（Attached Documents）

Business Report
- Fiscal Year 2008 -

(April 1, 2008 － March 31, 2009)

1. Current Status of the Bank

(1) Business Developments and Results of the Corporate Group

[Financial and Economic Environment]

In the FY2008 consolidated accounting period, the worldwide financial crisis beginning last fiscal year in the United States has deepened and spread to our country’s financial and economic environment. The slump in exports associated with declining overseas demand, sluggish business profits, and deteriorating employment conditions have inflicted a large amount of damage on Japan’s economy.

Domestic long-term interest rates (10 year government bond yield) fell to under 1.5%, reflecting the sudden deterioration in the economic climate from the second half of 2008, and declining further to a level of around 1.3% at the end of FY2008. This trend is also evident in short-term interest rates, with the Bank of Japan’s implementation of measures such as interest rate cuts, the purchase of commercial paper and quantitative easing for the purpose of supplying liquidity, leading to an unsecured call rate (overnight) as low as 0.1%.

With the continued deterioration of the real economy and worsening business earnings outlook, the Nikkei average continues to be volatile with an underlying trend of decline, and prices in March fell to levels not seen since the collapse of the bubble economy. The dollar/yen market broke the 100-yen mark after October 2008, and towards the second half of the fiscal year the yen progressed to increasing strength.

[Main Business Activities of the Corporate Group]

The group consists of the Bank and 18 consolidated subsidiaries. In addition to our primary banking business, we provide a variety of financial services such as securities and trust services. Our subsidiaries provide debt collection services, venture capital as well as overseas businesses.

In FY2008, the Bank established consolidated subsidiaries AZB CLO 1 Limited, AZB CLO 2 Limited, AZB CLO 3 Limited, and AZB CLO 4 Limited in order to issue securitized products backed by loan claims held by the Bank and its subsidiaries.

[Business Developments and Results of the Corporate Group]

During FY2008, the disorder in global financial markets deepened further. The world’s financial institutions continue to report significant losses, and the Group has also taken thorough drastic steps to address its non-core businesses. In addition to large valuation losses on the Bank’s investment in FIM Holdings LLC (the 40% owner of GMAC LLC) and losses from hedge fund investments, increasing credit-related expenses accompanying deterioration of business performance in the wider economy have contributed to large-scale losses for the Group.We made the decision to close Aozora Investment Management Limited, the Group’s London based subsidiary managing lending and investment in the United States and Europe. This move further strengthens overseas business governance and credit management, and contributes to the reduction of operating expenses for the Group as a whole.

In addition, as a part of business restructuring and rationalization, Aozora Information Services Co., Ltd. has been closed and its operations incorporated into the Bank.

Segment information regarding operations other than Banking has been omitted, as the relative proportion to operations is minimal.

The Group's total assets decreased by 1,181.7 billion yen during this fiscal year, to 6,077.3 billion yen. The balance of loans and bills discounted decreased by 799.5 billion yen from the previous fiscal year end, to 3,484.9 billion yen, mainly due to decreased loans to the finance, insurance and real estate sectors. The balance of securities decreased by 525.5 billion yen from the previous fiscal year end to 1,126.5 billion yen, mainly due to a decrease in Japanese government bonds and hedge fund investments.

The Group's total liabilities decreased by 943.2 billion yen during this fiscal year, to 5547.7 billion yen. Deposits increased by 260.1 billion yen to 2,625.6 billion yen, largely due to increased retail deposits, and negotiable certificates of deposit decreased by 669.6 billion yen to 284.2 billion yen. Debentures decreased by 575.9 billion yen to 1,489.6 billion yen.

The balance of net assets decreased by 238.4 billion yen from the previous fiscal year end to 529.6 billion yen, as a result of factors such as dividend payments, net losses during the fiscal year, and the Bank's buyback of common shares.

Ordinary income decreased by 18.4 billion yen in comparison to the previous fiscal year to 182.5 billion yen. Of this, interest income decreased by 13.5 billion yen in comparison to the previous year to 124.5 billion yen. Interest on loans and bills discounted decreased by 5.4 billion yen compared to the previous fiscal year, due to a decrease in overseas market interest rates. Interest and dividends on securities also decreased by 7.1 billion yen due to factors such as decreased dividend payments, a lower average securities balance, and a decrease in overseas market interest rates. For non-interest income, income from fees and commissions decreased by 6.6 billion yen compared to the previous fiscal year to 11.5 billion yen. Trading profits exceeded the result from the previous fiscal year, increasing by 21.1 billion yen to 30.8 billion yen, due primarily to profit from trading credit derivatives used to hedge credit to Lehman Brothers. Other income decreased by 13.5 billion yen from the previous fiscal year to 12.8 billion yen as a result of decrease in profit from investment in partnership and funds.

Ordinary expenses increased by 192.0 billion yen from the previous fiscal year to 414.6 billion yen. Of this, interest expenses decreased by 16.7 billion yen compared to the previous year to 66.6 billion yen, mainly due to a large decrease in foreign currency interest expenses through a decrease in overseas market interest rates. Other ordinary expenses increased by 49.1 billion yen to 116.4 billion yen, mainly due to factors such as an additional loss of 35.8 billion yen on the Bank's investment in FIM LLC (the 40% owner of GMAC LLC), additional losses from the write-off of CDOs, and losses related to hedge fund investments. General and administrative expenses decreased by 3.7 billion yen to 47.9 billion yen, as a result of strict cost management. Other expenses increased by 163.7 billion yen to 181.9 billion yen. This was primarily due to losses of 35.1 billion yen on sale of stock, including ETF, and credit-relate expenses of 134.5 billion yen. Credit expenses increased considerably over the previous year, as a result of implementing measures to cover existing credit as well as preventative measures, such as setting aside allowance for loan losses conservatively in the face of deteriorating market conditions.

As a result of these factors, ordinary loss increased by 210.4 billion yen in comparison to the previous fiscal year to 232.0 billion yen.

A net loss before income taxes and minority interests of 235.3 billion yen was recognized, down 222.6 billion yen from the previous year.

Income taxes-deferred decreased by 27.0 billion yen to 6.3 billion yen of loss.

As a result of the above, net income decreased by 248.4 billion yen to -242.5 billion yen of loss. Net loss per share was 150.92 yen.

This year, the Bank is planning to declare no cash dividend for common shares,10.0yen per 4^{th} preferred share, and 7.44 yen per 5^{th} preferred share.

[Challenges Facing the Bank]

The Bank has responded to the harsh ongoing management environment and implemented a thorough review of non-core or non-performing assets, such as overseas investments, in order to realize a return to profitability in next fiscal year. Specifically, the Bank has undertaken necessary measures to address its GMAC investment, CDO investments, hedge fund investments, and ETF investments, and set aside appropriate provisions during FY 2008 for assets requiring future surveillance. This has resulted in a large consolidated net loss of 242.5 billion for FY2008. Despite the large loss, the Bank's consolidated capital adequacy ratio of 11.60% and its Tier 1 ratio of 12.58% as of March 31, 2009, respectively, enabled the Bank to maintain its position as one of the highest among major Japanese banks. Going forward, through putting its ample capital to use and aggressive business restructuring, the Bank will return to a business model focused on domestic business finance.

Specifically, as well as enhancing the Bank's corporate governance structure to ensure a swift and stable change of business model, the Bank will switch over to a business model focused on domestic business finance with stable profit structure as soon as possible.

Aozora will combine its sophisticated lending skills with its domestic customer base, to develop a stable and profitable loan portfolio and become a bank that attracts customers for its value-added services. Resources will be shifted to domestic operations so as to further enhance the Bank's tailored lending model designed to provide quicker and more precise solutions for customers.

In order to meet the funding needs of even more domestic customers while we reduce our dependency on wholesale market funding, Aozora aims to increase retail deposits to over 50% of its funding base in the medium-term. Specifically, the Bank has completed the development of its Internet banking project (rolled-out on April 1, 2009), and will utilize it to pursue business and capital alliances with financial institutions and corporations that have retail clientele.

Regrettably, Aozora failed by a large margin to achieve the targets that it set for itself in the Business Revitalization Plan submitted to the Financial Services Agency on October, 2008. However, we remain fully committed to realizing sustainable earnings and further strengthening of the Bank's management base. We also prioritize the repayment of the remaining public funds above all else and will make every effort to return to profitability for an early repayment, despite the adverse economic environment.

As of March 31, 2009, our capital adequacy ratio was 11.60%, which remains one of the highest among Japanese banks. In addition, we maintained a liquidity buffer exceeding one trillion yen. We continue to promote our ability as a financial intermediary and believe that we can achieve medium to long-term growth as we address the financing needs of a diverse range of customers.

The Bank's management continues to consider strategic alliances to enhance corporate value in the long term and other financial initiatives.

(Note) Figures quoted in this passage have been 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)

	FY2005	FY2006	FY2007	FY2008
Consolidated Ordinary Income	1,719	1,975	2,010	1,825
Consolidated Ordinary Profits (or Consolidated Ordinary Loss)	614	624	(215)	(2,320)
Consolidated Net Income (or Consolidated Net Loss)	1,201	815	59	(2,425)
Consolidated Net assets	7,233	7,924	7,680	5,296
Consolidated Total Assets	59,959	65,439	72,590	60,773

(Notes)
1. 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' were applied for the calculation of Consolidated Net Assets and Consolidated Total Assets.
3. In FY2007, Consolidated Ordinary Profit fell 83.9 billion yen in comparison to FY2006, to a loss of 21.5 billion yen. This was mainly a result of the recognition of large amounts written-off for investment securities such as CDO losses in light of US sub-prime problems. Consolidated Net Income also fell from 81.5 billion yen for FY2006 to 5.9 billion yen for FY2007 due to the same reason.
4. In FY2008, Consolidated Ordinary Loss increased by 210.4 billion in comparison to FY2007, to a loss of 232.0 billion yen. This was mainly due to the Bank's significant addressing of legacy and non-core assets. The investment in GMAC, CDOs, hedge fund investments, and credit-related expenses including those for credit to Lehman Brothers all contributed to the large loss. These factors also contributed to the large deterioration in Consolidated Net Income, from 5.9 billion yen in FY2007 to 242.5 billion of loss in FY2008.

