AOZORA BANK, LTD.

Annual Report 2002
Year ended March 31, 2002

AOZORA

PROFILE

Under the maxim of "clear, open and fair," Aozora Bank, Ltd. is committed to staying in close touch with its customers and to bringing a high degree of expertise to bear on satisfying diversifying client needs promptly. We aim to fulfill a distinctive role and function in an economy and society of a new era. The bank was renamed Aozora Bank, Ltd. in January 2001.

Established	April 1957
Capital	¥419.8 billion
Total assets	¥5,687.4 billion
Consolidated capital adequacy ratio (Domestic standard)	14.05%
Non-consolidated capital adequacy ratio (Domestic standard)	14.00%
Number of employees	1,376
Branch network	Japan: 17 branches Overseas: 1 branch, 4 representative offices
Head Office	13-10, Kudan-kita 1-chome, Chiyoda-ku, Tokyo 102-8660, Japan

(as of March 31, 2002)

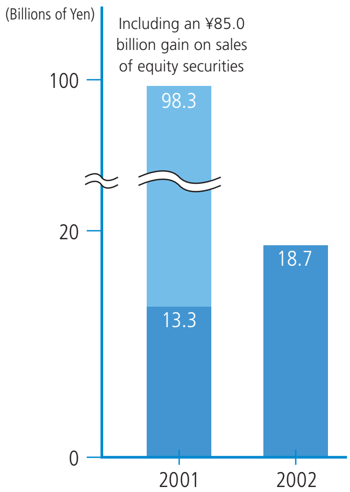
CONTENTS

FINANCIAL HIGHLIGHTS

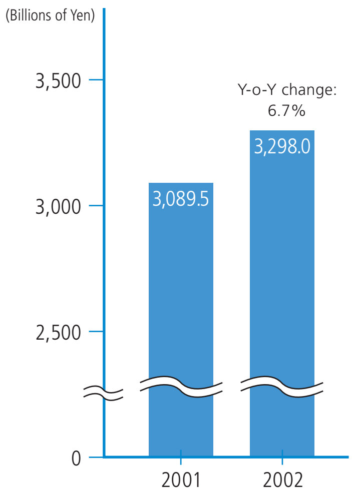
(Millions of Yen)

Years ended March 31	2001	2002
Consolidated operating income	275,730	106,700
Consolidated ordinary profits	99,116	14,355
Consolidated net income	98,331	18,703
Capital stock	419,781	419,781
Consolidated stockholders' equity	460,876	477,046
Consolidated total assets	6,163,766	5,684,072
Debentures	2,479,408	1,468,193
Deposits	1,398,553	1,636,733
Loans and bills discounted	3,089,490	3,297,993
Securities	721,477	1,054,019
Consolidated capital adequacy ratio (Domestic standard/%)	15.13	14.05
Tier I ratio (%)	13.36	12.88

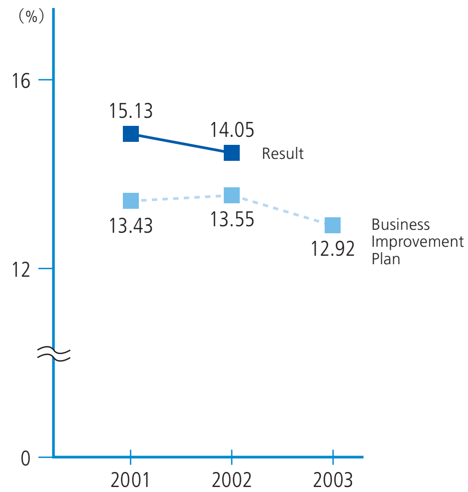
Consolidated Net Income



Loans and Bills Discounted



Consolidated Capital Adequacy Ratio



We at Aozora Bank have striven to be a bank that provides high-quality financial services by adhering to customer-first philosophies grounded on two themes: "In close touch with customer needs" and "In pursuit of specialization." To this end, we aim to be a trusted bank that abides by a system of checks and balances and a corporate governance structure that ensures a sound asset composition and a suitable level of risk management.

Fiscal 2001, ended March 31, 2002, marked our first full fiscal year since we started anew as Aozora Bank. I am very pleased to report that we made steady progress, despite a rapidly changing business environment. On behalf of the bank, I would like to express my sincere gratitude to our shareholders, the general public and our customers for their invaluable support, without which our strong performance this year would not have been possible.

Fiscal 2001 Performance

Our results for fiscal 2001 were solid: we posted gross business profits of ¥64.7 billion, business profits before general loan-loss reserve of ¥25.9 billion, ordinary profits of ¥13.7 billion, and net income of ¥18.6 billion, all outperforming non-consolidated targets spelled out by the Business Improvement Plan. The consolidated capital adequacy ratio was 14.05% and the Tier I ratio 12.88%, remaining at a high level.

Overall, building on experience and strengths in the lending business, the bank is steadily making inroads into new fields of business, which are blossoming into core business lines. Alongside efforts to run its businesses more efficiently, the bank is actively disposing of problem loans to achieve a sounder asset portfolio.

In more specific terms, our lending operations have grown by being closely attuned to customer needs under a meticulous risk management system. The total outstanding balance of loans at March 31, 2002 was ¥3,304.4 billion, an increase of ¥212.3 billion, or 6.9%, compared with a year ago. Normal credit stood at ¥2,960.3 billion, an increase of ¥504.5 billion, or 20.5%, over the previous fiscal year end. The bank also increased lending to small and mid-sized corporate clients by a net ¥115.1 billion, as we welcomed more new clients to our customer base. The number of customers increased by as much as 30% from March 31, 2001, thanks to synergies captured with stockholders and the opening of new divisions focused on developing relationships with new customers.

We are also branching out from the traditional lending business. Building on the business experience and expertise we have gained, and making the most of an excellent network of business partners that includes regional financial institutions and principal shareholders, we are offering new types of financial products and services. These include syndicated loans, structured finance and other financial products and services that best fit our clients' diverse investment needs and risk management considerations. We are aggressively expanding into other new areas. Financing corporate revitalization and restructuring undertaken in response to a constantly changing industrial structure, providing solutions for disposing of problem loans, and nurturing new growth enterprises are only a few examples of such successful initiatives. These new initiatives will be strengthened as we continue to foster personnel with specialized expertise and recruit talent from outside the bank.

In retail banking, one of our priority areas, a series of new lending services for individual clients was rolled out during the fiscal year. First, in September 2001, a Housing Loan Center was launched, offering loans suitable for homeowners replacing their residences. Then, in January 2002, Aozora Card Co., Ltd., a joint venture with shareholder ORIX Corporation, was established. In April, Aozora Card began extending personal, unsecured loans to cardholders and providing guarantees for regional financial institutions on loans extended to individuals. Through such activities, we are looking to capture synergies by combining the strengths of our established sales base in the banking business and the operational expertise of our major shareholders in other industries.

To bolster such efforts, we have steadily disposed of problem loans. Total disclosed credit under the Financial Reconstruction Law at the year end had decreased 30% from a year ago, accounting for 14.2% of total credit as of March 31, 2002. Our target of bringing down total disclosed credit to less than 6% of total credit by fiscal 2002, ending March 31, 2003, is now well within reach. A high percentage of the disclosed credits remain covered by collateral, guarantees and reserves. We are making continued efforts under a comprehensive risk management system to achieve a sounder capital structure.

Challenges Ahead

The bank continues to take two approaches to achieving the goals of the Business Improvement Plan. One is to become a more profitable enterprise. Second is to improve the quality of the bank's assets. To achieve the first goal, we will continue to grow lending operations, while assuring returns commensurate with risks. Meanwhile, we will remain focused on maintaining a sound asset portfolio by adhering to stringent risk management principles, while constantly fine-tuning risk management. And to establish a new profit structure underpinned by contributions from new business lines, we will enhance problem-solving capabilities addressing evolving and diversifying client needs, so as to be prepared to support the medium- to long-term growth of our customers' businesses. To achieve the second goal, we have set up a framework for removing a significant portion of problem loans from our balance sheet. And we intend to further reduce problem loans as a proportion of total credit.

Another key area is implementing measures to ensure that sound management is practiced at all times, and that operations are effective and efficient. In respect to corporate governance, the bank continues to strengthen management systems, particularly risk management and compliance systems. Also, we are putting into practice a fair and transparent performance-linked remuneration structure, first introduced in April 2002, with the view to provide further incentive for employees and reenergize our organization. In information systems, significant cost savings and downsizing will be achieved by significantly reorganizing operations, particularly by the outsourcing of main operations systems, scheduled for completion by May 2004. While sharply reducing costs and rationalizing operations, we plan to make substantial investments in systems for strategic business lines.

We are planning to relocate our Head Office next spring. The relocation will enable us to cut costs and operate more effectively. It is also an occasion to renew our commitment to be a bank that is trusted and socially responsible.

Let me emphasize once again that Aozora Bank has made significant progress since starting anew, achieving solid results. We will continue to do so, improving the quality of our services, financial condition and profitability, so as to increase our market value and re-list the bank's shares as soon as possible.

We respectfully ask for your continued support and understanding.

August 2002

丸山博

Hiroshi Maruyama
President and CEO

From left to right, *Senior Managing Director* Kajiwara, *Chairman* Kasai, *President* Maruyama, *Senior Managing Director* Hama

1 Corporate Banking

Aozora Bank provides the right solutions for corporate clients, drawing on a high degree of specialization, internally developed techniques and expertise, while meeting corporate financing needs by supplying funds in a reliable and effective manner and providing investment opportunities, including bank debentures. The bank is enhancing traditional banking services, while applying its expertise in new areas, including investment banking and financing for new enterprises.

2 Investment Banking

To solve a variety of management issues customers face, a bank must be armed with the ability to provide broad and specialized services. In investment banking, our customer business divisions work closely with specialty divisions to provide the right solutions to meet various financial needs, such as real estate finance, the distressed assets business, recovery support, risk management, and diversified financing and investment needs.

3 Financing for New Enterprises

Aozora Bank supports growing enterprises through loans and investments channeled through venture capital subsidiary Aozora Investment Co., Ltd. We also finance corporate restructuring and management buyouts and structure project-based finance where corporate finance is traditionally difficult.

4 Retail Banking

To provide products and services suitable to individual clients' investment needs and life planning, the bank develops and offers a variety of new products, including bonds, deposits and investment trusts, expands remote access channels to enhance convenience and strengthens consulting services.

Aozora Bank provides a stable and high-quality source of funds and internally developed, specialized solutions to corporate customers.

1 Corporate Banking

Amid unprecedented changes in the business environment, Aozora Bank helps companies redefine their business, restructure existing operations and diversify into new areas. In addition to making a stable source of funds available to them, the bank offers a wide range of services, products and information tailored to their specific needs, advice on business planning and referrals to potential business partners and customers.

For financial institutions, the bank has long provided various financial instruments, particularly bank debentures, to be a bank that appropriately responds to the specific needs of financial institutions. For this purpose, we not only develop and offer innovative financial products, but proactively propose quality solutions to their management issues and provide advisory services.

Since our renewal in 2000, we have redeployed employees to marketing divisions and have created a framework enabling them to closely align with other specialized divisions. We are delighted that in fiscal 2001, we were able to start business with many new customers, equivalent in number to 30% of our existing customer base.

Financing Schemes

Providing reliable, high-quality financing to corporate clients is one of our core businesses and we offer a diverse range of products and services, as well as new funding schemes, that match the differing needs of each client.

For small and medium-sized corporate clients, we develop and offer the best financing schemes; collateral is not the only assurance we look for. We accurately assess the value of their technologies and business models, in particular how competitive and unique they are, and come up with the right solutions: securitization of receivables, non-recourse loans emphasizing cash flows from individual projects and combinations of structured finance and lending, among others.

In every funding scheme, credit risks are closely and deliberately managed. Our internal rating systems, described later, ensure appropriate levels of returns.

Asset Management Products

Aozora Bank issues interest-bearing bank debentures (Risshin), with maturities of 1, 2, 3 and 5 years, and discounted bank debentures (Warishin), with a maturity of 1 year. Other products include large-lot time deposits and other deposit schemes, investment trusts, commercial paper (CP), and Japanese government bonds and other marketable financial instruments.

Tools for Resolving Management Issues

At present, many Japanese corporations earnestly try to improve their financial position by reducing debt, reviewing investing and financing activities, and financing on various assets owned, upgrading risk management methodologies with the introduction of risk hedging and reduction methodologies, and reorganizing substandard business lines. To support such balance sheet improvements, it is essential that the bank propose customized solutions that address the distinct concerns of each client. At Aozora Bank, we are committed to doing so, using our expertise and networks of internal and external solution providers.

Building a Sound Asset Base

For many Japanese financial institutions, clearing problem loans off their balance sheets is a pressing issue. In this area, subsidiary AOZORA Loan Services Co., Ltd., is a growing loan servicer helping customers to manage and collect receivables and providing brokerage, consulting and due-diligence services.

Financial Management Support Services

Thanks to solid business relationships developed through the years with our financial sector clients, we support financial management in the form, for example, of arranging syndicated loans and preparing joint proposals to clients.

In addition to providing advice and up-to-date information based on the bank's experience in the securitization of loan receivables, affiliate Aozora Trust Bank, Ltd., meets clients' securitization and fund management needs through the issuance and marketing of beneficiary certificates.

Risk Management

Leveraging the asset-liability management expertise accumulated during our years of operation as the former long-term credit bank, The Nippon Credit Bank, Ltd., the bank offers derivative instruments embedded with swaps and options enabling effective market risk hedging and flexible financial strategy formulation. Recently, risk management has become increasingly important to corporate management. In response, we provide dedicated support to our customers, addressing various needs, in the form of quantifying various risks, including market risk and credit risk, advising on risk management frameworks, providing expertise on risk measurement and receiving trainees.

Other Services

Using our extensive experience and information networking to help financial and non-financial corporate clients find the information they need, the bank provides the latest information and consulting services in a number of areas: mergers and acquisitions, corporate revitalization, initial public offerings, overseas developments and private financial initiatives.

Also, Aozora Card Co., Ltd., was established in December 2001, to provide guarantees for partnered regional financial institutions on loans extended to individuals.

Aozora Club

Aozora Club, a members-only forum for corporate clients to exchange views and to network, was established so that, together, our clients and the bank can be partners in solving management issues, while mutually enlarging business opportunities.

The club launched online services in July 2001, via the "Aozora Club Site," a members-only Website that provides a wide range of business-related information using major shareholders' extensive functions and expertise. In doing so, we propose solutions to diverse and complex management issues faced by members.

URL http://aozoraclub.com/

Blue Planet Corporation

Blue Planet Corporation started operations in August 2001. The company offers to develop portals under the names of regional financial institutions, to provide comprehensive support and services via the Internet for institutions' customers who are seeking to launch e-businesses. They also hold seminars on related subjects.

