	881,438	Trading liabilities	<b>103,472</b>
Local government bonds	2,590	Derivatives of securities related to trading transactions	27
Corporate bonds	62,207	Trading-related financial derivatives	103,444
Stocks	43,507	Borrowed money	<b>237,200</b>
Other securities	1,101,193	Borrowed money	237,200
Loans and bills discounted	<b>3,950,334</b>	Foreign exchanges	<b>1</b>
Bills discounted	2,510	Due to foreign banks (their accounts)	1
Loans on bills	219,766	Corporate bonds	<b>99,975</b>
Loans on deeds	3,423,030	Other liabilities	<b>125,719</b>
Overdrafts	305,027	Income taxes payable	449
Foreign exchanges	<b>15,108</b>	Accrued expenses	23,256
Due from foreign banks (our accounts)	15,108	Unearned income	1,847
Other assets	<b>141,965</b>	Variation margins of futures markets	3
Prepaid expenses	283	Derivatives other than for trading	56,284
Accrued income	15,967	Miscellaneous liabilities	43,879
Variation margins of future markets	842	Reserve for employees' bonuses	<b>3,212</b>
Derivatives other than for trading	75,078	Reserve for employees' retirement benefits	<b>15,619</b>
Deferred note issue cost	232	Reserve for directors' retirement benefits	<b>163</b>
Miscellaneous assets	49,560	Reserve for credit losses on off-balance-sheet instruments	<b>1,181</b>
Tangible fixed assets	<b>21,580</b>	Acceptances and guarantees	<b>41,140</b>
Buildings	11,363	Total liabilities	<b>6,506,037</b>
Land	9,095	(Net assets)	
Other tangible fixed assets	1,121	Capital stock	<b>419,781</b>
Intangible fixed assets	<b>13,497</b>	Capital surplus	<b>33,333</b>
Software	13,407	Capital surplus reserve	33,333
Other intangible fixed assets	89	Retained earnings	<b>343,030</b>
Deferred charges for debentures	<b>531</b>	Earned surplus reserve	5,865
Deferred debenture issue cost	531	Other retained earnings	337,165
Deferred tax assets	<b>47,273</b>	Earned surplus brought forward	337,165
Customers' liabilities for acceptances and guarantees	<b>41,140</b>	Treasury stock	<b>(1)</b>
Reserve for possible loan losses	<b>(52,149)</b>	Total owners' equity	<b>796,143</b>
Reserve for possible investment losses	<b>(16,501)</b>	Net unrealized gains (losses) on available-for-sale securities, net of taxes	<b>(27,510)</b>
		Net deferred gains(losses) on hedging instruments net of taxes	<b>2,623</b>
		Total valuation and translation adjustments	<b>(24,886)</b>
		Total net assets	<b>771,256</b>
Total assets	<b>7,277,293</b>	Total liabilities and net assets	<b>7,277,293</b>

Non-Consolidated Statement of Income (for the year ended March 31, 2008)

(In millions of yen)

Operating income		189,814
Interest income	131,930	
Interest on loans and discounts	72,710	
Interest and dividends on securities	52,500	
Interest on call loans	930	
Interest on receivable under securities borrowing transactions	1,706	
Interest on bills bought	4	
Interest on deposits with banks	1,846	
Other interest income	2,231	
Fees and commissions	15,322	
Fees and commissions on domestic and foreign exchanges	209	
Other fees and commissions	15,113	
Trading income	9,790	
Income from trading securities and derivatives	0	
Income from trading-related financial derivatives transactions	9,790	
Other operating income	25,400	
Gains on foreign exchange transactions	3,853	
Gains on sales of bonds	2,325	
Gains on redemption of bonds	1,626	
Others	17,593	
Other income	7,370	
Gains on sales of stocks and other securities	4,228	
Gains on money held in trust	544	
Others	2,598	
Operating expenses		214,890
Interest expenses	83,423	
Interest on deposits	17,419	
Interest on negotiable certificates of deposit	5,250	
Interest on debentures	17,409	
Interest on call money	6,124	
Interest on payables under repurchase agreements	1,166	
Interest on payables under securities lending transactions	7,691	
Interest on borrowings and rediscount	1,855	
Interest on notes	1,658	
Interest on interest swaps	24,775	
Other interest expenses	70	
Fees and commissions	1,534	
Fees and commissions on domestic and exchange transactions	90	
Other fees and commissions	1,444	
Trading expenses	327	
Expenses on securities and derivatives related to trading transactions	327	
Other operating expenses	53,264	
Losses on sales of bonds	6,092	
Losses on devaluation of bonds	42,881	
Amortization of deferred debenture issue cost	416	
Amortization of deferred note issue cost	77	
Expenses on derivatives other than for trading or hedging	604	
Others	3,192	
General and administrative expenses	46,874	
Other expenses	29,466	
Write-off of loans	614	
Losses on sales of stocks and other securities	0	
Losses on devaluation of stocks and other securities	10,488	
Others	18,363	
Operating losses		25,076
Extraordinary profits		9,985
Gains on dispositions of fixed assets	544	
Reversal of reserve for possible loan losses	9,023	
Recoveries of written-off claims	177	
Reversal of reserve for credit losses on off-balance-sheet instruments	240	
Extraordinary losses		2,176
Losses on dispositions of fixed assets	2,176	
Loss before income taxes		17,267
Current taxes		(114)
Deferred taxes		(20691)
Net income		3,538

## Statement of Changes of Net Assets for FY 2007

(from April 1, 2007 to March 31, 2008)

(In millions of yen)

	Owners' equity							Total owners' equity
	Capital stock	Capital surplus		Retained earnings			Treasury stock	
		Capital surplus reserve	Total capital surplus	Earned surplus reserve	Other retained Earned surplus brought	Total retained earnings		
Balance as of March 31, 2007	419,781	33,333	33,333	4,844	339,751	344,595	(0)	797,709
Changes of items during the period								
Cash dividends				1,020	(6,124)	(5,103)		(5,103)
Net income					3,538	3,538		3,538
Purchase of treasury stock							(1)	(1)
Net changes of items other than owners' equity								
Total changes of items during the period				1,020	(2,585)	(1,565)	(1)	(1,566)
Balance as of March 31, 2008	419,781	33,333	33,333	5,865	337,165	343,030	(1)	796,143

(In millions of yen)

	Valuation and translation adjustments			Total net assets
	Net unrealized gains (losses) on available-for-sale securities, net of taxes	Net deferred gains (losses) on hedging instruments, net of taxes	Total valuation and translation adjustments	
Balance as of March 31, 2007	(6,793)	(2,378)	(9,172)	788,537
Changes of items during the period				
Cash dividends				(5,103)
Net income				3,538
Purchase of treasury stock				(1)
Net changes of items other than owners' equity	(20,716)	5,002	(15,714)	(15,714)
Total changes of items during the period	(20,716)	5,002	(15,714)	(17,280)
Balance as of March 31, 2008	(27,510)	2,623	(24,886)	771,256

The amounts are presented in millions of yen and are rounded down to the nearest million.

#### Basis of preparation

##### 1. Valuation of Trading assets and liabilities

Transactions performed in the pursuit of gains from short-term movements of interest rates, currency exchange rates, securities market prices and other indices (“the trading purpose” hereinafter) are booked in “Trading Assets” or “Trading Liabilities” on the balance sheet on the trade date.

Gains or losses on the transactions of “Trading Assets” or “Trading Liabilities” (interest received/paid, dividend, gains/losses on sales, and valuation gains/losses) have been recorded in “Trading income” or “Trading expenses” on the transaction date basis in the statement of income.

“Trading Assets” and “Trading Liabilities” are valued based on the mark-to-market method.

##### 2. Valuation of Securities

(1) Valuation methods for the securities are as follows. The mark-to-market method is applied for “trading securities” (except the positions booked in the “Trading Assets” and “Trading Liabilities,” (item 1)) with the costs calculated on a moving average basis. The amortized cost method (with straight-line amortization) is applied for “held-to-maturity bonds”. The cost method (with moving average cost-base) is applied for “stocks in subsidiaries and affiliates”. The mark-to-market method is applied for securities held for other purposes (“available-for-sale securities”), if market price (with the costs basically calculated on a moving average basis) is available, and either the cost method or the amortized cost method if not.

For interests in investment business limited partnerships, associations under the Civil Code and silent partnerships, Aozora Bank, Ltd. (“the Bank”), in principle, records net assets and net income of those partnerships as assets and profits or losses in proportion to the Bank’s shares of interests based on their financial statements or interim financial statements. The valuation gains or losses, net of applicable taxes, from these positions are directly booked into the net assets.