B. Assets and Profit or Loss of the Bank

(Unit: JPY 100 million)

		FY2005	FY2006	FY2007	FY2008
Deposits		32,117	32,521	33,602	29,460
	Time Deposits	18,189	19,712	20,588	22,873
	Other	13,927	12,808	13,014	6,587
Debentures (Long-Term Credit Bank Bond)		10,643	14,545	20,696	14,896
Corporate Bonds (Excluding Long-Term Credit Bank Bond)		-	999	999	966
Loans and Bills Discounted		30,253	33,625	39,503	31,943
	Individuals	343	359	294	275
	Small/Medium Companies	13,552	15,524	21,174	17,859
	Other	16,358	17,740	18,034	13,808
Trading Assets		938	675	2,164	3,747
Trading Liabilities		1,049	645	1,034	2,467
Investment Securities		17,976	23,328	20,909	14,799
	Government Bonds	7,320	10,227	8,814	7,051
	Other	10,655	13,101	12,094	7,748
Total Assets		60,052	65,588	72,772	60,912
Domestic Exchange Transactions		121,683	179,554	156,706	134,372
Foreign Exchange Transactions		USD million 10,043	USD million 13,372	USD million 14,476	USD million 10,172
Operating Profits (Losses)		JPY million 60,729	JPY million 61,960	JPY million (25,076)	JPY million (235,912)
Net Income (Losses)		JPY million 119,920	JPY million 82,168	JPY million 3,538	JPY million (245,281)
Net Income(Losses) per Share		JPY 82.15	JPY 53.03	JPY 0.83	JPY (152.61)

(Notes)
1. 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 a long-term credit bank bond, as classified in Article 2, Paragraph 2, Item 5 of the Deposit Insurance Law.
4. The Bank conducted a reverse stock spilt of common stock, fourth preferred stock and fifth preferred stock on September 11, 2006 (consolidation of two shares into one share). 'Net Income per Share' prior or contemporaneous to FY2006, has been calculated assuming that the reverse stock split had been conducted at the beginning of each fiscal year.
5. Ordinary Profit for FY2007 fell 87,036million yen in comparison to FY2006 to a loss of 25,076 million yen. This was mainly a result of the recognition of large amounts of written-off for investment securities such as CDO losses in light of the US sub-prime problems. Net Income also fell from 82,168 million yen for FY2006 to 3,538 million yen for FY2007 due to the same reason.
6. Ordinary Profit for FY2008 dropped 210,836million yen in comparison to FY2007 to a loss of 235,912million yen. This was mainly due to the Bank's significant addressing of legacy and non-core assets. The investment in GMAC, CDOs, hedge fund investments, and credit-related expenses including those for credit to Lehman Brothers all contributed to the large loss. These factors also contributed to the large deterioration in net income from 3,538 million yen for FY2007 to a loss of 245, 281million yen in FY2008.

(3) Employees of the Corporate Group

	March 31, 2009		March 31, 2008	
	Banking Business	Other Operations	Banking Business	Other Operations
Number of Employees	1,689	158	1,715	171

(Notes) 1. The Number of Employees includes overseas local employees.
2. Subsidiaries whose businesses are dependent on the Bank and subsidiaries operating businesses which the Bank can operate alternatively, are classified as '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. Internet Branch Total 20 as of March 31,2009. (19 as of March 31, 2008)

Overseas: 0 as of March 31,2009. (0 as of March 31, 2008)

In addition to the above, the Bank has 3 overseas representative offices as of March 31, 2009 (4 as of March 31, 2008):

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

(In FY2008, the Jakarta Representative Office was closed)

Subsidiaries:

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

Aozora Asia Pacific Finance Limited: Hong Kong

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

AZB CLO 1 Limited: Dublin, Ireland

AZB CLO 2 Limited: Dublin, Ireland

AZB CLO 3 Limited: Dublin, Ireland

AZB CLO 4 Limited: Dublin, Ireland

ii. As of the end of FY2008, there were no bank agencies 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	7,140
Other	-
Total	7,140

B) Important New Capital Investments and Other Investments

(Unit: JPY million)

Operation Segment	Description	Amount
Banking	Introduction of Internet Banking	2,396
	Kanjoukei Terminal Renewal	1,231
	ATM System Reform	462
	Fuchu Office Refurbishment	38

(6) Major parent companies and subsidiaries

A) Parent companies

(As at March 31, 2009)

Company Name	Address	Principal Business	Incorporation Date	Stated Capital	Voting Rights of the Bank Held (%)	Other
Cerberus NCB Acquisition, L.P., General Partner Cerberus Aozora GP LLC	Cayman Islands	Investment and services	February 8, 2000	US$599,239,659	50.23%	—

(Notes) 1. The above shareholder became 'Parent Company', on November 17, 2008. This was due to purchases of the Bank's common shares by the aforementioned shareholder up until October 24, 2008, and the reduction in voting rights associated with the buyback of the Bank's common shares which started on November 17, 2008 and continues until November 16, 2009.

2. In the above table, we have calculated the percentage of the voting rights held by the aforementioned shareholder based upon the Bank's Shareholder Registry as of March 31, 2009. A Large Shareholding Report (Change in Shareholding) was submitted to the Kanto Local Finance Bureau by the Standing Proxy and Attorney of the above shareholder on March 26, 2009. This document reports the number of common shares of the Bank held by the aforementioned shareholder as 821,469,000, and the 821,469 voting rights associated with these common shares would therefore represent 54.97% of the total number of voting rights of the Bank.

3. The Bank has no relevant transactions with the Parent Company. The Bank established a Special Audit Committee for the business execution of the Bank, and the Committee is authorized by the Board of Directors to audit any direct or collaborative significant transactions with the Parent Company or its group, which is intended to prevent the Bank from becoming a captive bank and ensure the independence and soundness of the Bank.

B) Subsidiaries

(As at March 31, 2009)

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%	—
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%	—
AZB CLO 1 Limited	Dublin, Ireland	Investment vehicle	December 10, 2008	0	—	—
AZB CLO 2 Limited	Dublin, Ireland	Investment vehicle	December 10, 2008	0	—	—
AZB CLO 3 Limited	Dublin, Ireland	Investment vehicle	December 10, 2008	0	—	—

(Notes) 1. The amounts are rounded down to the nearest unit specified. Percentages are rounded down to two decimal places.

2. As the majority of the assets of AZURE Funding North America I, AZURE Funding North America 2, and AZURE Funding Europe were transferred to the Special Purpose Companies AZB CLO 1 Limited, AZB CLO 2 Limited, and AZB CLO 3 Limited, etc. that were established for the Bank's funding purposes, they have been judged immaterial and have been removed from the above table.

[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 an arrangement with Aozora Securities Co., Ltd. to provide financial intermediary services for business such as structured notes for corporate customers.

5. The Bank formed a comprehensive business alliance with the Bank of Yokohama, Ltd. in the investment banking area on May 24, 2007.

6. The Bank formed a comprehensive business alliance with Toho Bank Ltd. relating to loan business on August 6, 2007.

7. Based on the business tie-up with Sumitomo Trust & Banking Group, concluded on November 20, 2007, the Bank entered a business alliance in the real estate collateral loan area with First Credit Co., on December 5, 2007, and entered real estate related business alliances with Sumitomo Trust & Banking Co., Ltd. and Sumishin Real Estate Co., on March 31, 2008.
   Also, on September 16, 2008, the Bank entered a basic agreement on establishing a business recovery fund for the customers of Yachiyo Bank, Ltd, as part of the business alliance with Sumitomo Trust & Banking Co., Ltd.

8. On April 10, 2008, the Bank entered a business partnership with the Royal Bank of Canada in the field of Public Private Partnership.

9. The Bank has arranged a business alliance with Tokyo Marine & Nichido Anshin Life Insurance Co. Ltd. and Kudan Insurance Services Co. Ltd. for the joint provision of life insurance products (excluding private pension insurance).

10. In partnership with Mizuho Securities Co. Ltd., the Bank is conducting financial intermediary business for structured notes aimed at retail customers.

(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, 2009)

Name	Title and Line of Business	Major Concurrent Post	Other
Katsutoshi Ishida	Vice Chairman		
James Danforth Quayle	Director (external director)	Chairman, Cerberus Global Investments, LLC	
Frank W. Bruno	Director (external director)	Managing Director, Cerberus Capital Management, L.P.	
Lawrence B. Lindsey	Director (external director)	President and CEO, The Lindsey Group	
Kiyoshi Tsugawa	Director (external director)	Special Adviser Hartford Life Insurance	
Marius J.L.Jonkhart	Director (external director)	Chairman and CEO, NOB Holding N.V.	
Lee Millstein	Director	Managing Director, Cerberus Capital Management, L.P	
Shunsuke Takeda	Director (external director)	Senior Adviser, ORIX Corporation	
Cornelis Maas	Director (external director)	Cerberus Global Investment Advisors, LLC	
Tadaaki Satoyoshi	Standing Auditor	—	
Mitch R. Fulscher	Auditor (external auditor)	—	
Akira Tachimoto	Auditor (external auditor)	—	Holds CPA qualification

Directors and Statutory Auditors resigned during the business year

(as of March 31, 2009)

Name	Other
Hiroshi Amemiya	Resigned from role as Chairman on 14 April, 2008
Kimikazu Noumi	Resigned from role as Chairman on May 21, 2008
Federico J. Sacasa	Resigned from role as President on 10 February, 2009
John L. Steffens	Resigned from role as External Director on 10 February, 2009
Gerardus Johannes Schipper	Resigned from role as External Director on February 10, 2009
David Hackett	Resigned from role as Director on February 10, 2009

(2) Director and Statutory Auditor Remuneration and Benefits

(Unit：JPY million)

Category	Number of Recipients	Remuneration and Benefits
Directors	16	202 (3)
Auditors	3	33 (-)
Total	19	236 (3)

(Notes)
1. The above includes 1 External Director resigned on April 14, 2008, 1 Director resigned on May 21, 2008, 1 Director retired at the June 26, 2008 75th Annual General Shareholders' Meeting, and 2 Directors and 2 External Directors resigned on February 10, 2009.
2. In addition to the remuneration above, an insurance premium of 42 million yen was paid for Directors and Officers insurance policies during the year.
3. The numbers in parentheses in the Remuneration and Benefits column describes amounts other than remuneration.
4. The remuneration ceiling for Directors was determined as 600 million yen at the 73rd Annual General Shareholders' Meeting held on June 23, 2006.
5. The remuneration ceiling for Auditors was determined as 60 million yen at the 73rd Annual General Shareholders' Meeting held on June 23, 2006.