Additional portal functions are under development, including various e-settlement methods and more expansive networking. They are poised to become powerful marketing tools for member institutions.

URL http://www.blueplanet.co.jp/

An integrated approach—from product development and arranger services, to marketing—that helps clients solve management issues.

2 Investment *Banking*

Real Estate Finance

In recent years, the real estate business has been undergoing significant changes in terms of ownership, management and utilization, of which the most significant was the September 2001 introduction of Japanese Real Estate Investment Trusts (J-REIT). This trend is also evidenced by an increasing number of investors who seek real estate capable of generating stable cash flows in the same way as financial products. At the same time, companies are increasingly seeking to remove real estate from their balance sheets for a number of reasons, including preparing for recognition of asset impairment.

In finance, these changes go hand-in-hand with rapid growth in new financing schemes, such as real estate securitization and non-recourse financing, where real estate is valued at estimates of potential cash flows, not by sales comparison. Such financial schemes are carried out by bringing together the expertise of multiple parties and resolving conflicting interests.

The high level of expertise in real estate evaluation and cash flow analysis developed in long-term credit banking and the ability to arrange schemes by the use of our extensive business network have helped us become established in the business. We are committed to providing value-added services that meet customers' diverse real estate interests in terms of ownership, management and utilization.

Distressed Asset / Recovery Finance

Distressed Assets Business

Our loan servicer subsidiary, AOZORA Loan Services Co., Ltd., an established name in the servicer market, has provided customized services to more than 300 financial and corporate customers in the disposition of distressed assets. In response to the September 2001 amendment to Japan's Servicer Law, which enlarged the range of loan assets that loan servicer companies are allowed to handle, the company has enhanced a wide range of services beyond the purchase of loan assets, such as due diligence and evaluation of distressed assets, trading of loan assets and providing advice on strategic-disposal planning.

Recovery Support

In cooperation with AOZORA Loan Services Co., Ltd., Aozora Bank provides a full range of business recovery support services to customers planning to restructure their operations in response to a changing business environment. In addition to financial advisory services that extend from developing recovery plans to finding business sponsors, the bank also provides short-term working capital financing for continuing operations (DIP Finance) and medium- to long-term loans to customers, conditional on recovery.

Buyout Finance

Stimulated in part by revised accounting rules and the amended Commercial Code, more Japanese businesses have shown interest in using management buyouts and management buy-ins to jump start corporate restructuring and to transfer profitable business lines of failed firms. Buyout financing—lending on the target company's cash flow projections—has been gradually expanding. Aozora Bank, one of the leaders in the fledgling buyout market, has steadily established a firm market presence.

Financial Management Services

Aozora Bank provides a range of solutions for customers' financial management needs. These include financing schemes developed using the latest in financial engineering techniques, and asset management and risk hedging tools. Through effective coordination between the group that supports front offices and the group that develops new financial products using financial engineering, we are able to provide order-made financial products in a timely and effective manner. After the deal is complete, the bank also provides services such as market price information and outsourcing of back-office operations for derivative transactions.

Fund Raising Tools

Syndicated Loans

Aozora Bank conducts the arrangement of syndicated loans ("arranger") and the subsequent administrative operations of these loans ("agent"), leveraging the bank's network of business relationships with client financial institutions. Syndicated loans have rapidly gained popularity in Japan in recent years. The merits of this type of loan include allowing customers to extend their funding base and benefit from favorable public relations.

Securitization of Monetary Claims

Aozora Bank provides innovative financing channels for corporations seeking to leverage their assets to raise funds. These include securitization of notes and accounts receivable, lease assets and installment receivables. These methods serve to streamline customers' balance sheets and bring down overall financing costs.

Assistance in Issuing Corporate Bonds

In direct financing through the issuance of corporate bonds in capital markets, Aozora musters its experience and expertise developed as an authorized issuer and recording agency of debentures, to satisfy various funding needs, by issuing private and public bonds, including small to medium-sized companies' private corporate bonds guaranteed by the Credit Guarantee Corporation. Also, we arrange bond offerings for asset-backed securities, an increasingly popular fund raising tool, even in Japan.

Other Services

To swiftly and flexibly provide liquidity for corporate customers in need of funds, the bank proposes commercial paper (CP) solutions to them, including underwriting and expertise on new issuance. Specifically, our loan product, Marine Blue, embedded with interest rate derivatives, is designed for customers who seek lower fund-raising costs and interest rate risk hedging. We also offer customized products that combine loans with derivatives to customers with differing needs.

Asset Management Tools

For pensions, investment trusts, regional financial institutions, municipalities and other institutional investors, the bank offers high-quality, value-added private placement funds, in addition to marketable financial instruments including commercial paper, Japanese government bonds, government-guaranteed bonds and municipal bonds, as well as thorough and well-researched market information.

In response to growing fund management needs due to Japan's low interest rate environment, we launched Mountain Blue, a time deposit that incorporates derivatives for a variety of interest rate scenarios. And our lineup of asset management products includes securitized monetary claims and other assets, syndicated loans and credit derivatives.

Risk-hedging Tools

To better hedge each customer's foreign exchange risks, Aozora Bank not only provides foreign exchange information, but has strengthened its ability to analyze foreign exchange risks and widened its lineup of foreign exchange futures contracts and currency options.

To customers seeking to minimize the impact of interest rate fluctuations on the bottom line, Aozora Bank provides detailed advice and up-to-date information on credit risk management developed using derivative instruments. The bank also offers an array of weather derivatives to enable customers to cover losses caused by unfavorable changes in weather conditions.

Other Services

In September 2001, Aozora Bank established a dedicated ship-financing business line. In recent years, lower shipbuilding prices have prompted new orders, and ship owners, in search of more advantageous lease terms, have sought to enter into long-term contracts with overseas ship operators and major Japanese shipping companies. Aozora Bank provides the right solutions to their funding needs by strengthening its information network of shipping companies, casualty insurance companies, trading firms, financial institutions and brokerage firms, and by accumulating expertise.

In overseas business consultation services, Aozora Bank supports small and medium-sized firms on business risk minimization and financial accounting controls, and restructuring of overseas operations, including decisions to expand or retreat.

Specialized information on geographic areas, particularly Asian countries, is carried in monthly editions of Aozora Asian Business and other published reports, which cover information on currency, economic trends and other topics useful for solving problems in doing business overseas.

Aozora Trust Bank, Ltd.

Since its establishment in February 1994 to offer innovative financial products through the effective use of trust banking functions, Aozora Trust Bank has provided a range of financial services, mainly securitization of monetary claims and other services, including pecuniary trusts other than money trusts (segregated account of security firms, specified investment).

The company converts into beneficial rights a variety of assets placed in trust accounts: notes and accounts receivable, loans, lease assets and a variety of claims that arise in the course of business.

A "collective claim"—a bundle of small-money claims held in trust, such as small quantities of notes and accounts receivable, medical fee claims and loans to individuals—is a promising area, because it has paved the way for trading small claims, previously regarded as unsuitable to securitization. There is a significant need for this type of service, since it substantially reduces administration costs.

URL http://www.aozora-trust.co.jp/

TOPICS

Servicer Business

AOZORA Loan Service Co., Ltd., serves as a trusted financial advisor to regional financial institutions and provides a critical review of the regional bank's position when asked to assess reorganization plans of the institution's customers.

Loan servicer agencies are viewed as companies focused primarily on quick and effective recovery of collectibles through liquidation. But the company, one of the few bank-affiliated loan servicer agencies in Japan, is different. By leveraging its extensive experience in developing repayment programs based on analysis of the obligor's cash flows from operating activities, it mainly seeks to devise debt repayment schedules predicated on the revival of the company as a profitable concern.

AOZORA Loan Service also offers consulting and advisory services emphasizing recovery-oriented credit management, to the needs of the credit, management control and lending functions of regional banks, second-tier regional banks, Shinkin banks and credit unions.

By extending and leveraging its external network, Aozora Bank facilitates the supply of funds, and offers solutions to management issues, through innovative financing schemes.

3 Financing *for New Enterprises*

Financing for New Enterprises

It is of vital importance for start-ups and growing enterprises to secure financial resources backed by well-prepared business plans. In venture capital, Aozora Bank has supported entrepreneurs by financing their individual funding needs and through venture capital subsidiary Aozora Investment Co., Ltd., which has invested in, or otherwise provided services to, new enterprises with growth potential and promising projects.

Essential in venture capital are an accurate evaluation of the technical aspects and the marketability of planned products and services, appropriate advice on invested ventures and consequent increase in corporate value. For the purpose of making wise investment decisions based on expert advice from industry specialists on technical matters and economic viability, the bank has proactively formed alliances with a wide range of external specialists, ranging from venture capitalists and incubators to universities, corporations, and accounting firms. The network of external experts is an asset, which the bank uses, for example, through conferencing, to provide solutions to issues faced by venture businesses. The Aozora Bank seeks to enhance this network further.

At the Japan Desk, set up in September 2001 at the bank's U.S. partner Silicon Valley Bank, of Santa Clara, California, an executive sent from Aozora Bank works full time to connect U.S. companies with Japanese companies, facilitating cross-border transactions and arranging conferences and seminars.

While placing a continued emphasis on information technology and biotechnology companies, the bank seeks to deliberately develop its venture capital portfolio, which is diversified according to sectors and stages of development. To ensure the soundness of investments, the bank plans to monitor them occasionally and proactively enhance corporate value through such hands-on management of the assets.

Management Buyout

Owners of small and medium-sized firms, the driving force behind the Japanese economy, have struggled with the pressing issue of smooth business succession to next generations, while big business is under pressure to reorganize and prioritize through selection and concentration. Under the circumstances, management buyout (MBO), an acquisition agreement whereby management and employees take over control of a business, is drawing increased attention.

In August 2001, Aozora Investment Co., Ltd., entered the MBO business by establishing, with Japan Asia Investment Co., Ltd., a fifty-fifty MBO fund management venture called JBOC Co., Ltd. The company manages the Business Succession and Second Founding Fund, which mainly targets profitable small and medium-sized firms hard-pressed to find successors, and divisions and subsidiaries spun off from big business. The fund has already supported the transition of a precision mold manufacturer and financed the spin-off of a casual clothing retail chain, owned by a subsidiary of a listed company. The MBO company seeks to make new investments that are promising and actively support the efforts of target companies to enhance their corporate value.

Project Investment

One example of the bank's distinguished fund-raising initiatives for new enterprises is to invest in projects jointly developed with the investee.

Using this new format of project investment, the bank has financed a number of projects, previously thought difficult to structure with company-based financing schemes but made possible by a new approach, namely, an emphasis on project-based cash flows. Examples include a finance scheme for a franchiser to open new outlets and investment in projects to create contents for the entertainment business, such as home video games, movies, music and publications. This approach is taking hold as a viable method of financing projects.

The bank has financed more than 20 projects employing this approach: funding for the publication of the translation of *The Universe in a Nutshell*, a new book by British physicist Stephen Hawking and the production of the movie "The Choice of Hercules," to name but a few.

The Bank will continue to accumulate expertise on early models of project investment, funds for franchisers and the content business, while developing new financing schemes so as to enrich its distinctive array of financing schemes.

Aozora Investment Co., Ltd.

Aozora Investment Co., Ltd., a wholly owned subsidiary of Aozora Bank, Ltd., started operations in July 1999, to finance new businesses and enhance the Aozora Group's IPO operations of more than a decade.

The company uses the bank's expertise and business network to meet various needs of entrepreneurs planning an initial public offering. And to maximize the potential of emerging companies, Aozora Investment provides comprehensive services, including consultation on drafting business plans that address issues faced by each customer and on venture capital fund-raising schemes, including equity financing.

One of Aozora Investment's unique services, unmatched by other venture capitalists, is its ability to develop new schemes, such as investment in specific projects and support through arranging funds. The company has been highly successful in supporting franchisers working to expand their networks of franchisees and in arranging investment funds for the entertainment business.

Aozora Investment will continue to support prospective venture businesses and their IPOs.

URL http://www.aozora-invest.co.jp/

TOPICS

Project Investment

Aozora Bank helped produce the movie "The Choice of Hercules" by directly financing its production. In contrast to conventional financing, which demands real estate collateral, the bank's approach was to finance the production costs and invest in the film project itself through the arranger. The bank's financing was secured by TV broadcasting rights and video distribution rights. Transparency is essential to the success of joint projects, such as filmmaking, where multiple investors participate. The bank employs Aozora Investment to conduct thorough research on sales forecasts, a market risk factor, and other operational risks. Only then does the bank make an investment decision.

Under similar schemes, the bank has financed the publication of books, the development of home video game software and the production of music CDs. Not uncommon in the U.S., these schemes are still new in Japan. As the forerunner among financial institutions, the bank strives to originate more projects, acquire more expertise and develop new schemes.

©Herculean Partners

Published by Artist House

In close touch with customer needs, Aozora Bank provides products and services that fit perfectly with customers' lifelong financial planning.

4 Retail Banking

Asset Management Products

Debentures

In addition to our successful traditional bank debenture-issuing business, which meets our customers' asset management needs, we launched Aozora Super, a new type of discounted bond suitable to customers in a new era, after the lifting of unlimited regulatory guarantees on bank deposits, in April 2001. Of the types of bank debentures offered, Aozora Super and Risshin Wide are two that are secured by the Deposit Insurance Corporation. The public sales issue of two products, Warishin (Discounted Aozora debentures) and Risshin (Aozora debentures), will be offered only in registered form effective from the first May 2003 issue.

Time Deposits

Aozora Direct Time Deposit, launched in April 2001, and exclusively offered through the telephone-banking channel, has been well-received by depositors who benefited from the convenience of using ATMs in post offices. To better serve our customers, we consecutively added one-year time deposits in February 2002, and five-year deposits in March, to our lineup of offerings, which previously only consisted of three-year deposits.

Investment Trusts

The broad selection of investment trusts offered, 26 types as of April 2002, is designed to meet the diverse asset management needs of our customers: from conventional offerings, such as money market funds (MMF), corporate and government bond funds, foreign currency MMFs, and investment trusts in equities and bonds (foreign and domestic), to more distinctive offerings, such as those with a monthly settlement or with limited risk.

Others

The bank is preparing to launch sales of life insurance policies at branches starting October 2002, when banks will be allowed to do so.

Loan Operations

Housing Loans

The bank offers, through its newly opened Housing Loan Center in Tokyo's Shinjuku district, a wide range of housing loan products suited to various needs and lifestyles (currently offered only on those in Tokyo, Kanagawa, Chiba and Saitama). For example, a new service introduced in September 2001, Kojinban Shisan Saisei Tedasuke Loan for individuals, specifically designed to assist those unable to replace their homes by purchasing new ones because the appraisal value of their homes has declined, includes non-conventional features, such as proposed repayment plans that take advantage of special tax incentives. In June 2002, we expanded our lineup of housing loan products with the launch of Aozora Jutaku Loan (Housing Loan). This loan addresses a variety of needs, including financing for first-time homebuyers, financing for replacement by purchase, and refinancing needs. More changes in the product offerings and organization are on the horizon.

