

【TRANSLATION】

〔 Attached Documents of The Convocation Notice for  
The 78<sup>th</sup> FY Ordinary General Meeting of Shareholders 〕

**Business Report**  
**- Fiscal Year 2010 -**  
(April 1, 2010 — March 31, 2011)

	Page
<b>Business Report Fiscal Year 2010</b> . . . . .	<b>1</b>
<b>The Consolidated Financial Statements</b> . . . . .	<b>24</b>
Consolidated balance sheet . . . . .	24
Consolidated Statement of Income . . . . .	25
Consolidated Statement of Changes in Net Assets . . . . .	26
<b>The Non-consolidated Financial Statements</b> . . . . .	<b>52</b>
Non-consolidated Balance Sheet . . . . .	52
Non-consolidated Statement of Income . . . . .	53
Non-consolidated Statement of Changes in Net Assets . . . . .	54
<b>Independent Auditors' Report for The Consolidated Financial Statements (COPY)</b> . . . . .	<b>68</b>
<b>Independent Auditors' Report for The Financial Statements (COPY)</b> . . . . .	<b>69</b>
<b>The Board of Corporate Auditors' Report (COPY)</b> . . . . .	<b>70</b>

Aozora Bank, Ltd.

# **Business Report - Fiscal Year 2010 -**

(April 1, 2010 — March 31, 2011)

## **1. Current Status of the Bank**

### (1) Business Developments and Results of the Corporate Group

#### [Financial and Economic Environment]

In the FY2010 consolidated accounting period, although experiencing a short period of stagnation, domestic economic and financial conditions showed a sign of gradual recovery due to improved exports reflecting recovery in overseas economies, and a pickup in production reflecting the effect of various economic policy measures.

Overseas, despite economic recovery mainly in emerging countries, there were concerns regarding financial problems in some European countries and fears of geopolitical risks heightened, triggered by growing tensions in the Middle East and North Africa, which led to turbulence in the financial markets and soaring of crude oil prices. Furthermore, the Great Eastern Japan Earthquake which occurred in March 2011, had various negative effects on the financial and economic environment at the end of the fiscal year.

Domestic long-term interest rates (10 year government bond yield) fluctuated within the range of 0.8% ~ 1.4% throughout the fiscal year. From Spring 2010, long-term rates decreased from the 1.4% range at the start of the fiscal year to the 0.8% range by October, in anticipation of additional monetary easing measures both domestically and overseas to counter growing pessimism over the U.S. economy and the increased severity of the financial condition of surrounding European countries. After that, following a rise in long-term U.S. interest rates, domestic long-term interest rates also rose to a 1.2% level by the end of December 2010.

The unsecured call (overnight) rate trended around the 0.1% level throughout the year, reflecting the effect of the Bank of Japan's comprehensive financial easing measures.

The Nikkei Average, after beginning the fiscal year in the 11,000 yen range, fell below the 9,000 yen range in August, due to a strong yen. Following this decline, it rallied to the 10,000 yen range in November with a shift back to a weaker yen but overall, there was little fluctuation throughout the fiscal year. Following the Great Eastern Japan Earthquake, the Nikkei dipped to the lower 8,000 yen range at one point and fluctuated in the mid 9,000 yen range by the end of the fiscal year.

The dollar/yen exchange rate rose to the lower 80 yen range by October from the lower 90 yen range at the start of the year. Immediately after the earthquake, the yen posted a record high in the 76 yen range but returned to the 80 yen range by the end of the fiscal year.

#### [Main Business Activities of the Corporate Group]

The Group consists of the Bank and 14 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 and also include our venture capital and overseas business.

#### [Business Developments and Results of the Corporate Group]

During FY2010 Aozora Group aimed to establish an organization that can be relied upon to deliver sustainable profitability in the face of difficult economic conditions and focused on enhancing its core businesses.

In August 2010, the Bank newly established several middle market banking teams and realigned its personnel

and corporate resources to better focus on middle market business, such as lending and services to small and medium-sized clients. The Bank also implemented an organizational realignment in the Retail Banking Group to expand business in the mass affluent market. During the year, the Bank made company-wide efforts for the further reduction of funding costs and general and administrative expenses, improving the efficiency of our liquidity operations, reducing credit-related expenses through improved risk management and optimizing asset performance.

As a result of the above factors, total assets decreased by 238.9 billion yen during this fiscal year, to 4,918.3 billion yen. Loans and bills discounted decreased by 340.6 billion yen from the previous fiscal year end to 2,729.5 billion yen, reflecting the continued reduction of overseas loans and domestic unsecured loans, as well as maintaining a conservative approach to new lending given the uncertain financial environment. In comparison with the previous quarter-end, December 31, 2010, the loan balance increased by 67.0 billion yen for the first time in the last 10 quarters since the FY2008 interim period. Securities increased 59.3 billion yen in comparison with March, 2010 to 1,335.6 billion yen. Major factors in this change were an increase in foreign bonds, mainly U.S. Treasury bonds, and the additional purchase of money market funds as assets comparable to the liquidity reserve, despite a decrease in JGBs.

Total liabilities decreased 265.4 billion yen to 4,353.1 billion yen. Deposits decreased 168.6 billion yen to 2,777.3 billion yen. Negotiable certificates of deposit increased 13.3 billion yen to 154.9 billion yen and debentures decreased 297.3 billion yen to 264.7 billion yen. Funding from retail customers remained basically unchanged from March 31, 2010 at approximately 2,300 billion yen, and as a result, the percentage of retail funding to total core funding (the aggregate of deposits, NCDs, debentures and bonds payable) expanded from 63.1% as of March 31, 2010 to 70.3% as of March 31, 2011.

Net assets were 565.1 billion yen, an increase of 26.4 billion yen from March 31, 2010, reflecting the dividend payment and the positive earnings.

Net revenue for FY2010 was 77.8 billion yen, almost the same level as the previous year. However, when adjusted for the special factor of a 5.0 billion yen gain on CDS hedging transactions in FY2009, net revenue increased by 4.5 billion yen in real terms.

Net interest income was 44.9 billion yen, representing a slight decrease, due to a decline in average interest earning assets. The yield on funding was reduced 15bps from 0.92% to 0.77%, and the net interest margin and the loan margin expanded as well, reflecting our ongoing efforts to reduce funding costs while maintaining a stable base of retail deposits.

Net fees and commissions were 10.3 billion yen, a decrease of 3.3 billion yen, due to the absence of large transactions that contributed in the previous year.

Net trading revenues were 9.6 billion yen, a decrease of 7.4 billion yen, reflecting the absence of the aforementioned 5.0 billion yen gain on CDS hedging transactions included in the previous year.

Gains/losses on bond transactions increased 9.5 billion yen to 10.8 billion yen, reflecting gains on the sale of JGBs and foreign government bonds and gains from the redemption of hedge funds, as well as reduced losses from impairment on foreign corporate bonds and CMBS. Net other ordinary income, excluding gains/losses on bond transactions, was 1.9 billion yen, an increase of 2.5 billion yen, due to the contribution of earnings generated by Aozora Loan Services' NPL investments.

General and administrative expenses were 40.8 billion yen, a reduction of 3.9 billion yen year on year, as a result of our continued strict cost controls, including the implementation of a Bank-wide cost review which led to broad savings in personnel cost, technology cost and other operating expense categories. The overhead ratio, or OHR, (general and administrative expenses as a percentage of net revenue) was 52.4 %, a decrease of 4.8% from the previous year.

As a result of the aforementioned factors, consolidated business profit before general loan-loss reserves was 37.0 billion yen, an increase of 3.4 billion yen over the previous year.

Credit-related expenses were 6.0 billion yen, a year on year decrease of 18.6 billion yen, reflecting the preventative measures taken by the Bank to date, including the conservative allocation of reserves, as well as the absence of significant credit events in FY2010. Credit-related expenses included a provision for the possible impact of the Great Eastern Japan Earthquake and related disasters.

Ordinary profit increased 22.2 billion yen to 28.6 billion yen.

A tax benefit of 3.4 billion yen was recognized, representing an improvement of 2.6 billion yen.

As a result of the above factors, consolidated net income increased 24.4 billion yen to 32.7 billion yen. Net assets per share was 256.27 yen, and net income per share was 20.49 yen.

This year the Bank plans to pay a cash dividend of 2.0 yen per common share, 10 yen per 4th preferred share, and 7.44 yen per 5th preferred share.

The Bank has classified its Group's business operations into the following five Groups based upon the nature of the customers served and products offered: Retail & Business Banking Group ("RBBG"), Corporate Banking Group ("CBG"), Specialty Finance Group ("SFG"), Financial Institutions Group ("FIG") and Financial Markets Group ("FMG"), and has regarded these five Groups as reportable segments.

Profit / loss by segment for the year, which is calculated as net revenue minus general and administrative expenses by each segment, was: a profit of 1.7 billion yen for RBBG, a profit of 4.3 billion yen for CBG, a profit of 16.9 billion yen for SFG, a profit of 0.6 billion yen for FIG, and a profit of 16.4 billion yen for FMG.

(Reference)

(a) Summary of consolidated revenue and expenses

(JPY 100 million)

	FY2009	FY2010	Change
Net revenue ※1	783	778	(4)
Net interest income	467	449	(17)
Net fees and commissions	137	103	(33)
Net trading income	170	96	(74)
Gains/losses on bond transactions	13	108	95
Net other ordinary income excluding gains/losses on bond transactions	(5)	19	25
General and administrative expenses	(448)	(408)	39
Business profit ※2	335	370	34
Write-off of loans ①	(258)	(79)	179
Gains/losses on stock transactions	(1)	(2)	(1)
Other	(10)	(1)	9
Ordinary profit	64	286	222
Extraordinary profit	10	7	(2)
Credit-related expenses (recoveries of written-off claims, etc.) ②	11	18	7
Other extraordinary profit	(0)	(10)	(10)
Income before income taxes and minority interests	75	294	219
Total income taxes	8	34	26
Minority interest in net income	(0)	(0)	(0)
Net income	83	327	244

Credit-related expenses (including recoveries of written-off claims) (①+②)	(247)	(60)	186
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※1 Net revenue = (Interest income – Interest expenses) + (Fees and commissions income – Fees and commissions expenses) + (Trading income – Trading expenses) + (Other ordinary income – Other ordinary expenses)

※2 Business profit = Net revenue – General and administrative expenses

※3 Regardless of nature of accounts, income is shown as positive and expenses or losses are shown as negative amount.

## [Challenges Facing the Bank]

The Aozora Group is committed to building a solid foundation to ensure stable and sustainable profitability despite the current difficult economic conditions.

Aozora will combine its sophisticated specialty finance expertise with its corporate and financial institutions customer base to develop a stable and profitable earnings structure, and become a bank that attracts customers for its value-added services. In order to enhance our quicker and more precise tailored lending model and meet our customers' funding needs, the Bank aims to create a funding structure that effectively combines cost and stability.

Aozora will enhance its sales capabilities as well as expand its business franchise by shifting its corporate resources towards customer business and development of new business, while continuing to focus on upgrading its risk management skills and efficient management. By taking these measures, Aozora aims to achieve stable and sustainable profitability. Specifically, Aozora will focus its efforts on expanding business in the middle market and the retail mass affluent market.

The repayment of public funds remains the Bank's strategic priority, and the Bank will make every effort to increase shareholders value in order to realize early repayment. The Bank's management continues to consider strategic alliances to enhance corporate value in the long-term, as well as other financial initiatives.

Although the recent Great Eastern Japan Earthquake did not have a significant effect on Aozora's employees, facilities or IT systems, uncertainties are still expected to remain with respect to the Japanese economy and the financial markets created by the recent disaster. We will continue to focus on disciplined risk management and on our core business by benefiting from our capital base and financial strength in order to generate sustainable earnings while making a contribution to the recovery of the Japanese economy.

(Note) Figures are rounded down to the nearest unit specified.

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

#### A. Assets and Profit or Loss of the Corporate Group

(Unit: JPY 100 million)

	FY2007	FY2008	FY2009	FY2010
Consolidated Ordinary Income	2,010	1,825	1,460	1,266
Consolidated Ordinary Profits (or Consolidated Ordinary Loss)	(215)	(2,320)	64	286
Consolidated Net Income (or Consolidated Net Loss)	59	(2,425)	83	327
Consolidated Net assets	7,680	5,296	5,387	5,651
Consolidated Total Assets	72,590	60,773	51,573	49,183

(Notes) 1. Figures are rounded down to the nearest unit specified.

2. 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)

	FY2007	FY2008	FY2009	FY2010
Deposits	33,602	29,460	30,999	29,428
Time Deposits	20,588	22,873	25,593	24,138
Other	13,014	6,587	5,405	5,289
Debentures (Long-Term Credit Bank Bond)	20,696	14,896	5,621	2,647
Corporate Bonds (Excluding Long-Term Credit Bank Bond)	999	966	911	911
Loans and Bills Discounted	39,503	31,943	30,692	27,386
Individuals	294	275	127	88
Small/Medium Companies	21,174	17,859	19,088	17,459
Other	18,034	13,808	11,476	9,838
Trading Assets	2,164	3,747	2,996	3,471
Trading Liabilities	1,034	2,467	2,049	2,495
Investment Securities	20,909	14,799	13,250	13,781
Government Bonds	8,814	7,051	7,934	6,767
Other	12,094	7,748	5,315	7,014
Total Assets	72,772	60,912	51,663	49,286
Domestic Exchange Transactions	156,706	134,372	90,912	69,910
Foreign Exchange Transactions	USD million 14,476	USD million 10,172	USD million 4,423	USD million 5,139
Operating Profits (Loss)	JPY million (25,076)	JPY million (235,912)	JPY million 5,011	JPY million 28,017
Net Income (Loss)	JPY million 3,538	JPY million (245,281)	JPY million 7,644	JPY million 31,825
Net Income (Loss) per Share	JPY 0.83	JPY (152.61)	JPY 3.66	JPY 19.84

- (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. Ordinary Profit for FY2008 dropped 210,836 million yen in comparison to FY2007 to a loss of 235,912 million 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 245,281 million yen in FY2008.