(3) Retirement benefits for Directors paid during this business year

Based on the resolution passed at the 75th Annual General Shareholders' Meeting held on June 26, 2008, retirement benefits paid to Directors are as follows:

- 45 million yen paid to one Director

This amount includes transfers to directors' retirement benefit provisions of 40 million yen for the Director included in the FY2007 Business Report

3. Matters concerning External Directors and Statutory Auditors

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

(March 31, 2009)

Name	Concurrent Post and Other Status	Relationship with the Bank
James Danforth Quayle	Chairman, Cerberus Global Investments, LLC	Parent Company related party
Frank W. Bruno	Managing Director, Cerberus Capital Management L.P.	Parent Company related party
	President, Cerberus Global Investments, Advisors, LLC	Parent Company related party
	Management Committee Member, GMAC LLC	Loan recipient related party
Lawrence B. Lindsey	President and CEO of the Lindsey Group	
Kiyoshi Tsugawa	Special Adviser Hartford Life Insurance	
Marius J.L. Jonkhart	Chairman and CEO, NOB Holding N.V.	
	Director, AerCap Holdings N.V.	Related party of a Customer (loans)
Shunsuke Takeda	Senior Adviser, ORIX Corporation	Major Shareholder related party, Customer (loans)
Cornelis Maas	Cerberus Global Investment Advisors, LLC	Parent Company related party
Mitch R. Fulscher	Non-executive (outside) Auditor, Showa Jisho Corporation	Major Shareholder related party, Customer (loans)
Akira Tachimoto	Senior Partner, Hinata Audit	−

(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	8y7m	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.
Frank W. Bruno	4y10m	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	4y10m	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	4y8m (Resigned effective February 10, 2009)	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	4y10m	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.
Marius J.L. Jonkhart	3y2m	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.
Gerardus Johannes Schipper	1y8m (Resigned effective February 10, 2009)	Attended 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	1y10m	Attended 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.
Cornelis Maas	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	4y10m	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	4y10m	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

Name	Limited Liability Contract
James Danforth Quayle	For each liability set out in Article 423-1 of the Companies Law, they are liable for up the total monetary amount set out in Article 425-1 of the Company Law.
Frank W. Bruno	
Laurence B. Lindsey	
Kiyoshi Tsugawa	
Marius J.L. Jonkhart	
Shunsuke Takeda	
Cornelis Maas	
John L. Steffens (Resigned effective February 10, 2009)	
G.J.Schipper (Resigned effective February 10, 2009)	
Mitch R. Fulscher	
Akira Tachimoto	

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

(Unit: JPY million)

	Number of Recipients	Remuneration and Benefits from the Bank	Remuneration and Benefits from the Bank's Parent, etc.
Total Remuneration and Benefits	13	60	—
		(—)	(—)

(Notes)
1. The amount listed under 'Remuneration and Benefits' includes 1 External Director resigned on April 14, 2008, 1 Director retiring at the June 26, 2008 75th Annual General Shareholders' Meeting, and 2 Directors resigned on February 10, 2009.
2. In addition to the remuneration above, an insurance premium of 30 million yen was paid for Directors and Officers insurance policies during the year.
3. The numbers in parentheses in the table above describe amounts 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
(Note: the Number of Stocks Issued includes 155,888,559 Treasury Shares)			
	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 numbers of shares are in thousands, rounded down to the nearest thousand.

(2) Number of Stockholders as of the End of This Fiscal Year 41,925

Common Stock		41,923
Preferred Stock		2
	(4th. Preferred	1)
	(5th. Preferred	1)

(3) Major Shareholders

1. Common Stock Holders (Top ten)

(March 31, 2009)

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	750,659	50.23%
ORIX Corporation	149,975	10.03%
J.P.MORGAN CLEARING CORP-SEC	71,954	4.81%
Japan Trustee Services Bank, Ltd. (Trust Account 4G)	38,105	2.55%
Japan Trustee Services Bank, Ltd. (Trust Account)	20,334	1.36%
MORGAN STANLEY & CO. INC	17,108	1.14%
STATE STREET BANK AND TRUST COMPANY 505041	15,778	1.05%
Japan Master Trustee Services Bank, Ltd. (Trust Account)	15,339	1.02%
LEHMAN BROTHERS INTERNATIONAL (EUROPE)	12,115	0.81%
GOLDMAN.SACHS &CO. REG	11,519	0.77%

(Notes)
1. 'Number of shares held' is in thousands and rounded down to the nearest thousand.
2. 'Percentage of total outstanding shares' is rounded down to two decimal places.
3. 'Percentage of total outstanding shares' is calculated excluding shares owned by the Bank (155,888,559 shares).
4. In the above table, we have calculated the number of common shares and its percentage held by each shareholder based upon the Bank's Shareholder Registry as of March 31, 2009. A Large Shareholding Report (Change in Shareholding) was submitted to Top of the Kanto Local Finance Bureau by the Standing Proxy and Attorney of Cerberus NCB Acquisition, L.P., General Partner Cerberus Aozora GP LLC on March 26, 2009. This document reports the number of common shares of the Bank held by the aforementioned shareholder as 821,469,000, representing 54.97% of the total number of shares issued and outstanding.
5. Based on the resolution by the Board of Directors on October 27, 2008, the Bank started the buyback of the Bank's common shares on November 17, 2008, until November 16, 2009. The Bank bought back 155,888,559 common shares, including 13,559 odd-lot shares, and its proportion to total common shares issued is 9.44%.

2. Preferred Stock Holders

A. 4th. Preferred Stock

(March 31, 2009)

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

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

B. 5th. Preferred Stock

(March 31, 2009)

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

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

(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, 2009

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	235	Non-audit related services: consulting service rendered for internal control structure, etc.

(Notes) 1. The amounts in the table above are in millions of yen and 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 293 million yen.
3. 'Remunerations and Benefits for This Fiscal Year' as classified above includes both the fees related to the audit under the Company Law and under the Financial Instruments and Exchange Law because such audit fees cannot be clearly separated.

(2) Limited Liability Contract

None

(3) Other Matters Related to Accounting Auditors

i. 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 judgment required.

ii. The policy on the execution by the Board of Directors of its entrusted authority where there is a clause in the articles of incorporation in respect to Article 459-1 of Company Law

The Bank has stipulated in the Articles of Incorporation that the Board of Directors is authorized to make resolutions in respect to Article 459-1 of the Company Law, in order to implement future capital-related measures in a timely manner. When the Board makes such resolutions, it will consider the business performance and business prospects as well as the strategic investment environment, in order to enhance corporate value and make an appropriate return of profits to its shareholders.
Aozora's mid-term dividend policy sets out our commitment to improving performance and achieving a dividend payout ratio of 20%, while taking into consideration the achievement of the Business Revitalization Plan.
For this year, the Bank plans to declare no cash dividend to common shares, 10 yen per share to the 4th preferred shares and 7.44 yen per share to the 5th preferred shares.
The Bank regards the buyback of common shares as an effective way to right-size our capital base and enhance the value of our common shares. The repayment of public funds remains the strategic priority of the Bank, and the buyback represents a means by which we are committed to achieving this aim.

iii. Of the Bank's major subsidiaries, Aozora GMAC Investment Limited and Aozora GMAC Investments LLC, AZB CLO 1 Limited , AZB CLO 2 Limited, AZB CLO 3 Limited are being audited by Deloitte & Touche LLP.

7. Policy towards Individuals who can Influence the Financial and Operational Decision-making Process

None

8. System to Ensure that Operations are Appropriate

The Bank sets a basic policy for the development of internal control systems (systems regulated in the Corporate Law Article 362, Section 4-6). A summary is as follows:

Master Policy 'Internal Control Programs'

Purpose:
Aozora Bank determined the following fundamentals of internal control program as the Master Policy 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

Master Policy:

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 the Nomination and Remuneration Committee, Special Audit Committee and Audit & Compliance Committee to review and monitor activities related to each of these areas from multifaceted and specialized perspective. 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 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 and 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 authorities concerned etc. 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, a Level 2 policy, and a Level 3 procedure, 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, Integrated Risk Policy Committee, Customer Protection Committee and the Divisions in charge of risk Management such as the Integrated Risk Management Division, the Credit Risk Management Division and the Market 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 (hereafter subsidiaries, etc.) 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.

- The Bank monitors, supervises and guides the Bank’s subsidiaries to ensure appropriateness of business based on the Master Policy “Group Companies Management”, Level 2 Policy “Summary Guidelines & Requirements for Employees of Aozora’s Subsidiaries”, Level 3 Procedure “Subsidiary Supervision and Governance Procedure”, and Level 4 Manual “Master Advisory and Corporate Governance Agreement”
- 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, etc. The Bank's Legal and Compliance Division, etc evaluates existing policies & procedures of the subsidiaries prior to implementing new ones. The Bank's Internal Audit Division audits subsidiaries, etc.
- Accidents, misconduct and violations of policies or procedures found at the subsidiaries, etc are reported to the Bank. Legal and Compliance Division holds Group Compliance Conference on a regular basis to monitor status of compliance of the subsidiaries, etc.
- The Bank and the Bank’s subsidiaries, etc establish the system to control conflict of interest appropriately to prevent unreasonable damage for customer’s interest.
- 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.
- Directors and employees shall report matters which may cause serious damage of the Bank and matters of serious violations of laws and regulations to the statutory auditors.