(2) Securities that are components of trust assets recorded in “Money held in trust” are marked by the same method as stated in items (1) shown above.

##### 3. Accounting for Derivatives

Derivative transactions booked outside “Trading Assets” or “Trading Liabilities” are valued based on the mark-to-market method.

##### 4. Depreciation of fixed assets

###### ① Tangible fixed assets

For depreciation of tangible fixed assets, the Bank adopts the straight-line method for buildings and the declining-balance method for other tangible fixed assets. The main useful life is as follows:

Buildings: 15~50 years

Equipment: 5~15 years

(Change in accounting policy)

Depreciation expenses for tangible fixed assets obtained after April 1, 2007, were calculated in accordance with the method set forth in a 2007 tax law revision. The effect of this change is not material.

(Additional information)

The salvage value of fully depreciated premises and equipment obtained prior to March 31, 2007, is depreciated over 5 years using the straight-line method in accordance with the provisions of the 2007 tax law revision. The effect of this change is not material.

## ②Intangible fixed assets

Intangible fixed assets are amortized using the straight-line method. Software for internal use is depreciated over the estimated useful life (five years).

### 5. Amortization of deferred assets

Deferred assets related to debentures and corporate bonds issued by the Bank are amortized as follows:

(1) Deferred issuance costs for debentures classified as “Deferred charges for debentures” were recorded as assets and amortized using the straight-line method over the life of debentures.

Deferred issuance costs for debentures as of March 31, 2006, have been amortized by the straight-line method over the 3 years period stipulated in the Enforcement Regulations of the Commercial Code of Japan

(2) Deferred corporate bond issue cost in “Other assets” is amortized over the life of the corporate bond.

### 6. Translation of assets and liabilities denominated in foreign currencies

Assets and liabilities denominated in foreign currencies, held by the Bank are converted into Japanese yen at the exchange rates prevailing at the balance sheet date, except for equities of subsidiaries and affiliated companies, which are converted at historical rates.

### 7. Reserves

#### (1) Reserve for possible loan losses

Write-offs of loans and reserves for possible loan losses are provided as follows according to the internal procedures for write-offs and reserves:

Loans to borrowers under legal proceedings, such as bankruptcy or liquidation, and to borrowers in similar conditions, are written off except for collectible collateral upon disposition and guarantees. Such amounts are deemed irrecoverable and deducted from the loan. As of the balance sheet date, the written off irrecoverable amount totaled ¥ 5,288 million.

For loans to borrowers not yet bankrupt but likely to fall into bankruptcy, the necessary specific reserve is determined from the amount of loans, except for collectible collateral upon their disposition and guarantees depending on the assessment of the borrower’s payment ability.

For other loans, a general reserve is calculated based on the estimated loan-loss ratio using historical loan-loss data over a certain period in the past. For loans to specific overseas borrowers, the amount of possible losses expected due to political or economic reasons in specific countries is calculated as reserve for loans to restructuring countries.

All loans are monitored in line with the internal rating rule and the internal self-assessment standard. The front office reviews the internal credit ratings of debtors in accordance with the ‘borrower categories’ and the Credit Divisions approve them and the Credit Review Division, which is independent of the front office, examines the credit risk management, including the appropriateness of the internal credit ratings. Also, the Credit Review Division review the appropriateness of the internal credit ratings and borrower categories at the end of this fiscal year on a sampling basis.

Based upon the borrower categories at the end of this period, determined by the aforementioned process, the front office computes the write-offs and the reserves, and the Credit Review Division verifies and calculates the final figures.

(2) Reserve for investment loss

The reserve for investment loss is booked for the necessary amount to cover losses from investment after considering the financial conditions of issuer companies.

(Change of presentation)

“Reserve for investment loss” is disclosed separately on the financial statements due to materiality. It was included as a part of “other liabilities” at the end of previous fiscal year. The amount of “reserve for investment loss” included in “other liability” was ¥ 532 million at the end of previous fiscal year.

(3) Reserve for employees’ bonus

The reserve for employees’ bonus is recorded for the payment of bonuses to employees based on estimated amounts of future payments attributable to the current period.

(4) Reserve for employee retirement benefit

The reserve for retirement benefits is recorded for the accrued amount at the balance sheet date based on actuarial estimates of retirement benefit obligations less accumulated pension assets as of the year-end date.

Prior service cost is amortized using the straight-line method over 9 years.

Unrecognized actuarial loss is amortized using the straight-line method over 5 years within the average remaining employment period of employees commencing from the next fiscal year after incurrence.

(5) Retirement benefits for directors

The estimated amount of retirement benefit that is incurred by the end of this period has been recorded as reserve for directors’ retirement benefits.

(Change in accounting policy)

Prior to April 1, 2007, retirement benefits for directors were recorded as expenses upon payment. On April 13, 2007, the Japanese Institute of Certified Public Accountants (“JICPA”), Audit and Assurance Committee issued opinion No.42, “Audit treatment for regulatory deposit, reserve or deposit and allowance for retirement benefit for officers.” This new accounting regulation was implemented from the accounting period commencing April 1, 2007, and was applied by the Bank from this accounting period.

As a result, general and administrative expenses increased by ¥ 163 million, which led to increases of ¥ 163 million in operating losses and losses before taxes and others respectively.

(6) Reserve for credit losses on off-balance-sheet instruments

Reserve for credit losses on off-balance-sheet instruments is recorded for credit losses on commitments to extend loans and other off-balance-sheet financial instruments based on an estimated loss ratio or individually estimated loss amount determined by the same method used in determining the reserve for possible loan losses.

8. Lease transactions

Finance leases of the Bank under which the ownership of the property is not deemed transferred to the lessee are accounted for as operating leases.

## 9. Accounting for hedging activities

### (1) Hedging interest rate risk

For hedge accounting to control interest rate risk arising from financial assets and liabilities, the Bank uses the deferral method of hedge accounting, in accordance with “Treatment for Accounting and Auditing of Application of Accounting Standard for Financial Instruments in Banking Industry” (JICPA Industry Audit Committee Report No.24, February 13, 2002). The effectiveness of hedging for the purpose of offsetting market fluctuation is assessed as follows; the Bank categorizes hedging objectives such as deposits or lending and hedging instruments such as interest rate swaps as groups with fixed remaining periods until maturity, and determines the value of each groups.

### (2) Hedging foreign exchange rate risk

For hedge accounting to control exchange rate risk arising from financial assets and liabilities denominated in foreign currencies, the Bank uses the deferral method of hedge accounting in accordance with “Accounting and Auditing Treatment to Accounting for Foreign Currency Transactions in Banking Industry” (JICPA Industry Audit Committee Report No.25, July 29, 2002). The effectiveness of hedging for the purpose of offsetting market fluctuation is assessed as follows: the Bank specifies currency swap transactions and forward exchange swap transactions, as hedging instruments, for the purpose of offsetting exchange rate risks of financial assets and liabilities denominated in foreign currencies, and the Bank verifies the effectiveness of hedging by confirming if foreign currency positions arising from hedging instruments are equivalent to hedged objects which are financial assets and liabilities denominated in foreign currencies.

Also, in order to hedge the exchange rate risk of “Available-for-sale securities” denominated in foreign currencies, except bonds, the Bank specifies the names of securities denominated in foreign currencies in advance, and applies fair value hedging to the specified securities as comprehensive hedging on the condition that foreign currency denominated liabilities, including forward contracts, exceed acquisition costs of those securities.

### (3) Internal contracts

For internal contracts and derivative transactions between the trading account and other accounts, the Bank conducts operations in compliance with the standard for external cover transactions for interest rate swap transactions and currency rate swap transactions which the Bank has specified as hedging instruments. This standard, prescribed by JICPA Industry Audit Committee Report No.24 and No.25, excludes arbitrariness and enables the Bank to conduct strict hedging operations. Consequently, the Bank does not offset income and expenses incurred from such interest rate swap transactions or currency rate swap transactions, and instead recognizes or defers gain and loss.

10. Consumption tax and local consumption tax are excluded from transaction amounts.

## Change in Basic Items for Preparing Financial Statements

On June 15, 2007, the ASBJ revised Accounting Standard No. 10 "Financial Instrument Accounting" and on July 4, 2007, JICPA revised JICPA report No. 14, "Practical guidelines for Financial Instrument Accounting" with regard to the scope of securities. These accounting regulations were to be applied from the accounting period which closes in the year following the implementation of the Financial Instruments and Exchange Law. The Bank applied this accounting regulation from this accounting period.