### (3) Employees of the Corporate Group

	March 31, 2011		March 31, 2010	
	Banking Business	Other Operations	Banking Business	Other Operations
Number of Employees	1,511	115	1,491	119

- (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, 2011. (20 as of March 31, 2010)

Overseas: 0 as of March 31, 2011. (0 as of March 31, 2010)

In addition to the above, the Bank has 2 overseas representative offices as of March 31, 2011 (2 as of March 31, 2010):

New York Representative Office, Shanghai Representative Office

###### Subsidiaries:

Aozora Asia Pacific Finance Limited: Hong Kong

Aozora GMAC Investment Limited: London

Aozora Investments LLC: Delaware, USA

Aozora Investment, Inc.: Delaware, USA

AZB CLO 1 Limited: Dublin, Ireland

AZB CLO 2 Limited: Dublin, Ireland

AZB CLO 3 Limited: Dublin, Ireland

AZB CLO 4 Limited: Dublin, Ireland

Kitanomaru Holdings: Tokyo Head Office

Sheltie: Tokyo Head Office

(Note) Aozora GMAC Investments LLC and Aozora GMAC Investment, Inc. changed its name to Aozora Investments LLC and Aozora Investment, Inc. respectively, on July 27, 2010.

ii. List of agencies of the Bank

Name	Main Address	Other Operations
Tsukuba Bank, Ltd.	2-11-7, Chuo, Tsuchiura City, Ibaraki	Banking

iii. Agent activities operated by the Bank

None.

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	2,243
Other	-
Total	2,243

B) New Establishment of Material Facilities and Other Material Investments

(Unit: JPY million)

Operating Segment	Description	Amount
Banking	Renewal of UPS (Uninterruptible Power Supply) in Fuchu Data Center	606
Banking	Installation of back office system for interest rate derivative products	366
Banking	Renewal of air-conditionner monitoring equipment in Fuchu Data Center	355
Banking	Renewal of central processing unit	211

## (6) Parent company and major subsidiaries

## A) Parent company

(As at March 31, 2011)

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 L.L.C.	Cayman Islands	Investment and services	February 8, 2000	1,148,124,928 US\$	54.97%	—

- (Notes)
1. 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, 2011.
  2. 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.
  3. The Stated Capital above is as of December 31, 2010.

## B) Subsidiaries

(As at March 31, 2011)

Company Name	Location	Principal Business Activities	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 services, banking operations	February 28, 1994	5,437	100.00%	—
Aozora Loan Services Co., Ltd.	13-5, Kudan-kita 1-chome, Chiyoda-ku, Tokyo	Distressed loan servicing	June 18, 1996	500	67.60%	—
Aozora GMAC Investment Limited	London, UK	Investments	November 6, 2006	61,431	100.00%	—
Aozora Investments LLC	Delaware, USA	Investments	November 22, 2006	58,265	—	—
Aozora Securities Co., Ltd.	17-11, Kanda-nishiki machi 3-chome, Chiyoda-ku, Tokyo	Securities services	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 of voting rights held by the Bank are rounded down to two decimal places.
  2. Aozora GMAC Investments LLC changed its name to Aozora Investments LLC on July 27, 2010.

[Principal Business Alliances]

1. The Bank provides a cash withdrawal service through the mutual use of cash dispensers 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, Mizuho Trust & Banking, Shinsei Bank and Shoko Chukin Bank.
2. The Bank has joined with Resona Bank, Saitama Resona Bank, Mizuho Bank, Mitsubishi Tokyo UFJ Bank, Mitsui-Sumitomo Bank, Mizuho Corporate Bank, Japan Net Bank, Seven Bank, eBank, Aeon Bank, Citibank, to provide an account holder confirmation service for cash transfer using cash dispensers.
3. The Bank has cooperated with the Japan Post Bank, and provides an account holder confirmation service for cash transfer using cash dispensers.
4. The Bank has an arrangement with Aozora Securities Co., Ltd. to provide financial intermediary services such as structured notes for corporate customers.
5. In partnership with Mizuho Securities Co. Ltd., the Bank is conducting financial intermediary business for structured notes aimed at retail customers.
6. 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).
7. The Bank formed a comprehensive business alliance with the Bank of Yokohama, Ltd. in the investment banking area on May 24, 2007.
8. The Bank formed a comprehensive business alliance with Toho Bank Ltd. relating to loan business on August 6, 2007.
9. Based on the business tie-up with Sumitomo Trust & Banking Group, concluded on November 20, 2007, the Bank entered a business alliance for the real estate collateralized lending 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.
10. On April 10, 2008, the Bank entered a business partnership with the Royal Bank of Canada in the field of Public Private Partnership.
11. On August 20, 2009, the Bank formed a strategic business partnership with Tsukuba Bank, aiming to expand its customer base in order to enhance competitiveness and profitability. Tsukuba Bank was formed following the conclusion of a merger agreement between Kanto Tsukuba Bank and Ibaraki Bank on March 1, 2010.
12. The Bank formed a comprehensive business alliance with Hokkaido Bank Ltd. in the area of agricultural sector finance on August 26, 2009.
13. The Bank formed a basic agreement for the formation of a strategic business partnership with Kirayaka Bank, Ltd. on February 9, 2011 to take full advantage of their strengths and enhance their responsiveness to various customer needs.

(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, 2011)

Name	Title and Line of Business	Major Concurrent Post	Other
Yuji Shirakawa	Chairman	—	—
Brian F. Prince	President	—	—
Kunimi Tokuoka	Deputy President	—	—
Shinsuke Baba	Deputy President	—	—
James Danforth Quayle	Director (external director)	Chairman, Cerberus Global Investments, LLC	—
Frank W. Bruno	Director (external director)	President and Managing Director, Cerberus Global Investment Advisors, LLC	—
		Senior Managing Director, Cerberus Capital Management, L.P.	—
		Managing Director, MP Finance B.V.	—
Lawrence B. Lindsey	Director (external director)	President and CEO, The Lindsey Group	—
Kiyoshi Tsugawa	Director (external director)	—	—
Marius J. L. Jonkhart	Director (external director)	Managing Director, MP Finance B.V.	—
Lee Millstein	Director	Senior Managing Director, Cerberus Capital Management, L.P	—
		Managing Director, Cerberus Global Investment Advisors, LLC	—
		President, Cerberus European Investments, LLC	—
		Director and President, Cerberus Iberia Advisors, S. L. & C	—
		Director and President, Ursus Alfa S.L.	—
Shunsuke Takeda	Director (external director)	Advisor, ORIX Corporation	—
		Chairman and Representative Executive Officer Daikyo Incorporated	—
Cornelis Maas	Director (external director)	Senior Advisor, Cerberus Global Investment Advisors, LLC	—
		Advisor, Ernst & Young Netherlands N.V.	—
Shinichi Fujihira	Standing Auditor	—	—
Mitch R. Fulscher	Auditor (external auditor)	Non-executive (external) Auditor, Showa Jisho Corporation	Holds US CPA qualification
Akira Tachimoto	Auditor (external auditor)	Representative Partner, HINATA Auditing Firm	Holds CPA qualification

- (Notes) 1. Director Marius J.L. Jonkhart resigned from his position as Managing Director of MP Finance B.V. as of August 23, 2010.  
2. Director Shunsuke Takeda will retire from his position as Chairman and Representative Executive Officer of Daikyo Incorporated on June 23, 2011, due to expiration of his term of office.

(2) Director and Statutory Auditor Remuneration and Benefits

(Unit : JPY million)

Category	Number of Recipients	Remuneration and Benefits
Directors	12	327 (4)
Auditors	4	49 (-)
Total	16	377 (4)

- (Notes)
1. The above includes 1 Auditor retired at the close of the 77<sup>th</sup> Ordinary General Shareholders' Meeting held on June 24, 2010.
  2. In addition to the remuneration above, an insurance premium of 28 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 per year at the 73<sup>rd</sup> Annual General Shareholders' Meeting held on June 23, 2006.
  5. The remuneration ceiling for Auditors was determined as 60 million yen per year at the 73<sup>rd</sup> Annual General Shareholders' Meeting held on June 23, 2006.
  6. The provision for retirement benefit for directors and corporate auditors of 109 million yen for FY2010 is included in the above (97 million yen for directors and 11 million yen for auditors)
  7. Based on the resolution passed at the 77th Ordinary General Shareholders' Meeting held on June 24, 2010, the Bank also paid 29 million yen paid to one Auditor for retirement benefit to Corporate Auditors. Of this amount, 27 million yen was funded by the provisions for retirement benefit for the Auditor. The amount of provisions for each year were included in the remuneration and reported in the Business Reports for the past years. The remaining 2 million yen was included in 'Remuneration and Benefits' in the table above.

### 3. Matters concerning External Directors and Statutory Auditors

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

(As of March 31, 2011)

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	President and Managing Director, Cerberus Global Investment Advisors, LLC	Parent Company related party
	Senior Managing Director, Cerberus Capital Management, L.P.	Parent Company related party
	Managing Director, MP Finance B.V.	Parent Company related party
Lawrence B. Lindsey	President and CEO, The Lindsey Group	—
Marius J. L. Jonkhart	Managing Director, MP Finance B.V.	Parent Company related party
Shunsuke Takeda	Advisor, ORIX Corporation	Customer (loans, etc.)
	Chairman and Representative Executive Officer, Daikyo Incorporated	Customer (loans, etc.)
Cornelis Maas	Senior Advisor, Cerberus Global Investment Advisors, LLC	Parent Company related party
	Advisor, Ernst & Young Netherlands N.V.	—
Mitch R. Fulscher	Non-executive (external) Auditor, Showa Jisho Corporation	Parent Company related party
Akira Tachimoto	Representative Partner, HINATA Auditing Firm	—

- (Notes)
1. Director Marius J.L. Jonkhart resigned from his position as Managing Director of MP Finance B.V. as of August 23, 2010.
  2. Director Shunsuke Takeda will retire from his position as Chairman and Representative Executive Officer of Daikyo Incorporated on June 23, 2011, due to expiration of his term of office.

(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	10y7m	Attended all of 14 Board meetings during the relevant fiscal year	Expressing opinions and making proposals, etc., based on the experience of the former Vice President of the United States and substantial experience, achievements and experiences in executive management
Frank W. Bruno	6y10m	Attended 12 of 14 Board meetings during the relevant fiscal year	Expressing opinions and making proposals, etc., based on substantial knowledge in finance and substantial experience, achievements and experiences in executive management
Lawrence B. Lindsey	6y10m	Attended 7 of 14 Board meetings during the relevant fiscal year	Expressing opinions and making proposals, etc., based on substantial experience, achievements and experiences as economics expert and experience of former Governor of the Federal Reserve Board of the United States, etc.
Kiyoshi Tsugawa	6y10m	Attended 12 of 14 Board meetings during the relevant fiscal year	Expressing opinions and making proposals, etc., based on substantial knowledge in finance and substantial experience, achievements and experiences in executive management of domestic and international financial institutions
Marius J.L. Jonkhart	5y2m	Attended all of 14 Board meetings during the relevant fiscal year	Expressing opinions and making proposals, etc., based on substantial experience, achievements and experiences in executive management of financial institutions and others, as well as experiences of government posts in the Netherlands
Shunsuke Takeda	3y10m	Attended all of 14 Board meetings during the relevant fiscal year	Expressing opinions and making proposals, etc., based on substantial experience, achievements and experiences in executive management of financial institutions and business corporations
Cornelis Maas	2y10m	Attended all of 14 Board meetings during the relevant fiscal year	Expressing opinions and making proposals, etc., based on substantial experience, achievements and experiences in executive management of international financial institution as well as experiences of government posts in the Netherlands.
Mitch R. Fulscher	6y10m	Attended all of 14 Board meetings during the relevant fiscal year Attended all of 17 Board of Statutory Auditors' meetings during the relevant fiscal year	Expressing opinions and making proposals based on substantial experience in auditing firms and insight as a US CPA.
Akira Tachimoto	6y10m	Attended all of 14 Board meetings during the relevant fiscal year Attended all of 17 Board of Statutory Auditors' meetings during the relevant fiscal year	Expressing opinions and making proposals based on substantial experience in auditing firms and insight as a CPA.