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 sheets as of March 31, 2009

(In millions of yen)

(Assets)		(Liabilities)	
Cash and due from banks	672,466	Deposits	2,625,614
Call loans and bills bought	140,000	Negotiable certificates of deposit	284,220
Receivables under securities borrowing transactions	51,143	Debentures	1,489,693
Monetary claims bought	89,020	Call money and bills sold	110,000
Trading assets	373,771	Payables under repurchase agreements	15,587
Money held in trust	6,106	Payables under securities lending transactions	40,549
Securities	1,126,595	Trading liabilities	246,740
Loans and bills discounted	3,484,945	Borrowed money	412,697
Foreign exchanges	19,143	Foreign exchanges	1
Other assets	153,389	Bonds payable	115,034
Tangible fixed assets	24,711	Other liabilities	158,352
Buildings	11,087	Provision for bonuses	1,589
Land	9,348	Provision for retirement benefits	17,750
Leased assets	2,246	Provision for directors' retirement benefits	141
Other tangible fixed assets	2,027	Reserve for credit losses on off-balance-sheet instruments	2,163
Intangible fixed assets	10,134	Acceptances and guarantees	27,584
Software	10,049	Total liabilities	5,547,722
Other intangible assets	84	(Net assets)	
Deferred debenture discounts	267	Capital stock	419,781
Deferred tax assets	41,054	Capital surplus	33,333
Customers' liabilities for acceptances and guarantees	27,584	Retained earnings	96,694
Allowance for loan losses	(129,833)	Treasury stock	(15,650)
Allowance for investment losses	(13,169)	Shareholders' equity	534,158
		Valuation difference on available-for-sale securities	(778)
		Deferred gains or losses on hedges	3,630
		Foreign currency translation adjustments	(8,050)
		Valuation and translation adjustments	(5,199)
		Minority interests	648
		Total net assets	529,607
Total assets	6,077,330	Total liabilities and net assets	6,077,330

Consolidated statements of income

(For the year ended March 31, 2009)

(In millions of yen)

Ordinary income		182,566
Interest income	124,503	
Interest on loans and discounts	*97,137*	
Interest and dividends on securities	*20,211*	
Interest on call loans and bills bought	*828*	
Interest on receivables under securities borrowing transactions	*802*	
Interest on deposits with banks	*1,177*	
Other interest income	*4,345*	
Fees and commissions	11,572	
Trading income	30,840	
Other ordinary income	12,801	
Other income	2,849	
Ordinary expenses		414,620
Interest expenses	66,663	
Interest on deposits	*20,617*	
Interest on negotiable certificates of deposit	*3,952*	
Interest on debentures	*21,648*	
Interest on call money and bills sold	*2,388*	
Interest on payables under repurchase agreements	*715*	
Interest on payables under securities lending transactions	*3,924*	
Interest on borrowings and rediscounts	*2,470*	
Interest on bonds	*1,941*	
Other interest expenses	*9,005*	
Fees and commissions payments	1,504	
Trading expenses	39	
Other ordinary expenses	116,459	
General and administrative expenses	47,970	
Other expenses	181,982	
Provision of allowance for loan losses	*80,508*	
Transfer to reserve for credit losses on off-balance-sheet instruments	*1,076*	
Other	*100,397*	
Ordinary loss		232,053
Extraordinary income		119
Recoveries of written-off claims	119	
Extraordinary loss		3,465
Loss on disposal of noncurrent assets	1,572	
Impairment loss	1,892	
Loss before income taxes and minority interests		235,399
Income taxes-current	872	
Income taxes-deferred	6,305	
Income taxes total		7,178
Minority interests in loss		24
Net loss		242,553

Consolidated statement of changes in net assets

(For the year ended March 31, 2009)

(In millions of yen)

Shareholders' equity	
Capital stock	
Balance at the end of previous period	419,781
Balance at the end of current period	419,781
Capital surplus	
Balance at the end of previous period	33,333
Balance at the end of current period	33,333
Retained earnings	
Balance at the end of previous period	347,235
Changes of items during the period	
Dividends from surplus	(7,941)
Change of scope of consolidation	(46)
Net loss	(242,553)
Total changes of items during the period	(250,541)
Balance at the end of current period	96,694
Treasury stock	
Balance at the end of previous period	(1)
Changes of items during the period	
Purchase of treasury stock	(15,648)
Total changes of items during the period	(15,648)
Balance at the end of current period	(15,650)
Total shareholders' equity	
Balance at the end of previous period	800,348
Changes of items during the period	
Dividends from surplus	(7,941)
Change of scope of consolidation	(46)
Net loss	(242,553)
Purchase of treasury stock	(15,648)
Total changes of items during the period	(266,189)
Balance at the end of current period	534,158
Valuation and translation adjustments	
Valuation difference on available-for-sale securities	
Balance at the end of previous period	(27,755)
Changes of items during the period	
Net changes of items other than shareholders' equity	26,976
Total changes of items during the period	26,976
Balance at the end of current period	(778)
Deferred gains or losses on hedges	
Balance at the end of previous period	2,623
Changes of items during the period	
Net changes of items other than shareholders' equity	1,006
Total changes of items during the period	1,006
Balance at the end of current period	3,630

(In millions of yen)

Foreign currency translation adjustment	
Balance at the end of previous period	(7,877)
Changes of items during the period	
Net changes of items other than shareholders' equity	(173)
Total changes of items during the period	(173)
Balance at the end of current period	(8,050)
Total valuation and translation adjustments	
Balance at the end of previous period	(33,009)
Changes of items during the period	
Net changes of items other than shareholders' equity	27,809
Total changes of items during the period	27,809
Balance at the end of current period	(5,199)
Minority interests	
Balance at the end of previous period	720
Changes of items during the period	
Net changes of items other than shareholders' equity	(72)
Total changes of items during the period	(72)
Balance at the end of current period	648
Total net assets	
Balance at the end of previous period	768,060
Changes of items during the period	
Dividends from surplus	(7,941)
Change of scope of consolidation	(46)
Net loss	(242,553)
Purchase of treasury stock	(15,648)
Net changes of items other than shareholders' equity	27,737
Total changes of items during the period	(238,452)
Balance at the end of current period	529,607

Principles of Consolidation

(1) Scope of Consolidation

(a) Consolidated subsidiaries 18

Major subsidiaries:

Aozora Trust Bank, Ltd.

Aozora Loan Services Co., Ltd.

Aozora GMAC Investment Limited

Aozora GMAC Investments LLC

AZB CLO 1 Limited

AZB CLO 2 Limited

AZB CLO 3 Limited

AZB CLO 1 Limited, AZB CLO 2 Limited, AZB CLO 3 Limited and AZB CLO 4 Limited have been established and consolidated from this fiscal year.

AOZORA SOFTWARE CORPORATION merged with Aozora Information Systems Co., Ltd. and was eliminated from the scope of consolidation in this period.

AIML and Acorn Two LLC, which was established in the current fiscal year, are now in the process of liquidation and eliminated from the scope of consolidation. However, the statements of income are consolidated till the end of the current year.

(b) 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

(a) Unconsolidated subsidiaries accounted for by the equity method : 0

(b) Affiliated companies accounted for by the equity method : 0

(c) Unconsolidated subsidiaries not accounted for using the equity method :

Major unconsolidated subsidiaries

NCM Investments Corporation

(d) 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

(a) Fiscal year end dates of consolidated subsidiaries are as listed below:

End of February	2
End of March	16

(b) For 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.

<u>Basis of preparation</u>

(1) Valuation of Trading assets and liabilities

Transactions that seek gains on short-term fluctuations and arbitrage opportunities in interest rates, currency prices, market prices of securities and related indices (“Trading transactions”) are recognized at the transaction date. These are recorded as “Trading assets” or “Trading liabilities” on the consolidated balance sheet. Gains or losses (interest received/paid, dividend, gains/losses on sales, and valuation gains/losses) on trading transactions have been recorded in “Trading income” or “Trading expenses” on the transaction date basis in the consolidated statements of income. ”Trading Assets” and “Trading Liabilities” are valued based on the mark-to-market method.

(2) Valuation of Securities

(a) The valuation methods for the securities are as following. The mark-to-market method is applied for “trading securities” (except the positions booked in the “Trading Assets” and “Trading Liabilities”) 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 which are not accounted for by the equity method”. 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.

As for interests in investment business limited partnerships, associations under the Civil Code and silent partnerships, Aozora Bank, Ltd. ("the Bank") and consolidated subsidiaries, in principle, record net assets and net income of those partnerships as assets and profits or losses in proportion to our shares of interests based on their financial statements or interim financial statements.

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

(Additional information)

Floating rate JGBs were valued based on the reasonably calculated price pursuant to Practical Issues Task Force No. 25, 'Practical Solution on Measurement of Fair Value for Financial Assets' issued on October 28, 2008 by the Accounting Standards Board of Japan. As a result of this change, in comparison to the market price valuation methodology, "Securities" increased by JPY 8,514million and "Valuation difference on available-for-sale securities" increased by the same amount as of March 31, 2009.

The reasonably calculated price for floating rate JGBs was calculated by discounting the estimated future cash flow at the rate delivered from JGB yield. The JGB yield and volatility are major variables in pricing.

(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, except for trading transactions, are marked-to-market.

(4) Depreciation of fixed assets

(a)Tangible fixed assets (except lease assets)

As regards to 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.

(b) Intangible fixed assets (except lease assets)

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

(c) Lease assets

As for the depreciation method for tangible and intangible fixed assets acquired by finance lease transactions where ownership is not transferred, the straight-line method is applied. The useful life equals lease term and the salvage value is zero unless the lease contract specifies the salvage value otherwise.

(5) Amortization of deferred assets

Deferred assets 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.

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

(6) Allowance for loan losses

The Bank’s write-offs of loans and allowance for loan losses are provided as follows in line with internal standards for write-offs and reserves established in advance.

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 loans. As of the consolidated balance sheets date, the written off irrecoverable amount totaled JPY 48,346 million.

For loans to borrowers not yet bankrupt but likely to fall into bankruptcy, the necessary specific allowance 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. However, for loans whose future cash flows of principal and interests are reasonably calculated, the difference between the discounted cash flows and the book value is accounted for as allowance for loan losses.

For other loans, a general allowance is calculated based on the estimated loan-loss ratio using historical loan-loss data over a certain period in the past.