### Additional information

The estimated period accountable for possible future taxable income to calculate deferred tax assets was changed from one year to three years from this period since the Bank continuously has taxable income and expects to generate taxable income in the future.

### Notes

(Balance sheet)

1. Equity (or investment) in related companies totals ¥ 95,586 million.

2. There are no securities loaned in line with uncollateralized loan contracts for consumption, for use or for lease contracts.

Of uncollateralized securities borrowed, securities purchased under resale agreements and securities borrowed under repurchase agreements which can be sold or pledged, none of the securities were pledged or loaned as second collateral and the Bank still holds securities to the value of ¥ 414,288 million at the balance sheet date.

3. There are no loans to bankrupt companies, and past due loans total ¥ 31,793 million.

“Loans to bankrupt companies” are loans for which uncollected interest has not been accrued because collection or payment of principal or interest cannot be anticipated due to substantial duration of the delay of the said payment, or due to any of the events specified in (a) through (e) in Article 96, Paragraph 1, Subsections 3 and 4 of the Corporation Tax Law Enforcement Regulations (Cabinet Order No.97, 1965). (This excludes the amounts already written off, which hereafter shall be called “non-accrual loans”.)

“Past due loans” refers to non-accrual loans except for loans to bankrupt companies and loans to companies for which concessions on payment of interests were made in order to assist the reorganization of borrowers.

4. There are no loans overdue for 3 months or more.

“Loans overdue for 3 months or more” refers to those loans for which principal or interest remains unpaid for at least three months, excluding loans to bankrupt companies and past due loans.

5. Restructured loans total ¥ 7,972 million.

“Restructured loans” refers to those loans, excluding loans to bankrupt companies, past due loans and loans overdue for 3 months or more, for which agreement was reached to provide a reduction or a moratorium on interest payments, or concessions in the borrower’s favor on interest or principal payments or to waive claims for the purpose of assisting the reconstruction of insolvent borrowers.

6. Loans to bankrupt companies, past due loans, loans overdue for 3 months or more and restructured loans total ¥ 39,765 million.

Reserve for possible loan losses is not deducted from the amounts of loans stated in items 3 to 6 above.

7. In accordance with JICPA Industry Audit Committee Report No.24, discounting bills are treated as monetary transactions. The face value of commercial bills, acquired by the Bank through discount, which the Bank has the right to sell or pledge, totals ¥ 2,510 million.

8. Pledged assets are as follows:

Pledged assets	
Securities	¥ 333,324 million
Loans and bills discounted	237,985
Liabilities related to the pledged assets	
Negotiable certificates of deposit	¥ 16,000 million
Call money	80,000
Payables under repurchase agreements	16,468
Payables under securities lending transactions	172,527
Borrowed money	100,600

In addition, Cash and due from banks of ¥ 1,630 million and Securities of ¥ 131,134 million are pledged as collateral for exchange settlements, derivative transactions, etc. or as substitute for margin calls for futures transactions.

9. Overdraft contracts and loan commitment line contracts, etc., are contracts whereby the Bank promises to extend loans up to certain credit lines in response to customers' requests, without breach of contract. Unused amounts within the credit lines of these contracts total ¥ 747,869 million, including ¥ 589,302 million of less than 1 year duration.

10. Accumulated depreciation of tangible fixed assets totals ¥ 20,044 million.

11. Accumulated deferred gains of ¥ 846 million on sales of tangible fixed assets are deducted from the acquisition cost of newly acquired tangible fixed assets.

12. Corporate bonds classified as "Securities" includes the guarantee obligation which the Bank accepted in the private offering (stipulated in the Financial Instruments and Exchange Law, Article 2, Paragraph 3), amounting to ¥ 10,205 million.

13. Net assets per share is ¥ 357.38

14. In addition to fixed assets booked on the balance sheet, a proportion of computers within the Bank are used on finance lease contract without the transfer of ownership.

15. Monetary claims against related companies total ¥528,263 million.

16. Monetary liabilities against related companies total ¥ 54,248 million.

17. The dividends to be paid from surplus are limited according to the Banking Law, Article 18. In case the Bank distributes dividends from surplus, the amount of dividends to be deducted multiplying the 1/5 is booked as "earned surplus reserve" regardless of Corporate Law, Article 445, Paragraph 4 (capital and surplus reserve.)

"Earned surplus reserve" booked during this fiscal year due to the said dividends paid is amounting to ¥ 1,020 million.

According to the articles of incorporation of the Bank, dividends are limited to ¥ 10 per share annually for No. 4 preferable shareholders issued on March 31, 1998 and ¥7.44 per share annually for No. 5 preferable shareholders issued on October 4, 2000.

(Statement of Income)

1. The revenues due to transactions with subsidiaries and affiliated companies	¥ 36,684 million
Interest income received	28,528
Fees & commissions received	81
Other operating income and other income	8,074
The expenses due to transactions with subsidiaries and affiliated companies	¥ 8,445 million
Interest expense paid	223
Fees and commissions paid	249
Other operating and other income	7,971

Other transactions with subsidiaries and affiliated companies (such as asset transfer) ¥ 4,885 million

2. "Others" in "Other expenses" include provision for reserve for possible investment losses amounting to ¥ 16,031 million.

3. Net income per share is ¥ 0.83.

4. The material transactions with related parties are as follows.

(1) Parent company and major shareholders

None

(2) Subsidiaries and affiliates

Category	Company Name	Equity ratio	Relationship with related parties	Nature of Transaction	Transaction Amount (million yen)	Account Name	Balance (million yen)
Subsidiary	Azure Funding Europe S.A.	Direct investment 99.9%	Undertaking Note Concurrent officer	Purchased Notes	60,387	Other securities	131,970
				Received bond interest (Note)	6,841	Interest receivable	1,966
Subsidiary	AZURE Funding North America I	N/A	Undertaking Notes	Received bond interest (Note)	11,213	Other securities	104,218
						Interest receivable	1,829
Subsidiary	AZURE Funding North America II	N/A	Undertaking Notes	Purchased Notes	85,824	Other securities	107,535
				Received bond interest (Note)	6,934	Interest receivable	1,204

(Note) Notes issued by Azure Funding Europe S.A., AZURE Funding North America I and AZURE Funding North America II are fully secured by loans held by said entities, and interest is paid from revenue generated by these assets to the amount of the stated interest rate which ties to the variable interest market plus performance dividends. As of the end of this fiscal year, the Bank held 100% of the notes issued by said entities, and 100% of the profits and losses are attributed to the Bank.

(3) Fellow subsidiary

None

(4) Directors, corporate auditors and their close family members, etc.

Category	Company Name	Equity ratio	Relationship with related parties	Nature of Transaction	Transaction Amount (million yen)	Account Name	Balance (million yen)
An entity of which more than 50% of voting rights are owned by directors and corporate auditors or A close family member of directors and corporate auditors(including a subsidiary of this company)	Spring Mountain Capital, LP (Note 1)	-	Sales of private placement investment funds	Commission received (Note 3)	18	-	-
			Advisory contract (Note 2)	Advisory fee paid (Note 4)	182	-	-
			Loaned employees from the Bank	HR costs for loaned employees from the Bank (Note 5)	61	-	-
			Concurrent officer				

(Note 1) Spring Mountain Capital, LLC, at which a director of the Bank, John L. Steffens is serving as a managing member, has 100% of voting right for Spring Mountain Capital, LP.

(Note 2) The Bank sends employees to obtain know-how for acquiring new hedge fund investments.

(Note 3) Commission is calculated by multiplying the fund balance with the rate used for the third counter party generally.

(Note 4) Advisory fee is calculated by multiplying the hedge fund balance with the rate approved at the board of director's meeting as a generally accepted rate.

(Note 5) The Bank pays salary and actual expense for housing and business trip according to the accounting policy of the Bank.

(Statement of changes in net asset)

1. The number of treasury stocks is as follows. (Unit: share)

	Number of shares at the beginning of the period	Number of increased shares during the period	Number of decreased shares during the period	Number of shares at the end of the period	Notes
Treasury Stock					
Common Stock	1,752	3,379	-	5,131	Increase due to buy-in of odd lots securities
Total	1,752	3,379	-	5,131	

(Securities)

Securities include "Government bonds," "Local government bonds," "Corporate bonds," "Stocks," "Other securities," "Trading securities" and claims on loan trust in "Monetary claims bought".