Card Loans

Aozora Card Co., Ltd., a joint venture established in December 2001 with one of our major shareholders, ORIX Corporation, commenced operations in April 2002. As a retail banking services subsidiary, the company mainly provides services for individual clients, including unsecured loans on cards and guarantees on regional financial institution-financed personal loans.

Service Channels

Extending Service Hours

In January 2002, consulting-service hours at the bank's Head Office, and at all branches, were extended to 5 pm to enhance customer convenience. Our office layouts are being redesigned and branches relocated so that customers can more easily come to visit and consult with us. Our Head Office is scheduled to move to a new site next spring.

Telephone Banking

Launched in November 2000, Aozora Bank Telephone Banking now offers a telephone-banking-exclusive time deposit, and has extended the lineup of these products. Additionally, new products, such as investment trusts, have been added and new services are now on offer, such as processing changes in address. We plan to continue to make this channel even more accessible so that it will be a convenient and important access point for customers.

ATM Alliances

Our customers now have greatly enhanced access to some 56,000 ATMs located throughout Japan, a network we have built through alliances with city banks, trust banks and post offices. Bank customers can make deposits and withdrawals free of charge, 7 days a week, at postal ATMs.

Consulting Services

The bank places great emphasis on consulting services. To better serve customers through enhanced asset management and various advisory functions, our branches are staffed with specialists, including financial planners accredited by Japan's Ministry of Health, Labor and Welfare or the Japan Association for Financial Planners. These specialists are committed to enhancing their consultation skills.

The Aozora Financial Garden, opened in January 2002, within the Head Office, is a consulting desk exclusively for individual customers. In a relaxing ambiance, customers can consult with dedicated staff on their various financing needs, including asset management, estate planning and business succession. Drawing on our extensive network, the experts at the desk are very attentive to customers' needs and recommend practical financial plans.

AOZORA

In December 2001, to commemorate the first anniversary of the new Aozora Bank, we adopted AOZORA, a blue elephant, as Aozora Bank's mascot. The blue elephant patched with white clouds is an embodiment of our commitment to being a trusted bank.

TOPICS

Card Loans

Established in December 2001 with one of our major shareholders, ORIX Corporation, and in operation since April 2002, Aozora Card Co., Ltd., combines the Aozora Group's superior creditworthiness and ORIX's expertise on lending to individuals. The company's main business lines include unsecured loans to individual customers on the MY ONE card and guarantees for regional financial institutions on loans extended to individuals.

MY ONE is mainly intended for customers in certain age brackets who are set to go through significant events in life, such as the purchase of a home and financing the education of their children. MY ONE offers larger credit lines and lower interest rates than comparable personal loan products to support their financial needs. The benefits of lower costs achieved through non-branch operations, ORIX's credit rating expertise and information technology are passed on to customers, allowing them to borrow at lower interest rates.

Applications are accepted 24 hours, 7 days a week, and 365 days a year, via the Internet or by telephone, facsimile or mail, and are usually processed in 24 hours. In addition to efficiency, we have pursued convenience to the fullest; cardholders can take out loans and make repayments with financial institutions they currently use, or with CDs and ATMs of financial institutions that are in alliance with Aozora Card.

URL http://myone.aozoracard.co.jp/

Aozora Bank views, as one of its major business goals, the achievement of the targets outlined in the Business Improvement Plan, a mid-term corporate program formulated in accordance with the Law Concerning Emergency Measures for Early Strengthening of the Functions of the Financial System. We tried hard in the fiscal year ended March 2002 and have achieved virtually all major targets, now for two fiscal years in a row.

Gross business profits reached ¥64.7 billion, exceeding the target by ¥0.7 billion. The better-than-expected result was a combination of three main factors. First, the bank's refocused sales force drew new clients and brought old customers back to us, helping normal loans to accumulate. Second, fees and commissions increased as a result of efforts to generate higher earnings from services. Third, the bank brought down funding costs by refinancing high-coupon bonds issued in the past.

General and administrative expenses declined to ¥38.8 billion, outperforming the Business Improvement Plan by ¥1.2 billion, because the cost of operating branches and other expenses were reduced through relocation of branches and a review of maintenance costs and general expenses.

Consequently, business profits before general loan-loss reserve amounted to ¥25.9 billion and net income to ¥18.6 billion, both exceeding the plan.

Total assets declined ¥487.6 billion on the previous fiscal year to ¥5,687.4 billion, largely due to more efficient capital management as part of efforts to redraw its balance sheet.

At 14.05%, the capital adequacy ratio (consolidated; domestic standard) remained high and was better than planned.

Key lending indicators were also strong. Loans to domestic clients grew ¥212.3 billion over the previous year because of an increase in normal loan assets thanks, for the most part, to a large number of new customers and former clients who have resumed dealings with us. For the year, the balance of loans to small and medium-sized firms increased by a net ¥115.1 billion. We are committed to continuing to extend credit to small and medium-sized firms and other customers and help them raise capital smoothly, and we are prepared to accurately understand their needs and act responsively.

All of us appreciate that the bank received a huge sum of public funds to start anew as a public company. Bearing this in mind, we will earnestly and continuously strive to achieve the Business Improvement Plan this year and beyond.

○ Business Improvement Plan

(Billions of Yen)

Years ended/ending March 31	2001 Result	2002 Result	2002 Plan	2003 Plan	2004 Plan	2005 Plan
Gross business profits*	56.7	64.7	64.0	73.5	81.5	97.0
General and administrative expenses*	40.0	38.8	40.0	41.5	41.5	42.0
Business profits before general loan-loss reserve*	16.7	25.9	24.0	32.0	40.0	55.0
Net Income after income taxes*	99.6	18.6	18.0	22.0	34.0	50.0
Loans and bills discounted (average balance)*	3,475.5	3,439.5	3,270.0	3,560.0	3,790.0	4,030.0
Total assets (average balance)*	6,907.6	5,791.4	5,830.0	5,620.0	5,870.0	6,160.0
Tier I ratio**	13.36%	12.88%	12.40%	12.14%	12.18%	12.46%
Capital Adequacy Ratio (Domestic standard)**	15.13%	14.05%	13.55%	12.92%	12.85%	13.08%

* Non-Consolidated

** Consolidated

Improved Asset Quality

In the fiscal year ended March 31, 2002, the bank made significant progress in improving asset quality by increasing normal credit while removing problem loans from the balance sheet.

Effective sales activities led to the establishment of relationships with new customers and the ability to meet the funding requirements of existing customers in a timely fashion. As a result, there was a large increase in normal credit, of about ¥500 billion, during the fiscal year. At the same time, the bank removed more than ¥190 billion in problem loans from the balance sheet. Together, these changes raised normal credit by 7.5 percentage points as a share of total loans.

(Billions of Yen)

March 31	2002	2001	Change
Total credit	3,449.9	3,135.6	314.3
Normal credit	2,960.3	2,455.8	504.5
Ratio	85.8%	78.3%	7.5%
Other credit	489.6	679.8	(190.2)

Note: Classifications are based on the New Disclosure Standard under the Law Concerning Emergency Measures for Early Stabilization of Financial Functions. Other credit represents the sum of loans to borrowers classified as substandard, doubtful, or bankrupt and similar.

Analysis of Assets

Summary of Disposal of Problem Loans

In accordance with the Financial Supervisory Agency's Financial Inspection Manual, the bank carries out a self-assessment of its assets under internal self-assessment standards for the purpose of writing off loans and setting aside reserves appropriately. Based on these assessments, the bank disposed of ¥17.7 billion of problem loans during the fiscal year.

(Billions of Yen)

Years ended March 31	2002	2001
Write-offs	4.8	35.6
Provision to specific reserve	10.6	57.6
Loss from other sales of loans	1.6	2.5
Provision for country risk reserve	0.7	—
Losses from disposal of inappropriate assets	—	(6.7)
Total	17.7	89.1

Note: In the fiscal year ended March 31, 2002, the bank recorded a net reversal of loan loss reserves (including the general, specific and country risk reserves). The net reversal was recorded as an extraordinary loss on the income statement.

Self-Assessments, Write-Offs and Reserves

To preserve the soundness of assets and conduct write-offs and reserve provisions, appropriately, the bank conducts self-assessments to determine the safety and reliability of the value of each asset on the balance sheet. Self-assessment is performed by dividing borrowers into five categories and classifying assets in accordance with the risk level taking into account the underlying collateral, guarantees etc., if any. The definitions of borrower categories and rules for write-offs and reserves are as follows.

<Definition of Borrower Categories>

Normal	Business performance is strong and no special financial problems exist.
Watch list	Borrowers that need to be monitored carefully because of weak business fundamentals, financial problems or problematic lending conditions.
Potentially bankrupt	Borrowers that are not currently bankrupt but are highly likely to become bankrupt.
Substantially bankrupt	Borrowers that are substantially bankrupt, but are not legally or practically bankrupt yet.
Bankrupt	Borrowers that are legally or practically bankrupt.

<Definition of Asset Classifications>

Category I	Assets that present no particular risk of collectability nor impairment of value.
Category II	Assets, including credits, which bear above-average risk of collectability.
Category III	Assets that bear substantial risk of final collectability or impairment of value and are likely to incur losses.
Category IV	Assets deemed to be uncollectable or valueless.

<Write-Off and Reserve Rules>

Normal and watch list borrowers	Lump-sum provision to the general reserve for possible losses based on the historical default rate in accordance with average remaining loan period.
Potentially bankrupt borrowers	Necessary amounts for Category III risk loans are calculated for each borrower and a provision is made to the specific reserve for possible losses.
Substantially bankrupt and bankrupt borrowers	The full amounts of Category III and IV credits are written off directly or allocated to the specific reserve for possible losses.

○ Self-assessment, Disclosed Credit, Write-offs, Reserves and Risk Monitored Loans
(as of March 31, 2002)

(Billions of Yen)

Borrower categories for self-assessment	Disclosed credit under the Financial Reconstruction Law	Asset classifications for self-assessment: Category I	Category II	Category III	Category IV	Reserve, coverage for credit under the FRL	Percentage of reserves for non-secured credit	Percentage of credit secured	Risk monitored loans
Bankrupt borrower Substantially bankrupt borrower	Bankrupt and similar credit 21.1	Secured by collateral and guarantees 20.9		Partial, direct write-offs or provision to reserve		Collateral and guarantees 20.9 Reserve 0.1 (Partial, direct write-offs) 77.5	(100.0%)	100.0%	Loans to bankrupt companies 18.3 Past due loans 313.6
Potentially bankrupt borrower	Doubtful credit 306.4	Secured by collateral and guarantees 177.0		Provision to reserve 116.8		Collateral and guarantees 177.0 Reserve 116.8	90.2%	95.9%	
Watch list borrower	Substandard credit 162.1	Substandard credit secured by collateral and guarantees 59.0				Collateral and guarantees 59.0 Reserve 57.9	56.2%	72.1%	Loans overdue for 3 months or more 1.6 Restructured loans 154.3
Normal borrower	Normal credit 2,960.3								

Substandard credit and below 489.6	Collateral and guarantees 256.9 Reserves 174.8	Percentage of reserves for substandard credit and below 75.1%	Percentage of secured substandard credit and below 88.2%	Risk monitored loans 487.7
Total credit 3,449.9	(Partial, direct write-offs) 77.5			

Disclosure Pursuant to the Financial Reconstruction Law

In accordance with the Financial Reconstruction Law, Aozora Bank discloses assets classified into four categories: bankrupt and similar, doubtful, substandard and normal.

At March 31, 2002, total credit disclosed under the law (excluding normal credit) decreased by ¥190.2 billion from the previous fiscal year to ¥489.6 billion on a non-consolidated basis. The decrease was mainly due to a reduction in substandard credit, much of which was transferred to the doubtful category, in view of the current adversity of economic conditions, and significant progress in the final disposal of the doubtful and bankrupt and similar credit (excluding normal credit).

Collateral, guarantees, and reserves, etc., with regard to the total credit of ¥489.6 billion, amounted to ¥431.7 billion, yielding a high coverage ratio of 88.2%.

Note: Disclosed credits pursuant to the Financial Reconstruction Law include loans, securities loaned, foreign exchange, interest receivables and suspense payments included in Other assets, and Customers' liabilities for acceptances and guarantees.

○ Disclosed Credit Pursuant to the Financial Reconstruction Law
(After partial and direct write-offs, non-consolidated basis)

(Billions of Yen)

March 31	2002	2001
Bankrupt and similar credit	21.1	43.7
Doubtful credit	306.4	314.9
Substandard credit	162.1	321.2
Subtotal (A)	489.6	679.8
Normal credit	2,960.3	2,455.8
Total	3,449.9	3,135.6
Reserve for possible loan losses(B)	174.8	231.5
Collateral and guarantees(C)	256.9	264.2
Total(D) = (B) + (C)	431.7	495.7
(D) / (A)	88.2%	72.9%
(B) / ((A) - (C))	75.1%	55.7%

Note: Loan loss reserve (B) in the total of the specific reserve and general loan-loss reserve is allocated to the substandard, doubtful and bankrupt and similar credits.

Risk Monitored Loans

Risk Monitored Loans, disclosed under the Banking Law, amounted to ¥487.7 billion as of March 31, 2002, a ¥183.3 billion decrease from the previous year.

○ Risk Monitored Loans
(After partial and direct write-offs)

<Non-consolidated> (Billions of Yen)

March 31		2002	2001
Risk Monitored Loans	(A)		
Loans to bankrupt companies		18.3	27.9
Past due loans		313.6	321.8
Loans overdue for 3 months or more		1.6	1.7
Restructured loans		154.3	319.5
Total		487.7	671.0
Year-end balance of total loans	(B)	3,304.4	3,092.0
(A)/(B)		14.8%	21.7%

<Consolidated> (Billions of Yen)

March 31		2002	2001
Risk Monitored Loans	(A)		
Loans to bankrupt companies		18.3	27.9
Past due loans		313.6	321.8
Loans overdue for 3 months or more		1.6	1.7
Restructured loans		154.3	319.5
Total	(B)	487.7	671.0
Year-end balance of total loans		3,298.0	3,089.5
(A)/(B)		14.8%	21.7%

Disposal of Problem Loans

The bank has already made significant progress pursuing disposal of doubtful, and bankrupt and similar credit. During the fiscal year ended March 31, 2002, the bank succeeded in reducing the remaining ¥222.9 billion in assets from its balance sheet. As a result, the sum of doubtful credit and bankrupt and similar credit decreased by ¥31.1 billion from the previous year.