However, for need attention borrowers with a large credit exposure exceeding a certain amount, future loss is estimated based on the discounted cash flow method, and if necessary, additional loss is added to that amount based on the estimated loan-loss ratio, and the aggregate is accounted for as allowance for loan losses.

For loans to specific overseas borrowers, the amount of losses expected due to political or economic reasons in specific countries is calculated as allowance 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 reviews 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 allowance, and the Credit Review Division verifies and calculates the final figures.

With regard to the allowance for loan losses of the consolidated subsidiaries, the general allowance 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 allowance is calculated or uncollectible loans are written off for the uncollectible amount after it has been individually estimated.

(7) Allowance for investment loss

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

(8) Provision for bonuses

The provision for bonuses is intended for the payment of bonuses to employees based on estimated amounts of future payments attributable to the current period.

(9) Provision for retirement benefits

The provision for retirement benefits is provided 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.

(10) Provision for directors' retirement benefits

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

(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 allowance for 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 sheets dates.

(13) Lease transactions

For finance lease transactions of the Bank and the domestic subsidiaries where ownership is not transferred which commenced prior to April 1, 2008, the accounting method for operating lease transactions was applied.

(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

"The Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements "

The Accounting Standards Board of Japan (ASBJ) has issued "the Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements (ASBJ PITF No. 18)".

This new accounting regulation was implemented from the fiscal year commencing on and after April 1, 2008, and was applied by the Bank from this fiscal year.

There is no effect due to this change.

“Accounting for lease transactions”

For finance lease transactions where ownership is not transferred, the accounting method for operating lease transactions was previously applied. However, “Accounting Standard for Lease Transactions” (ASBJ Statement No.13, March 30, 2007) and “Guidance on Accounting Standard for Lease Transactions” (ASBJ Guidance No.16, March 30, 2007) became applicable from the fiscal year commencing on and after April 1, 2008, these new standards were applied from this fiscal year and the accounting method for regular purchase or sales transactions is applied.

As a result, lease assets in "Tangible fixed assets" increased by JPY 2,246 million, lease obligation in "Other liabilities" increased JPY 2,013 million. The impact of this change is not material on profit and loss.

Notes

(Consolidated Balance Sheets)

1. Equity (or investment) in related companies (excluding equity (or investment) in consolidated subsidiaries) totals JPY 7,461 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, securities borrowed under lending agreements with cash collateral and securities received as collateral on derivative transactions which can be sold or pledged, securities of JPY 62,753 million were pledged, none of the securities were loaned as second collateral and the Bank still keeps securities of JPY 51,430 million at the consolidated balance sheets date.

3. Loans to bankrupt companies total JPY 43,030 million, and past due loans total JPY 113,093 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 JPY 14,165 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 JPY 170,289 million.
Allowance for 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 JPY 577 million.
8. The amount of loans recorded as sold under loan participation in accordance with "Accounting and Display for Loan Participation" (JICPA Accounting System Committee Report No.3, June 1, 1995), totals JPY 65,645 million.
9. Pledged assets are as follows:

Pledged assets	
Securities	JPY 326,929 million
Loans and bills discounted	351,669
Liabilities related to the pledged assets	
Deposit	JPY 13,000 million
Call money and bills sold	80,000
Payables under repurchase agreements	15,587
Payables under securities lending transactions	40,549
Borrowed money	313,797

In addition, cash and due from banks of JPY 1,630 million, securities of JPY 100,586 million and other assets of JPY 9,815 million are pledged as collateral for exchange settlements, derivative transactions, etc. or as substitute for margin calls for futures transactions.
10. 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 JPY 488,379 million, including JPY 385,075 million of less than 1 year duration.
11. Accumulated depreciation of tangible fixed assets totals JPY 22,261 million.
12. Accumulated deferred gains of JPY 886 million on sales of tangible fixed assets are deducted from the acquisition cost of newly acquired tangible fixed assets.
13. Corporate bonds includes subordinated bonds to the amount of JPY 1,300 million.
14. 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 JPY 9,265 million.

15. Net assets per share is JPY 232.51.

16. 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.

17. 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 sheets date are as follows:

Retirement benefit obligations	JPY (43,192) million
Pension assets	18,192
Under-provision retirement benefit obligations	(24,999)
Unrecognized actuarial loss	7,804
Unrecognized prior service cost	(555)
Net liability recognized	(17,750)
Provision for retirement benefits	(17,750)

Retirement benefits costs in this term are as follows:

Service cost	JPY 1,696 million
Interest cost	752
Expected investment revenue	(740)
Charge off of actuarial loss	922
Charge off of prior service cost	(187)
Other	2,113
Retirement benefits costs	4,556

(Note) “Other” stated above include the premium severance pay of JPY 1,965 million.

(Consolidated Statements of Income)

1. “Other” in “Other expenses” include written-off of loans of JPY 45,875 million, losses on sale of stocks and other securities of JPY 35,184 and devaluation of stocks and other securities of JPY 380 million.

2. Net loss per share is JPY 150.92.

(Consolidated Statements 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	
Treasury stocks					
Common Stock	5	155,883	-	155,888	(Note 1)
Total	5	155,883	-	155,888	

(Note 1) The number of treasury stock increased mainly because the Bank purchased 155,875 thousand shares from the market in the current fiscal year. On October 27, 2008, the Board of Directors passed a resolution in accordance with Article 51 of the Bank's Articles of Incorporation based on Article 459-1 of Company Law ("the Law") and resolved to buy back treasury stock in accordance with Article 156-1 of the Law. The Bank bought the remaining number of stock of odd-lots upon buy-back request from the shareholders.

2. The Bank’s dividends are as follows:

(1)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 2008/5/23	Common Stock	5,775	JPY 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

(2)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 held on 2009/5/28	4th Preferred Stock	240	JPY10.00	2009/3/31	2009/6/29
	5th Preferred Stock	1,925	7.44	2009/3/31	2009/6/29

Note: The sources of dividends are other retained earnings.

(Securities)

Securities include “Securities”, “Trading securities” and a part of trust beneficiary right “Monetary claims bought”.

1. Trading securities (As of March 31, 2009)

	Book value (million yen)	Unrealized gains and losses booked in the current period (million yen)
Trading securities	41,384	(3,898)

2. Held-to-maturity bonds that have market prices or reasonably determinable prices (As of March 31, 2009)

	Book value (million yen)	Fair market value (million yen)	Difference (million yen)	Unrealized gains (million yen)	Unrealized losses (million yen)
Government bonds	29	30	0	0	-
Total	29	30	0	0	-

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, 2009)

	Cost (million yen)	Book value (million yen)	Difference (million yen)	Unrealized gains (million yen)	Unrealized losses (million yen)
Stocks	1,897	1,823	(74)	104	178
Bonds	711,456	714,339	2,882	4,031	1,149
Government bonds	701,988	705,169	3,180	3,990	810
Local government bonds	4,819	4,848	29	39	9
Corporate bonds	4,648	4,321	(327)	2	329
Others	158,319	145,208	(13,111)	2,053	15,165
Foreign bonds	148,384	135,661	(12,722)	1,790	14,513
Others	9,935	9,546	(388)	263	652
Total	871,673	861,370	(10,303)	6,190	16,493

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 valued at the market price as available-for-sale securities, among component assets owned by partnerships,. The partnership investments are included in “Securities.”
4. "Difference" above includes unrealized losses booked on profit and loss statement for the amount of JPY 9,524 million due to the combined accounting treatment for embedded derivatives.

(Additional information)

(1) Floating rate JGBs were valued based on the reasonably calculated price pursuant to Practical Issues Task Force No. 25, 'Practical Solution on Measurement of Fair Value for Financial Assets' issued on October 28, 2008 by the Accounting Standards Board of Japan. As a result of this change, in comparison to the market price valuation methodology, "Securities" increased by JPY 8,514million and "Valuation difference on available-for-sale securities" increased by the same amount as of March 31, 2009.

The reasonably calculated price for floating rate JGBs was calculated by discounting the estimated future cash flow at the rate delivered from JGB yield. The JGB yield and volatility are major variables in pricing.

(2) Prior to the current year, an impairment loss was recorded for securities, other than those held for trading, if the fair value declined by more than 30% from the acquisition or amortized cost, and the decline was deemed significant and other than temporary. Effective April 1, 2008, the Bank adopted a new policy with respect to impairment criteria which is based on the risk classification of the issuer of the securities. The purpose of this change is to reflect business results more appropriately and to bring the Bank's accounting policies more in line with industry practices. This change resulted in an decrease in both the ordinary loss and the loss before taxes and minority interests of JPY 623 million.

Under the new internal standards for write-offs and reserves, an impairment loss is recognized if the fair value at the end of a reporting period is less than 50% of a securities' acquisition cost, subject to the following conditions based upon the security issuer's risk classification:

"In danger of bankruptcy" "De facto bankrupt" "Bankrupt" … If the fair value declines from the acquisition cost, an impairment loss is recognized.

"Need attention" … If the fair value declines by more than 30% from the acquisition cost, an impairment loss is recognized.

"Normal" … Generally, if the fair value declines by more than 50% from the acquisition cost, an impairment loss is recognized.

For debt securities categorized as "Normal", the fair value decline is deemed significant if fair value declines more than 30% from the cost.

For securities, other than debt securities, whose fair value remains below a certain level, the fair value decline is deemed significant even if it does not meet the above criteria.

A "Bankrupt" borrower means an issuer of securities under legal proceedings such as bankruptcy or liquidation. "De facto bankrupt" borrower means an issuer of securities in a similar condition as "Bankrupt". "In danger of bankruptcy" borrower means an issuer of securities that is not currently bankrupt but is considered highly likely to become bankrupt. "Need attention" borrower means an issuer of securities that needs to be monitored carefully. "Normal" borrower means an issuer of securities categorized other than "Bankrupt", "De facto bankrupt", "In danger of bankruptcy" or "Need attention".

The Bank wrote-off marketable foreign securities in this term to the amount of JPY 3,969 million. In addition, for marketable available-for-sale securities which are planned to be sold off, JPY 2,526 million are charged to losses.