1. Trading securities (As of March 31, 2008)

	Book value (million yen)	Unrealized gains and losses booked in the current period (million yen)
Trading securities	114,169	23,896

2. Held-to-maturity bonds that have market prices or reasonably determinable prices (As of March 31, 2008)

None

3. Stocks in subsidiaries and affiliates that have market prices(As of March 31, 2008)

None

4. Available-for-sale securities that have market prices or reasonably determinable prices (As of March 31, 2008)

	Cost (million yen)	Book Value (million yen)	Difference (million yen)	Unrealized gains (million yen)	Unrealized losses (million yen)
Stocks	1,534	1,725	191	194	2
Bonds	890,063	883,967	(6,096)	277	6,374
Government bonds	887,549	881,438	(6,111)	255	6,366
Local government bonds	2,198	2,211	12	20	7
Corporate bonds	315	317	2	2	0
Others	405,648	380,657	(24,991)	2,671	27,662
Foreign bonds	254,822	249,915	(4,907)	1,150	6,057
Others	150,826	130,742	(20,084)	1,520	21,605
Total	1,297,246	1,266,349	(30,896)	3,142	34,039

(Note) 1. Book value is based on market price at the end of this fiscal year.

2. "Unrealized gains" and "Unrealized losses" are breakdown of "Difference"

3. The above "Others" include securities, which are component assets of partnerships recorded in "Securities" and are valued at the market price as available-for-sale securities. The above "Difference" is stated as "Net unrealized gains (or losses) on securities available-for-sale, net of taxes" in the net assets.

4. "Difference" above includes unrealized losses booked on profit and loss statement for the amount of ¥3,386 million due to the combined accounting treatment for embedded derivatives. Other unrealized gain and losses is booked as "Net unrealized gains (or losses) on securities available-for-sale, net of taxes" in net assets.

5. With regard to marketable securities, except for trading securities, if the market value falls as much as or more than 30% of the acquisition cost, the Bank deems that market value has fallen considerably and is irrecoverable and, in principle, writes down the carrying costs of securities. The Bank wrote off marketable securities in this term to the amount of ¥ 45,132 million.

5. Held-to-maturity bonds sold during the current term (from April 1, 2007 to March 31, 2008)

None

6. Available-for-sale securities sold during the current term (from April 1, 2007 to March 31, 2008)

	Sale value (million yen)	Gain on sale (million yen)	Loss on sale (million yen)
Available-for-sale	1,085,795	6,553	6,092

7. Securities that do not have market prices or reasonably determinable prices (As of March 31, 2008)

Type of securities	Book value (million yen)
Stocks in subsidiaries and affiliates:	
Stocks in subsidiaries	83,245
Stocks in affiliates	121
Investment in partnerships	12,219
Available-for-sale securities:	
Unlisted stocks	29,433
Unlisted foreign securities	382,403
Unlisted bonds	62,269
Claims on loan trust	33,790
Investments in partnerships	142,784
Others	10

8. Securities changed holding purpose

None

9. The redemption amount classified by residual period of available-for-sale securities (As of March 31, 2008)

	Less than 1 year (million yen)	1-5 years (million yen)	5-10 years (million yen)	Over 10 years (million yen)
Bonds	556,714	235,995	12,576	140,949
Government bonds	554,370	190,347	9,451	127,269
Local government bonds	265	1,121	825	378
Corporate bonds	2,078	44,527	2,300	13,301
Others	27,637	141,633	398,775	98,058
Foreign bonds	27,637	117,871	390,147	90,240
Others	—	23,762	8,627	7,818
Total	584,352	377,629	411,351	239,008

(Money held in trust)

1. Details of money held in trust classified by holding purpose (As of March 31, 2008)

	Book value (million yen)	Unrealized gains and losses (million yen)
Money held in trust for investment purpose	6,885	-

2. Money held in trust for held-to maturity purpose (As of March 31, 2008)

None

3. Available-for-sale money held in trust (As of March 31, 2008)

	Cost (million yen)	Book value (million yen)	Difference (million yen)	Unrealized gains (million yen)	Unrealized losses (million yen)
Available-for-sale money held in trust	804	804	-	-	-

(Tax effect accounting)

The tax effects of significant temporary differences and loss carry forwards which resulted in deferred tax assets and liabilities as of March 31, 2008 were as follows:

Deferred tax assets	
Reserve for possible loan losses	¥ 19,784 million
Reserve for retirement benefits	6,355
Depreciation expense	4,726
Write-offs for securities	22,551
Tax loss carry forwards	28,594
Other	<u>31,412</u>
Subtotal	113,425
Less valuation allowance	<u>(64,352)</u>
Deferred tax assets	49,073
Deferred tax liabilities	
Net deferred gains(losses) on hedging instruments, net of taxes	<u>(1,799)</u>
Net deferred tax assets	¥ 47,273million

## INDEPENDENT AUDITORS' REPORT

May 15, 2008

To the Board of Directors of  
Aozora Bank, Ltd.:

Deloitte Touche Tohmatsu

Designated partner	CPA	Yoshiyuki Higuchi
Engagement partner		

Designated partner	CPA	Takashi Nonaka
Engagement partner		

Designated partner	CPA	Kentaro Fukada
Engagement partner		

Pursuant to the fourth clause of Article 444 of the Corporate Law, we have audited the consolidated financial statements, namely, the consolidated balance sheet as of March 31, 2008 of Aozora Bank, Ltd. (the "Bank") and consolidated subsidiaries, and the related consolidated statements of income and changes in net assets for the fiscal year from April 1, 2007 to March 31, 2008. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Bank and consolidated subsidiaries as of March 31, 2008, and the results of those operations for the year then ended in conformity with accounting principles generally accepted in Japan.

Our firm and the engagement partners do not have any financial interest in the Bank for which disclosure is required under the provisions of the Certified Public Accountants Law.

## INDEPENDENT AUDITORS' REPORT

May 15,2008

To the Board of Directors of  
Aozora Bank, Ltd.:

Deloitte Touche Tohmatsu

Designated partner Engagement partner	CPA	Yoshiyuki Higuchi
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Designated partner Engagement partner	CPA	Takashi Nonaka
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Designated partner Engagement partner	CPA	Kentaro Fukada
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Pursuant to the first item, second clause of Article 436 of the Corporate Law, we have audited the financial statements, namely, the balance sheet as of March 31, 2008 of Aozora Bank Ltd. (the “Bank”), and the related statements of income and changes in net assets for the 75th fiscal year from April 1, 2007 to March 31, 2008, and the accompanying supplemental schedules. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the accompanying supplemental schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and the accompanying supplemental schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement and the accompanying supplemental schedules presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements and the accompanying supplemental schedules referred to above present fairly, in all material respects, the financial position of the Bank as of March 31, 2008, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in Japan.

Our firm and the engagement partners do not have any financial interest in the Bank for which disclosure is required under the provisions of the Certified Public Accountants Law.

# The Board of Corporate Auditor's Report

This Board of Corporate Auditors prepared this Board of Corporate Auditor's Report, following deliberation, based on the Corporate Auditor's Report prepared by each Corporate Auditor, and will make the following report on the execution of duties by Directors for the 75<sup>th</sup> business year that commenced on April 1, 2007 and ended on March 31, 2008.

## 1. The Method and Contents of the Audit on Corporate Auditors and the Board of Corporate Auditors

The Board of Corporate Auditors defined the audit policy, the division of duties, received reports on how audits were actually implemented and results thereof from each Corporate Auditor, received reports on the actual execution of duties from Directors, etc. and the Independent Auditor, and sought any necessary explanations.

Each Corporate Auditor followed the audit policy and the division of duties predefined by the Board of Corporate Auditors, communicated with Directors, Internal Audit Division and other employees to gather information and improve the auditing environment, attended the Board of Directors meetings and other important meetings, received reports on the actual execution of duties from Directors and employees, sought any necessary explanations, inspected important documents for approval, and examined operations and assets of the Head Office and principal offices. In addition, the Board of Corporate Auditors monitored and examined the conditions of the system that has been installed and improved based on the resolution of the Board of Directors on the improvement of the system provided in Article 100.1 and 100.3 of the Enforcement Regulation of the Company Law (the internal control system) and contents thereof, to secure the system to ensure the compliance of the execution of duties by Directors with applicable laws and regulations of Japan as well as the Articles of Incorporation, and to secure the appropriateness of other operations of the corporation. As to subsidiaries, the Board of Corporate Auditors communicated and exchanged information with Directors and Corporate Auditors of these subsidiaries, and received any necessary reports from them. Based on the above-mentioned method, the Board of Corporate Auditors examined the Business Report and its supplementary statements for the said business year.