### (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	
Lawrence B. Lindsey	
Kiyoshi Tsugawa	
Marius J.L. Jonkhart	
Shunsuke Takeda	
Cornelis Maas	
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	9	67 (-)	- (-)

- (Notes)
1. In addition to the remuneration above, an insurance premium of 17 million yen was paid for Directors and Officers insurance policies during the year.
  2. The numbers in parentheses in the table above describe amounts other than remuneration.
  3. The provision for retirement benefits for directors and corporate auditors of 10 million yen is included for FY2010. (6 million yen for directors and 4 million yen for auditors)

#### 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
	( <i>Koushu</i> preferred)	24,072
	( <i>Heishu</i> preferred)	433,333
Number of Stocks Issued		1,933,018
	(Note: the Number of Stocks Issued includes 155,892,729 Treasury Shares)	
	Common Stock	1,650,147
	Preferred Stock	282,871
	( <i>Koushu</i> preferred)	24,072
	(4th. Preferred)	24,072)
	( <i>Heishu</i> 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		35,134
	Common Stock	35,132
	Preferred Stock	2
	(4th. Preferred)	1)
	(5th. Preferred)	1)

### (3) Major Shareholders

#### 1. Common Stock Holders (Top ten)

(March 31, 2011)

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 L.L.C.	821,469	54.97%
ORIX Trust and Banking Corporation (Trust Account 5200011)	149,974	10.03%
STATE STREET BANK AND TRUST COMPANY	33,079	2.21%
THE CHASE MANHATTAN BANK 385036	29,092	1.94%
Japan Trustee Services Bank, Ltd. (Trust Account)	19,929	1.33%
DEUTSCHE BANK AG LONDON-PB NON-TREATY CLIENTS 613	16,646	1.11%
The Master Trust Bank of Japan, Ltd. (Trust Account)	16,633	1.11%
THE BANK OF NEW YORK, NON-TREATY JASDEC ACCOUNT	12,759	0.85%
GOLDMAN, SACHS & CO. REG	9,491	0.63%
MACQUARIE BANK LIMITED OBU ASIA	9,450	0.63%

- (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 (155,892,729 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, 2011.

#### 2. Preferred Stock Holders

##### A. 4th. Preferred Stock

(March 31, 2011)

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. 4<sup>th</sup> Preferred Stock has no voting rights.

B. 5th. Preferred Stock

(March 31, 2011)

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. 5<sup>th</sup> 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, 2011

None.

(2) The Bank's share warrants or similar instruments issued to employees during this fiscal year.

None.

**6. Matters concerning Independent Accounting Auditors**

(1) Independent Accounting Auditors

(Unit: JPY million)

Name	Fees for This Fiscal Year	Other
Deloitte Touche Tohmatsu LLC Designated Unlimited Liability Partner, Yoshiyuki Higuchi Megumi Yanaga Shuichiro Tsumagari	240	-

(Notes) 1. The amounts in the table above are in million yen and rounded down to the nearest million.

2. For this fiscal year, the aggregate amount of proprietary benefits payable to the independent accounting auditors from the Bank and its subsidiaries is 263 million yen.

3. 'Fees 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. Determination of dismissal or non-reappointment of auditors

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.

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 increasing its dividends to a level that is comparable to that of major domestic banks, while taking into consideration the achievement of the Business Revitalization Plan. For this year, the Bank plans to declare cash dividends 2.0 yen per share 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.

iii. Audit of financial statements of the Bank's major subsidiaries by other auditors than the Bank's auditor

Of the Bank's major subsidiaries, Aozora GMAC Investment Limited is audited by Deloitte LLP (UK), Aozora Asia Pacific Finance Limited is audited by Deloitte Touche Tohmatsu (Hong Kong), AZB CLO 1 Limited, AZB CLO 2 Limited, and AZB CLO 3 Limited are audited by Deloitte & Touche (Ireland).

## **7. Policy towards Parties 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**

#### **(Companies Act Article 362-4-6) (Companies Act 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 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 for all business units, 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 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.
- The Bank establishes the customer protection frameworks by offering more convenient services, by managing customer explanation, customers’ consultations and complaints, customer information, suitability of outsourcing and by preventing conflict of interests.

- The Bank establishes the system to prevent insider trade and unfair transactions using customer information by officers and employees.
- 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, controls and mitigation 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 Board of Directors is responsible for establishing the Business Continuity Plan as a main office, to anticipate possible emergencies including natural disasters and system failures. Chief Executive Officer(CEO) shall be responsible for entire business continuity response in emergency situation like the event of disaster.
- 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 Members of the MC approved and appointed by the Board of Directors from among our Representative Directors and 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 promotes a risk management program throughout the Aozora Group because it is necessary to implement proper disclosures of information on a consolidate basis like restriction of capital adequacy ratios, restriction of large lending and application of arm's length rule.

- 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 compliance incidents 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, 2011

( In millions of yen )

( Assets )		( Liabilities )	
Cash and due from banks	271,963	Deposits	2,777,397
Call loans and bills bought	20,000	Negotiable certificates of deposit	154,940
Receivables under securities borrowing transactions	33,071	Debentures	264,741
Monetary claims bought	61,586	Call money and bills sold	131,787
Trading assets	348,614	Payables under securities lending transactions	221,571
Money held in trust	6,994	Trading liabilities	249,597
Securities	1,335,677	Borrowed money	265,600
Loans and bills discounted	2,729,569	Foreign exchanges	1
Foreign exchanges	46,293	Bonds payable	91,199
Other assets	81,512	Other liabilities	165,261
Tangible fixed assets	23,296	Provision for bonuses	2,274
Buildings	11,306	Provision for retirement benefits	12,979
Land	9,249	Provision for directors' retirement benefits	273
Leased assets	1,715	Reserve for credit losses on off-balance-sheet instruments	775
Other tangible fixed assets	1,025	Deferred tax liabilities	6
Intangible fixed assets	5,757	Acceptances and guarantees	14,777
Software	5,667	<b>Total liabilities</b>	<b>4,353,185</b>
Leased assets	11	<b>( Net assets )</b>	
Other intangible assets	78	Capital stock	419,781
Deferred debenture discounts	58	Capital surplus	33,333
Deferred tax assets	45,559	Retained earnings	132,420
Customers' liabilities for acceptances and guarantees	14,777	Treasury stock	(15,650)
Allowance for loan losses	(100,228)	Shareholders' equity	569,884
Allowance for investment losses	(6,134)	Valuation difference on available-for-sale securities	1,795
		Deferred gains or losses on hedges	2,112
		Foreign currency translation adjustments	(9,334)
		Accumulated other comprehensive income	(5,426)
		Minority interests	727
		<b>Total net assets</b>	<b>565,184</b>
<b>Total assets</b>	<b>4,918,370</b>	<b>Total liabilities and net assets</b>	<b>4,918,370</b>

## Consolidated statements of income

( For the year ended March 31, 2011 )

( In millions of yen )

Ordinary income		126,681
Interest income	75,576	
Interest on loans and discounts	56,698	
Interest and dividends on securities	13,224	
Interest on call loans and bills bought	101	
Interest on receivables under securities borrowing transactions	66	
Interest on deposits with banks	116	
Other interest income	5,369	
Fees and commissions	11,189	
Trading income	9,674	
Other ordinary income	26,571	
Other income	3,669	
Ordinary expenses		97,985
Interest expenses	30,584	
Interest on deposits	22,218	
Interest on negotiable certificates of deposit	213	
Interest on debentures	4,198	
Interest on call money and bills sold	173	
Interest on payables under securities lending transactions	398	
Interest on borrowings and rediscounts	469	
Interest on bonds	1,512	
Other interest expenses	1,401	
Fees and commissions payments	814	
Other ordinary expenses	13,714	
General and administrative expenses	40,850	
Other expenses	12,022	
Provision of allowance for loan losses	3,911	
Other	8,110	
Ordinary profit		28,696
Extraordinary income		1,845
Gain on disposal of noncurrent assets	0	
Recoveries of written-off claims	958	
Reversal of reserve for credit losses on off-balance-sheet instruments	886	
Extraordinary loss		1,099
Loss on disposal of noncurrent assets	171	
Impairment loss	1	
Loss on adjustment for changes of accounting standard for asset retirement obligations	718	
Environmental expenses	208	
Income before income taxes and minority interests		29,442
Income taxes-current	248	
Income taxes-deferred	(3,673)	
Income taxes total		(3,425)
Income before minority interests		32,867
Minority interests in income		73
Net income		32,794

Consolidated statement of changes in net assets

(For the year ended March 31, 2011)

( 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	102,831
Changes of items during the period	
Dividends from surplus	(3,212)
Change of scope of consolidation	6
Net income	32,794
Total changes of items during the period	29,589
Balance at the end of current period	132,420
Treasury stock	
Balance at the end of previous period	(15,650)
Changes of items during the period	
Purchase of treasury stock	(0)
Total changes of items during the period	(0)
Balance at the end of current period	(15,650)
Total shareholders' equity	
Balance at the end of previous period	540,295
Changes of items during the period	
Dividends from surplus	(3,212)
Change of scope of consolidation	6
Net income	32,794
Purchase of treasury stock	(0)
Total changes of items during the period	29,589
Balance at the end of current period	569,884
Accumulated other comprehensive income	
Valuation difference on available-for-sale securities	
Balance at the end of previous period	2,887
Changes of items during the period	
Net changes of items other than shareholders'	(1,092)
Total changes of items during the period	(1,092)
Balance at the end of current period	1,795
Deferred gains or losses on hedges	
Balance at the end of previous period	3,276
Changes of items during the period	
Net changes of items other than shareholders'	(1,164)
Total changes of items during the period	(1,164)
Balance at the end of current period	2,112

( In millions of yen )

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Foreign currency translation adjustment	
Balance at the end of previous period	(8,409)
Changes of items during the period	
Net changes of items other than shareholders'	<u>(924)</u>
Total changes of items during the period	<u>(924)</u>
Balance at the end of current period	<u>(9,334)</u>
Total accumulated other comprehensive income	
Balance at the end of previous period	(2,245)
Changes of items during the period	
Net changes of items other than shareholders'	<u>(3,181)</u>
Total changes of items during the period	<u>(3,181)</u>
Balance at the end of current period	<u>(5,426)</u>
Minority interests	
Balance at the end of previous period	662
Changes of items during the period	
Net changes of items other than shareholders'	<u>64</u>
Total changes of items during the period	<u>64</u>
Balance at the end of current period	<u>727</u>
Total net assets	
Balance at the end of previous period	538,713
Changes of items during the period	
Dividends from surplus	(3,212)
Change of scope of consolidation	6
Net income	32,794
Purchase of treasury stock	(0)
Net changes of items other than shareholders'	<u>(3,117)</u>
Total changes of items during the period	<u>26,471</u>
Balance at the end of current period	<u>565,184</u>

## Principles of consolidation

### (1) Scope of consolidation

#### (a) Consolidated subsidiaries 14

Major subsidiaries:

Aozora Trust Bank, Ltd.  
Aozora Loan Services Co., Ltd.  
AZB CLO 1 Limited  
AZB CLO 2 Limited  
AZB CLO 3 Limited  
Aozora GMAC Investment Limited  
Aozora Investments LLC

Azure Funding Europe S.A. was liquidated and eliminated from the scope of consolidation at fiscal year end. However, the statements of income was consolidated until the end of this fiscal year.

AZURE Funding North America I and AZURE Funding North America II are now in the process of liquidation and eliminated from the scope of consolidation due to decreased materiality. However, the statements of income was consolidated until the end of this fiscal year.

On July 27, 2010, Aozora GMAC Investments LLC and Aozora GMAC Investment, Inc changed their names to Aozora Investments LLC and Aozora Investment, Inc., respectively.

#### (b) Unconsolidated subsidiaries

Major unconsolidated subsidiaries:

AT Investments Corporation

The consolidated financial statements do not include the accounts of unconsolidated subsidiaries because combined total assets, total income, net income (in proportion) and retained earnings (in proportion) 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 using the equity method: none

(b) Affiliated companies accounted for using the equity method: none

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

Major subsidiaries

AT Investments Corporation

(d) Affiliated companies not accounted for using the equity method:

Major affiliated companies:

Vietnam International Leasing, Co., Ltd.

Unconsolidated subsidiaries and affiliated companies not accounted for using the equity method are exempt because the effect on the accompanying consolidated financial statements would not be material with respect to net income (in proportion) and retained earnings (in proportion).

(3) Fiscal year end dates of consolidated subsidiaries

Fiscal year end dates of all consolidated subsidiaries are the same as the consolidated closing date.

(4) Goodwill

Goodwill is fully expensed within the year recorded.

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

The definition of subsidiaries and affiliates are based on Article 2-8 of the Banking Law and Article 4.2 of the Order for Enforcement of the Banking Law.

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 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 follows. The mark-to-market method is applied to 'held-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 to 'held-to-maturity bonds'. The cost method (with moving average cost-base) is applied to 'stocks in subsidiaries and affiliated companies' which are not accounted for using the equity method. The mark-to-market method is applied for securities held for other purposes ('available-for-sale securities', or 'AFS securities') if they have a fair value (with the costs basically calculated on a moving average basis), or the cost method if their fair value is extremely difficult to be determined.

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 latest financial statements or interim financial statements.

The valuation gains or losses from AFS securities are directly booked into shareholders' equity.

(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 valued by the mark-to-market method.

#### (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 on buildings and the declining-balance method on other tangible fixed assets. The main useful lives are as follows:

Buildings:	15~50 years
Other :	5~15 years

Consolidated subsidiaries adopt primarily 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 useful lives (mainly five years) using the straight-line method.

##### (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 the 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 debentures discounts' are amortized using the straight-line method over the life of debentures.

(b) Deferred corporate bond issuance 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.

Loans to borrowers under legal proceedings, such as bankruptcy or liquidation ('bankrupt borrowers'), and to borrowers in similar conditions ('de facto bankrupt borrowers'), except for the collectible amount upon disposition of collateral and guarantees, are deemed irrecoverable and written-off. As of the consolidated balance sheet date, the written off irrecoverable amount totaled JPY 62,353 million.