4. Held-to-maturity bonds sold during the current term (from April 1, 2008 to March 31, 2009)

None

5. Available-for-sale securities sold during the current term (from April 1, 2008 to March 31, 2009)

	Sale value (million yen)	Gain on sale (million yen)	Loss on sale (million yen)
Available-for-sale	1,701,261	4,438	46,382

6. Securities that do not have market prices or reasonably determinable prices (As of March 31, 2009)

Type of securities	Book value (million yen)
Stocks in non-consolidated subsidiaries and affiliates:	
Stocks in subsidiaries	256
Stocks in affiliates	131
Investment in partnerships	7,074
Available-for-sale securities:	
Unlisted stocks	27,565
Unlisted foreign securities	65,149
Unlisted bonds	45,553
Claims on loan trust	45,330
Investments in partnerships	79,571
Others	10

7. Securities changed holding purpose

The holding purpose of securities of JPY 4,206 million is changed from trading securities to available-for-sale securities in this term. This change has no impact on profit and loss.

8. The redemption amount classified by residual period of available-for-sale securities (As of March 31, 2009)

	Less than 1 year (million yen)	1-5 years (million yen)	5-10 years (million yen)	Over 10 years (million yen)
Bonds	355,045	201,005	81,960	121,910
Government bonds	345,076	166,622	71,637	121,861
Local government bonds	95	1,189	3,863	49
Corporate bonds	9,872	33,193	6,459	-
Others	16,444	100,201	68,956	54,902
Foreign bonds	16,444	76,353	43,715	53,471
Others	-	23,847	25,240	1,430
Total	371,490	301,206	150,917	176,812

(Money held in trust)

1. Details of money held in trust classified by holding purpose (As of March 31, 2009)

	Book value (million yen)	Unrealized gains and losses (million yen)
Money held in trust for investment purpose	5,561	-

2. Money held in trust for held-to maturity purpose (As of March 31, 2009)

None

3. Available-for-sale money held in trust (As of March 31, 2009)

	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	544	544	-	-	-

Non-consolidated balance sheets as of March 31, 2009

(In millions of yen)

(Assets)		(Liabilities)	
Cash and due from banks	659,096	Deposits	2,661,878
Cash	33,457	Current deposits	92,199
Due from banks	625,639	Ordinary deposits	227,762
Call loans	140,000	Deposits at notice	14,272
Receivables under securities borrowing transactions	51,143	Time deposits	2,287,300
Monetary claims bought	57,636	Other deposits	40,344
Trading assets	374,708	Negotiable certificates of deposit	284,220
Trading account securities	0	Debentures	1,489,693
Derivatives of securities related to trading transactions	13	Debentures	1,489,693
Trading-related financial derivatives	374,693	Call money	110,000
Money held in trust	4,542	Payables under repurchase agreements	15,587
Securities	1,479,980	Payables under securities lending transactions	40,549
Government bonds	705,169	Trading liabilities	246,740
Local government bonds	5,197	Derivatives of securities related to trading transactions	4
Corporate bonds	45,514	Trading-related financial derivatives	246,735
Stocks	41,021	Borrowed money	412,697
Other securities	683,077	Borrowings from other banks	412,697
Loans and bills discounted	3,194,302	Foreign exchanges	1
Bills discounted	577	Due to foreign banks (their accounts)	1
Loans on bills	145,281	Bonds payable	96,684
Loans on deeds	2,913,598	Other liabilities	156,166
Overdrafts	134,844	Income taxes payable	157
Foreign exchanges	19,143	Accrued expenses	25,354
Due from foreign banks (our accounts)	19,143	Unearned revenue	1,235
Other assets	152,588	Variation margins of futures markets	20
Prepaid expenses	350	Derivatives other than for trading-liabilities	62,105
Accrued income	11,495	Lease liabilities	2,004
Variation margins of futures markets	12	Other	65,287
Derivatives other than for trading	78,306	Provision for bonuses	1,268
Bond issuance cost	150	Provision for retirement benefits	16,177
Other	62,273	Provision for directors' retirement benefits	103
Tangible fixed assets	24,228	Reserve for credit losses on off-balance-sheet instruments	2,800
Buildings	10,925	Acceptances and guarantees	26,247
Land	9,095		
Leased assets	2,238		
Other tangible fixed assets	1,968	Total liabilities	5,560,816
Intangible fixed assets	10,836	(Net assets)	
Software	10,754		
Other intangible assets	82	Capital stock	419,781
Deferred debenture discounts	267	Capital surplus	33,333
Debenture issuance cost	267	Legal capital surplus	33,333
Deferred tax assets	40,175	Retained earnings	89,807
Customers' liabilities for acceptances and guarantees	26,247	Legal retained earnings	7,453
Allowance for loan losses	(130,051)	Other retained earnings	82,354
Allowance for investment losses	(13,575)	Retained earnings brought forward	82,354
		Treasury stock	(15,650)
		Shareholders' equity	527,271
		Valuation difference on available-for-sale securities	(449)
		Deferred gains or losses on hedges	3,630
		Valuation and translation adjustments	3,180
		Total net assets	530,452
Total assets	6,091,269	Total liabilities and net assets	6,091,269

Non-consolidated statements of income (for the year ended March 31, 2009)

(In millions of yen)

Ordinary income		177,811
Interest income	122,501	
Interest on loans and discounts	77,779	
Interest and dividends on securities	37,888	
Interest on call loans	777	
Interest on receivable under securities borrowing transactions	802	
Interest on bills bought	50	
Interest on deposits with banks	858	
Interest on interest swaps	366	
Other interest income	3,978	
Fees and commissions	10,410	
Fees and commissions on domestic and foreign exchanges	197	
Other fees and commissions	10,213	
Trading income	31,408	
Gains on trading account securities transactions	0	
Income from trading-related financial derivatives transactions	31,408	
Other ordinary income	11,483	
Gains on sales of bonds	3,445	
Income from derivatives other than for trading or hedging	472	
Other	7,565	
Other income	2,008	
Gain on sales of stocks and other securities	1,064	
Gain on money held in trust	53	
Other	890	
Ordinary expenses		413,723
Interest expenses	67,145	
Interest on deposits	20,828	
Interest on negotiable certificates of deposit	3,952	
Interest on debentures	21,648	
Interest on call money	2,388	
Interest on payables under repurchase agreements	715	
Interest on payables under securities lending transactions	3,924	
Interest on borrowings and rediscounts	2,470	
Interest on bonds	1,655	
Interest on interest swaps	8,818	
Other interest expenses	742	
Fees and commissions payments	1,504	
Fees and commissions on domestic and foreign exchanges	103	
Other fees and commissions	1,401	
Trading expenses	39	
Expenses on securities and derivatives related to trading transactions	39	
Other ordinary expenses	82,616	
Loss on foreign exchange transactions	2,971	
Loss on sales of bonds	10,418	
Loss on devaluation of bonds	10,456	
Amortization of debenture issuance cost	399	
Amortization of bond issuance cost	82	
Other	58,287	
General and administrative expenses	44,935	
Other expenses	217,483	
Provision of allowance for loan losses	79,795	
Written-off of loans	41,145	
Transfer to reserve for credit losses on off-balance-sheet instruments	1,619	
Losses on sales of stocks and other securities	35,184	
Losses on devaluation of stocks and other securities	44,183	
Other	15,555	
Ordinary loss		235,912
Extraordinary income		87
Recoveries of written-off claims	87	
Extraordinary loss		3,094
Loss on disposal of noncurrent assets	1,557	
Impairment loss	1,536	
Loss before income taxes		238,918
Income taxes-current	(44)	
Income taxes-deferred	6,407	
Income taxes-total		6,362
Net loss		245,281

FY 2008 (from Apr. 1, 2008 to Mar. 31, 2009) Non-consolidated statements of changes in net assets

(In millions of yen)

Account name	Amount
Shareholders' equity	
Capital stock	
Balance at the end of previous period	419,781
Balance at the end of current period	419,781
Capital surplus	
Legal capital surplus	
Balance at the end of previous period	33,333
Balance at the end of current period	33,333
Other capital surplus	
Changes of items during the period	
Total capital surplus	
Balance at the end of previous period	33,333
Balance at the end of current period	33,333
Retained earnings	
Legal retained earnings	
Balance at the end of previous period	5,865
Changes of items during the period	
Dividends from surplus	1,588
Total changes of items during the period	1,588
Balance at the end of current period	7,453
Other retained earnings	
Retained earnings brought forward	
Balance at the end of previous period	337,165
Changes of items during the period	
Dividends from surplus	(9,530)
Net loss	(245,281)
Total changes of items during the	(254,811)
Balance at the end of current period	82,354
Total retained earnings	
Balance at the end of previous period	343,030
Changes of items during the period	
Dividends from surplus	(7,941)
Net loss	(245,281)
Total changes of items during the period	(253,222)
Balance at the end of current period	89,807
Treasury stock	
Balance at the end of previous period	(1)
Changes of items during the period	
Purchase of treasury stock	(15,648)
Total changes of items during the period	(15,648)
Balance at the end of current period	(15,650)

(In millions of yen)

Account name	Amount
Total shareholders' equity	
Balance at the end of previous period	796,143
Changes of items during the period	
Dividends from surplus	(7,941)
Net loss	(245,281)
Purchase of treasury stock	(15,648)
Total changes of items during the period	(268,871)
Balance at the end of current period	527,271
Valuation and translation adjustments	
Valuation difference on available-for-sale securities	
Balance at the end of previous period	(27,510)
Changes of items during the period	
Net changes of items other than shareholders' equity	27,060
Total changes of items during the period	27,060
Balance at the end of current period	(449)
Deferred gains or losses on hedges	
Balance at the end of previous period	2,623
Changes of items during the period	
Net changes of items other than shareholders' equity	1,006
Total changes of items during the period	1,006
Balance at the end of current period	3,630
Total valuation and translation adjustments	
Balance at the end of previous period	(24,886)
Changes of items during the period	
Net changes of items other than shareholders' equity	28,067
Total changes of items during the period	28,067
Balance at the end of current period	3,180
Total net assets	
Balance at the end of previous period	771,256
Changes of items during the period	
Dividends from surplus	(7,941)
Net loss	(245,281)
Purchase of treasury stock	(15,648)
Net changes of items other than shareholders' equity	28,067
Total changes of items during the period	(240,803)
Balance at the end of current period	530,452

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 that seek gains on short-term fluctuations and arbitrage opportunities in interest rates, currency prices, market prices of securities and related indices (“Trading transactions”) are recognized at the transaction date. These are recorded as “Trading assets” or “Trading liabilities” on the consolidated balance sheet. Gains or losses (interest received/paid, dividend, gains/losses on sales, and valuation gains/losses) on trading transactions 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) The valuation methods for the securities are following. The mark-to-market method is applied for “trading securities” (except the positions booked in the “Trading Assets” and “Trading Liabilities,”) 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 prices (with the costs basically calculated on a moving average basis) is available, or the cost method or the amortized cost method if not.

