

(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 13th 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)
1. The figures are rounded down to the nearest unit specified.
 2. The balance of "Deposits" and the breakdown of deposits, "Other", include negotiable certificates of deposit.
 3. "Long-Term Credit Bank Bond" means long-term credit bank bond classified according to the Deposit Insurance Law, Article 2, paragraph 2, -item 5.
 4. 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.
 5. 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 4th preferred share, and 7.44 yen per 5th 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 | Total liabilities | 6,491,016 |
| Deferred charges for debentures | 531 | (Net assets) | |
| 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 |
| | | Total net assets | 768,060 |
| Total assets | 7,259,076 | Total liabilities and net assets | 7,259,076 |

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

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 |
|--|-----|-------------------|

| | | |
|--|-----|----------------|
| Designated partner Engagement partner | CPA | Takashi Nonaka |
|--|-----|----------------|

| | | |
|--|-----|----------------|
| Designated partner Engagement partner | CPA | Kentaro Fukada |
|--|-----|----------------|

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 75th 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 |