For loans to borrowers not yet bankrupt but likely to fall into bankruptcy ('in danger of bankruptcy borrowers'), the necessary specific allowance is determined and provided for through an overall assessment of the borrowers' ability to pay, after subtracting the amount collectible on disposal of collateral and guarantees from the loan balance. However, for loans whose future cash flows of principal and interest 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, the general allowance is provided based on the expected 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 allowance is added to that amount based on the expected 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 accordance with the internal ratings rule and the internal self-assessment standard. The front office reviews the internal credit ratings of borrowers in line with the 'borrower categories' on an ongoing basis and the Credit Divisions approve them and the Asset Assessment Division, which is independent of the front office and the credit office, reviews the appropriateness of the internal credit ratings 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 Asset Assessment Division verifies and finalizes the figures.

With regard to the allowance for loan losses of the consolidated subsidiaries, the general allowance is provided for the amount of estimated loan-loss using historical loan-loss data 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 individually estimated.

(7) Allowance for investment loss

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

(8) Provision for bonuses

Provision for bonuses is provided for the payment of bonuses to employees based on estimated amounts of future payments attributable to this period.

(9) Provision for retirement benefits

Provision for retirement benefits is based on accrued actuarial estimates of retirement benefit obligations less accumulated pension assets as of the consolidated balance sheet date.

Prior service cost is amortized using the straight-line method over a certain period of time within the average remaining service period of employees (9 years).

Unrecognized actuarial loss is amortized using the straight-line method over a certain period of time within the average remaining service period of employees (5 years) from the next fiscal year of its incurrence.

(10) Provision for directors' retirement benefits

The estimated amount of retirement benefit that is incurred till 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 provided 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 methodology which is 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 stocks in 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 respective balance sheets dates.

Revenue and expenses of foreign subsidiaries' financial statements are converted into Japanese yen at the average rate over the period. The remaining difference from conversion is reflected in 'Minority interests' and 'Foreign currency translation adjustments'.

(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) Hedging interest rate risk

As regards to 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' (the Japanese Institute of Certified Public Accountants ('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 specifies hedged items such as deposits or lending and hedging instruments such as interest rate swaps and divides them into groups by remaining tenures to maturity, and evaluates the effectiveness of each group.

(b) 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 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 items which are financial assets and liabilities denominated in foreign currencies.

Also, in order to hedge the foreign 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 the 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) Inter-company contracts, etc.

For 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 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 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

(Accounting Standard for Asset Retirement Obligations)

ASBJ has issued 'Accounting Standard for Asset Retirement Obligations (ASBJ Statement No.18, Mar. 31, 2008)' and 'Guidance on Accounting Standard for Asset Retirement Obligations (ASBJ Guidance No.21, Mar. 31, 2008)'. The Bank applies the standard and guidance from FY2010.

As a result, ordinary profit decreased by JPY 122 million and income before income taxes decreased by JPY 856 million, respectively, in comparison to previous treatments. The change in asset retirement obligations due to the application of this accounting standard was JPY 1,509 million.

Change in presentation

(Consolidated balance sheets and statement of changes in net assets)

Beginning in this fiscal year, pursuant to the attached format in the Enforcement Regulations of the Banking Law (Ordinance No. 10 of Ministry of Finance, 1982), revised by 'Cabinet Office Ordinance to Revise a Part of the Enforcement Regulations of the Banking Law (Cabinet Office Ordinance No.5, May 25, 2011)', 'Total Valuation and Translation Adjustments' is presented as 'Accumulated Other Comprehensive Income.'

(Consolidated statements of income)

Beginning in this fiscal year, pursuant to the attached format in the Enforcement Regulations of the Banking Law (Ordinance No. 10 of Ministry of Finance, 1982), revised by 'Cabinet Office Ordinance to Revise a Part of the Enforcement Regulations of the Banking Law (Cabinet Office Ordinance No.10, September 21, 2010)', 'Income before Minority Interests' is presented.

## Notes

(Consolidated balance sheets)

1. Securities include stocks in unconsolidated subsidiaries and affiliated companies, which amount to JPY 5,278 million.
2. No securities were loaned under 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, none of the securities were re-pledged or loaned as second collateral and the Bank still keeps securities of JPY 14,797 million at the consolidated balance sheet date.
3. Loans to bankrupt borrowers total JPY 9,927 million, and past due loans total JPY 84,901 million.  
'Loans to bankrupt borrowers' are loans for which interest in arrears has not been accrued because recovery or settlement of principal or interest is unlikely due to the prolonged delay in payment of principal or interest (which hereafter shall be called 'non-accrual loans') and whose borrowers are legally bankrupt, excluding the amount of write-offs, 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)  
'Past due loans' refer to non-accrual loans except for loans to bankrupt borrowers and loans to companies for which concessions on payment of interest 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 borrowers and past due loans.
5. Restructured loans total JPY 35,189 million.  
'Restructured loans' refer to those loans, excluding loans to bankrupt borrowers, 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 borrowers, past due loans and restructured loans total JPY 130,018 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 financial 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 977 million.
8. The amount of loans recorded as sold under loan participation in accordance with 'Accounting and Presentation of Loan Participation' (JICPA Accounting System Committee Report No.3, June 1, 1995), totals JPY 54,578 million.

9. Pledged assets are as follows:

Pledged assets	
Securities	JPY 549,719 million
Loans and bills discounted	150,500

Liabilities related to the pledged assets

Call money and bills sold	JPY 80,000 million
Payables under securities lending transactions	221,571
Borrowed money	236,000

In addition, cash and due from banks of JPY 22 million, securities of JPY 105,278 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, if there is no breach of contract. Unused amounts within the credit lines of these contracts total JPY 300,330 million, including JPY 201,595 million of less than 1 year duration.
11. Accumulated depreciation of tangible fixed assets totals JPY 23,168 million.
12. Accumulated deferred gains of JPY 798 million on sales of tangible fixed assets are deducted from the acquisition cost of newly acquired tangible fixed assets.
13. Of corporate bonds in 'Securities', the Bank is liable for guarantee obligations of JPY 12,278 million for bonds on the private placement (stipulated in the Financial Instruments and Exchange Law, Article 2, Paragraph 3).
14. Net assets per share is JPY 256.27
15. In addition to fixed assets booked on the consolidated balance sheets, a proportion of computers within the Bank and its subsidiaries are used on finance lease contract without the transfer of ownership.
16. With regard to the pension plan, the Bank adopts a retirement lump-sum grants system and a corporate pension fund system.

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

Retirement benefit obligations	JPY (40,376) million
<u>Pension assets</u>	<u>24,347</u>
Under-provision retirement benefit obligations	(16,028)
Unrecognized actuarial loss	3,237
<u>Unrecognized prior service cost</u>	<u>(188)</u>
Net liability recognized	(12,979)
Provision for retirement benefits	(12,979)

Retirement benefits costs in this period are as follows:

Service cost	JPY 1,300 million
Interest cost	747
Expected investment revenue	(761)
Charge off of actuarial loss	750
<u>Charge off of prior service cost</u>	<u>(188)</u>
Retirement benefits costs	1,848

(Consolidated statements of income)

1. 'Other' in 'Other expenses' include written-off of loans of JPY 5,067 million and devaluation of stocks and other securities of JPY 312 million.
2. Net income per share is JPY 20.49
3. Diluted net income per share is JPY 16.73

(Consolidated statement of changes in net assets)

1. Types and numbers of outstanding stock and treasury stock (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 stock					
Common stock	1,650,147	-	-	1,650,147	
4 <sup>th</sup> Preferred stock	24,072	-	-	24,072	
5 <sup>th</sup> Preferred stock	258,799	-	-	258,799	
Total	1,933,018	-	-	1,933,018	
Treasury stock					
Common stock	155,891	0	-	155,892	(Note)
Total	155,891	0	-	155,892	

(Note) Increase due to buy-in of odd lot shares

2. The Bank's dividends

- (1) The dividends paid during this fiscal year

Resolution	Type of stock	Dividends (million yen)	Dividends per share	Standard date	Effective date
Board meeting held on 2010/5/26	Common stock	1,045	0.70	2010/3/31	2010/6/25
	4 <sup>th</sup> Preferred stock	240	10.00	2010/3/31	2010/6/25
	5 <sup>th</sup> Preferred stock	1,925	7.44	2010/3/31	2010/6/25

- (2) The dividends of which standard date falls in this fiscal year and effective date comes after this fiscal year end

Resolution	Type of stock	Dividends (million yen)	Dividends per share	Standard date	Effective date
Board meeting held on 2011/5/27	Common stock	2,988	2.00	2011/3/31	2011/6/30
	4 <sup>th</sup> Preferred stock	240	10.00	2011/3/31	2011/6/30
	5 <sup>th</sup> Preferred stock	1,925	7.44	2011/3/31	2011/6/30

(Note) The sources of dividends will be retained earnings.

(Financial instruments)

1. Overall situation concerning financial instruments

(1) Basic policy for financial instruments

Main business of the Group is banking operations, which consists of deposit taking, lending, domestic exchange services, foreign exchange services etc. Additionally, the Group pursue securities operation (trading of marketable securities, securities investment etc), and other financial services, such as trust banking operation, loan servicing operation, venture capital business etc. The asset side of the Group mainly consists of financial assets such as loans and securities and the liability side mainly consists of financial liabilities, such as deposits and debentures. Since the major operation of the Group is the handling of financial instruments involving market risk and/or credit risk, it is the basic business policy of the Group to avoid unexpected losses by properly managing various risks relating to financial instruments, and to realize highly reliable and healthy management of the Group by adequately undertaking certain risks within the capacity of the Group and securing reasonable profit well-balanced with the undertaken risks.

Also, the Bank intends to stabilize and optimize profitability, by trying to maintain adequate level for interest rate risks involved in the entire assets and liabilities of the Bank, liquidity risks, and price fluctuation risk of securities etc, based on the philosophy of Asset Liability Management ('ALM', comprehensive management of assets and liabilities). Derivative transactions as well are used, to maintain adequate level for interest rate risk derived from on balance sheet assets and liabilities, and it is intended to realize stable profitability and efficient operation.

(2) Main items of financial instruments and related risks

Financial assets held by the Group are mainly comprised of loans to domestic corporate entities, and both domestic and foreign securities.

Loans are subject to credit risk which means default caused by deteriorated credit of debtor. Loans to the 10 largest borrowers of the Bank accounted for about 12% of the total outstanding balance of loans as of March 31, 2011. A default by any of the large-lot borrowers, or a material change in our relationship with any of them could negatively affect the business results and financial condition of the Group. Also, loans to real estate businesses and loans covered by real estate collateral are material in the loan portfolio of the Group. Therefore, in case the real estate market or the real estate industry itself goes stagnant, the quality of the loans protected by property collateral would deteriorate, or creditworthiness of the borrowers in the industry would be undermined, or the cash flow from the underlying properties of real estate non-recourse loans would be negatively affected. In such cases, the Group might need to provide additional reserves or record additional credit costs. Also, in addition to respective individual credit risk overseas loan exposure is subject to other risks, such as transactional risk related to interest rate fluctuations or forex fluctuations, or risks involved with environmental changes, whether social, political and/or economic

Securities held by the Group primarily consist of debt securities, stocks and funds, which are subject to various risks, such as credit risk of issuer, interest rate fluctuation risk, and market price fluctuation risk. Securities held by the Bank include those backed by such assets as real estate properties, housing loans etc. These securities are exposed to the risks dependent on the economic environment or transaction trend in relation to the underlying assets, in addition to other general risks related to interest rate fluctuations in the market, forex fluctuations, bond price movements, movements of the stock market etc. Also, securities face market liquidity risk. This risk materializes when market liquidity of financial assets becomes almost extinct because of abrupt deterioration in the financial environment, tumultuous movements in the financial markets, etc., resulting in the drastic decline in price at the time of disposition beyond expectations.

Financial liabilities of the Group are mainly deposits, negotiable certificates of deposit and debentures. Since funds procured by the Bank through deposit taking etc will be due one after another, refinancing of the existing liabilities is always necessary through continued deposit taking, or debenture issuance, etc. However, in case the market environment becomes unstable, sufficient funding would become difficult, or more expensive. The Bank is exposed to this risk, or the funding liquidity risk as well.

These financial assets and financial liabilities are subject to interest rate fluctuation risk involved in the mismatch of maturities to changing interest rates. Regarding this risk, from the viewpoint of ALM, interest rate risk amount for the entire balance sheet is ensured to be managed at adequate level, partly by derivatives transactions (interest rate swaps, etc).

Regarding assets denominated in foreign currencies, since funding of the Group is primarily by taking deposits and issuing debentures in Japanese Yen, the Group seeks to avoid forex fluctuation risk through currency matching between the funding side and the asset side, using currency swaps, etc.

Derivatives transactions are one of the primary operations of the Group. The derivative instruments fulfilling our customer's hedge requirement of market risk (interest rate, forex etc) are provided and trading transactions are booked in the Trading Accounts, which seek gains on short-term fluctuations and arbitrage opportunities in interest rates, currency prices, market prices of securities and related indices. Moreover, the Group implements derivatives transactions for the purpose of optimizing ALM, in order to maintain the interest rate risk derived from on balance sheet assets and liabilities at an adequate level.

In terms of overall derivative operations, as interest rate derivatives, interest rate futures, interest rate options, interest rate swaps are exercised and with respect to currency derivatives, currency swaps, forex forwards, currency options are exercised and futures and options related to equities and bonds and credit derivatives transactions are also exercised. These derivatives transactions are exposed to market risk, which implies potential loss from market fluctuations in market price, volatility of underlying interest rates, forex and so forth, and to credit risk, which implies potential loss from contractual default by counterparties.