As 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 from these positions are directly booked into the net assets.

(Additional information)

Floating rate JGBs were valued based on the reasonably calculated price pursuant to Practical Issues Task Force No. 25, ‘Practical Solution on Measurement of Fair Value for Financial Assets’ issued on October 28, 2008 by the Accounting Standards Board of Japan. As a result of this change, in comparison to the market price valuation methodology, "Government bonds" increased by JPY 8,514 million and "Valuation difference on available-for-sale securities" increased by the same amount as of March 31, 2009.

The reasonably calculated price for floating rate JGBs was calculated by discounting the estimated future cash flow at the rate delivered from JGB yield. The JGB yield and volatility are major variables in pricing.

(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, except for trading transactions, are marked-to-market.

4. Depreciation of fixed assets

(1) Tangible fixed assets (except lease assets)

As regards to depreciation of tangible fixed assets, the Bank adopts straight-line method on buildings and declining-balance method on other tangible fixed assets.

Main useful life is as follows:

Buildings: 15～50 years

Equipment: 5～15 years

(2) Intangible fixed assets (except lease assets)

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

(3) Lease assets

As for the depreciation method for tangible and intangible fixed assets acquired by finance lease transactions where ownership is not transferred, the straight-line method is applied. The useful life equals lease term and the salvage value is zero unless the lease contract specifies the salvage value otherwise.

5. Amortization of deferred assets

Deferred assets 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.

(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) Allowance for loan losses

Write-offs of loans and allowance for loan losses are provided as follows in line with internal standards for write-offs and reserves established in advance.

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 loans. As of the balance sheets date, the written off irrecoverable amount totaled JPY 40,488 million.

For loans to borrowers not yet bankrupt but likely to fall into bankruptcy, the necessary specific allowance 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. However, for loans whose future cash flows of principal and interests are reasonably calculated, the difference between the discounted cash flows and the book value is accounted for as allowance for loan losses.

For other loans, a general allowance is calculated based on the estimated loan-loss ratio using historical loan-loss data over a certain period in the past.

However, for need attention borrowers with a large credit exposure exceeding a certain amount,

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future loss is estimated based on the discounted cash flow method, and if necessary, additional loss is added to that amount based on the estimated loan-loss ratio, and the aggregate is accounted for as allowance for loan losses.

For loans to specific overseas borrowers, the amount of losses expected due to political or economic reasons in specific countries is calculated as allowance 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 reviews 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 allowance, and the Credit Review Division verifies and calculates the final figures.

(2) Allowance for investment loss

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

(3) Provision for bonuses

The provision for bonuses is intended for the payment of bonuses to employees based on estimated amounts of future payments attributable to the current period.

(4) Provision for retirement benefits

The provision for retirement benefits is provided 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) Provision for directors' retirement benefits

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

(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 allowance for loan losses.

8. Lease transactions

For finance lease transactions where ownership is not transferred which commenced prior to April 1, 2008, the accounting method for operating lease transactions was applied.

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.

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Change in basic items for preparing financial statements

For finance lease transactions where ownership is not transferred, the accounting method for operating lease transactions was previously applied. However, “Accounting Standard for Lease Transactions” (ASBJ Statement No.13, March 30, 2007) and “Guidance on Accounting Standard for Lease Transactions” (ASBJ Guidance No.16, March 30, 2007) became applicable from the fiscal year commencing on and after April 1, 2008, these new standards were applied from this fiscal year and the accounting method for regular purchase or sales transactions is applied.

As a result, lease assets in "Tangible fixed assets" increased by JPY 2,238 million, lease obligation in "Other liabilities" increased JPY 2,004 million. The impact of this change is not material on profit and loss.

Notes

(Balance sheets)

1. Equity (or investment) in related companies totals JPY 32,617 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, securities borrowed under lending agreements with cash collateral and securities received as collateral under derivative transactions which can be sold or pledged, securities of JPY 62,753 million were pledged, none of the securities were loaned as second collateral and the Bank still keeps securities of JPY 51,430 million at the balance sheets date.

3. Loans to bankrupt companies total JPY 42,393 million, and past due loans total JPY 83,501 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 JPY 14,165 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 JPY 140,060 million.

Allowance for 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 JPY 577 million.

8. The amount of loans recorded as sold under loan participation in accordance with "Accounting and Display for Loan Participation" (JICPA Accounting System Committee Report No.3, June 1, 1995), totals JPY 65,645 million.

9. Pledged assets are as follows:

Pledged assets	
Securities	JPY 326,929 million
Loans and bills discounted	351,669
Liabilities related to the pledged assets	
Deposit	JPY 13,000 million
Call money	80,000
Payables under repurchase agreements	15,587
Payables under securities lending transactions	40,549
Borrowed money	313,797

In addition, cash and due from banks of JPY 1,630 million, securities of JPY 100,556 million and other assets of JPY 9,815 million are pledged as collateral for exchange settlements, derivative transactions, etc. or as substitute for margin calls for futures transactions.

10. 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 JPY 531,148 million, including JPY 439,075 million of less than 1 year duration.

11. Accumulated depreciation of tangible fixed assets totals JPY 21,100 million.

12. Accumulated deferred gains of JPY 886 million on sales of tangible fixed assets are deducted from the acquisition cost of newly acquired tangible fixed assets.

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 JPY 9,265 million.

14. Net assets per share is JPY 233.51.

15. 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.

16. Monetary claims against related companies total JPY 435,030 million

17. Monetary liabilities against related companies total JPY 41,489 million

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18. 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 “Legal retained earnings” regardless of Corporate Law, Article 445, Paragraph 4 (capital and surplus reserve.)

“Legal retained earnings” booked during this fiscal year due to the said dividends paid is amounting to JPY 1,588 million.

According to the articles of incorporation of the Bank, dividends are limited to JPY 10 per share annually for No. 4 preferable shareholders issued on March 31, 1998 and JPY7.44 per share annually for No. 5 preferable shareholders issued on October 4, 2000.

(Statements of Income)

1. The revenues due to transactions with subsidiaries and affiliated companies	JPY 26,884 million
Interest income received	21,216
Fees & commissions received	921
Other operating income and other income	4,745
The expenses due to transactions with subsidiaries and affiliated companies	JPY 12,664 million
Interest expense paid	223
Fees and commissions paid	198
Other operating and other income	12,242
Other transactions with subsidiaries and affiliated companies (such as asset transfer)	JPY 12,690million

2. Net loss per share is JPY 152.61.

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

(Additional information)

In this fiscal year, the Bank has applied “Accounting Standards in Respect of Disclosures on Related Parties” (Corporate Accounting Standard No. 11) and “Practical Guidance on Accounting Standards in Respect of Disclosures on Related Parties” (Practical Guidance on Corporate Accounting Standard No. 13). This has no impact.

(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	Aozora GMAC Investment Limited	Direct investment 100.0 %	Investment Concurrent officer	Investment Write-off for investment	2,404 42,982	Other securities	2,497
Subsidiary	AZB CLO 1 Limited (Note 1)	N/A	Undertaking Notes	Purchased Notes (Note 2) Received bond interest(Note 3)	79,122 519	Other securities Interest receivable	79,122 519
Subsidiary	AZB CLO 2 Limited (Note 1)	N/A	Undertaking Notes	Purchased Notes (Note 2) Received bond interest(Note 3)	115,607 739	Other securities Interest receivable	115,607 739
Subsidiary	AZB CLO 3 Limited (Note 1)	N/A	Undertaking Notes	Purchased Notes (Note 2) Received bond interest(Note 3)	64,999 389	Other securities Interest receivable	64,999 389

(Note)

1. AZB CLO 1 Limited, AZB CLO 2 Limited and AZB CLO 3 Limited (“AZB CLO subsidiaries,” hereafter) are special purpose companies established to raise funds for the Bank.
2. AZB CLO subsidiaries have mainly acquired loans that were previously owned by other consolidated subsidiaries and used them as underlying assets to issue asset-backed notes (“AZB CLO Notes,” hereafter). The Bank acquired and owns all AZB CLO Notes as of the balance sheet date. For the purpose of securitization, the Bank transferred JPY 40,259 million of loans to AZB CLO subsidiaries and acquired the AZB CLO Notes of an equivalent amount. As the Bank keeps all the securities, the conditions of asset derecognition under the accounting standards for financial instruments are not met, and the Bank does not account for the loan transfer and acquisition of the notes.
3. AZB CLO Notes have been issued with all the loans held by AZB CLO subsidiaries as collateral. With income revenue earned from the loans, interests of the contract rate that changes with the market rate are paid to the holders of the preferred shares and interests are paid to the holders of the subordinate shares as dividend. As of March 31, 2009, as the Bank owns all AZB CLO Notes, the net income of AZB CLO subsidiaries belongs to the Bank.
4. In addition to the foregoing, the Bank entered into a securitization transaction with Acorn Two LLC to raise funds in the current fiscal year. The Bank entrusted JPY 319,879 million of loans in exchange for trust beneficiary rights and transferred JPY 245,800 million of the rights to Acorn Two. Acorn Two issued asset-backed securities with the beneficiary rights as underlying assets. The Bank owned the entire rights until they were redeemed and repaid. Since this transaction does not meet the conditions of asset derecognition under the accounting standards for financial instruments, the Bank has not recognized the loan transfer and has presented them as loans on the balance sheet.