In addition, the Board of Corporate Auditors monitored and examined to see whether the Independent Auditor retains its independent position and implements adequate audit, as well as received from the Independent Auditor on the actual execution of its duties, and sought any necessary explanation from the Independent Auditor. The Board of Corporate Auditors also was informed by the Independent Auditor that the Independent Auditor is improving "Systems to Ensure the Proper Conduct of Professional Duties" (the item listed in the each section of Article 159 of the Corporate Accounting Rules) in accordance with "Standards for Audit Quality Control" (by Business Accounting Council on October 28, 2005), etc., and the Board of Corporate Auditors sought any necessary explanation from the Independent Auditor. Based on the above-mentioned method, the Board of Corporate Auditors examined the financial statements for the said business year (Balance Sheet, Income Statement and Statement of Changes in Net Assets.) and their Supplementary Statement, as well as consolidated financial statements (Consolidated Balance Sheet, Consolidated Income Statement and Consolidated Statements of Changes in Net Assets.).

## 2. Results of the Audit

### (1) Results of the Audit on the Business Report and its Supplementary Statement

1. The Board of Corporate Auditors acknowledges that the Business Report and its supplementary statement present the correct conditions of the Company in accordance with applicable laws and regulations of Japan as well as the Article of Incorporation.
2. There is no illegal act in the execution of duties of Directors or material fact in violation of applicable laws and regulations of Japan or the Article of Incorporation.
3. The Board of Corporate Auditors acknowledges that contents of the resolution of the Board of Directors on the internal control system are reasonable, and there is no finding in the execution of duties of Directors related to the said internal control system.

### (2) Results of the Audit on the Financial Statements and their Supplementary Statement

The Board of Corporate Auditor acknowledges that the method and results of the audit implemented by the External Auditor Tohmatsu are reasonable.

### (3) Results of the Audit on the Consolidated Financial Statements

The Board of Corporate Auditor acknowledges that the method and results of the audit implemented by the Independent Auditor Tohmatsu are reasonable.

May22, 2008

The Board of Corporate Auditors of Aozora Bank, Ltd.

Standing Corporate Auditor	Tadaaki Satoyoshi
Corporate Auditor (External Corporate Auditor)	Mitch R. Fulscher
Corporate Auditor (External Corporate Auditor)	Akira Tachimoto

## Reference Material for The General Meeting of Shareholders

### Proposals and Reference

#### **Proposal No.1: Partial Amendment to the Articles of Incorporation**

##### (1) The Reasons for Change

- ① Due to the enforcement of “The Partial Amendment Law to the Securities and Exchange Law (2006 Law No.65)” and “Act on improvement of related-laws with the enforcement of the Partial Amendment Law of the Securities and Exchange Law (2006 Law No.66)” in September 2007, as The Securities and Exchange Law (1948 Law No.25) was amended to become The Financial Instruments and Exchange Act, we would like to carry out required changes accordingly.
- ② Due to the repeal of the Law on Recording of Bonds, we would like to carry out required changes accordingly.
- ③ As the electronic public notice system is planned to be adopted, for the purpose of cost reduction of public notice and increasing its publicity, we would like to carry out required changes. Also to respond to contingencies, we would like to specify an alternative way of public notice in the provisional clause.

##### (2) The Contents of Change

(Proposed Changes are underlined)

Current Articles of Incorporation	Proposed Changes
<p>(Purpose) Article 2</p> <p>The purposes of the Bank shall be to engage in the following businesses:</p> <ol style="list-style-type: none"> <li>1. The acceptance of deposits or installment savings, the lending of funds or the discounting of notes, and exchange transactions;</li> <li>2. The guaranteeing of debts or the acceptance of notes, and other businesses incidental to the banking business listed in the previous item;</li> <li>3. The underwriting, the handling of flotation or resale, the buying and selling of national government bonds, local government bonds, government guaranteed bonds, or other securities, and any of the businesses authorized for banks to carry out under <u>the Securities and Exchange Law</u>;</li> <li>4. In addition to the businesses listed in any of the foregoing items, any business authorized to be carried out under the Banking Law (<i>ginkou hou</i>), the Secured Bonds Trust Law (<i>tanpo tsuki shasai shintaku hou</i>) <u>and the Law on Recording of Bonds, etc. (<i>shasai-tou touroku hou</i>)</u>, or any other laws; and</li> <li>5. Any matter incidental or relating to the business mentioned in any of the foregoing items.</li> </ol> <p>(Method of Public Notice) Article 5</p> <p><u>Public notices of the Bank shall be given in the “Nihon Keizai Shimbun.”</u></p>	<p>(Purpose) Article 2</p> <p>The purposes of the Bank shall be to engage in the following businesses:</p> <ol style="list-style-type: none"> <li>1. The acceptance of deposits or installment savings, the lending of funds or the discounting of notes, and exchange transactions;</li> <li>2. The guaranteeing of debts or the acceptance of notes, and other businesses incidental to the banking business listed in the previous item;</li> <li>3. The underwriting, the handling of flotation or resale, the buying and selling of national government bonds, local government bonds, government guaranteed bonds, or other securities, and any of the businesses authorized for banks to carry out under <u>the Financial Instruments and Exchange Act</u>;</li> <li>4. In addition to the businesses listed in any of the foregoing items, any business authorized to be carried out under the Banking Law (<i>ginkou hou</i>), the Secured Bonds Trust Law (<i>tanpo tsuki shasai shintaku hou</i>) <u>(deletion)</u>, or any other laws; and</li> <li>5. Any matter incidental or relating to the business mentioned in any of the foregoing items.</li> </ol> <p>(Method of Public Notice) Article 5</p> <p><u>The Bank shall adopt an electronic Public Notice as its method for Public Notice; provided, however, that in the event that the Bank can not use the electronic Public Notice due to accidents or any other unavoidable cause, the Bank shall publish its Public Notice the “Nihon Keizai Shimbun.”</u></p>

## Proposal No.2 : Appointment of Thirteen Directors

At the close of this Ordinary General Meeting of Shareholders, the term of office of all eleven (11) directors shall expire. This is to propose, therefore, thirteen (13) directors be elected at the meeting to hold office until the next annual election and until their successors are duly elected and qualified.

Candidates are shown below.

### Candidates for Director

Candidate No.	Name (Date of Birth)	Brief Personal History, Representation at Other Entities, Position and Areas of Responsibility at the Bank	Type and per-type number of Bank's shares Owned by Candidate
1	Federico J. Sacasa (January 31, 1951)	1972 BSc in Foreign Service (International Economics), School of Foreign Service, Georgetown University 1972 Banco Nacional de Nicaragua 1975 Wells Fargo Bank International Banking Officer, Vice President 1982 Banco de Credito del Peru Senior Vice President, Executive Vice President 1988 Bank of America, Executive VP, Latin America & Caribbean Division, United States Division, Europe, M.E. & Africa Division 1993 Group Executive VP & Executive Officer, International Trade Bank 1998 President & Executive Officer, Latin America & Car., Global Corp. & Investment Bank 2002 Caribbean Central American Action, Executive Director 2005 President & CEO Feb. 2007 Senior Managing Executive Officer, Aozora Bank, Ltd. June 2007 President of Aozora Bank, Ltd. (Representative Director) (present)	—
2	James Danforth Quayle (February 4, 1947)	1969 Graduated from DePauw University 1974 J.D. from Indiana University, School of Law 1977 Member of the House of Representative 1981 Member of the Senate 1989 The 44th Vice President, U.S.A. 1993 Author, Speaker, Visiting Professor of Thunderbird Univ. Chairman, Campaign America Jan. 2000 Senior Advisor, Cerberus Capital Management LP Sep. 2000 Joined The Nippon Credit Bank, Ltd. (Aozora bank, Ltd.) as Director (present) Mar. 2002 Chairman, Cerberus Global Investment Advisors, LLC. May 2007 Chairman, Cerberus Global Investments, LLC (present)	—