Concerning derivatives transactions for the purpose of optimizing ALM, such as interest rate swaps, etc., the Bank uses the deferral method of hedge accounting, specifying derivatives as hedging instruments and deposits or loans etc as hedged items, 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). The effectiveness of hedging for the purpose of offsetting market fluctuations is assessed as follows: the Bank specifies hedged items such as deposits or loans and hedging instruments such as interest rate swaps and divides them into groups by remaining tenures to maturity, and evaluates each of the groups.

### (3) Risk management system concerning financial instruments

The Group, while pursuing various operations, is endeavoring to develop and maintain an adequate risk management system, in order to avoid occurrence of unexpected losses, and to realize highly reliable and healthy management of the Group by adequately undertaking certain risks within the capacity of the Group and securing reasonable profit well-balanced with the undertaken risks.

Our basic thoughts for risk management are documented as the internal policies and procedures in the risk management category. Basic rules such as the Master Policy for risk management etc are established by the Board of Directors ('BOD'), and the basic framework of risk management, including capital allocation and risk limits is also determined by the BOD.

Within this framework, the Market Risk Management Division is in charge of market risk, Credit Risk Management Division is in charge of credit risk, and Integrated Risk Management Division is in charge of comprehensive risk and operational risk. Also, the Internal Audit Division is responsible for verification of the appropriateness and effectiveness of the risk management system. The BOD, the Management Committee('MC') and other concerned Committees receive risk situation reports from each risk management function as well as audit reports from the Internal Audit Division, supervising the risk situation based on them or employing the essence thereof for managerial decision, and maintaining/improving the overall risk management system.

(a) Credit risk management

In order to maintain the sound asset portfolio of the entire Group including consolidated subsidiaries, the Group is implementing credit risk management, with the approach both at the transaction level, which entails strict credit screening and ex post facto management of individual transactions, and at the portfolio level focusing on eliminating credit risk concentration. The Group has established a management system, including a credit rating system, quantification of credit risk, management of risk capital, management of concentration risk (real estate risk, large-lot exposure), asset securitization transactions management of problem loans, and so forth. Also, concerning verification of credit ratings, self assessment, and write-offs and reserves, the Asset Assessment Division is in charge of overall control and is responsible for adequately grasping the reality of the asset portfolio and properly implementing write-off/reserve appropriations, in cooperation with other concerned functions.

(i) Approval authority for individual credit undertaking

Credit transactions, comprised mainly of loan transactions, are approved under the authority of the Credit Committee, consisting of Representative Directors, Chief Credit Risk Officer ('CCRO') etc, and credit proposals are discussed at and reported to the Credit Committee. Also, approval authority for investment transactions comprised mainly of equities and fund investments resides with the Investment Committee, consisting of Representative Director, Chief Risk Officer etc, and investment proposals are discussed at reported to the Investment Committee. The approval authority of the Credit Committee or of the Investment Committee is partly delegated. In case of the Credit Committee, it is delegated to the CCRO, and in case of the Investment Committee, it is delegated to the Chief Risk Officer, the other Senior Managing Executive Officers in charge, respectively. (Note that the approval authority delegated to the CCRO is re-delegated to the Credit functions and to Business front office functions to a certain extent.)

(ii) Credit rating system

Credit ratings are an integral component of the approval system for credit assessment, interest rate spread, etc. They are also used to conduct self-assessments and are employed as benchmarks for quantifying credit risks. The credit rating system of the Group is comprised of 'Borrower Rating,' 'Facility Rating,' and 'Structured Finance Rating.' 'Borrower Rating' is given to, in principle, all customers for whom the Group is undertaking credit risk, and this rating is based on the probability of the default of the borrower. 'Facility Rating' is determined taking into account the level of collectability with collateral and guarantees, for each credit facility. Also, as for structured finance transactions, such as real estate non-recourse loans, CMBS(commercial mortgage backed securities), securitization of monetary claims, structured bonds in senior/junior tranches, a 'Structured Finance Rating' is provided for each transaction, by ranking the occurrence of loss. As for the credit rating processes, rating recommendations are given by the respective Business divisions/branches at inception, and then the recommendation is approved by the Credit Divisions. Credit ratings are subject to review on a regular basis based on the updated financial results of each respective borrower, and also it is put subject to as-needed review, whenever there is a symptom of material change of creditworthiness of any borrower.

As for the credit rating given by business divisions/branches and Credit Divisions, the Asset Assessment Division, which is independent of the front office and the credit office reviews the appropriateness on a sampling basis. Also, the Group examines its credit rating system itself through benchmarking (comparative verification of our ratings with those assigned by external agencies or external models) and back-testing (assessment of significance of credit rating based on past default).

(iii) Quantification of credit risk

As for the credit risk exposure, the Group centrally manages all assets with credit risk, irrespective of the type of transaction, including not only loans, securities, equities and fund investments, securitized transactions facilities, but also off-balance sheet transactions such as commitment lines, derivatives transactions or the like. The credit risk amount of our portfolio is measured by Value at Risk (VaR) according to our internal model etc, and the measured result is periodically reported to the BOD etc, together with the credit portfolio situation of the entire Group. The internal model of the Bank employs a holding period of 1 year and a confidence interval of 99.9%. Unexpected Loss (UL) is measured using parameters such as Probability of Default (PD), Loss Given Default (LGD), intra-sector correlation, inter-sector correlation, and parent-subsidiary correlation of the borrower group.

(iv) Credit portfolio management

Concerning credit portfolio management, the Group examines the adequacy of capital through the calculation and analysis of Expected Loss (EL) and Unexpected Loss (UL) anticipating the actual occurrence of stress scenarios, such as rising interest rates, declining real estate prices, etc.

Credit concentration risk is managed by establishing exposure guideline by ratings of borrowers. For the real estate portfolio, the Group establishes additional concentration limits to control such risk.

(b) Market risk management

The Group performs, from various viewpoints, comprehensive analysis and understanding of the market risk affecting all assets and liabilities and off-balance sheet transactions for its trading and banking businesses, in order to manage market risk properly.

(i) Measurement of market risk

The Group uses Value at Risk (VaR) to quantify the market risk for the trading and banking businesses and as a basis for setting market risk limits and for monitoring risk.

The VaR for the linear risk of interest rates, forex and stock prices is calculated with an internal model utilizing the variance-covariance method reflecting a correlation effect among risk factors. The VaR for non-linear risk from options, credit derivatives and fund investments is calculated using the delta-plus method, an internal model based on the past data, and the price volatilities from historical data, respectively. The VaR is based on a 1-day holding period and a 99% confidence interval, observed during the past 2 years. The Group conducts back testing to verify the reliability of VaR by comparing daily computed VaR with daily gains or losses. To complement VaR, the Group regularly conducts stress testing to assess the potential impact of volatile market movements that could exceed statistical estimates. The result of the stress testing is reported to the ALM Committee etc.

(ii) Quantitative information of market risk

1) Financial instruments in the trading account

The VaR of financial instruments (securities, derivatives, etc.) in the trading account of the Bank is JPY 318 million as of March 31, 2011. Market risk in the trading account for consolidated subsidiaries is marginal.

The back testing to the VaR calculated with internal models over the 245 business days from the start of April 2010 to the end of March 2011 represents no day of excess loss beyond VaR. This result supports the reliability of the Bank's internal models with enough accuracy. However the VaR represents the market risks arising with a certain probability using a statistical methodology based on historical market volatilities. It may not be able to capture the risks arising under drastic market movements beyond normal imagination.

2) Financial instruments in the banking account

The main instruments in the Bank which are affected by interest rate risk, the typical risk parameter in the Bank, are "Loans", bonds/notes of "Securities", "Deposits", "Debentures", interest rate swaps & currency swaps of "Derivatives", etc.

The VaR of financial instruments in the banking account of the Bank is JPY 3,722 million as of March 31, 2011. Market risk in the banking account of consolidated subsidiaries is marginal. However the VaR represents the market risks arising with a certain probability using a statistical methodology based on historical market volatilities. It may not be able to capture the risks arising under drastic market movements beyond normal imagination.

(iii) Procedures for market risk management

The Group documents its handling of products under market risk management, risk management methods and market price valuation methods. The compliance with limits of risks and losses, allocated to the front office business units and divisions, is monitored by the Market Risk Management Division, which is independent from the front offices in terms of organization and human resources. The Market Risk Management Division monitors the market risk and profit/loss (P/L) on a daily basis for trading business, and on a daily or weekly basis for banking business, and they report on them directly to the Chief Risk Officer and Executive Officer(s) in charge of front offices. The Market Risk Management Division also makes periodic reports to the ALM Committee, the MC, and the BOD. In the event a large loss is reported, in excess of the max expected loss amount computed in advance, a cause analysis is conducted. Also, the discussion point, which is positioned as cross-section risk management between market risk and credit risk, is set up by asset class, in order to strengthen the monitoring function for price fluctuation risk.

Market liquidity risk is the potential for losses caused by the inability to execute market transactions as a result of market turbulence and thin trading or by the necessity to make transactions at extremely unfavorable prices. Regarding management of market liquidity risk, Market Risk Management Division monitors the Group's position relative to market size in order to ensure that the position does not become excessive.

(c) Funding liquidity risk management

The Financial Management Division centrally manages funding liquidity risk, for both Japanese Yen and foreign currencies. The Financial Management Division also makes the Sources and Uses Plan both annually and monthly, and reports the liquidity status directly to the senior management on a daily basis. It is the intention to maintain a sufficient liquidity buffer in order to prepare for funding liquidity risk and to meet various contractual obligations, by holding an adequate level of marketable securities with high liquidity.

(d) Operational risk management

The Group recognizes operations risk and system risk in handling financial instruments and so forth as operational risk, and manages the risk in a comprehensive manner through unified methods and indicators. Actual loss events already occurred are reported to and gathered by the Integrated Risk Management Division. Potential risks that would lead to actual loss events are identified and assessed through control self assessment etc. Operational risk of the Group is estimated using internal model simulations, based on actual loss events and conceived risk scenarios, and capital shall be allocated to cover the estimated risk within the internal capital allocation system.

(e) Comprehensive risk management

The Group establishes a basic policy on comprehensive risk management. The basic policy 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 procedures which consist of the identification, assessment, monitoring and controls of the target risks. The Group is committed to managing risks in compliance with this basic policy, and is always endeavoring to improve the risk management system. In the framework of comprehensive risk management, the Group attempts to understand credit risk, market risk and operational risk in a comprehensive manner, and ensure to control risks within an allowable scope as compared to the Group's capital through implementation of integrated stress testing, etc., aimed at securing an adequate profit level well-balanced with corresponding risks.

(4) Supplement explanation for fair value of financial instruments

Fair value of financial instruments includes market prices as well as reasonably calculated prices in cases where there are no market prices available. Since the calculations of the latter prices are implemented under certain conditions and assumptions, the result of calculations could differ if calculations are made under different conditions and assumptions.

## 2. Fair value of financial instruments

B/S values, fair values and their differences of financial instruments as of March 31, 2011 are shown below. Accounts that have little materiality on the consolidated balance sheets are not included in the next table. Some instruments, such as unlisted stocks, whose fair value is extremely difficult to be determined, are not included in the table below (see note 2).

	B/S value (million yen)	Fair value (million yen)	Difference (million yen)
(1) Cash and due from banks	271,963	271,963	-
(2) Call loans and bills bought	20,000	20,000	-
(3) Receivables under securities borrowing transactions	33,071	33,071	-
(4) Monetary claims bought (*1)	61,391	65,958	4,567
(5) Trading assets			
Held-for-trading securities	42,204	42,204	-
(6) Money held in trust	6,994	7,384	389
(7) Securities			
Held-to-maturity bonds	29	30	0
Available-for-sale securities (*2)	1,230,656	1,230,656	-
(8) Loans and bills discounted	2,729,569		
Allowance for loan losses (*1)	(90,444)		
	2,639,124	2,686,190	47,065
<b>Assets total</b>	<b>4,305,436</b>	<b>4,357,458</b>	<b>52,022</b>
(1) Deposits	2,777,397	2,803,674	26,276
(2) Negotiable certificates of deposit	154,940	154,940	-
(3) Debentures	264,741	265,153	412
(4) Call money and bills sold	131,787	131,787	-
(5) Payables under securities lending transactions	221,571	221,571	-
(6) Borrowed money	265,600	266,148	548
(7) Bonds payable	91,199	91,239	39
(8) Other liabilities			
Borrowed securities related to trading transactions	22,616	22,616	-
<b>Liabilities total</b>	<b>3,929,854</b>	<b>3,957,132</b>	<b>27,278</b>
Derivatives (*3)			
For which hedge accountings are not applied	29,665	29,665	-
For which hedge accountings are applied	29,341	29,341	-
<b>Derivatives total</b>	<b>59,007</b>	<b>59,007</b>	<b>-</b>

(\*1) General allowance for loan losses and specific allowance for loan losses provided to 'Loans and bills discounted' are separately described in the above table. Allowance for loan losses provided to 'Monetary claims bought' is directly deducted from the B/S value due to immateriality.

(\*2) B/S values, fair values and their differences do not include investment in partnerships (ie. monetary claims etc. whose fair value are available, as composing assets). As for the investment in partnerships, the B/S value was JPY 29,297 million, and the fair value was JPY 34,755 million, which was determined as our share of the present value of estimated future cash flows or estimated collectable amount of collaterals or guarantees. The difference between the fair value and the B/S value was JPY 5,457million.