○ Outstanding Balance of Doubtful Credit and Bankrupt and Similar Credit

(Billions of Yen)

March 31	2002	2001	Change
Bankrupt and similar	21.1	43.7	(22.6)
Doubtful	306.4	314.9	(8.5)
Total	327.5	358.6	(31.1)

<Definitions of Disclosed Credit Pursuant to the Financial Reconstruction Law>

Bankrupt and similar credit — Bankrupt and similar credit refers to the credit of borrowers who are in a state of bankruptcy, corporate reorganization, composition, etc., and the equivalent thereof.

Doubtful credit — Doubtful credit refers to credit with serious doubt concerning the recovery of principal and receiving of interest as contract provisions, because the borrower's financial condition and business results have worsened, although they have not reached the point of management collapse.

Substandard credit — Substandard credit refers to loans in arrears for more than 3 months or with mitigated conditions.

Normal credit — Normal credit refers to credit possessed by borrowers whose financial condition and business results have no particular problem and which are not categorized in any of the above categories.

<Risk Monitored Loans>

Loans to bankrupt companies — Loans to bankrupt companies 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 (defined below), excluding the amount of write-offs.

1. Borrowers that have applied for commencement of company or financial institution reorganization procedures pursuant to the provisions of the Corporate Reorganization Law.
2. Borrowers that have applied for reorganization pursuant to the provisions of the Civil Reorganization Law.
3. Borrowers that have applied for bankruptcy pursuant to the provisions of the Bankruptcy Law.
4. Borrowers that have applied to commence liquidation or special liquidation pursuant to the provisions of the Commercial Law.
5. Borrowers with reasons equivalent to 1. to 4. above as defined by Ministry of Finance ordinances.
6. Borrowers who have applied for commencement of legal liquidation procedures pursuant to overseas laws, corresponding to those listed above.

Past due loans — Past due loans refer to non-accrual loans except those for which concessions on payment of interest were made in order to assist the reorganization of bankrupt companies and loans to them.

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

Restructured loans — Restructured loans refer to those loans, excluding loans to bankrupt companies, past due loans and loans overdue for 3 months or more for which agreement was made 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.

<Differences Between Disclosed Credit Pursuant to the Financial Reconstruction Law and Risk Monitored Loans>

Disclosed Credit

- Disclosure: Loans and other credits (securities loaned, foreign exchange, suspense payments, etc.)
  Disclosed: by borrower (by loan for substandard credit)
- Risk Monitored Loans
  Disclosure: Loans only
  Disclosed: by Loan

MANAGEMENT ORGANIZATION

For Aozora Bank, the establishment of a sound, transparent management system is an issue of paramount importance. Following the launch of the new bank in September 2000, the bank has continuously improved its corporate governance and enhanced risk management and compliance systems.

CORPORATE GOVERNANCE SYSTEM

The bank has implemented a new corporate governance system aimed at ensuring sound management by separating the management oversight and business execution functions and streamlining decision-making. The three main points of the corporate governance reform are outlined below.

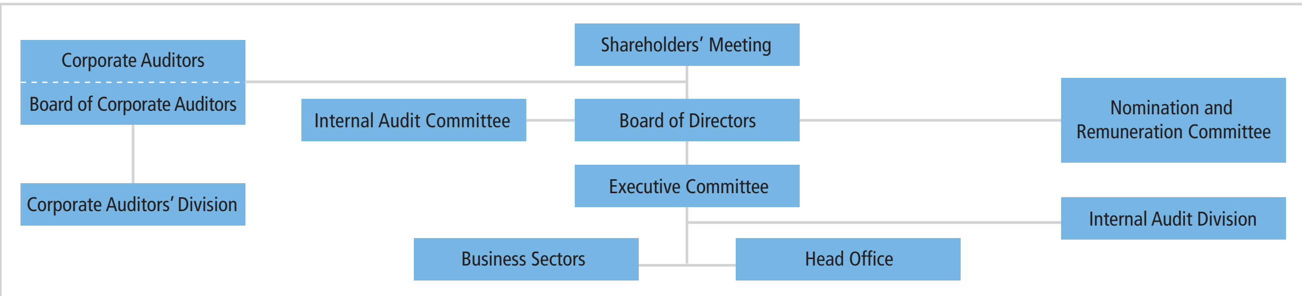
1. Delegated business execution functions to executive officers
2. Strengthened the supervisory functions of the Board of Directors by appointing external directors
3. Established the Internal Audit Committee and the Nomination and Remuneration Committee

Separation of Business Execution Bodies

The Board of Directors determines basic management policies, while the Executive Committee and its members, Executive Officers delegated by the Board, execute day-to-day business operations. The Executive Committee, the highest decision-making body for business operations chaired by the President, makes decisions on critical issues, aiming for more speedy and efficient day-to-day operations.

With the establishment of the Executive Committee, the Board of Directors functions as the highest management decision-making body. Unburdened with responsibility for day-to-day execution, the Board of Directors, currently, is more focused on management decision-making from a broader perspective.

○ Management Organization Chart



○ Principal Management Conferences and Committees

Management conferences and committees	Objectives and topics of discussion
Meeting of the Board of Directors	Determination of management policies; supervision of the performance of directors and executive officers
Meeting of the Board of Auditors	Receive reports, deliberate and resolve important matters relating to audits
Executive Committee	Resolve matters relating to the execution of business operations
Internal Audit Committee	Audit transactions between the bank and non-financial parent companies so as to avoid becoming a captive bank
Nomination and Remuneration Committee	Evaluation of the performance of directors and executive officers

○ Transactions with Parent Company Groups

(Millions of Yen)

		March 31 2002	September 30 2001	March 31 2001
Softbank Group	No. of borrowers	5	3	1
	Credit balance	15,530	383	164
Orix Group	No. of borrowers	13	11	8
	Credit balance	34,497	28,422	4,645
The Tokio Marine and Fire Insurance Group	No. of borrowers	2	—	—
	Credit balance	381	—	—
Cerberus Group	No. of borrowers	—		
	Credit balance	—		
Total	No. of borrowers	20	14	9
	Credit balance	50,408	28,805	4,809

Notes: 1. Figures for credit balances refer to credit extended by Aozora Bank, its subsidiaries and affiliated companies.
2. The bank's "parent companies" refers specifically to major shareholders and their subsidiaries and affiliated companies.
3. Transactions with major shareholders and other firms include loans, customers' liabilities for acceptances and guarantees, commercial paper, equity holdings/interest and derivatives transactions.

A Management System of Checks and Balances

Composed of Japanese and foreign directors, a majority of whom are from outside the bank, including non-shareholders and non-financial sector experts, the Board of Directors manages the bank, pulling together various perspectives.

The bank's system of checks and balances applicable to management includes audits conducted by internal auditors and the Corporate Auditors' Division, and the Nomination and Remuneration Committee, which recommends the nomination and dismissal of directors and determines the remuneration of directors and executive officers. The latter committee consists of external directors and serves as an advisory body to the Board of Directors.

Measures to Avoid Becoming a Captive Bank

The Board of Directors is organized with checks and balances so as to ensure that the interests of any particular group of shareholders are not given preference. Reinforcing this system of checks and balances is the Internal Audit Committee, established to ensure sound, autonomous management. The Internal Audit Committee consisting solely of directors and auditors, who are not shareholders of the bank, audits transactions between the bank and major shareholders to prevent the bank from being reduced to a captive bank of any major shareholder. Transactions with major shareholders and their related companies are disclosed in annual reports and when the bank's financial results are announced.

RISK MANAGEMENT SYSTEM

Risk Management Policies

The practice of risk management is a priority issue for management. Risk management lies at the heart of reliable, sound bank management and the achievement of long-term earnings targets. This thinking is behind the bank's consistent approach to building an effective and adequate risk management system. The bank's risk management policy is clearly spelled out in the "Master Policy for Risk Management," as approved by the Board of Directors, and based on the following concepts:

- *Expatiation of a climate in the bank for the importance of risk management*

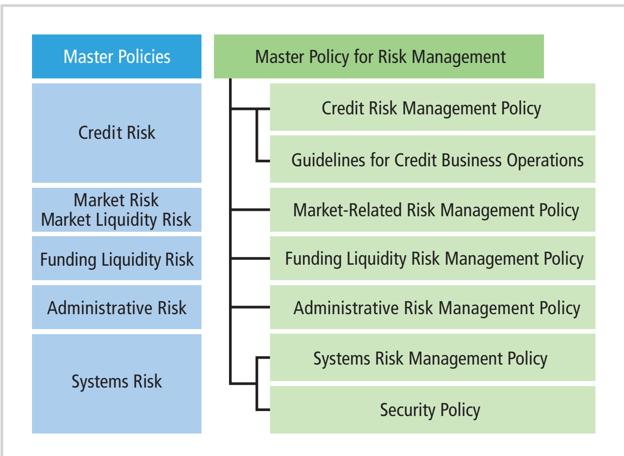
  The responsibility for risk management does not rest solely with the risk management divisions, but is also shared by each and every director and employee of the bank. Aozora Bank promotes knowledge and awareness of this concept by clarifying and mandating risk management policies in respect to risk management methodologies and control procedures.

- *Adequate risk management coordinated with capital allocation and profit plan*

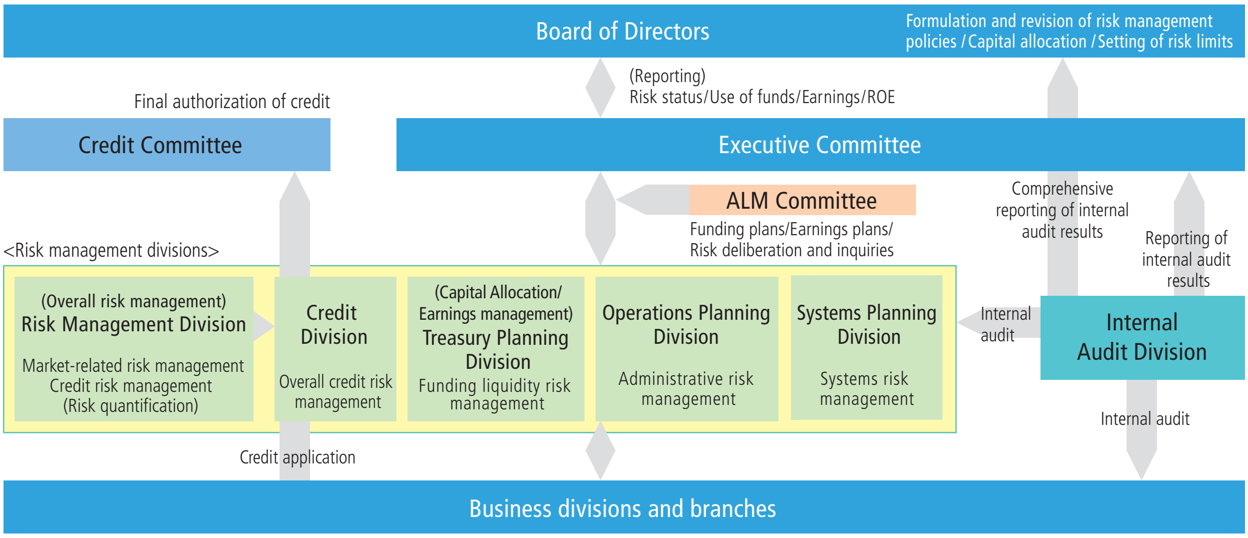
  While it is extremely important to accurately measure and control risk within the bank's risk tolerance level, which is dictated by such factors as capitalization, the bank must also earn revenue through calculated risk-taking, and thus achieve a level of earnings in line with the risk exposure. In view of these considerations, the bank implements a comprehensive risk management system focused on capital allocation in order to manage various risks comprehensively and to optimize the bank's risk-adjusted income.

- *Compliance with laws and regulations*
- *Securing adequate checks and balances*
- *Clearness in responsibility, authority and reporting relationship*
- *Continuing monitoring of effectiveness of risk management structure and flexible revision of risk management policies*
- *Retrenchment or withdrawal from businesses which contain unmanageable risk*
- *Timely and adequate disclosure of important information*

○ Risk Management Policies



○ Risk Management System



Risk Management System

Banks are exposed to various types of risk, each with distinctive characteristics. Because of this, each specialist division manages risks unique to its business, while the Risk Management Division oversees the risk management system of the entire bank and strengthens the bank-wide risk management system, and quantifies total risk and other risk management measures. The Board of Directors and the Executive Committee regularly receive risk monitoring reports from each relevant division, which are used to set business policies and to guide decision-making. In addition, the Board of Directors and the Executive Committee are actively involved in maintaining and improving an adequate risk management system from management's standpoint, through activities that include establishing and revising risk management policies.

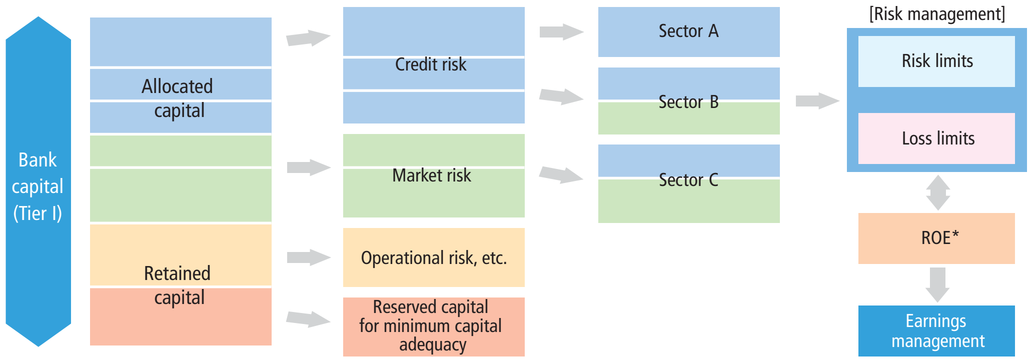
Quantification of Total Risk

In order to understand different forms of risk comprehensively, risks must be measured by a common yardstick. Aozora Bank employs VaR (Value-at-Risk) to calculate the amount of capital that should be set aside against particular risks. In this way, the bank undertakes comprehensive management of credit and market risks and other forms of risk. Risks related to the bank's affiliates have also been incorporated into this risk management framework.

Capital Allocation System

At Aozora Bank, the capital allocation system sets the amount of capital to be placed at risk by each business sector based on risk tolerance and expected income of each business sector, according to management and business strategies.

○ Capital Allocation (Capital at risk, ROE)



*ROE (Return on Equity): The ratio of earnings to capital. Based on a risk capital approach, we allocate capital to each business sector and observe the ratio of each sector's profit and loss (after deducting the cost of credit) to such allocated capital, as one of the reference indices for management.

The Board of Directors allocates capital to individual business sectors in line with the requirements of management and business strategies, after setting aside the amount of capital required to maintain minimum capital adequacy and provisions for operational risks.

The amount of capital allocated to business sectors determines both credit and market risk limits for each business sector. Each sector is responsible for conducting operations within the risk limit provided by the capital allocation. The Risk Management Division monitors the usage of risk limits by each business sector and reports to the Board of Directors and the Executive Committee. The return on equity (ROE) and risk-return profiles for each business sector are evaluated. This information is reflected in subsequent capital allocation and the formulation of management strategy, with a view to improving the profitability and efficiency of the bank as a whole.