3	Frank W. Bruno (March 23, 1965)	1987 Graduated from Cornell University 1987 Japanese Government JET program in Mie Prefecture, Japan 1988 Bank of Tokyo, Ltd. New York Assistant Foreign Exchange Trader 1989 Tiffany & Co. Associate International Business Development 1990 Weber Management Consultants 1996 Graduated Wharton School MBA, University of Pennsylvania 1996 Merrill Lynch Distressed Products Group New York/Tokyo 1998 Cerberus Japan K.K. Managing Director Cerberus Capital Management L.P. Managing Director (present) 1999 Cerberus Japan K.K. President 2002 Cerberus Global Investment Advisors, LLC President (present) Aug. 2003 Cerberus European Investments LLC Managing Director (present) June 2004 Joined Aozora bank, Ltd. as Director (present) Dec. 2005 MP Fiance B.V., Managing Director (present) Nov. 2006 GMAC LLC, Member of Board of Managers (present) Aug. 2007 Chrysler Holdings LLC, Member of Board of Managers (present)	—
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4	Lawrence B. Lindsey (July 18, 1954)	1976 Bowdoin College, A.B. Magna Cum Laude 1980 Senior Staff Economist for Tax Policy at the Council of Economic Advisers during President Reagan's first term 1985 Harvard University, M.A. and Ph.D 1988 Special Assistant to the President for Domestic Economic Policy during the first Bush Administration 1991 Governor of the Federal Reserve System 1997 Economics Professor at Harvard University and held the Arthur F. Burns Chair for Economic Research at the American Enterprise Institute 1997 ECONOMIC STRATEGIES, Managing Director 1999 Chief Economic Adviser to candidate George W. Bush during the 2000 Presidential campaign 2001 Assistant to the President and Director of the National Economic Council at the White House 2003 THE LINDSEY GROUP, President and CEO (present) June 2004 Joined Aozora bank, Ltd. as Director (present)	—
5	John L. (Launny) Steffens (July 7, 1941)	1963 Dartmouth University, B.A. in Economics 1979 Advanced Management Program of the Harvard Business School 1983 Merrill Lynch Ventures, Board 1985 Private Client Group (former Merrill Lynch Consumer Markets), President 1986 Merrill Lynch, Board of Directors 1994 Securities Industry Association, Chairman Trustee of the Committee for Economic Development 1997 US Private Client Group, Chairman Merrill Lynch, Vice Chairman 1998 National Chairman of the Alliance for Aging Research 2001 Spring Mountain Capital, LP, Founder and Managing Director (present) June 2004 Joined Aozora bank, Ltd. as Director (present) 2006 Chairman-Emeritus of the Alliance for Aging Research (present) May 2007 Chairman of the Board of Cicero, Inc. (present)	—

6	Kiyoshi Tsugawa (October 20,1933)	1956 Graduated from University of Tokyo 1956 The Bank of Tokyo, Ltd. 1971 The Bank of Tokyo Trust Company (New York) Vice President & General Manager, National Division 1975 The Bank of Tokyo, Ltd. Deputy General Manager, International Investment Division 1978 Deputy General Manager, Tokyo Main Office 1980 Acting General Manager, Tokyo Main Office 1981 General Manager, Milano Office, Italy 1983 Bank of Tokyo International Plc. In London President & CEO 1984 The Bank of Tokyo, Ltd. General Manager, International Investment Division 1985 Director (Board Member) General Manager, Capital Market Division No.1 1987 S.G.Warburg Securities (Japan) Inc., Chairman & President 1995 Lehman Brothers Japan Inc.,Chairman 2004 Executive Advisor and a Member of Advisory Board (present) June 2004 Joined Aozora bank, Ltd. as Director (present) July 2004 Aramark Asia Management, LLC Chairman June 2005 Director of Aim Service July 2006 Advisor of Hartford Life Insurance K.K. (present)	—
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7	Marius J.L. Jonkhart (March 16, 1950)	1975 Business Economics (MBA), Erasmus University 1980 Economics(Ph.d), Erasmus University 1981 Ministry of Finance (The Netherlands) 1984 Director of Domestic Monetary Affairs, Ministry of Finance 1988 Chairman and CEO of De Nationale Investeringsbank N.V. 2000 Chairman and CEO of NOB Holding N.V. (present) 2002 Chairman of the Supervisory Board, Ruimte voor Ruimte Beheer B.V. (present) 2004 Member of the Supervisory Board of De Nederlandsche Bank N. V Member of the Supervisory Board of Connexion Holdings N. V. (present) Member of the Supervisory Board of Corus Netherland N. V. (present) 2005 Member of the Supervisory Board of Staatsbosbeheer (present) Director of AerCap Holdings N. V. (present) Dec. 2005 Managing Director of MP Finance B.V. (present) Feb. 2006 Joined Aozora bank, Ltd. as Director (present) Nov. 2006 Supervisory Director of Saberasu Japan Institutional Holding B.V. (present) May 2007 Member of the Supervisory Board of BAWAG P.S.K. (present) 2007 Member of the Supervisory Board of Orco Bank International N.V. (present)	—
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8	Lee Millstein (September 10, 1970)	<p>May 1992 University of Pennsylvania Graduated Magna Cum Laude for Dual Degree Program Bachelor of Science in Economics from the Wharton School Bachelor of Arts from the College of Arts &amp; Sciences</p> <p>1992 Legg Mason Wood Walker, Corporate Finance Analyst</p> <p>1994 Morgan Stanley New York, Associate Vice-President, High Yield Credit Research</p> <p>1996 Morgan Stanley New York, Associate Vice-President, High Yield Bond Trading</p> <p>Sep. 1998 Morgan Stanley Japan, Head of Global High Yield for Japan and Asia Pacific</p> <p>2002 Morgan Stanley Japan, Managing Director and Head of Global High Yield for Japan and Asia Pacific</p> <p>Apr. 2004 Joined Aozora bank, Ltd. as Managing Executive Officer &amp; CCO</p> <p>Apr. 2004 Senior Managing Executive Officer &amp; CCO, Aozora Bank, Ltd.</p> <p>Feb. 2005 Senior Managing Executive Officer, Aozora Bank, Ltd.</p> <p>June 2006 Director &amp; Senior Managing Executive Officer, Aozora Bank, Ltd.</p> <p>Apr. 2007 Director of Aozora Bank, Ltd. (present)</p> <p>Oct. 2007 Managing Director of Cerberus Global Investment Advisors, LLC (present) Managing Director of Cerberus Capital Management, L.P. (present)</p>	—
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9	Gerardus Johannes Schipper (October 24, 1965)	<p>Sep. 1992 Graduated from Erasmus University, Rotterdam Master in Economics</p> <p>Sep. 1997 Associate, Price Waterhouse Coopers, Utrecht</p> <p>Sep. 1999 Manager, Price Waterhouse Coopers, Utrecht</p> <p>Sep. 1999 Graduated as Register Accountant from Erasmus University, Rotterdam (Accountancy)</p> <p>Sep. 2001 Senior Manager, Price Waterhouse Coopers, Utrecht</p> <p>Aug. 2004 Managing Director of Promontoria Holding IV B.V.(present)</p> <p>Managing Director of Cerberus B.V.s' in the Netherlands (present)</p> <p>Nov. 2005 Managing Director of MP Finance B. V. (present)</p> <p>Managing Director of Saberasu Japan Institutional Holding B.V. (present)</p> <p>June 2006 Managing Director of Delos Holding B.V. (present)</p> <p>Dec. 2006 Managing Director of BAWAG Holding GmbH (present)</p> <p>Mar. 2007 Director, Showa Jisho (present)</p> <p>June 2007 Joined Aozora bank, Ltd. as Director (present)</p>	—
10	Shunsuke Takeda (September 30, 1941)	<p>Mar. 1965 University of Tokyo, Bachelor of Law</p> <p>Apr. 1965 Joined the Nippon Kangyo Bank, Ltd.</p> <p>Sep. 1968 Joined Orient Leasing Co., Ltd. (current Orix Corporation)</p> <p>Mar. 1989 GM of International Capital Markets Department</p> <p>Nov. 1990 GM of International Administration Department and International Account Services Department</p> <p>Sep. 1992 GM of Treasury Department</p> <p>June 1993 Director and GM of Treasury Department</p> <p>May 1997 Managing Director and Chief Financial Officer (CFO)</p> <p>June 1998 Managing Director and CFO</p> <p>Sep. 1998 Senior Managing Director and CFO</p> <p>June 1999 Corporate Executive Vice President CFO Member of the Board</p> <p>Apr. 2000 Deputy President and CFO Member of the Board</p> <p>June 2002 Member of the Board, Director of Fuji Fire and Marine Insurance Co., Ltd.</p> <p>June 2003 Director, Deputy President and CFO of Orix Corporation</p> <p>Feb. 2005 Director, Vice Chairman and CFO</p> <p>June 2007 Senior Advisor of Orix Corporation (present) Joined Aozora bank, Ltd. as Director (present)</p>	—