(\*3) Derivatives recorded in 'Trading assets', 'Trading liabilities', 'Other assets' and 'Other liabilities' are included and shown in total. Respective net credits or liabilities attributable to the derivative contracts are totally offset and the items in net liabilities in the consequence of offsetting would be represented with brackets.

(Notes)

#### 1. Valuation method of financial instruments

(Assets)

(1) Cash and due from banks, (2) Call loans and bills bought, and (3) Receivables under securities borrowing transactions

Since these instruments are paid on demand, or cancellable by short notice, or with short maturities, the fair value of these instruments is approximately equal to the book value. Therefore, the book value of these instruments is deemed as the fair value

(4) Monetary claims bought

The fair value of trust beneficiary rights, recorded as monetary claims bought, which meet the criteria of securities under accounting treatment, is measured using the same method as described in (7) Securities below.

The fair value of monetary claims bought other than the above is calculated using the same method as described in (8) Loans and bills discounted below.

(5) Trading assets

The fair value of trading securities, mainly bonds, are determined using market price at exchange, or market price announced by certain industry associations or published by information vendors.

(6) Money held in trust

Securities included in trust on behalf of the Group are valued using the same method as described in (7) Securities below. Monetary claims included in trust on behalf of the Group are calculated using the same method as described in (8) Loans and bills discounted below.

In addition, note information concerning money held in trust classified by holding purposes is described in the 'Money held in trust' part shown below.

(7) Securities

Stocks are valued at market price at exchange. Bonds that have a market price announced by certain industry associations or published by information vendors are valued at those prices, in principle. However, floating rate Japanese Government Bonds ('the Floating Rate JGBs') are valued as shown below. Bonds that do not have a market price announced by certain industry associations or published by information vendors are, calculated using the same method as described in (8) Loans and bills discounted below or valued at price provided by brokers or dealers. Investment trust funds are valued at price provided by the management company of each fund. Investment in partnerships are valued in accordance with the above method or using the same method as described in (8) Loans and bills discounted below, depending on the type of assets which consists of a partnership.

Floating Rate JGBs were stated at the value reasonably estimated on the basis of internal calculations in consideration of Practical Issues Task Force No. 25, 'Practical Solution on Measurement of Fair Value for Financial Assets' issued on October 28, 2008 by ASBJ. As a result, in comparison to the valuation based on market price, 'Securities' increased by JPY 7,476 million, 'Deferred tax assets' decreased by JPY 3,042 million and 'Valuation difference on available-for-sale securities' increased by JPY 4,434 million as of March 31, 2011, respectively.

The value reasonably estimated for the Floating Rate JGBs was calculated by discounting the estimated future cash flow at the rate derived from yields of Japanese national government bonds. The yields of Japanese national government bonds and volatility are major variables in pricing.

In addition, note informations concerning securities classified by intent to hold are described in the 'Securities' part shown below.

#### (8) Loans and bills discounted

Fair value of loans and bills discounted are determined as present value of estimated future cash flows, discounted by market interest rates, less accrued interest. The estimated future cash flows are calculated by adjusting contractual payment of principal and interest with credit and other considerable risks, which are reflected mainly through PD and LGD. PD is based on internal credit ratings and LGD is based on situations of back assets and coverage. Concerning compound financial instruments to which bifurcation accounting is applied, the contractual payments of principal and interest for the calculations are modified to the cash flows where embedded derivatives are bifurcated under bifurcation accounting.

As for loans to 'Legally bankrupt' borrowers, 'De facto bankrupt' borrowers and 'In danger of bankruptcy' borrowers, the collectable amount through the disposal of collaterals or guarantees, or present value of estimated future cash flows, etc. are deemed as fair value.

As for loans with no maturity due to the feature that the amount of loans are limited within the collateral amount, and loans with neither concern of collectability nor materiality, book value of these loans is deemed as fair value.

#### (Liabilities)

##### (1) Deposits excluding negotiable certificates of deposit

Fair value of deposits on demand is deemed as payment amount if demanded on the consolidated balance sheet date i.e. book value. Fair value of time deposits is determined as present value of contractual payments of principal and interest less accrued interest. The discount rate is the market interest rates, adjusted with average funding spreads of the Bank observed within a specified period proceeding to the consolidated balance sheet date. Concerning the compound financial instruments to which bifurcation accounting is applied, contractual payments of principal and interest for the calculations are modified to the cash flows where embedded derivatives are bifurcated under bifurcation accounting.

##### (2) Negotiable certificates of deposit

Since the contract period is short, the fair value is approximately equal to the book value. Therefore, the book value is deemed as the fair value.

### (3) Debentures

Debentures that have a market price announced by certain industry associations or published by information vendors, are valued at those prices. Of debentures that do not have a market price announced by certain industry associations or published by information vendors, fair value of those with short maturities is approximately equal to the book value, therefore, the book value is deemed as the fair value. On the other hand, fair value of debentures other than the above is calculated using the same method as for time deposits described in (1) Deposits above.

### (4) Call money and bills sold, and (5) Payables under securities lending transactions

Since the contract period is short, the fair value is approximately equal to the book value. Therefore, the book value is deemed as the fair value.

### (6) Borrowed money

As for the borrowed money from the Bank of Japan, since the contract period is short, the fair value is approximately equal to the book value. Therefore, the book value is deemed as the fair value.

Fair value of other borrowed money is calculated using the same method as for time deposits described in (1) Deposits above. Concerning the compound financial instruments to which bifurcation accounting is applied, the contractual payments of principal and interest for the calculations are modified to the cash flows where embedded derivatives are bifurcated under bifurcation accounting.

### (7) Bonds payable

Fair value is calculated using the market price announced by certain industry associations or published by information vendors.

### (8) Other liabilities

Fair value of borrowed securities related to trading transactions is calculated using the market price announced by certain industry associations or published by information vendors.

### (Derivatives)

Derivatives included interest rate related instruments (interest rate futures, interest rate options, interest rate swaps, etc), currency related instruments (forex forwards, currency options, currency swaps, etc), equity related instruments (stock index futures, stock index options, etc), bonds related instruments (bonds futures, bonds future options, etc), commodity related instruments (commodity swaps, etc), and credit related instruments (credit default swaps, etc). Fair values of these derivatives are based on the market prices at exchange, or discounted present values, or calculated values using an option pricing model, etc.

2. Financial instruments whose fair value is extremely difficult to be determined are shown below. These instruments are not included in 'Asset (7) Securities' or 'Derivatives' in the above table showing fair value of financial instruments.

	B/S value (million yen)
(1) Unlisted stocks, etc. (*1)(*3)	37,949
(2) Investment in partnerships (*2)	37,743
Total	75,693

(\*1) Fair value of unlisted stocks, etc is exempt from disclosure because they do not have market price and their fair value is deemed as extremely difficult to be determined.

(\*2) Fair value of investment in partnerships, comprised of assets whose fair value is deemed as extremely difficult to be determined, such as unlisted stocks, is exempt from disclosure.

(\*3) The Bank wrote off unlisted stocks, etc by JPY 311 million.

(\*4) Other than the above, the Bank conducts a total return swap transaction whose contract amount is JPY 18,000 million. This instrument, a form of derivative transaction, transfers all risks and returns of an unlisted stock owned by the Bank. Fair value of this transaction is exempt from disclosure because the fair value is deemed as extremely difficult to be determined.

3. Maturity analysis for claims and securities with contractual maturities (As of March 31, 2011)

(Unit: million yen)

	Less than 1 year	1-3 years	3-5 years	5-7 years	7-10 years	Over 10 years
Due from banks	259,081	-	-	-	-	-
Calls loans and bills bought	20,000	-	-	-	-	-
Receivables under securities borrowing transactions	33,071	-	-	-	-	-
Monetary claims bought (*1)	12,398	10,811	3,412	595	-	1,063
Securities						
Held-to-maturity bonds	-	29	-	-	-	-
Available-for-sale securities with fixed maturity	68,366	189,611	422,227	52,578	223,331	140,779
Loans and bills discounted (*2)	1,602,013	734,317	230,834	31,685	25,227	10,416
Total	1,994,930	934,769	656,474	84,859	248,559	152,259

(\*1) Of monetary claims bought, the portion whose timing of collection is unforeseeable, such as loans to bankrupt borrowers, loans to de facto bankrupt borrowers and loans to in danger of bankruptcy borrowers, amounted to JPY 33,303 million, and is not included in the table.

(\*2) Of loans and bills discounted, the portion whose timing of collection is unforeseeable, such as loans to bankrupt borrowers, loans to de facto bankrupt borrowers and loans to in danger of bankruptcy borrowers, amounted to JPY 94,828 million, are not included in the table. Loans that do not have fixed maturity, amounted to JPY 247 million, and are not included as well.

4. Maturity analysis for interest bearing liabilities (As of March 31, 2011)

(Unit: million yen)

	Less than 1 year	1-3 years	3-5 years	5-7 years	7-10 years	Over 10 years
Deposits (*1)	1,460,305	699,082	295,992	101,737	220,280	-
Negotiable certificates of deposit	154,940	-	-	-	-	-
Debentures	111,717	149,267	3,755	0	-	-
Call money and bills sold	131,787	-	-	-	-	-
Payables under securities lending transactions	221,571	-	-	-	-	-
Borrowed money	244,100	9,500	3,000	2,500	6,500	-
Bonds payable	91,199	-	-	-	-	-
<b>Total</b>	<b>2,415,621</b>	<b>857,849</b>	<b>302,748</b>	<b>104,237</b>	<b>226,780</b>	<b>-</b>

(\*1) Deposits on demand (current deposit, ordinary deposit and deposit at notice) are included in 'less than 1 year'.

(Securities)

Securities include 'Securities', trading securities and securities related to trading transactions classified as 'Trading assets' and a part of trust beneficiary rights classified as 'Monetary claims bought'.

1. Held-for-trading securities (As of March 31, 2011)

	Unrealized gains and losses included in the current P/L (million yen)
Held-for-trading securities	54

2. Held-to-maturity bonds (As of March 31, 2011)

	Type	B/S value (million yen)	Fair value (million yen)	Difference (million yen)
Fair value exceeding B/S value	Bonds	29	30	0
	Government bonds	29	30	0
	<b>Total</b>	<b>29</b>	<b>30</b>	<b>0</b>

3. Available-for-sale securities (As of March 31, 2011)

Breakdowns of available-for-sale securities that have fair value are as follows.

	Type	B/S value (million yen)	Cost (million yen)	Difference (million yen)
B/S value exceeding cost	Stocks	187	128	59
	Bonds	301,948	294,361	7,587
	Government bonds	264,730	257,737	6,992
	Local government bonds	2,404	2,335	68
	Corporate bonds	34,813	34,288	525
	Others	71,261	66,895	4,365
	Foreign bonds	45,595	44,900	694
	Others	25,666	21,995	3,671
	Subtotal	373,397	361,384	12,012
B/S value not exceeding cost	Stocks	825	1,048	(223)
	Bonds	460,594	462,619	(2,024)
	Government bonds	412,295	413,582	(1,286)
	Local government bonds	7,918	8,002	(84)
	Corporate bonds	40,380	41,033	(653)
	Others	415,931	423,492	(7,561)
	Foreign bonds	294,781	299,291	(4,510)
	Others	121,149	124,200	(3,050)
	Subtotal	877,351	887,160	(9,808)
Total		1,250,749	1,248,545	2,204

4. Held-to-maturity bonds sold during this fiscal year (from April 1, 2010 to March 31, 2011)

None

5. Available-for-sale securities sold during this fiscal year (from April 1, 2010 to March 31, 2011)

	Proceeds (million yen)	Gains on sale (million yen)	Losses on sale (million yen)
Stocks	127	0	1
Bonds	979,535	6,982	406
Government bonds	967,413	6,883	403
Local government bonds	5,146	54	3
Corporate bonds	6,975	44	-
Others	528,438	7,641	1,654
Foreign bonds	519,398	6,482	1,531
Others	9,040	1,158	123
Total	1,508,102	14,624	2,062

6. Change in holding purpose of securities

None

7. Impairment of securities

All types of securities with fair value, other than those held for trading, are written down if a substantial decline in the fair value of such securities is deemed to be significant and other than temporary, subject to impairment criteria with respect to the borrower's category for the issuer of securities, unless there is strong evidence that the fair value will recover quickly and substantially.

In this fiscal year, the Bank wrote off securities in the amount of JPY 4,949 million (monetary claims bought of JPY 4,772 million and foreign bonds of JPY 177 million).

If fair value declines more than 50% from the acquisition cost or amortized cost, the Bank generally deems the decline to be significant and other than temporary. However, based on the borrower's category for the issuer of securities, the following criteria determine whether or not the fair value decline is significant under the internal standards for write-offs and reserves:

'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'.

In addition, for marketable available-for-sale securities which are planned to be sold off, unrealized loss of JPY 86 million are charged to losses.

(Money held in trust)

1. Money held in trust for investment purpose (As of March 31, 2011)

	B/S value (million yen)	Unrealized gains and losses included in the current P/L (million yen)
Money held in trust for investment purpose	4,423	-

2. Money held in trust for held-to maturity purpose (As of March 31, 2011)

None

3. Other money held in trust (other than held-to-maturity and held-for-trading) (As of March 31, 2011)

	B/S value (million yen)	Cost (million yen)	Difference (million yen)	Exceeding cost (million yen)	Not exceeding cost (million yen)
Available-for-sale money held in trust	2,571	1,745	826	826	-

(Note) 'Exceeding cost' and 'Not exceeding cost' are breakdowns of 'Difference'.