Credit Risk Management

Credit risk refers to the potential for loss arising from the impairment of asset value due to deterioration of the borrowers' financial condition or their failure to perform their contractual obligations for specific projects. The nature of credit risk is becoming increasingly complex, involving issues beyond those that accompany traditional lending operations. The bank is now exposed to diverse risks, such as risks associated with derivative transactions and settlements.

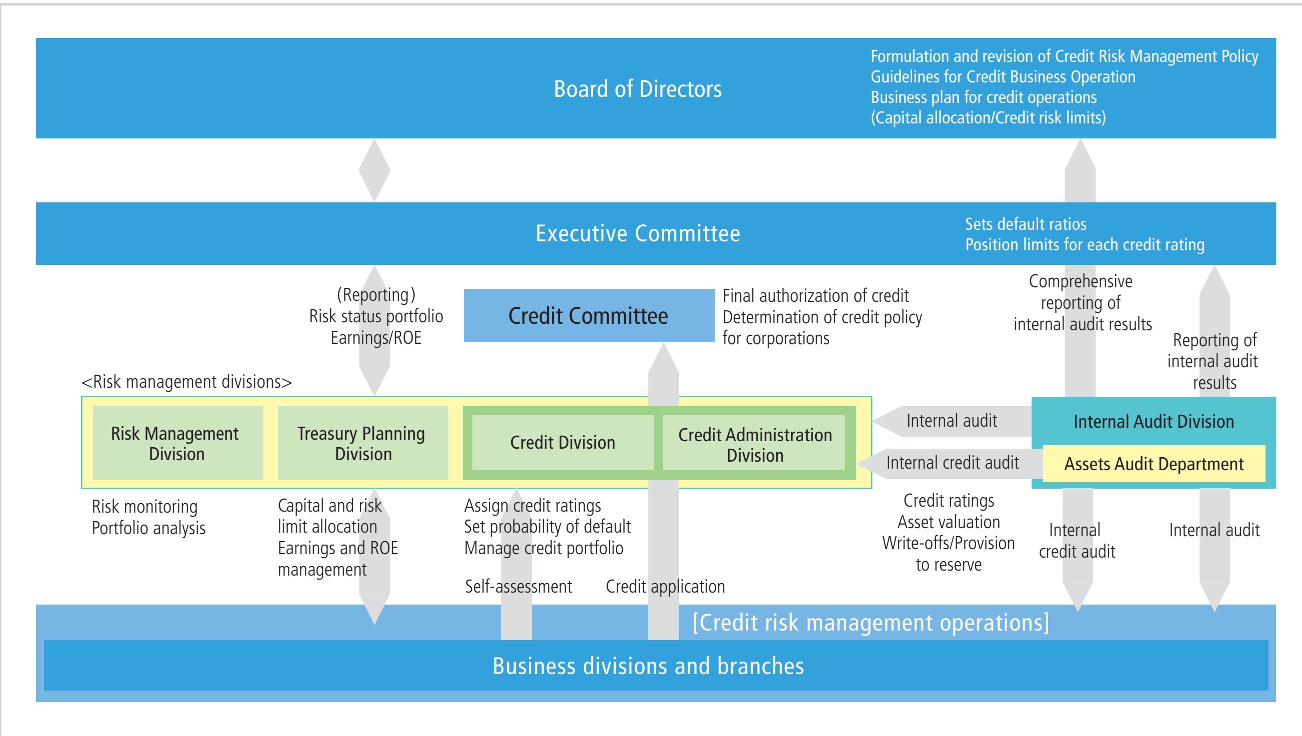
There are two major components of the bank's credit risk management. One is the strict credit screening and monitoring of individual transactions. The other is portfolio management, focused on eliminating concentration risk and optimizing risk-return profiles. Both contribute to the bank's efforts to maintain a sound asset base.

Credit Risk Management System

The Credit Division, which is independent of business divisions, supervises credit screening, formulates basic credit policy and controls credit risks for the entire bank. Specific activities include assigning credit ratings to customers and screening individual credit decisions. To ensure an appropriate system of checks and balances, the Risk Management Division quantifies credit risks and conducts portfolio management, while the Internal Audit Division conducts internal audits.

The Executive Committee approves important decisions related to risk management, while the Credit Committee, consisting of representative directors and executive officers in charge of the Risk Management Division and the Credit Division, approves credit that meets pre-determined criteria and formulates guidelines for borrowers with large credit balances.

○ Credit Risk Management System



Credit Rating System

The bank's credit rating system dates back to 1991. Since then a number of improvements have been made to the system. With the exception of certain housing loan customers, credit ratings of customers are determined on the basis of qualitative assessment of financial condition and income, along with assessment of qualitative factors and consistency with borrower categories as determined by self-assessment.

Credit ratings of Japanese non-financial corporations are divided into 15 categories. At the same time, the credit rating system for other companies has been brought into line with the ratings of Japanese non-financial corporations by matching the probability of default (Note 1) for each category of the former with the latter.

Note1: The definition of the probability of default is based on a board interpretation of default that encompasses not only legal bankruptcy and delinquency, but also a wider range of circumstances and business conditions.

Business divisions and branches conduct preliminary evaluation of borrowers. Subsequently, the Credit Division is responsible for the final decision. In addition, the Assets Audit Department of the Internal Audit Division and the bank's external auditor review the appropriateness of the credit ratings during their audit.

Credit ratings are integral to Aozora Bank's credit management. They are utilized in making important decisions on such issues as the scheme for credit approval, the interest rate spread and the credit limit. Credit ratings are also used to conduct self-assessment and are employed as benchmarks to quantify credit risks.

The bank constantly reviews the consistency of its own credit ratings with those of external credit rating agencies and the evaluations by credit research firms. The credit rating system is maintained in line with the New Basel Capital Accord (Note 2).

Note2: The New Basel Capital Accord is an agreement under deliberation concerning minimum capital requirements. The Basel Committee on Banking Supervision is presently deliberating the accord, with implementation planned for 2006. The accord calls for the use of risk weightings to calculate credit risk assets in a more risk-sensitive manner, and the quantification of operational risk (discussed later) as a risk asset.

Credit Ratings for Individual Transactions

To properly assess the risk-return profiles of each credit, the bank needs to consider the recovery prospects of individual transactions, in addition to the credit rating of the customer, which reflects the overall creditworthiness of the borrower.

For this purpose, the bank has introduced a system of Credit Ratings for Individual Transactions. The system ranks individual transactions according to prospect of recovery, based on factors such as the collateral and lending terms. Such a system enables the bank to calculate the credit cost more precisely. This allows the bank to offer more appropriate interest spreads and lending terms, considering the credit cost, and thus better control the risk and returns from credit.

○ Credit Rating System at a Glance

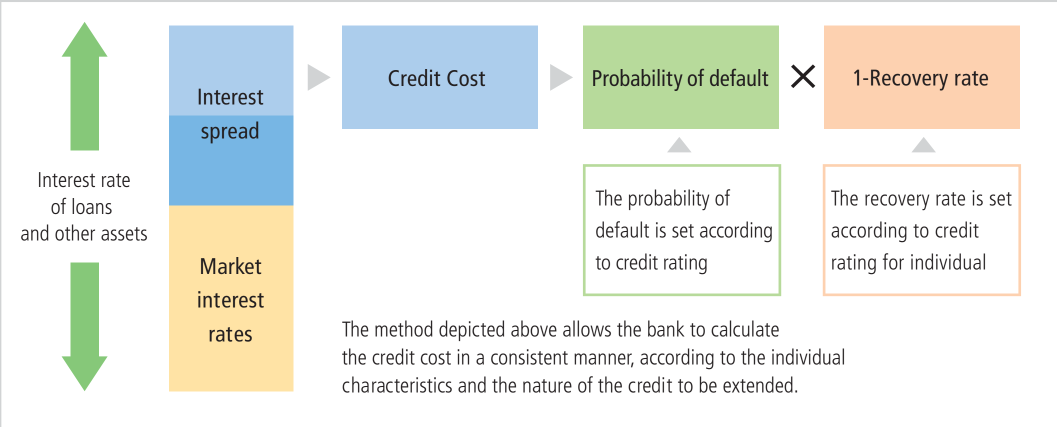
Borrower categories	Domestic non-financial corporations	Domestic financial institutions	Overseas borrowers	Foreign financial institutions	Countries	Structured finance, etc	Common default ratio (%)	External rating agencies	Credit research firms
Normal borrowers	A1	F-A1	G-A1	GF-A1	AAA	(note)	a%		
	A2	F-A2	G-A2	GF-A2		…	b%		
	A3						…		
	B1				…				
	B2+								
	B2-	…	…	…	…	…	…		
	B3+								
	B3-							External rating	External evaluation
Watch list borrowers (exclude special attention borrowers)	C1+								
	C1-	…	…	…	…	…	…		
	C2								
Special attention borrowers	C3								
Potentially bankrupt borrowers	D1	…	…	…			…		
Substantially bankrupt borrowers	D2				…	…	100%		
Bankrupt borrowers	E	F-E	G-E	GF-E			100%		

Consistent rating using a common default ratio

Review consistency with external evaluation

Note: Ratings in the structured finance category include pooled credit (P-A1), real estate securitization (CM-A1), pooled loan assets (PF-A1), project finance (PF-A1), and LBO/MBOs (L-A1).

○ Credit Cost



Credit Ratings for Individual Transactions for Domestic Non-financial Institutions

Effective October 2001, the bank introduced a system of Credit Ratings for Individual Transactions for Domestic Non-financial Institutions.

The framework combines the existing borrower credit rating system with an 11-category system of ratings for individual transactions.

The ratings for individual transactions account for such factors as cash flows classified by use of cash and alternative sources of cash. In addition, the rating system allows the bank to take into account the nature and value of collateral and guarantees more adequately, by including their expected cost of recovery, the change in the guarantor's repayment ability over time, and the correlation of the guarantor's repayment ability with that of the borrower.

The system of rating individual transactions achieves two goals. First, by laying down clear rules for credit screening of individual transactions, the important components of the individual transaction are clarified. Second, by focusing on the certainty of the actual sources of funds for repayment of the loan it acts as a bridge to non-recourse financing. The credit screening of all individual transactions, including those concluded prior to the introduction of the system of credit screening of individual transactions, was completed by the end of March 2002.

Credit Ratings for Structured Finance Transactions

Since April 2001, the bank has applied credit ratings to certain financing schemes, such as structured finance, where collection is independent of a borrower's creditworthiness.

The bank has developed its own model to assign ratings to structured finance products such as securitized pooled products, CDOs, asset-backed securities and loans for commercial property, as well as airplane financing, project financing and real estate project financing. This model allows the bank to accurately assess the credit cost and manage credit in an adequate manner.

Credit Screening and Monitoring of Individual Transactions

At Aozora Bank, business divisions and branches are responsible for preliminary screening. Experienced analysts in the Credit Division conduct secondary screening, which involves, in particular, careful review of business plans and the appropriate use of funds. Analysts also review and assess the future availability of funds for repayment and confirm that the repayment scheme is consistent with the duration of the loan.

Credit monitoring is conducted in accordance with guidelines stipulated in Lending Regulations and the Credit Management Manual. The bank carefully monitors the creditworthiness of borrowers and the value of collateral. In this way, the bank strives to uncover problems at an early stage, with the view to preventing the occurrence of problem assets.

The Assets Audit Department of the Internal Audit Division performs internal audits of all divisions and branches through onsite monitoring to ensure adequate credit monitoring and management.

Market Valuation

Investors have started to pay closer attention to disclosure by public firms, as the principle of self-responsibility in regard to investment decisions takes firmer root. This affects credit risk management in two ways. First, a firm's creditworthiness, which cannot be completely grasped through publicly disclosed financial statements, affects the firm's market valuation. Conversely, changes in the firm's market valuation are having a greater impact on the firm's creditworthiness.

Therefore, the bank uses market valuation to supplement its credit risk management tools. Since December 2001, the Credit Division has started a system of integrated management of market information, including ratings by external credit rating agencies and stock prices, on a daily basis. Such information is used to reevaluate credit ratings in a timely manner and modify our customer relationship strategy.

Management of Problem Assets

The removal of problem assets from the balance sheet is one of the most critical issues for Japanese financial institutions. To aggressively address this issue, the bank, in April 2002 established the Credit Administration Division. It replaces the department in charge of problem assets, which was originally a part of the Credit Division.

Portfolio Management and Quantification of Credit Risk

The bank focuses on maintaining the quality of its entire credit portfolio through portfolio management, which includes analysis and quantification of the aggregated risk exposure of its loan portfolio, in addition to credit risk evaluation and management by individual borrower and transaction.

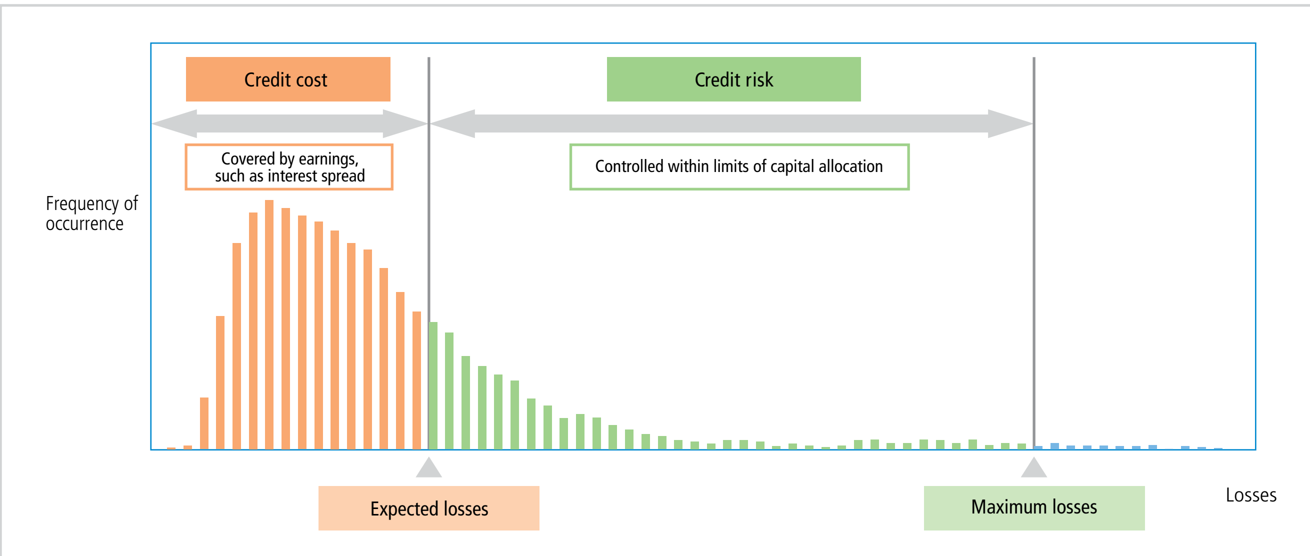
The Board of Directors and the Executive Committee regularly receive various reports in which the credit portfolio is analyzed and monitored from such angles as industry concentration and the bank's internal credit ratings, respectively. Such reports are utilized to make balanced and informed decisions, reflecting the current status of the bank's portfolio. This reduces over-dependence on credit screening of individual transactions.