11	David Hackett (January 4, 1962)	1982 University of Melbourne, Australia (B.Com. in Accounting) 1997 Australian Graduate School of Management University of NSW, Australia (MBA) Feb. 1983 Touche Ross & Company Aug. 1987 Deutsche Bank Australia Limited, Financial Controller Mar. 1993 SBC Warburg Dillon Read Australia Limited, Head of Finance Operations and Administration Sep. 1998 SBC Warburg Dillon Read Singapore Limited, Asia Pacific Regional Head of Finance Program Management Mar. 1999 UBS AG Tokyo Branch, Chief Financial Officer Aug. 1999 Nikko Salomon Smith Barney Limited, Director and Deputy Financial Controller Dec. 2000 Director and Financial Controller Jan. 2003 Managing Director and Financial Controller Apr. 2003 Nikko Citigroup Limited, Managing Director and Financial Controller Mar. 2004 Joined Aozora Bank, Ltd. as Managing Executive Officer Chief Financial Officer (CFO) Apr. 2004 Senior Managing Executive Officer Chief Financial Officer (CFO) (present)	—
12	Katsutoshi Ishida (August 17, 1949)	Mar. 1973 BA in Economics, Saitama University Apr. 1973 Joined The Nippon Credit Bank, Ltd (changed name to Aozora Bank, Ltd. In January 2001) May 1996 General Manager, Shibuya Branch June 1999 General Manager, Hiroshima Branch Aug. 2000 Chief Credit Analysis Officer, Credit Analysis Division Apr. 2001 General Manager, Credit Division Apr. 2002 Executive Officer & General Manager, Credit Division Apr. 2002 Executive Officer Sep. 2005 Senior Managing Executive Officer (present)	—

13	Cornelis Maas (May 1, 1947)	May 1971	Graduated from Technical College Heerlen (engineering physics)	—
		June 1976	Graduated from Erasmus University, Rotterdam (Master in Economics)	
		Aug. 1971	Assistant-physicist, Rotterdam Radio Therapeutic Institute	
		Feb. 1974	Assistant-professor for monetary economics, Erasmus University, Rotterdam	
		May 1976	Ministry of Finance of the Netherlands	
		July 1986	Treasurer-General at the Ministry of Finance of the Netherlands	
		July 1992	ING Group N.V., Member of the Executive Board	
		July 1996	ING Group N.V., Chief Financial Officer	
		May 1997	FMO N.V. (Financierings Maatschappij voor Ontwikkelingslanden, the Dutch Financial Development Bank), Member of the Supervisory Board and Chairman of Audit Committee (present)	
		May 2002	International Monetary Fund, Member of the Capital Markets Consultative Group (present)	
		May 2003	ING Group N.V., Chief Financial Officer & Vice Chairman	
		Apr. 2007	ING Group N.V., Honorary Vice Chairman (present)	
		May 2007	Ernst & Young Netherlands N.V., Advisor (present)	
		June 2007	BCD Holding N.V., Member of the Supervisory Board (present)	
		Sep. 2007	The Currency Exchange Fund N.V., Chairman of the Supervisory Board (present)	
Jan. 2008	Foundation Erasmus Medical Centre, Chairman of the Supervisory Board (present) National Bank of Kuwait SAK, Member of the International Advisory Board (present)			
Feb. 2008	Cerberus Global Investment Advisors, LLC, Senior Advisor (present)			

- (Note)
1. Messrs. James Danforth Quayle, Frank W. Bruno, Lawrence B. Lindsey, John L. Steffens, Kiyoshi Tsugawa, Marius J.L. Jonkhart, Gerardus Johannes Schipper, Shunsuke Takeda and Cornelis Maas meet the conditions of non-executive directors.
  2. Mr. James Danforth Quayle is qualified as a candidate for a non-executive director because he is the former Vice President of the United States, has substantial experience, achievements and expertise in public service and executive management, and his position is independent from the day-to-day management responsibilities of the operations and activities of the bank. He will have served the Bank as a non-executive director for 7 years and 9 months at this Annual General Meeting of Shareholders.
  3. Mr. Frank W. Bruno is qualified as a candidate for a non-executive director because of his strong academic and business background in finance, senior management responsibilities & experience, achievements with internationally recognized financial, consulting and retail institutions, and his position is independent from the day-to-day management responsibilities of the operations and activities of the bank. He will have served the Bank as a non-executive director for 4 years at this Annual General Meeting of Shareholders.

4. Mr. Lawrence B. Lindsey is qualified as a candidate for a non-executive director because he is a former Governor of the Federal Reserve Board of the United States, was an economics professor and is considered an expert in the field of economics, was an assistant to the President for domestic economic policy, and is President/CEO of a consulting company and his position is independent from the day-to-day management responsibilities of the bank's operations and activities. He will have served the Bank as a non-executive director for 4 years at this Annual General Meeting of Shareholders.
5. Mr. John L. Steffens is qualified as a candidate for a non-executive director because of his strong academic background in economics, over 15 years in senior executive positions with one of the world's largest investment brokerage and wealth management firms and outside directorships and current position as a Managing Director of an investment fund and he is independent from the day-to-day management responsibilities of the bank's operations and activities. He will have served the Bank as a non-executive director for 4 years at this Annual General Meeting of Shareholders.
6. We have dealings with Spring Mountain Capital LP, of which candidate Mr. John L. Steffens is a director, such as sales of private placement investment funds and sourcing a new hedge fund investment opportunities.
7. Mr. Kiyoshi Tsugawa is qualified as candidate for a non-executive director because of his long and distinguished career of progressively responsible positions with an internationally recognized Japanese bank, and subsequently the Chairman & President of a respected British securities firm based in Japan and Chairman in Japan of one of world's largest investment banks and an advisor to a well regarded international insurance company, he is independent from the day to day management responsibilities of the bank's operations and activities. He will have served the Bank as a non-executive director for 4 years this Annual General Meeting of Shareholders.
8. Mr. Marius J. L. Jonkhart is qualified as a candidate for a non-executive director because of his strong academic background in economics and a variety of senior level positions and Directorships with financial institutions, investment banks and banking regulatory agencies in the Netherlands, , and his position is independent from the day-to-day management responsibilities of the bank's operations. He serves as the Chairman of the bank's Audit & Compliance Committee and will have served the Bank as a non-executive director for 2 year and 4 months at this Annual General Meeting of Shareholders.
9. Mr. Gerardus Johannes Schipper is qualified as a candidate for a non-executive director because he has extensive experience, achievements and specialized knowledge and expertise as an accountant in Holland, is experienced in management, and his position is independent from the day-to-day management responsibilities for the bank's operations and activities. He will have served the Bank as a non-executive director for 1 years this Annual General Meeting of Shareholders.
10. We have transactions in extending loans to the following companies: Saberas Japan Institutional Holding B.V. and Showa Jisho where Mr. Gerardus Johannes Schipper serves as a Director.
11. Mr. Shunsuke Takeda is qualified as a candidate for a non-executive director because of his background, first in banking and then a distinguished 40 year career with Orix Corporation, where he held progressively responsible positions in various Departments, including Treasury, and Finance and is currently a Director, the Vice Chairman and CFO of Orix. His position as a Director is independent from the day-to-day management responsibilities for the bank's business operations. He will have served the Bank as a non-executive director for 1 years this Annual General Meeting of Shareholders.
12. ORIX Corporation, of which Candidate Mr. Shunsuke Takeda was a Director, engages in various business activities including those in the same line of business as ours. We, at the same time, have dealings with the company, extending loans. Other candidates and the Bank do not have any particular common interests with Orix Corporation.
13. Fuji Fire and Marine Insurance Co., Ltd. (where Mr. Shunsuke Takeda, a candidate for director of the Aozora Bank and who served as a director of Fuji Fire), experienced inappropriate non-payment of third-sector insurance products, and was sentenced to an administrative penalty (including suspension of business in several business fields) for the particular incident by the Financial Services Agency in FY2006. Mr. Takeda was a Director during the time of this incident.
14. Mr. Cornelis Maas is qualified as a candidate for a non-executive director because of his strong academic background in economics and a variety of senior level positions and Directorships with financial institutions, investment banks and banking regulatory agencies in the Netherlands, , and his position is independent from the day-to-day management responsibilities of the bank's operations.
15. Except for the above-mentioned items 6, 10 and 12 , there is no particular common interests between a candidate and the Bank.