Non-consolidated balance sheets as of March 31, 2011

(In millions of yen)

( Assets )		( Liabilities )	
Cash and due from banks	<b>263,354</b>	Deposits	<b>2,787,919</b>
Cash	12,706	Current deposits	36,799
Due from banks	250,648	Ordinary deposits	309,307
Call loans	<b>20,000</b>	Deposits at notice	4,845
Receivables under securities borrowing transactions	<b>33,071</b>	Time deposits	2,413,871
Monetary claims bought	<b>34,341</b>	Other deposits	23,094
Trading assets	<b>347,108</b>	Negotiable certificates of deposit	<b>154,940</b>
Securities related to trading transactions	40,698	Debentures	<b>264,741</b>
Derivatives of securities related to trading transactions	25	Debentures	264,741
Trading-related financial derivatives	306,384	Call money	<b>131,787</b>
Money held in trust	<b>5,579</b>	Payables under securities lending transactions	<b>221,571</b>
Securities	<b>1,378,138</b>	Trading liabilities	<b>249,597</b>
Government bonds	676,726	Derivatives of securities related to trading transactions	19
Local government bonds	10,323	Trading-related financial derivatives	249,578
Corporate bonds	69,765	Borrowed money	<b>265,600</b>
Stocks	37,841	Borrowings from other banks	265,600
Other securities	583,482	Foreign exchanges	<b>1</b>
Loans and bills discounted	<b>2,738,610</b>	Due to foreign banks (their accounts)	1
Bills discounted	977	Bonds payable	<b>91,199</b>
Loans on bills	86,616	Other liabilities	<b>164,871</b>
Loans on deeds	2,502,943	Income taxes payable	356
Overdrafts	148,073	Accrued expenses	26,379
Foreign exchanges	<b>46,293</b>	Unearned revenue	724
Due from foreign banks (our accounts)	46,293	Variation margins of futures markets	19
Other assets	<b>81,065</b>	Borrowed securities related to trading transactions	22,616
Prepaid expenses	429	Derivatives other than for trading-liabilities	29,839
Accrued income	8,830	Lease liabilities	956
Derivatives other than for trading	32,034	Asset retirement obligations	1,492
Other	39,771	Other	82,486
Tangible fixed assets	<b>23,236</b>	Provision for bonuses	<b>2,226</b>
Buildings	11,268	Provision for retirement benefits	<b>12,948</b>
Land	9,249	Provision for directors' retirement benefits	<b>253</b>
Leased assets	1,715	Reserve for credit losses on off-balance-sheet instruments	<b>1,131</b>
Other tangible fixed assets	1,003	Acceptances and guarantees	<b>14,553</b>
Intangible fixed assets	<b>6,056</b>		
Software	5,968	Total liabilities	<b>4,363,343</b>
Leased assets	11	(Net assets)	
Other intangible assets	75	Capital stock	<b>419,781</b>
Deferred debenture discounts	<b>58</b>	Capital surplus	<b>33,333</b>
Debenture issuance cost	58	Legal capital surplus	33,333
Deferred tax assets	<b>44,701</b>	Retained earnings	<b>123,899</b>
Customers' liabilities for acceptances and guarantees	<b>14,553</b>	Legal retained earnings	8,529
Allowance for loan losses	<b>(98,772)</b>	Other retained earnings	115,370
Allowance for investment losses	<b>(8,762)</b>	Retained earnings brought forward	115,370
		Treasury stock	<b>(15,650)</b>
		Shareholders' equity	<b>561,363</b>
		Valuation difference on available-for-sale securities	<b>1,813</b>
		Deferred gains or losses on hedges	<b>2,112</b>
		Valuation and translation adjustments	<b>3,925</b>
		Total net assets	<b>565,289</b>
Total assets	<b>4,928,632</b>	Total liabilities and net assets	<b>4,928,632</b>

Non-consolidated statements of income (for the year ended March 31, 2011)

(In millions of yen)

Ordinary income		124,277
Interest income	74,768	
Interest on loans and discounts	56,056	
Interest and dividends on securities	13,082	
Interest on call loans	101	
Interest on receivable under securities borrowing transactions	66	
Interest on deposits with banks	92	
Interest on interest swaps	3,934	
Other interest income	1,435	
Fees and commissions	10,963	
Fees and commissions on domestic and foreign exchanges	224	
Other fees and commissions	10,739	
Trading income	9,118	
Income from securities and derivatives related to trading transactions	183	
Income from trading-related financial derivatives transactions	8,935	
Other ordinary income	24,858	
Gains on sales of bonds	17,337	
Gains on redemption of bonds	411	
Income from derivatives other than for trading or hedging	424	
Other	6,685	
Other income	4,567	
Gain on sales of stocks and other securities	167	
Gain on money held in trust	370	
Other	4,029	
Ordinary expenses		96,260
Interest expenses	30,585	
Interest on deposits	22,219	
Interest on negotiable certificates of deposit	213	
Interest on debentures	4,198	
Interest on call money	173	
Interest on payables under securities lending transactions	398	
Interest on borrowings and rediscounts	469	
Interest on bonds	1,512	
Interest on interest swaps	1,360	
Other interest expenses	40	
Fees and commissions payments	872	
Fees and commissions on domestic and foreign exchanges	127	
Other fees and commissions	744	
Other ordinary expenses	15,068	
Loss on foreign exchange transactions	3,154	
Loss on sales of bonds	1,970	
Loss on devaluation of bonds	4,949	
Amortization of debenture issuance cost	64	
Amortization of bond issuance cost	70	
Other	4,858	
General and administrative expenses	38,499	
Other expenses	11,233	
Provision of allowance for loan losses	3,057	
Written-off of loans	2,791	
Losses on sales of stocks and other securities	125	
Losses on devaluation of stocks and other securities	313	
Other	4,943	
Ordinary profit		28,017
Extraordinary income		1,712
Gain on disposal of noncurrent assets	0	
Recoveries of written-off claims	828	
Reversal of reserve for credit losses on off-balance-sheet instruments	884	
Extraordinary loss		1,082
Loss on disposal of noncurrent assets	170	
Loss on adjustment for changes of accounting standard for asset retirement obligations	702	
Environmental expenses	208	
Income before income taxes		28,647
Income taxes-current	45	
Income taxes-deferred	(3,223)	
Income taxes-total		(3,177)
Net income		31,825

Non-consolidated statement of changes in net assets (for the year ended March 31, 2011)

(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	<u>419,781</u>
Capital surplus	
Legal capital surplus	
Balance at the end of previous period	33,333
Balance at the end of current period	<u>33,333</u>
Total capital surplus	
Balance at the end of previous period	33,333
Balance at the end of current period	<u>33,333</u>
Retained earnings	
Legal retained earnings	
Balance at the end of previous period	7,886
Changes of items during the period	
Dividends from surplus	642
Total changes of items during the period	<u>642</u>
Balance at the end of current period	<u>8,529</u>
Other retained earnings	
Retained earnings brought forward	
Balance at the end of previous period	87,399
Changes of items during the period	
Dividends from surplus	(3,854)
Net income	31,825
Total changes of items during the period	<u>27,971</u>
Balance at the end of current period	<u>115,370</u>
Total retained earnings	
Balance at the end of previous period	95,286
Changes of items during the period	
Dividends from surplus	(3,212)
Net income	31,825
Total changes of items during the period	<u>28,613</u>
Balance at the end of current period	<u>123,899</u>
Treasury stock	
Balance at the end of previous period	(15,650)
Changes of items during the period	
Purchase of treasury stock	<u>(0)</u>
Total changes of items during the period	<u>(0)</u>
Balance at the end of current period	<u>(15,650)</u>

(In millions of yen)

Account name	Amount
Total shareholders' equity	
Balance at the end of previous period	532,750
Changes of items during the period	
Dividends from surplus	(3,212)
Net income	31,825
Purchase of treasury stock	(0)
Total changes of items during the period	<u>28,613</u>
Balance at the end of current period	<u>561,363</u>
Valuation and translation adjustments	
Valuation difference on available-for-sale securities	
Balance at the end of previous period	2,864
Changes of items during the period	
Net changes of items other than shareholders' equity	(1,050)
Total changes of items during the period	<u>(1,050)</u>
Balance at the end of current period	<u>1,813</u>
Deferred gains or losses on hedges	
Balance at the end of previous period	3,276
Changes of items during the period	
Net changes of items other than shareholders' equity	(1,164)
Total changes of items during the period	<u>(1,164)</u>
Balance at the end of current period	<u>2,112</u>
Total valuation and translation adjustments	
Balance at the end of previous period	6,140
Changes of items during the period	
Net changes of items other than shareholders' equity	(2,214)
Total changes of items during the period	<u>(2,214)</u>
Balance at the end of current period	<u>3,925</u>
Total net assets	
Balance at the end of previous period	538,890
Changes of items during the period	
Dividends from surplus	(3,212)
Net income	31,825
Purchase of treasury stock	(0)
Net changes of items other than shareholders' equity	(2,214)
Total changes of items during the period	<u>26,398</u>
Balance at the end of current period	<u>565,289</u>

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 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 statements 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 as follows. The mark-to-market method is applied to 'held-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 to 'held-to-maturity bonds'. The cost method (with moving average cost-base) is applied to 'stocks in subsidiaries and affiliated companies'. The mark-to-market method is applied for securities held for other purposes ('available-for-sale securities', or 'AFS securities') if they have a fair value (with the costs basically calculated on a moving average basis), or the cost method if their fair value is extremely difficult to be determined.

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 latest financial statements or interim financial statements.

The valuation gains or losses from AFS securities are directly booked into shareholders' equity.

#### (Additional information)

Floating rate JGBs were valued based on the reasonably calculated price in consideration of 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 ('ASBJ'). As a result, in comparison to the values based on the market price, 'Government bonds' increased by JPY 7,476 million, 'Deferred tax assets' decreased by JPY 3,042 million and 'Valuation difference on available-for-sale securities' increased by JPY 4,434 million as of March 31, 2011.

The reasonably calculated price for floating rate JGBs was calculated by discounting the estimated future cash flows at the rates derived from JGB yields. The JGB yields 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 valued by the mark-to-market method.

### 4. Depreciation of fixed assets

#### (1) Tangible fixed assets (except lease assets)

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

The main useful lives are as follows:

Buildings: 15~50 years  
Other : 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 useful lives (mainly five years), using the straight-line method.

(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 the 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 debentures discounts' are amortized using the straight-line method over the life of debentures.
- (2) 'Deferred corporate bond issuance 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 translated into Japanese yen at the exchange rates prevailing at the balance sheet date except for stocks in subsidiaries and affiliated companies which are converted at historical rates.

7. Reserves

(1) 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.

Loans to borrowers under legal proceedings, such as bankruptcy or liquidation ('bankrupt borrowers'), and to borrowers in similar conditions ('de facto bankrupt borrowers'), except for the collectible amount upon disposition of collateral and guarantees, are deemed irrecoverable and written-off. As of the balance sheets date, the written-off irrecoverable amount totaled JPY 56,955 million.

For loans to borrowers not yet bankrupt but likely to fall into bankruptcy ('in danger of bankruptcy borrowers'), the necessary specific allowance is determined and provided for though an overall assessment of the borrowers' ability to pay, after subtracting the amount collectible on disposal of collateral and guarantees from the loan balance. However, for loans whose future cash flows of principal and interest 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, the general allowance is provided based on the expected 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 allowance is added to that amount based on the expected 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 accordance with the internal ratings rule and the internal self-assessment standard. The front office reviews the internal credit ratings of borrowers in line with the 'borrower categories' on an ongoing basis and the Credit Divisions approve them and the Asset Assessment Division, which is independent of the front office and the credit office, reviews the appropriateness of the internal credit ratings 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 Asset Assessment Division verifies and finalizes the figures.

(2) Allowance for investment loss

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

(3) Provision for bonuses

Provision for bonuses is provided for the payment of bonuses to employees based on estimated amounts of future payments attributable to this period.

(4) Provision for retirement benefits

Provision for retirement benefits is based on accrued actuarial estimates of retirement benefit obligations less accumulated pension assets as of the balance sheet date.

Prior service cost is amortized using the straight-line method over a certain period of time within the average remaining service period of employees (9 years).

Unrecognized actuarial loss is amortized using the straight-line method over a certain period of time within the average remaining service period of employees (5 years) from the next fiscal year of its incurrence.

(5) Provision for directors' retirement benefits

The estimated amount of retirement benefit that is incurred till 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 provided 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 methodology which is 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

As regards to 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' (the Japanese Institute of Certified Public Accountants ('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 specifies hedged items such as deposits or lending and hedging instruments such as interest rate swaps and divides them into groups by remaining tenures to maturity, and evaluates the effectiveness of each group.

### (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 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 items which are financial assets and liabilities denominated in foreign currencies.

Also, in order to hedge the foreign 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 the 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 which are 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 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 swap transactions, and instead recognizes or defers gain and loss.

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

## Change in accounting policy

### 'Accounting Standard for Asset Retirement Obligations'

ASBJ has issued 'Accounting Standard for Asset Retirement Obligations (ASBJ Statement No.18, Mar. 31, 2008)' and 'Guidance on Accounting Standard for Asset Retirement Obligations (ASBJ Guidance No.21, Mar. 31, 2008)'. The Bank applies the standard and guidance from FY2010.

As a result, ordinary profit decreased by JPY 120 million and income before income taxes decreased by JPY 837 million, respectively, in comparison to previous treatments. The change in asset retirement obligations due to the application of this accounting standard was JPY 1,469 million.