By setting credit ceilings for each credit rating, the bank ensures that there is no over-concentration of credit in any particular industry or corporate group.

Quantifying Credit Risk

The bank uses a proprietary model based on Monte Carlo Simulation to calculate potential losses arising from the borrowers' failure to fulfill repayment obligations (risk amount). The bank constructs a histogram of losses from a portfolio over a specified time horizon based on assumed probability of default for each credit rating. The average value of such a histogram represents expected loss from the portfolio. Using a certain confidence interval, the bank can also estimate the maximum loss amount that could occur. The difference between the maximum loss and the expected loss is defined as the volume of credit risk. The volume of credit risk is managed so as to ensure that it remains within the limits of allocated capital.

○ Distribution of Losses of a Portfolio



Market Risk Management

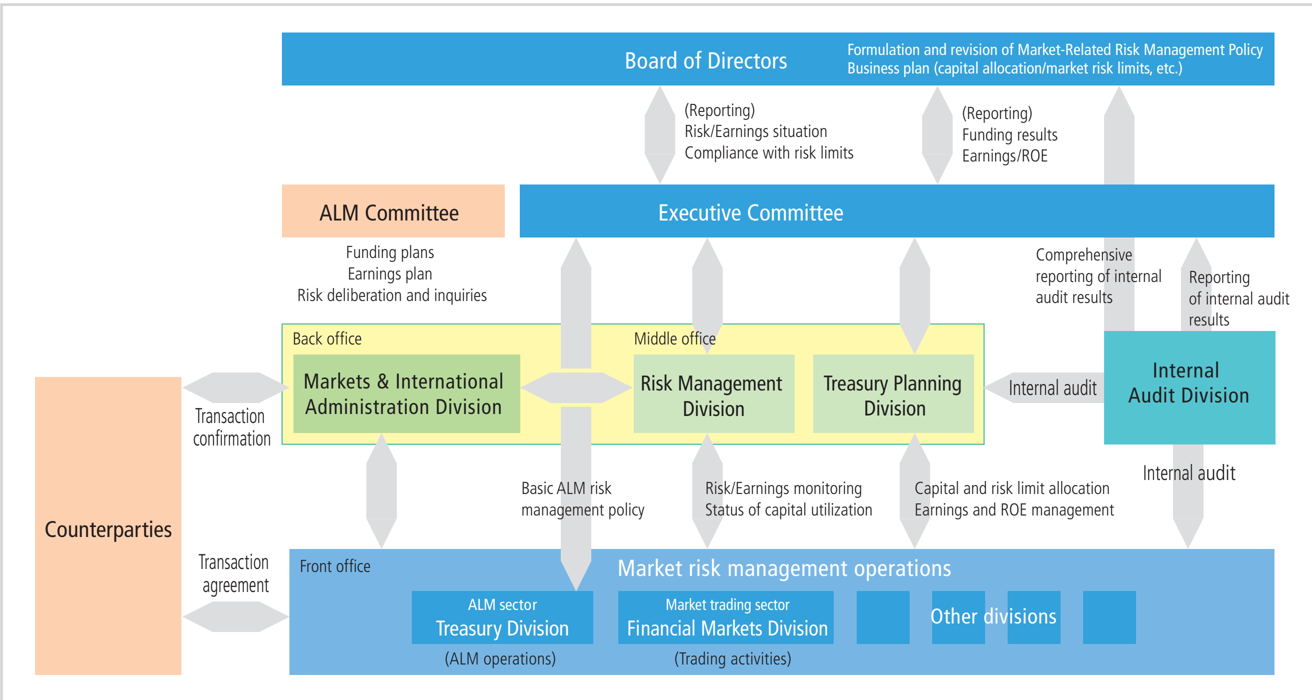
Market risk refers to the potential for losses due to fluctuations in the value of the bank's assets and liabilities brought about by changes in market variables such as interest rates, stock prices or exchange rates. Market risk is not limited to financial instruments such as marketable securities, whose value is directly affected by market fluctuations. All assets and liabilities, including deposits and loans, are subject to market risk.

Aozora Bank performs analysis of the market risk affecting all assets and liabilities in order to suitably control market risk throughout the bank. As a financial institution classified as a global dealer, the bank has developed a risk management system capable of addressing all aspects of market risk.

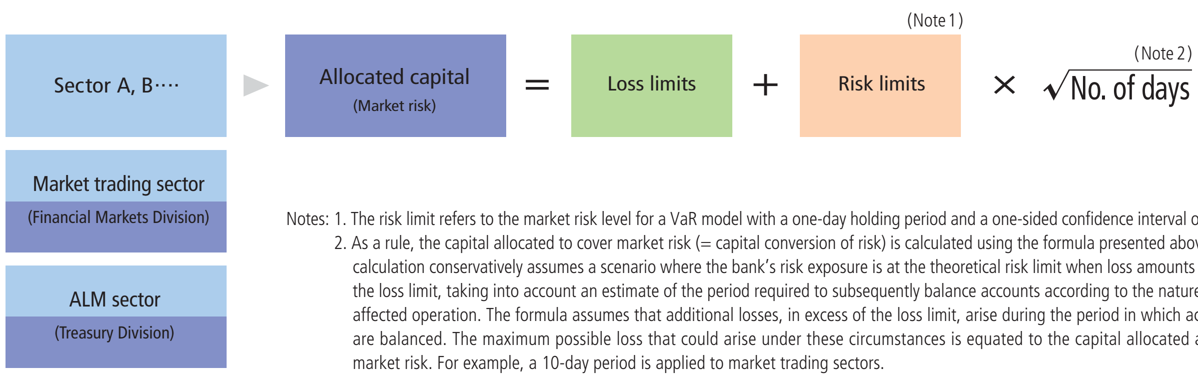
Market Risk Management System

Within the framework of integrated risk management, the Board of Directors decides the capital allocation for the entire bank and for each business sector commensurate with market risk exposure. Market risk limits and loss limits are set in accordance with the capital allocation, and these limits are further subdivided into specific limits for each business division and section. The Risk Management Division, which is independent of the so-called front-office divisions, centrally monitors the usage of, and compliance with, risk limits and stop-loss rules, and reports directly to the Board of Directors and the Executive Committee.

○ Market Risk Management System



○ Capital Allocation and Market Risk Limits



Notes: 1. The risk limit refers to the market risk level for a VaR model with a one-day holding period and a one-sided confidence interval of 99%.

2. As a rule, the capital allocated to cover market risk (= capital conversion of risk) is calculated using the formula presented above. This calculation conservatively assumes a scenario where the bank's risk exposure is at the theoretical risk limit when loss amounts exceed the loss limit, taking into account an estimate of the period required to subsequently balance accounts according to the nature of the affected operation. The formula assumes that additional losses, in excess of the loss limit, arise during the period in which accounts are balanced. The maximum possible loss that could arise under these circumstances is equated to the capital allocated against market risk. For example, a 10-day period is applied to market trading sectors.

Quantifying Market Risk

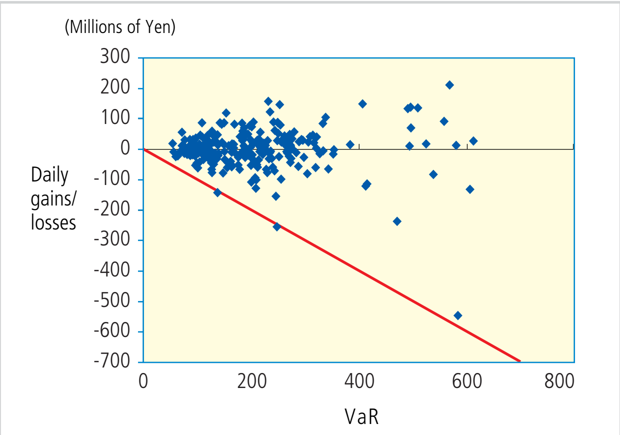
Aozora Bank uses Value-at-Risk (VaR) to quantify market risk and as a basis for setting market risk limits. VaR is a statistical measure of estimated maximum losses that could arise based on historical market data. VaR serves as a common metric to measure potential losses that could arise as a result of interest rate, stock price and exchange rate fluctuations.

Backtesting

The bank conducts backtesting to verify the reliability of VaR calculations by comparing daily reported VaR with actual daily gains or losses. The result of the backtesting for trading activities shows that the actual daily losses exceeded daily VaR on only 2 days over a period of 245 business days from April 2001 through March 2002. These results fell within expectations and support the reliability of the bank's VaR model.

An external audit, based on BIS Market Risk Regulations, confirmed that the bank's Market Risk Management was adequate and in compliance with the bank's management strategy and its transaction policies.

○ Backtesting for Trading Activities
(April 2001-March 2002)



Stress Testing

The bank conducts stress tests regularly to prepare for volatile market movements that could exceed statistical estimates. The bank calculates and analyzes potential losses that could arise from dramatic changes in interest rates, stock prices and exchange rates, or from a collapse of correlations between different risk categories.

○ Stress Test Scenarios and Results

(Billions of Yen)

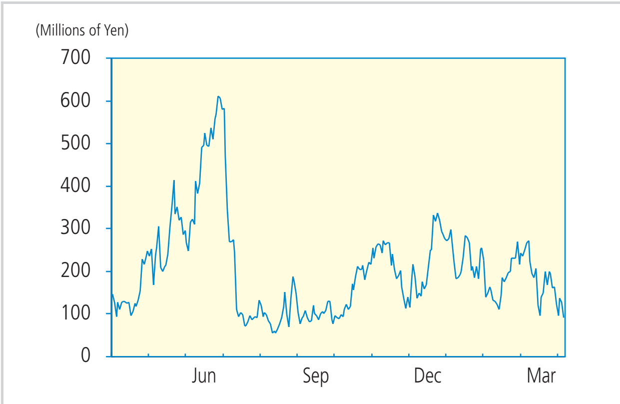
March 31, 2002		Result
Scenario 1	<Interest Rate 1> Use the maximum change in interest rate*, assuming an extraordinary movement in market variables (a combination of maximum changes at each grid point)	12.9
Scenario 2	<Interest Rate 2> Use the maximum change in interest rates*, assuming a holding period through to closing of positions (32 days for banking operations/10 days for trading activities) (a combination of maximum changes at each grid point)	48.5
Scenario 3	Use the combination of statistical correlations among risk factors that had the greatest impact on the bank's position, using correlation coefficients observed in the past 10 years.	2.3
	Normal VaR	2.0
	Capital	474.3

Note: In addition to these scenarios, the bank regularly conducts stress testing using a variety of other scenarios. Regarding data for prior years, the bank uses interest rates over a period of approximately 10 years (European long-term interest rates: approximately 8 years).

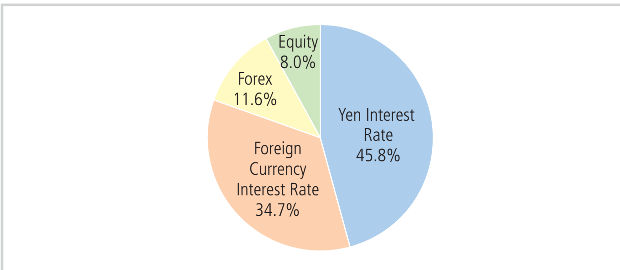
Trading Activities and Market Risk

In the fiscal year ended March 31, 2002, the market risk level of trading activities for a VaR model with a one-day holding period and a one-sided confidence interval of 99%, was a maximum ¥612 million, a minimum ¥54 million and an average ¥204 million.

○ VaR for Trading Activities
(April 2001-March 2002)



○ Breakdown of Risks Associated With Trading Activities
(as of March 31, 2002)



ALM Operations and Market Risk

The ALM sector centrally manages interest rate risk associated with all banking operations, excluding market activities, market risks associated with its own securities, funds and derivatives. The Board of Directors approves capital allocation and risk limits in respect to ALM operations and the Executive Committee approves monthly management policy.

In the fiscal year ended March 31, 2002, the ALM risk level for a VaR model with a one-day holding period and a one-sided confidence interval of 99%, was a maximum ¥2.9 billion, a minimum ¥1.8 billion and an average ¥2.2 billion (weekly basis). The following diagrams show the weekly risk level during the fiscal year ended March 2002 and the breakdown by risk category as of the end of March 2002. The figure on page 84 shows gains/losses on interest rate swaps used as macro hedges against interest rate risk.

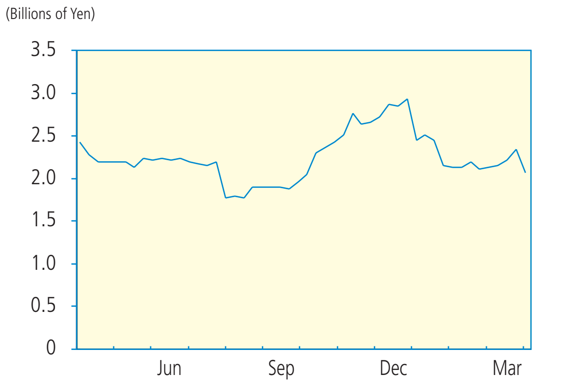
○ Interest Rate Sensitivity of Yen-denominated Assets and Liabilities

(Billions of Yen)

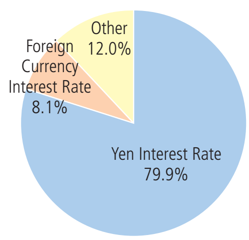
March 31	One year or less	One to five years	More than five years	Total
2002	0.5	(3.2)	(1.0)	(3.7)
2001	0.6	(2.1)	(1.1)	(2.6)

Note: 10 bpv: For a 10bp (0.1%) change in interest rates, a positive change in the fair value of assets and liabilities suggests that when the interest rate rises, fair value will increase. A negative change in fair value suggests that when interest rates decline, fair value will increase. Off-balance-sheet transactions are included.

○ VaR for ALM Operations
(April 2001-March 2002)



○ Breakdown of Risks Associated With ALM Operations
(as of March 31, 2002)



Other Operations

The bank manages market risks associated with other operations, including Relationship Investments, as part of its risk management framework. Actions include setting limits and taking other steps to mitigate market risk.

○ VaR for the Entire Bank

(Billions of Yen)

March 31, 2002	Interest rate	Equity	Forex	Total
Trading	0.1	0.0	0.0	0.1
ALM	1.7	0.2	0.0	1.9
Others	—	0.1	—	0.1
Total	1.7	0.3	0.0	2.0

Note: The figures for total VaR do not represent the sum of individual components, as the latter includes correlations.