(3)Companies of the same parent company

None

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

Category	Company Name	Voting rights	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)	38	-	-
			Advisory contract (Note 2)	Advisory fee paid (Note 4)	129	-	-
			Loaned employees from the Bank	HR costs for loaned employees from the Bank (Note 5)	70	-	-
			Concurrent officer				

(Note 1) Spring Mountain Capital, LLC ("SMC," hereafter), for which Mr. John L. Steffens acts as a managing member, has 100% of voting rights for Spring Mountain Capital, LP. He resigned from the board of the Bank on February 10, 2009.

(Note 2) SMC and the Bank collaborated to explore new hedge funds and monitor the fund performance. The Bank gained investment expertise and guidance from SMC. The underlying contract was terminated as of March 31, 2009.

(Note 3) Commissions are calculated by multiplying the fund balance by the rate in an arm's length transaction.

(Note 4) Advisory fees are calculated by multiplying the hedge fund balance by the rate approved at the board of director's meeting as a generally reasonable rate.

(Note 5) The Bank pays salaries and actual expenses for housing and business trips subject to the policy of the Bank.

(Statement of changes in net assets)

1. The number of treasury stocks is as follows. (Unit: thousand 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	5	155,883	-	155,888	(Note 1)
Total	5	155,883	-	155,888	

(Note 1) The number of treasury stock increased mainly because the Bank purchased 155,875 thousand shares from the market in the current fiscal year. On October 27, 2008, the Board of Directors passed a resolution in accordance with Article 51 of the Bank's Articles of Incorporation based on Article 459-1 of Company Law ("the Law") and resolved to buy back treasury stock in accordance with Article 156-1 of the Law. The Bank bought the remaining number of stock of odd-lots upon buy-back request from the shareholders.

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(Securities)

Securities include “Government bonds”, “Local government bonds”, “Corporate bonds”, “Stocks”, “Other securities”, “Trading securities” and a part of trust beneficiary right in “Monetary claims bought”.

1. Trading securities (As of March 31, 2009)

	Book value (million yen)	Unrealized gains and losses booked in the current period (million yen)
Trading securities	41,384	(3,898)

2. Held-to-maturity bonds that have market prices or reasonably determinable prices (As of March 31, 2009)

None

3. Stocks in subsidiaries and affiliates that have market prices(As of March 31, 2009)

None

4. Available-for-sale securities that have market prices or reasonably determinable prices (As of March 31, 2009)

	Cost (million yen)	Book value (million yen)	Difference (million yen)	Unrealized gains (million yen)	Unrealized losses (million yen)
Stocks	1,897	1,823	(74)	104	178
Bonds	707,115	710,327	3,211	4,031	820
Government bonds	701,988	705,169	3,180	3,990	810
Local government bonds	4,819	4,848	29	39	9
Corporate bonds	307	309	1	2	0
Others	158,319	145,208	(13,111)	2,053	15,165
Foreign bonds	148,384	135,661	(12,722)	1,790	14,513
Others	9,935	9,546	(388)	263	652
Total	867,332	857,358	(9,974)	6,190	16,164

（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 valued at the market price as available-for-sale securities, among component assets owned by partnerships. The partnership investments are included in “Securities”.

4. "Difference" above includes unrealized losses booked on profit and loss statement for the amount of JPY 9,524 million due to the combined accounting treatment for embedded derivatives.

(Additional information)

(1) Floating rate JGBs were valued based on the reasonably calculated price pursuant to Practical Issues Task Force No. 25, ‘Practical Solution on Measurement of Fair Value for Financial Assets’ issued on October 28, 2008 by the Accounting Standards Board of Japan.　As a result of this change,

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in comparison to the market price valuation methodology, "Government bonds" increased by JPY 8,514million and "Valuation difference on available-for-sale securities" increased by the same amount as of March 31, 2009.

The reasonably calculated price for floating rate JGBs was calculated by discounting the estimated future cash flow at the rate delivered from JGB yield. The JGB yield and volatility are major variables in pricing.

(2) Prior to the current year, an impairment loss was recorded for securities, other than those held for trading, if the fair value declined by more than 30% from the acquisition or amortized cost, and the decline was deemed significant and other than temporary. Effective April 1, 2008, the Bank adopted a new policy with respect to impairment criteria which is based on the risk classification of the issuer of the securities. The purpose of this change is to reflect business results more appropriately and to bring the Bank's accounting policies more in line with industry practices. This change resulted in an decrease in both the ordinary loss and the loss before taxes and minority interests of JPY 623 million.

Under the new internal standards for write-offs and reserves, an impairment loss is recognized if the fair value at the end of a reporting period is less than 50% of a securities' acquisition cost, subject to the following conditions based upon the security issuer's risk classification:

"In danger of bankruptcy" "De facto bankrupt" "Bankrupt" … If the fair value declines from the acquisition cost, an impairment loss is recognized.

"Need attention" … If the fair value declines by more than 30% from the acquisition cost, an impairment loss is recognized.

"Normal" … Generally, if the fair value declines by more than 50% from the acquisition cost, an impairment loss is recognized.

For debt securities categorized as "Normal", the fair value decline is deemed significant if fair value declines more than 30% from the cost.

For securities, other than debt securities, whose fair value remains below a certain level, the fair value decline is deemed significant even if it does not meet the above criteria.

A "Bankrupt" borrower means an issuer of securities under legal proceedings such as bankruptcy or liquidation. "De facto bankrupt" borrower means an issuer of securities in a similar condition as "Bankrupt". "In danger of bankruptcy" borrower means an issuer of securities that is not currently bankrupt but is considered highly likely to become bankrupt. "Need attention" borrower means an issuer of securities that needs to be monitored carefully. "Normal" borrower means an issuer of securities categorized other than "Bankrupt", "De facto bankrupt", "In danger of bankruptcy" or "Need attention".

The Bank wrote-off marketable foreign securities in this term to the amount of JPY 3,936 million. In addition, valuation losses on marketable available-for-sale securities which are planned to be sold off are charged to losses. JPY 2,390 million of losses are included in "Other ordinary expenses – Other" and JPY 136 million of losses are included in "Other expenses – Other," respectively.

5. Held-to-maturity bonds sold during the current term (from April 1, 2008 to March 31, 2009)

None

6. Available-for-sale securities sold during the current term (from April 1, 2008 to March 31, 2009)

	Sale value (million yen)	Gain on sale (million yen)	Loss on sale (million yen)
Available-for-sale	1,701,485	4,509	46,200

7. Securities that do not have market prices or reasonably determinable prices (As of March 31, 2009)

Type of securities	Book value (million yen)
Stocks in subsidiaries and affiliates:	
Stocks in subsidiaries	25,639
Stocks in affiliates	121
Investment in partnerships	6,855
Available-for-sale securities:	
Unlisted stocks	27,494
Unlisted foreign securities	358,737
Unlisted bonds	45,553
Claims on loan trust	45,330
Investments in partnerships	118,325
Others	10

8. Securities changed holding purpose

The holding purpose of securities of JPY 4,206 million is changed from trading securities to available-for-sale securities in this term. This change has no impact on profit and loss.

9. The redemption amount classified by residual period of available-for-sale securities (As of March 31, 2009)

	Less than 1 year (million yen)	1-5 years (million yen)	5-10 years (million yen)	Over 10 years (million yen)
Bonds	351,948	200,060	81,960	121,910
Government bonds	345,076	166,593	71,637	121,861
Local government bonds	95	1,189	3,863	49
Corporate bonds	6,775	32,278	6,459	-
Others	16,444	100,201	363,972	54,902
Foreign bonds	16,444	76,353	338,732	53,471
Others	-	23,847	25,240	1,430
Total	368,393	300,261	445,933	176,812

(Money held in trust)

1. Details of money held in trust classified by holding purpose (As of March 31, 2009)

	Book value (million yen)	Unrealized gains and losses (million yen)
Money held in trust for investment purpose	3,998	-

2. Money held in trust for held-to maturity purpose (As of March 31, 2009)

None

3. Available-for-sale money held in trust (As of March 31, 2009)

	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	544	544	-	-	-

(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, 2009 were as follows:

Deferred tax assets	
Provision of allowance for loan losses	JPY 49,839 million
Provision for retirement benefits	6,582
Depreciation expense	5,095
Write-offs for securities	38,239
Tax loss carry forwards	69,942
Other	30,251
Subtotal	199,952
Less valuation allowance	(157,286)
Deferred tax assets	42,666
Deferred tax liabilities	
Net deferred gains(losses) on hedging instruments, net of taxes	(2,490)
Net deferred tax assets	JPY 40,175 million

INDEPENDENT AUDITORS' REPORT

May 15, 2009

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 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, 2009 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, 2008 to March 31, 2009. 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, 2009, 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 15,2009

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, 2009 of Aozora Bank Ltd. (the "Bank"), and the related statements of income and changes in net assets for the 76th fiscal year from April 1, 2008 to March 31, 2009, 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, 2009, 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 Auditors' Report

The Board of Corporate Auditors prepared this Board of Corporate Auditors' 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 76th business year that commenced on April 1, 2008 and ended on March 31, 2009.

1. The Method and Contents of the Audit by 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 Accounting Auditor (Independent Auditor Tohmatsu), 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 employees, etc 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, etc and 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. And as for internal control over financial reporting, the Board of Corporate Auditors received reports of progress and assessment on it from Directors, etc and the Auditor Tohmatsu and sought any necessary explanation. As to subsidiaries, the Board of Corporate Auditors communicated and exchanged information with Directors and Corporate Auditors, etc 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 schedule for the said business year.

In addition, the Board of Corporate Auditors monitored and examined to see whether the Accounting Auditor retains its independent position and implements adequate audit, as well as received from the Accounting Auditor Reports on the actual execution of its duties, and sought any necessary explanation from the Accounting Auditor. The Board of Corporate Auditors also was informed by the Accounting Auditor that the Accounting Auditor has improved its "Systems to Ensure the Proper Conduct of Professional Duties" (the item listed in the each section of Article 131 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 Accounting 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 schedule, as well as the 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 Schedule

1. The Board of Corporate Auditors acknowledges that the Business Report and its supplementary schedule 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 policies 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. And as for internal control over financial reporting, no material weakness has been reported neither from Directors, etc nor the Auditor Tohmatsu at the time of writing this report.

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

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

May26, 2009

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

End