## Notes

(Balance sheets)

1. Stocks (or investments) in subsidiaries and affiliated companies total JPY 30,492 million.
2. No securities were loaned under 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, none of the securities were re-pledged or loaned as second collateral and the Bank still keeps securities of JPY14,797 million at the balance sheet date.

3. Loans to bankrupt borrowers total JPY 9,927 million, and past due loans total JPY 81,616 million.

'Loans to bankrupt borrowers' are loans for which interest in arrears has not been accrued because recovery or settlement of principal or interest is unlikely due to the prolonged delay in payment of principal or interest (which hereafter shall be called 'non-accrual loans') and whose borrowers are legally bankrupt, excluding the amount of write-offs, 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)

'Past due loans' refers to non-accrual loans except for loans to bankrupt borrowers 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 borrowers and past due loans.

5. Restructured loans total JPY 35,189 million.

'Restructured loans' refer to those loans, excluding loans to bankrupt borrowers, past due loans and loans overdue for 3 months or more, for which agreement was reached to provide 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 borrowers, past due loans and restructured loans total JPY 126,733 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 financial 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 977 million.
8. The amount of loans recorded as sold under loan participation in accordance with 'Accounting and Presentation of Loan Participation' (JICPA Accounting System Committee Report No.3, June 1, 1995), totals JPY 54,578 million.

9. Pledged assets are as follows:

Pledged assets	
Securities	JPY 549,719million
Loans and bills discounted	150,500
Liabilities related to the pledged assets	
Call money	JPY 80,000 million
Payables under securities lending transactions	221,571
Borrowed money	236,000

In addition, cash and due from banks of JPY 22 million and securities of JPY 105,248 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, if there is no breach of contract. Unused amounts within the credit lines of these contracts total JPY 335,552 million, including JPY 238,344 million of less than 1 year duration.
11. Accumulated depreciation of tangible fixed assets totals JPY 22,931 million.
12. Accumulated deferred gains of JPY 798 million on sales of tangible fixed assets are deducted from the acquisition cost of newly acquired tangible fixed assets.
13. Of 'Corporate bonds' in 'Securities' the Bank is liable for guarantee obligation of JPY 12,278 million for bonds on the private placement (stipulated in the Financial Instruments and Exchange Law, Article 2, Paragraph 3).
14. Net assets per share is JPY 256.83
15. In addition to fixed assets booked on the balance sheets, a proportion of computers within the Bank are used on finance lease contract without the transfer of ownership.
16. Monetary claims against subsidiaries and affiliated companies total JPY 271,113 million
17. Monetary liabilities against subsidiaries and affiliated companies total JPY 14,892 million
18. The dividends to be paid from retained earnings are limited according to the Banking Law, Article 18.  
In case the Bank distributes dividends from retained earnings, one-fifth amount of decreasing retained earnings as dividend distributions is additionally transferred to 'Legal retained earnings,' regardless of Corporate Law, Article 445, Paragraph 4.  
'Legal retained earnings' recorded during this fiscal year due to the dividend distributions amount to JPY 642million.  
According to the articles of incorporation of the Bank, dividends are limited to JPY 10 per share annually to shareholders of No. 4 preferred stock issued on March 31, 1998 and JPY 7.44 per share annually to shareholders of No. 5 preferred stock issued on October 4, 2000.

(Statements of income)

1.Revenues from transactions with subsidiaries and affiliated companies	JPY 13,263 million
Interest income received	7,018
Fees & commissions received	788
Other ordinary income and other income	5,456
Expenses from transactions with subsidiaries and affiliated companies	JPY 2,729 million
Interest expense paid	2
Fees and commissions paid	154
Other ordinary expenses and other expenses	2,571
Other transactions with subsidiaries and affiliated companies (such as asset transfer)	JPY 6,698 million

2. Net income per share is JPY 19.84

3. Diluted net income per share is JPY 16.24

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

(1)Parent company and major shareholders

No material transactions

(2) Subsidiaries and affiliated companies

Category	Company Name	Equity ratio	Relationship with related parties	Nature of Transaction	Transaction Amount (million yen)	Account Name	Balance (million yen)
Subsidiary	AZB CLO 1 Limited (Note 1, 2)	—	Lending	Received interest	1,680	Loans and bills discounted Interest receivable	51,088 417
Subsidiary	AZB CLO 2 Limited (Note 1, 2)	—	Lending	Received interest	1,823	Loans and bills discounted Interest receivable	66,140 394

(Notes) 1. AZB CLO 1 Limited and AZB CLO 2 Limited ('AZB CLO subsidiaries,' hereafter) are special purpose companies established to raise funds for the Bank.

2. Aozora Bank implements asset-backed lending to AZB CLO subsidiaries ('AZB CLO Loans', hereafter) which are backed with loans owned by AZB CLO subsidiaries, and the Bank is entitled to their interests, which come from revenue from the underlying assets as their source, consist of contractual interests linked with market interest rates and performance payments. The Bank owns all AZB CLO Loans as of the balance sheet date; therefore, net income of AZB CLO subsidiaries belongs to the bank.

(3)Companies of the same parent company

No material transactions

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

No material transactions

(Statement of changes in net assets)

1. Types and numbers of treasury stock

(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	155,891	0	-	155,892	(Note)
Total	155,891	0	-	155,892	

(Note) Increase due to buy-in of odd-lot shares

(Securities)

Securities include 'Government bonds', 'Local government bonds', 'Corporate bonds', 'Stocks', 'Other securities', 'securities related to trading transactions' classified as 'Trading assets' and a part of trust beneficiary rights classified as 'Monetary claims bought'.

1. Held-for-trading securities (As of March 31, 2011)

	Unrealized gains and losses charged in this period (million yen)
Held-for-trading securities	63

2. Held-to-maturity bonds (As of March 31, 2011)

None

3. Stocks in subsidiaries and affiliated companies (As of March 31, 2011)

No stocks in subsidiaries and affiliated companies have fair value.

Stocks in subsidiaries and affiliated companies whose fair values are extremely difficult to be determined are as follows.

	B/S value (million yen)
Stocks in subsidiaries	25,587
Stocks in affiliated companies	121
Total	25,709

4. Available-for-sale securities (As of March 31, 2011)

Breakdowns of available-for-sale securities that have fair value are as follows.

	Type	B/S value (million yen)	Cost (million yen)	Difference (million yen)
B/S value exceeding cost	Stocks	187	128	59
	Bonds	299,429	291,850	7,578
	Government bonds	264,730	257,737	6,992
	Local government bonds	2,404	2,335	68
	Corporate bonds	32,294	31,776	517
	Others	71,261	66,895	4,365
	Foreign bonds	45,595	44,900	694
	Others	25,666	21,995	3,671
	Subtotal	370,878	358,873	12,004
B/S value not exceeding cost	Stocks	825	1,048	(223)
	Bonds	457,385	459,386	(2,000)
	Government bonds	411,996	413,282	(1,286)
	Local government bonds	7,918	8,002	(84)
	Corporate bonds	37,471	38,100	(629)
	Others	414,900	422,461	(7,561)
	Foreign bonds	293,756	298,266	(4,510)
	Others	121,144	124,195	(3,050)
	Subtotal	873,111	882,896	(9,785)
Total		1,243,989	1,241,770	2,219

Available-for-sale securities whose fair values are extremely difficult to be determined are as follows.

	B/S value (million yen)
Stocks	26,147
Investment in partnerships	95,117
Others	2,670
Total	123,936

5. Held-to-maturity bonds sold during this fiscal year (from April 1, 2010 to March 31, 2011)

None

6. Available-for-sale securities sold during this fiscal year (from April 1, 2010 to March 31, 2011)

	Proceeds (million yen)	Gains on sale (million yen)	Losses on sale (million yen)
Stocks	127	0	1
Bonds	977,229	6,943	406
Government bonds	967,413	6,883	403
Local government bonds	5,146	54	3
Corporate bonds	4,669	5	-
Others	528,438	7,641	1,654
Foreign bonds	519,398	6,482	1,531
Others	9,040	1,158	123
Total	1,505,796	14,585	2,062

7. Change in holding purpose of securities

None

8. Impairment of securities

All types of securities with fair value, other than those held for trading, are written down if a substantial decline in fair value of such securities is deemed to be significant and other than temporary, subject to impairment criteria with respect to the borrower's category for the issuer of securities, unless there is strong evidence that the fair value will recover quickly and substantially.

In this fiscal year, the Bank wrote off securities in the amount of JPY 4,949 million (monetary claims bought amounted to JPY 4,772 million and foreign bonds amounted to JPY 177 million).

If fair value declines more than 50% from the acquisition cost or amortized cost, the Bank generally deems the decline to be significant and other than temporary. However, based on the borrower's category for the issuer of securities, the following criteria determine whether or not the fair value decline is significant under the internal standards for write-offs and reserves:

'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'.

In addition, for marketable available-for-sale securities which are planned to be sold off, unrealized loss of JPY 86 million are charged to losses.

(Money held in trust)

1. Money held in trust for investment purpose (As of March 31, 2011)

	B/S value (million yen)	Unrealized gains and losses charged in this period (million yen)
Money held in trust for investment purpose	3,008	-

2. Money held in trust for held-to maturity purpose (As of March 31, 2011)

None

3. Other money held in trust (other than held-to-maturity and held-for-trading) (As of March 31, 2011)

	B/S value (million yen)	Cost (million yen)	Difference (million yen)	Exceeding cost (million yen)	Not exceeding cost (million yen)
Available-for-sale money held in trust	2,571	1,745	826	826	-

(Notes) 1. B/S value is basically based on the market value at the balance sheet date.

2. 'Exceeding cost' and 'Not exceeding cost' are breakdowns of 'Difference'.

(Tax effect accounting)

Tax effects of significant temporary differences and loss carry forwards which resulted in deferred tax assets and liabilities as of March 31, 2011 were as follows:

Deferred tax assets	
Provision of allowance for loan losses	JPY56,079 million
Provision for retirement benefits	5,268
Depreciation expense	4,333
Write-offs for securities	38,268
Tax loss carry forwards	38,511
Other	<u>19,504</u>
Subtotal	161,966
Less valuation allowance	<u>( 114,318 )</u>
Deferred tax assets total	47,648
Deferred tax liabilities	
Valuation difference on available-for-sale securities	(1,232)
Net deferred gains(losses) on hedging instruments, net of taxes	(1,448)
Asset retirement obligation expense	<u>(266)</u>
Deferred tax liabilities total	(2,946)
Net deferred tax assets	<u>JPY 44,701 million</u>

## Independent Auditors' Report for the Consolidated Financial Statements (COPY)

(Translation)

### INDEPENDENT AUDITORS' REPORT

May 12, 2011

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

Deloitte Touche Tohmatsu LLC

Designated Unlimited Liability Partner  
Engagement partner CPA Yoshiyuki Higuchi

Designated Unlimited Liability Partner  
Engagement partner CPA Megumi Yanaga

Designated Unlimited Liability Partner  
Engagement partner CPA Shuichiro Tsumagari

Pursuant to the fourth paragraph of Article 444 of the Companies Act, we have audited the consolidated financial statements, namely, the consolidated balance sheet as of March 31, 2011 of Aozora Bank, Ltd. (the "Bank") and consolidated subsidiaries, and the related statements of income and changes in net assets for the fiscal year from April 1, 2010 to March 31, 2011. 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, 2011, and the results of their 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 Act.

End

The above represents a translation, for convenience only, of the original report issued in the Japanese language.

## Independent Auditors' Report for the Financial Statements (COPY)

(Translation)

### INDEPENDENT AUDITORS' REPORT

May 12, 2011

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

Deloitte Touche Tohmatsu LLC

Designated Unlimited Liability Partner    CPA    Yoshiyuki Higuchi  
Engagement partner

Designated Unlimited Liability Partner    CPA    Megumi Yanaga  
Engagement partner

Designated Unlimited Liability Partner    CPA    Shuichiro Tsumagari  
Engagement partner

Pursuant to the first item, second paragraph of Article 436 of the Companies Act, we have audited the financial statements, namely, the balance sheet as of March 31, 2011 of Aozora Bank Ltd. (the "Bank"), and the related statements of income and changes in net assets for the 78th fiscal year from April 1, 2010 to March 31, 2011, and the accompanying supplemental schedules. These financial statements and the accompanying supplemental schedules are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements and the accompanying supplemental schedules 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, 2011, 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 Act.

End

The above represents a translation, for convenience only, of the original report issued in the Japanese language and "the accompanying supplemental schedules" referred to in this report are not included in the Attached Documents.

## The Board of Corporate Auditors' Report (COPY)

### 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 make the following report on the execution of duties by Directors for the 78<sup>th</sup> business year that commenced on April 1, 2010 and ended on March 31, 2011.

#### 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 periodically received reports on the conditions of the establishment and operations of the system that has been installed and improved based on the resolution of the Board of Directors, that is written in the Business Report, 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, from Directors and employees, etc. and sought any necessary explanations and expressed opinion. 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 Deloitte Touche Tohmatsu LLC 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 Articles 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 Articles 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 contents written in the Business Report and 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 Deloitte Touche Tohmatsu LLC 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 Deloitte Touche Tohmatsu LLC 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 Deloitte Touche Tohmatsu LLC are reasonable.

May26, 2011

The Board of Corporate Auditors of Aozora Bank, Ltd.

Standing Corporate Auditor

Corporate Auditor(External Corporate Auditor)

Corporate Auditor (External Corporate Auditor)

Shinichi Fujihira

Mitch R. Fulscher

Akira Tachimoto