### Proposal No.3 : Appointment of two Auditors

At the close of this Ordinary General Meeting of Shareholders, the term of office of two (2) auditors shall expire. This is to propose, therefore, two (2) auditors be elected at the meeting, with the consent of the Board of Auditors, to hold office until the next election and until their successors are duly elected and qualified.

Candidates are shown below.

#### Candidates for Auditors

Candidate No.	Name (Date of Birth)	Brief Personal History, Representation at Other Entities, Position and Areas of Responsibility at the Bank	Type and per-type number of Bank's shares Owned by Candidate
1	Mitch R. Fulscher (August 18, 1941)	1963 University of Wisconsin – BBA in Accounting and Finance 1963 ARTHUR ANDERSEN (Chicago) 1969 ARTHUR ANDERSEN (Chicago), Audit Manager 1974 ARTHUR ANDERSEN (Chicago), Audit Partner 1986 ARTHUR ANDERSEN (Tokyo), Managing Partner 1991 ARTHUR ANDERSEN (Los Angeles), Partner 1997 ASAHI & CO., US GAAP Expert 2002 STEVENSON & MELAMED, Japan Representative 2003 PROTIVITI JAPAN, Senior Advisor June 2004 Aozora bank, Ltd., Auditor (present) 2005 Showa Jisho and subsidiaries non-executive auditor (present)	—
2	Akira Tachimoto (December 9, 1937)	1960 Graduated from University of Tokyo, Bachelor degree in Law 1960 Sumitomo Trust & Banking Company 1973 Division Head of Finance Department 1977 Division Head of Planning Department 1982 Transferred to Life Corporation Co., Executive Director 1985 Sumitomo Trust & Banking Company, Division Head of Real Estate Department 1991 Senior Advisor of Corporate Finance Department 1995 Asahi & Co., Partner (Azusa & Co.) 2002 Head of Division 7 2003 Head of Corporate Revitalization Division June 2004 Azusa & Co., Advisor(present) June 2004 Aozora bank, Ltd., Auditor(present) July 2005 Heisei Kaikei-sha, Advisor(present) National Federation Agricultural Co-operative Associations (Zen-Noh), Member of Supervisory Board(present)	—

(Note) 1. Messrs. Mitch R. Fulscher and Akira Tachimoto are candidates for external auditors.

2. Mr. Mitch R. Fulscher is qualified as a candidate for external corporate auditor because he can be judged to contribute largely to the Bank's management from the following his background: Holding the U.S. CPA, he has extensive experience, achievements and specialized knowledge as an accounting specialist and is independent from the day-to-day management responsibilities for the bank's operations and activities. He will have served the Bank as an external corporate auditor for 4 years this at Annual General Meeting of Shareholders.
3. Mr. Akira Tachimoto is qualified as a candidate for external corporate auditor because he can be judged to contribute largely to the Bank's management from the following his background: He has extensive experience, achievements and specialized knowledge in accounting as a certified public accountant, including now serving as a member of Supervisory Board of the "National Federation of Agricultural Co-operative Associations" and is independent from the day-to-day management responsibilities for the bank's operations and activities. He will have served as an external corporate auditor for 4 years at this Annual General Meeting of Shareholders.
4. There is no particular common interests between both candidates and the Bank.

#### **Proposal No.4 : Appointment of One Alternate Auditor**

In order to prepare for a vacancy in the number of Auditors as fixed by laws, it is proposed to appoint one (1) alternate auditor, with the consent of the Board of Auditors.

Candidate is shown below.

Candidate for Alternate Auditor

Name (Date of Birth)	Brief Personal History, Representation at other Entities, Position and Areas of Responsibility at the Bank	Type and per-type number of Bank's shares Owned by Candidate
Tomiaki Nagase (May 12, 1935)	Mar. 1958 Gakushuin University, B.A. Economics Apr. 1958 Fuji Bank Ltd., Tokyo Nov. 1973 Senior Operations Officer, Asian Development Bank July 1977 KAO Corporation, Tokyo 1978 Harvard Business School, Advanced Management Program June 1980 Director, KAO Corporation, Tokyo June 1984 Managing Director, KAO Corporation, Tokyo June 1990 Senior Managing Director, KAO Corporation, Tokyo July 1995 Senior Vice President and Representative Director, COO AMWAY Japan Ltd. Nov. 1999 Supreme Advisor to the President, AMWAY Japan Ltd.	—

- (Note)
1. Mr. Tomiaki Nagase is candidate for alternate external auditor.
  2. Mr. Tomiaki Nagase is qualified for the conditions as an outside auditor and is a candidate for Alternate Corporate Auditor because he is a corporate manager with abundant experiences, achievements and expertise.
  3. There is no particular common interests a candidate and the Bank.

## **Proposal No. 5: Payment of Retirement Allowance to Resigning Director**

To reward services, rendered to Aozora Bank, Ltd. by Mr. Kimikazu Noumi who resigned from the office of director in May 2008, Aozora Bank would like to give him an appropriate amount of money in accordance with the Bank's internal regulations.

The amount, payment schedule, and payment method for the director shall be entrusted to the Board of Directors.

Brief personal history of the retiring director is as follows:

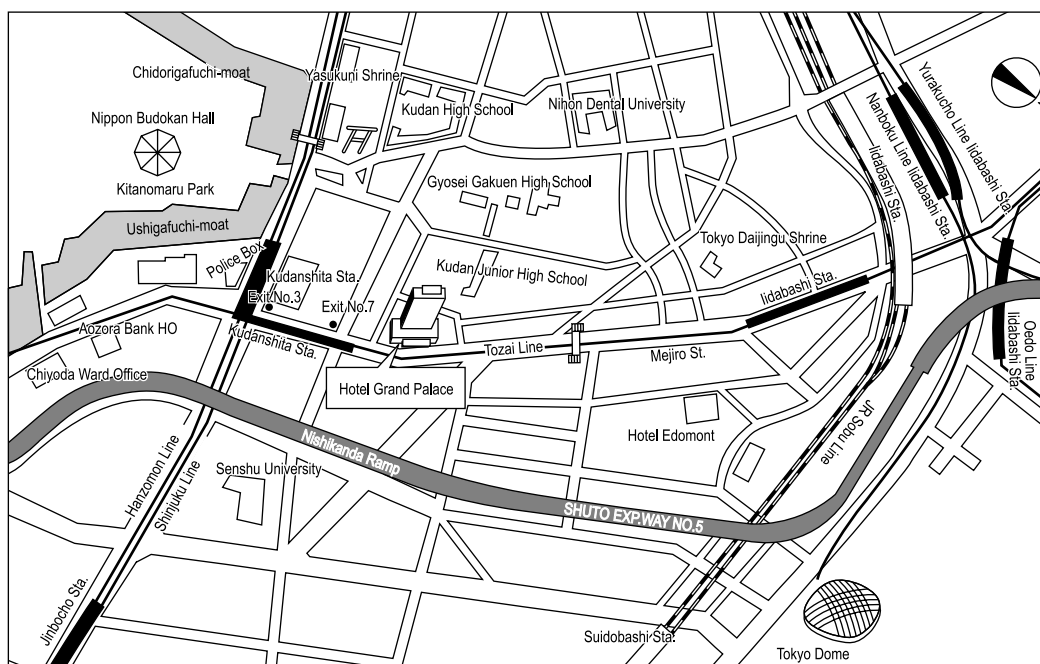
Name	Brief Personal History		
Kimikazu Noumi	June	2006	Vice Chairman
	Sep.	2006	Vice Chairman (Representative Director)
	Feb.	2007	Chairman (Representative Director)
	May	2008	Resigned

End

# Guide to the Venue for The 75<sup>th</sup> FY Ordinary General Meeting of Shareholders

Place : **Diamond Room on the 2<sup>nd</sup> floor of Hotel Grand Palace**  
1-1, Iidabashi 1-chome, Chiyoda-ku, Tokyo

Phone : 03-3264-1111 (General Number for Hotel)



Access : **“Kudanshita” Station** One(1)minute walk  
Subway Tozai Line(Exit No.7)  
Hanzomon Line, Toei Shinjuku Line(Exit No.3)

**“Iidabashi” Station** Seven(7)minutes’ walk  
JR Line Sobu Line(East Exit)  
Subway Tozai Line, Yurakucho Line, Nanboku Line,  
Toei Oedo Line(Exit No.A4)