Liquidity Risk Management

There are two types of liquidity risks: one is funding liquidity risk, a risk in which the bank is unable to raise the funds needed for various fund settlements; and second is market liquidity risk, the result of the inability of the bank to unwind trading positions at reasonable market prices due to a number of factors, including market turmoil.

Funding Liquidity Risk Management

The Treasury Planning Division centrally manages yen and foreign-currency denominated funds and limits funding gaps for specific periods. The division ensures that the bank's funding capabilities are sufficient to meet its contractual obligations. At the same time, the Risk Management Division ensures that the management process is appropriate and effective, maintaining adequate checks and balances. The Board of Directors and the Executive Committee prepare monthly and semi-annual plans for investment and procurement of funds. The Treasury Planning Division reports directly to the executive officer in charge on liquidity issues, on a daily basis.

Market Liquidity Risk Management

The Risk Management Division analyzes trading positions relative to market scale and reports to the executive officer in charge on market liquidity risk. Close attention is paid to ensuring that trading positions do not become excessive.

Operational Risk Management

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risks include administrative risk, systems risk and legal risk.

Operational risks harbor the potential for inconveniencing customers and causing significant losses to the bank. At Aozora Bank, we have taken a variety of steps to mitigate operational risks at every point of potential risk. The bank is also working on measures to upgrade administrative methodologies to expand the scope of statistical data on loss phenomena and for centralized control in line with the "New Basel Capital Accord."

Administrative Risk Management

Administrative risk refers to potential losses resulting from the failure of directors and employees to handle clerical work accurately as well as from accidents and irregularities by them.

Aozora Bank's Administration Risk Management Policy was approved by the Board of Directors.

The Operations Planning Division formulates administrative procedures and manuals tailored to each business operation independently of marketing divisions, with the aim of enhancing the reliability of clerical procedures. The division is also tasked with building an effective administration system by providing guidance on specific processes and holding training seminars, in addition to analyzing the volume of clerical work and reviewing the organizational arrangement. The bank aims to minimize human error arising from administrative processes by continuously reviewing and implementing greater automation, systemization and centralization of clerical procedures.

We continue to explore ways to quantify clerical risks so as to refine our risk management system still further.

Systems Risk Management

Systems risk is defined as potential losses resulting from the failure of computer systems due to internal and external factors, including shutdown, malfunction, inappropriate use of computer systems and computer viruses. With the advance in networking and diversification of bank operations, the social consequences of systems failures are becoming increasingly serious.

At Aozora Bank, we believe that the entire bank must make a concerted effort to control systems risk. To this end, the Board of Directors has approved the Systems Risk Management Policy. The Systems Planning Division is making every effort to protect systems from natural disasters and other contingencies to ensure their stable operation. The bank has taken various steps to protect computer systems from a wide range of natural disasters and criminal activities so that systems risk will not materialize.

Systems development (Systems Planning Division) and systems operation (Computer Operation Division) have been clearly separated to ensure adequate checks and balances between the two divisions.

The bank will install a new accounting system in 2004. In addition to reducing systems-related costs through outsourcing, the switch to the new system will enhance maintenance and back-up systems.

Legal Risk Management

Legal risk is defined as potential losses resulting from lawsuits filed against the bank by customers or other third parties for damage indemnification as well as other legal conflicts that could arise in the course of conducting a wide range of banking operations. Legal risk also includes unforeseeable losses that arise from legal, yet inappropriate activities that result in a breach of trust between the bank and its customers, as well as inappropriate contracts that require the bank to assume obligations that would be dispensable under normal circumstances.

At Aozora Bank, the Compliance Management Division supervises legal affairs and compliance to prevent a possible occurrence of unforeseeable losses. At the same time, this division checks important documentation, such as major contracts, and confirms that all operations comply with relevant laws and other regulations to ensure that all operations are being conducted properly.

Settlement Risk Management

Settlement risk management refers to potential losses arising from the failure to finalize settlements as planned. Settlement risk comprises a wide range of risks, such as credit and liquidity risk, administrative risk and systems risk.

A major component of settlement risk is the timing differences that arise between payment and receipt of funds, and payment and delivery of securities. This type of risk is not limited to foreign exchange transactions, which arises from the timing of settlement across international time zones, but also occurs within domestic transactions in a variety of contexts.

The bank has set limits on settlement volumes for foreign exchange transactions by each customer. The bank also adopted a policy of reducing settlement volumes by using netting techniques and is working to shorten time intervals between payment and receipt of funds.

Before participating in various settlement systems, the bank makes sure it thoroughly understands the relevant rules of settlement systems. At the same time, the bank monitors actual settlement situations in real time in accordance with changes to Real-Time Gross Settlement (RTGS) of the Bank of Japan Financial Network Systems. The bank is also upgrading its settlement risk management systems by carefully studying the inherent risks of individual financial products and settlement systems.

Information Assets Management

Information assets management is just as important as managing tangible assets to the bank. However, they are vulnerable to a wide range of risks such as accidents, disasters, system errors, unauthorized use, damage, theft, information leakage and data manipulation. Therefore, protecting information assets, by preventing information leakage, for example, is critical to safeguarding the entire organization.

Guided by its Security Policy, Aozora Bank assesses the exposure of its information assets to various risks and also monitors countermeasures to mitigate risks, to ensure the security of information systems.

The bank's executive officer who is in charge of the Compliance Management Division, as the Information Assets Supervisor, takes all necessary measures to ensure that the bank's information assets are secure and reports on the status of security to the Board of Directors.

In addition to this, the principal divisions of the bank, in their role as the managers of information systems resources, develop security plans and provide guidance to officers responsible for information assets, assigned to individual divisions, departments and branches, and resolve problems when they arise. The Compliance Management Division assists the officers responsible for information assets, thus ensuring strict implementation of the control system.

Internal Audit

At Aozora Bank, the Internal Audit Division, an autonomous body, assesses whether the bank's risk management systems are functioning adequately and effectively. In this way, the bank maintains an appropriate system of checks and balances to ensure sound and appropriate banking operations.

COMPLIANCE SYSTEM

The bank has established internal systems and rules that ensure due compliance with legal requirements and integrity in the conduct of all operations. The bank strives to foster a corporate culture that places priority on these goals.

Master Policy on Compliance and the Compliance Program

The bank has instituted the "Master Policy on Compliance," which sets forth internal systems and basic principles needed to maintain compliance with all legal regulations in all aspects of operations. In addition, the "Compliance Program," which is updated every business year, specifies action guidelines and compliance standards. The "Compliance Manual," a collection of up-to-date compliance information including the updated "Compliance Program," is distributed to all directors and employees to make sure that all understand the program's requirements. For fiscal 2002, the bank plans to continue to build on these achievements, with a focus on enhancing the effectiveness of periodic compliance audits and assuring that a culture of compliance with laws and regulations takes firm root within our organization.

Compliance Organization and System

Primary responsibility for supervising legal and compliance issues in the bank rests with the Compliance Management Division, which conducts compliance checks based on the relevant laws. The Executive Officer responsible for compliance is appointed Chief Compliance Officer (CCO), while the general manager of the Compliance Management Division, in his capacity as Executive Compliance Officer, supports the CCO. The division provides internal legal consulting, including the review and authorization of the legality of contracts, and is also responsible for formulating, monitoring and revising internal regulations.

Compliance leaders are appointed at all divisions and branches. Their duties include consulting activities, as well as compliance audits and taking steps to promote awareness of compliance-related issues. An independent Compliance Officer, directly responsible for ensuring an appropriate compliance system, is appointed at divisions where compliance is considered to be particularly important.

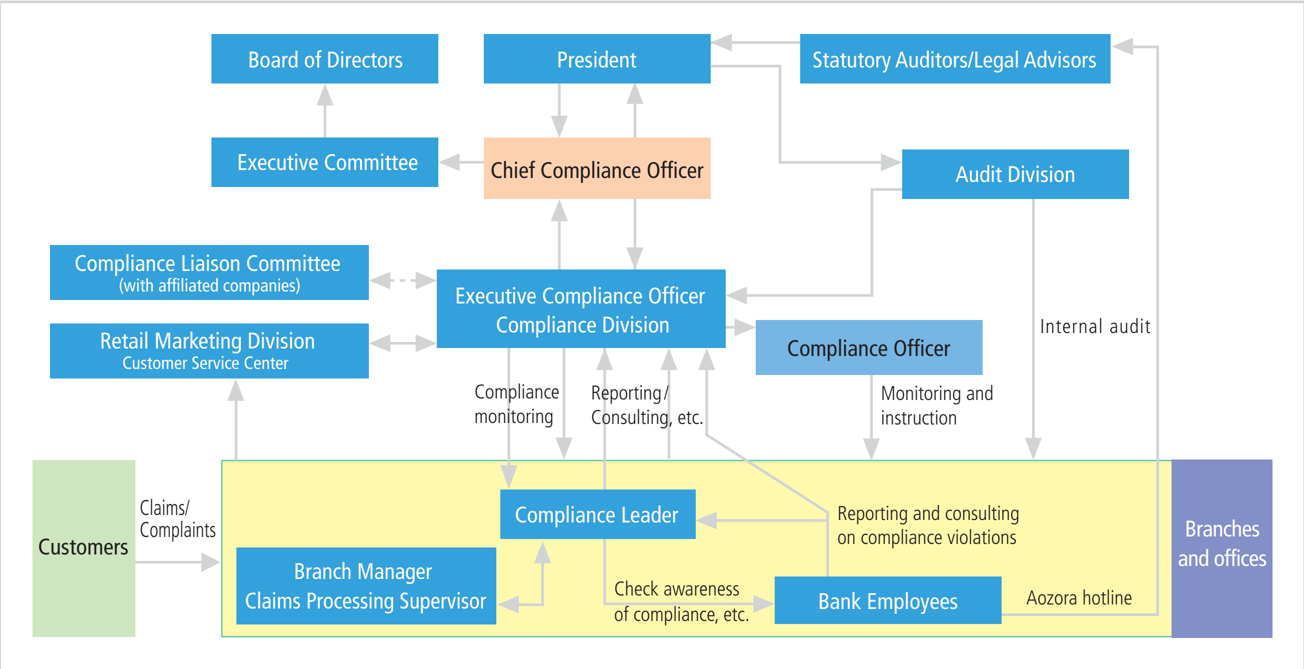
As a part of the program to build a fair and honest corporate culture, Aozora Bank took two major initiatives in October 2001. One was the introduction of a system allowing employees to consult directly with the bank's legal advisors and auditors. Second was a system designed to allow the Compliance Management Division to independently communicate with employees on compliance issues. A liaison committee was established in February 2002, to build a consistent internal control system for the group. By sharing information on compliance issues with affiliates, the liaison committee is working to develop an integrated compliance system for the entire group.

Compliance Training and Promotion of Awareness

Training sessions for compliance leaders are conducted annually in order to ensure a thorough understanding of key compliance issues and promote awareness of the importance of legal compliance. After completing this session, compliance leaders then train staff at their respective departments, divisions and branches. In this way, all directors and employees throughout the bank are thoroughly trained in current compliance issues.

Aozora Bank has a whole package of compliance training opportunities made available to new employees, newly appointed department heads, as well as job training programs to raise greater awareness of the importance of legal compliance throughout the bank.

○ Compliance System



FINANCIAL INFORMATION AND CORPORATE DATA

CONSOLIDATED BUSINESS RESULTS

Consolidated Financial Highlights [Five-year Summary]

(Millions of Yen)

Years ended March 31	2002	2001	2000	1999	1998
Consolidated operating income	106,700	275,730	223,909	455,333	800,642
Consolidated ordinary profits	14,355	99,116	(112,592)	(3,523,986)	19,559
Consolidated net income	18,703	98,331	112	(469,252)	16,982
Capital stock	419,781	419,781	353,114	353,114	353,114
Consolidated stockholders' equity	477,046	460,876	1,229	1,503	503,973
Consolidated total assets	5,684,072	6,163,766	8,346,327	13,776,868	13,597,540
Debentures	1,468,193	2,479,408	3,709,377	4,347,380	5,497,420
Deposits	2,164,641	1,771,373	2,620,980	2,541,807	2,127,054
Loans and bills discounted	3,297,993	3,089,490	4,102,509	6,889,652	7,762,751
Securities	1,054,019	721,477	1,073,210	1,190,262	2,160,538
Consolidated equity per share (in yen)	68.07	62.36	0.39	0.48	107.66
Consolidated net income per share (in yen)	5.37	35.80	0.04	(187.58)	7.35
Consolidated diluted net income per share (in yen)	4.95	29.40	0.03	—	—
Consolidated capital adequacy ratio (Domestic standard) (%)	14.05	15.13	—	—	
Net cash provided by (used in) operating activities	923,515	(1,116,186)	453,607		
Net cash provided by (used in) investing activities	(376,664)	459,986	(30,168)		
Net cash provided by (used in) financing activities	(20,803)	235,036	(28,309)		
Cash and cash equivalents, end of year	557,822	31,774	453,037		

Notes: 1. Consolidated equity per share is calculated by dividing consolidated stockholder's equity at the fiscal year end, less the product of the number of preferred shares issued and outstanding at the fiscal year end and the issue price, by the number of common shares issued and outstanding at the fiscal year end, excluding treasury stock and parent company shares held by consolidated subsidiaries. However, since stockholders' equity in the bank was nil (¥0) for the fiscal years ended March 31, 1999 and 2000, consolidated equity per share for those years is calculated by dividing consolidated stockholders' equity at the fiscal year end by the number of shares issued and outstanding at the fiscal year end, excluding treasury stock and parent company shares held by consolidated subsidiaries.

2. Consolidated net income (loss) per share is calculated by dividing consolidated net income (loss), less total dividends on preferred shares for fiscal 2001, ended March 31, 2002, by the average number of common shares issued and outstanding during fiscal 2001, excluding treasury stock and parent company shares and parent company shares held by consolidated subsidiaries.

3. Consolidated diluted net income per share for fiscal 1997, ended March 31, 1998 is not shown, as net income per share remained unchanged after dilution. The corresponding figure is not shown for fiscal 1998 due to the net loss posted in that fiscal year.

Consolidated Financial Review

1. Consolidation and Equity-method Companies

The consolidated business results of Aozora Bank, Ltd. include the accounts of parent Aozora Bank and its ten consolidated subsidiaries. During the fiscal year, one consolidated subsidiary, Aozora Card, Co., Ltd. was established while four were excluded through mergers or the sale of ownership during the year. One affiliated company, over which the Group had significant control, was nevertheless excluded from the use of the equity method for the year, and no other companies were so accounted for at March 31, 2002.

Consolidation and Equity-method Companies

(Number of Companies)

March 31	2002	2001	Change
Consolidated subsidiaries	10	13	(3)
Affiliated companies	0	0	0

2. Profit and Loss

For the fiscal year ended March 31, 2002, consolidated gross business profits rose 19%, or a year-on-year increase of ¥10.7 billion, as a result of augmentations in prime assets, improvements in the financing structure, and growth in the investment banking business on one hand, and further reductions in expenses on the other. Net income jumped 40%, or a year-on-year increase of ¥5.4 billion, after excluding ¥85.0 billion in profit from the bank's sale last year of equity securities to improve its capital at the end of special public management.

Profit and Loss

(Millions of Yen)

Years ended March 31	2002	2001	Change
Gross business profits (Note 1)	**66,926**	**56,192**	**10,733**
Net interest income	59,505	51,212	8,292
Net fees and commissions	5,210	2,975	2,235
Net trading revenues	537	3,141	(2,603)
Net other operating income	1,672	(1,137)	2,809
General and administrative expenses	**(39,579)**	**(39,887)**	**307**
Credit-related expenses (Note 2)	**(6,684)**	**(41,365)**	**34,681**
Gains on stock transactions	**(995)**	**128,236**	**(129,232)**
Equity in earnings (losses) of affiliated companies	**(48)**	**—**	**(48)**
Other income (loss)	**(5,263)**	**(4,059)**	**(1,203)**
Ordinary profits	**14,355**	**99,116**	**(84,761)**
Special income (loss)	**3,794**	**(7,078)**	**10,873**
Income before income taxes and minority interests	**18,150**	**92,037**	**(73,887)**
Current income taxes	**(696)**	**(2,285)**	**1,588**
Deferred income taxes	**1,372**	**9,610**	**(8,237)**
Minority interests in net income	**(122)**	**(1,031)**	**908**
Net income	**18,703**	**98,331**	**(79,627)**
Total credit-related expenses (Note 2)	**(3,027)**	**(41,365)**	**(38,338)**
Reduction in loan loss reserve included in special income	3,656	—	3,656

Notes: 1. Consolidated gross business profits = (Interest income – Interest expenses) + (Fees and commissions received – Fees and commissions paid) + (Trading revenues – Trading expenses) + (Other operating income – Other operating expenses)
2. For the fiscal year ended March 31, 2002, total credit-related expenses included a decrease in general loan-loss reserve accounted for as a special income item.

(1) Consolidated gross business profits

Net interest income increased ¥8.3 billion to ¥59.5 billion, mainly from continued growth in lending and improvements in the financing structure, and net fees and commissions amounted to ¥5.2 billion as a result of steady growth in fees and commissions from lending and investment banking. Net trading revenues amounted to ¥0.5 billion and net other operating income, ¥1.7 billion. In total, consolidated gross profit rose ¥10.7 billion to ¥66.9 billion.

Interest-earning Assets and Interest-bearing Liabilities

(Millions of Yen, %)

Years ended March 31	Average balance 2002	Average balance 2001	Average balance Change	Interest income/expense 2002	Interest income/expense 2001	Interest income/expense Change	Return/rates 2002	Return/rates 2001	Return/rates Change
Balance of interest-earning assets	**5,037,623**	**5,646,007**	**(608,384)**	**88,956**	**108,061**	**(19,105)**	**1.76%**	**1.91%**	**(0.14)%**
Loans and bills discounted	3,443,953	3,549,350	(105,397)	69,287	73,120	(3,833)	2.01	2.06	(0.04)
Securities	810,182	1,006,197	(196,014)	9,474	16,320	(6,846)	1.16	1.62	(0.45)
Call loans and bills bought	275,865	580,099	(304,234)	151	2,160	(2,009)	0.05	0.37	(0.31)
Cash and due from banks	87,172	164,162	(76,990)	951	3,134	(2,182)	1.09	1.90	(0.81)
Balance of interest-bearing liabilities	**4,471,601**	**6,079,505**	**(1,607,904)**	**29,450**	**56,848**	**(27,397)**	**0.65%**	**0.93%**	**(0.27)%**
Debentures	2,075,628	2,936,336	(860,708)	18,531	37,603	(19,072)	0.89	1.28	(0.38)
Deposits	1,331,758	1,774,839	(443,080)	5,644	7,136	(1,492)	0.42	0.40	0.02
Certificates of deposit	540,217	635,855	(95,638)	495	1,554	(1,059)	0.09	0.24	(0.15)
Borrowed money	47,907	137,955	(90,047)	1,164	2,962	(1,797)	2.43	2.14	0.28
Commercial paper	4,931	48,728	(43,797)	11	94	(82)	0.23	0.19	0.03
Call money and bills sold	398,163	502,533	(104,370)	92	943	(851)	0.02	0.18	(0.16)

As a result of strenuous efforts to manage and generate funds efficiently, the average balance of total earning assets fell ¥608.4 billion to ¥5,037.6 billion, while the average balance of the interest-bearing liabilities improved ¥1,607.9 billion to ¥4,471.6 billion. The return on total interest-earning assets declined 0.14 percentage point to 1.76%, while the rate on total interest-bearing liabilities dropped 0.27 percentage point to 0.65% due to adjustments to the composition of the bank's liabilities.

Fees and Commissions Received

(Millions of Yen)

Years ended March 31	2002	2001	Change
Fees and commissions received	**5,777**	**3,336**	**2,441**
Debentures, deposits and loan operations	2,128	1,943	184
Foreign exchange operations	122	71	51
Securities-related operations	420	590	(169)
Agency services	421	155	266
Safekeeping and safe deposit box services	28	11	17
Guarantee operations	715	132	582
Fees and commissions paid	**567**	**361**	**205**
Foreign exchange operations	67	21	45

(2) General and administrative expenses

General and administrative expenses declined ¥0.3 billion to ¥39.6 billion as a result of bank-wide cost-cutting activities.

(3) Credit-related expenses

The bank has advanced the disposal of problem loans, while continuing to write off problem loans and allocate the loan-loss reserve for a sounder asset portfolio. In total, credit-related expenses amounted to ¥3.0 billion for the fiscal year. The loan-loss reserve, which reduced to less than allocated as the quality of assets improved significantly, was credited as a special income item.

(4) Loss on stock transactions

Net proceeds from securities transactions decreased ¥129.2 billion to ¥1.0 billion in losses. The high profit in the previous year largely came from gains on sales of bank-held equity securities to the Deposit Insurance Corporation when special public management ended.

(5) Ordinary profits

Ordinary profits declined ¥84.8 billion to ¥14.4 billion, mainly because extraordinary items, notably the gain on sale of equity securities at the end of special public management, were included in the previous fiscal year's income statement.

(6) Special income

In this account, a gain of ¥3.8 billion was recorded due to a ¥3.7 billion reduction in the loan-loss reserve, a contra account.

(7) Net income

Income before income taxes decreased ¥73.9 billion to ¥18.2 billion. The bank deducted ¥0.7 billion in income taxes, adding back ¥1.4 billion for deferred income taxes. The bank also deducted minority interests of ¥0.1 billion and net income fell ¥79.6 billion to ¥18.7 billion.

3. Assets and Liabilities

Assets and Liabilities

(Millions of Yen)

March 31	2002	2001	Change
Assets	**5,684,072**	**6,163,766**	**(479,694)**
Loans and bills discounted	3,297,993	3,089,490	208,503
Securities	1,054,019	721,477	332,541
Trading assets	422,694	565,793	(143,099)
Other assets	281,039	1,007,766	(726,726)
Customers' liabilities for acceptances and guarantees	141,354	25,315	116,038
Liabilities	**5,206,182**	**5,702,552**	**(496,370)**
Debentures	1,468,193	2,479,408	(1,011,214)
Deposits	1,636,733	1,398,553	238,180
Certificates of deposit	527,908	372,820	155,088
Call money and bills sold	728,500	143,000	585,500
Other liabilities	479,924	1,018,142	(538,218)
Acceptances and guarantees	141,354	25,315	116,038
Minority Interests	**843**	**338**	**505**
Stockholders' Equity	**477,046**	**460,876**	**16,170**

(1) Assets

The bank worked to use assets more efficiently. Consequently, loans and marketable securities advanced and short-term surplus funds declined, totaling ¥5,684.1 billion in assets at March 31, 2002, down ¥479.7 billion from the year before.

(2) Liabilities and minority interests

In liabilities, as a result of the bank's effort to adjust its financing structure, debentures decreased ¥1,011.2 billion to ¥1,468.2 billion while deposits and certificates of deposits increased ¥393.3 billion to ¥2,164.6 billion. In total, liabilities fell ¥496.4 billion to ¥5,206.2 billion. Minority interests rose ¥0.5 billion to ¥0.8 billion.

(3) Stockholders' equity

Stockholders' equity increased ¥16.2 billion to ¥477.0 billion, reflecting dividends on preferred shares and net income.

4. Consolidated Capital Adequacy Ratio (Domestic standard)

(Millions of Yen, %)

March 31	2002	2001	Change
Capital adequacy ratio	**14.05%**	**15.13%**	**(1.07)%**
Tier I ratio	**12.88%**	**13.36%**	**(0.47)%**
Tier I (a)	**474,327**	**459,255**	**15,072**
Tier II (b)	**43,323**	**61,128**	**(17,805)**
General reserve for possible loan losses	23,006	21,487	1,518
Subordinated debt	20,317	39,641	(19,324)
Items deducted (c)	**135**	**130**	**4**
Capital (a+b-c)	**517,515**	**520,253**	**(2,737)**
Risk-weighted assets	**3,680,990**	**3,437,962**	**243,028**

Consolidated Balance Sheets

Aozora Bank, Ltd. and Consolidated Subsidiaries
March 31, 2002 and 2001

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	2002	2001	2002
Cash and cash equivalents (Note 3)	¥ 557,822	¥ 31,774	$ 4,186,284
Due from banks	47,499	635,300	356,471
Call loans and bills bought	78,611	386,263	589,952
Commercial paper and other debt purchased	41,252	9,991	309,589
Trading account assets (Note 4)	422,694	565,793	3,172,192
Money held in trust		4	6
Securities (Notes 5 and 11)	1,054,019	721,477	7,910,086
Loans and bills discounted (Notes 6 and 11)	3,297,993	3,089,490	24,750,419
Foreign exchanges (Note 7)	9,440	1,689	70,849
Securities in custody and other (Notes 11 and 15)		448,320	
Cash collateral on borrowed bonds (Note 15)		457,678	
Other assets (Note 15)	281,039	101,768	2,109,116
Premises and equipment (Note 8)	34,208	35,409	256,727
Deferred charges	289	716	2,173
Customers' liabilities for acceptances and guarantees (Note 9)	141,354	25,315	1,060,823
Deferred tax assets (Note 22)	10,983	9,610	82,427
Reserve for possible loan losses (Note 10)	(293,138)	(356,838)	(2,199,910)
TOTAL	¥5,684,072	¥6,163,766	$42,657,204

See notes to consolidated financial statements.

LIABILITIES AND STOCKHOLDERS' EQUITY	Millions of Yen 2002	Millions of Yen 2001	Thousands of U.S. Dollars (Note 1) 2002
LIABILITIES:			
Debentures (Note 12)	¥1,468,193	¥2,479,408	$11,018,340
Deposits (Note 13)	2,164,641	1,771,373	16,244,962
Call money and bills sold (Note 11)	728,500	143,000	5,467,167
Commercial paper		10,000	
Trading account liabilities (Note 4)	162,318	183,161	1,218,149
Borrowed money (Note 14)	44,310	55,548	332,533
Foreign exchanges (Note 7)	2	2	20
Borrowed securities (Note 15)		416,664	
Other liabilities (Note 15)	479,924	601,478	3,601,681
Liability for retirement benefits (Note 16)	15,970	15,881	119,855
Reserve for credit losses on off-balance-sheet instruments	966	717	7,256
Other reserves			2
Acceptances and guarantees (Note 9)	141,354	25,315	1,060,823
Total liabilities	5,206,182	5,702,552	39,070,788
MINORITY INTERESTS	843	338	6,329
STOCKHOLDERS' EQUITY:			
Capital stock (Note 17):			
Common stock	147,745	147,745	1,108,781
Preferred stock	272,036	272,036	2,041,547
Capital surplus (Note 17)	33,333	33,333	250,157
Earned surplus (Notes 17 and 25)	23,381	6,457	175,471
Unrealized loss on available-for-sale securities (Note 2.d)	(235)		(1,764)
Foreign currency translation adjustments	785	1,303	5,895
Total stockholders' equity	477,046	460,876	3,580,087
TOTAL	¥5,684,072	¥6,163,766	$42,657,204

Consolidated Statements of Income

Aozora Bank, Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2002 and 2001

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2002	2001	2002
INCOME:			
Interest on:			
Loans and discounts	¥ 69,438	¥ 75,281	$521,116
Securities	9,474	16,320	71,106
Due from banks	951	3,134	7,144
Other	9,090	13,324	68,225
Fees and commissions	5,777	3,336	43,358
Trading account profits	1,266	3,141	9,506
Other operating income (Note 18)	5,225	3,999	39,216
Other income (Note 19)	9,693	165,629	72,750
Total income	110,920	284,169	832,421
EXPENSES:			
Interest on:			
Debentures	18,531	37,603	139,071
Deposits	6,139	8,691	46,076
Borrowings and rediscounts	1,257	3,906	9,434
Commercial paper	11	94	86
Other	3,511	6,553	26,351
Fees and commissions	567	361	4,258
Trading account losses	728		5,469
Other operating expenses (Note 20)	3,553	5,136	26,665
General and administrative expenses	39,579	39,887	297,034
Other expenses (Note 21)	18,890	89,897	141,766
Total expenses	92,770	192,131	696,210
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	18,150	92,037	136,211
Income taxes (Note 22):			
Current	696	2,285	5,230
Deferred	(1,372)	(9,610)	(10,302)
Total income taxes	(675)	(7,325)	(5,072)
Minority interests in net income	122	1,031	918
Net income	¥ 18,703	¥ 98,331	$140,365

	Yen		U.S. Dollars
	2002	2001	2002
Per share of common stock (Note 2.q):			
Net income	¥5.37	¥35.80	$0.04
Diluted net income	4.95	29.40	0.04
Cash dividends of the fourth preferred stock	5.00	5.00	0.04
Cash dividends of the fifth preferred stock	3.72	1.86	0.03

See notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

Aozora Bank, Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2002 and 2001

	Thousands		Millions of Yen					
	Outstanding Number of Shares							
	Common Stock	Preferred Stock	Common Stock	Preferred Stock	Capital Surplus	Earned Surplus	Unrealized Loss on Available-for-sale Securities	Foreign Currency Translation Adjustments
BALANCE, APRIL 1, 2000	2,501,536	608,398	¥235,790	¥117,323	¥ 114,047	¥(465,932)		
Transfer of capital surplus . . .					(114,047)	114,047		
Capital reduction without repayment		(560,254)	(154,712)	(105,287)		260,000		
Exclusion of consolidated subsidiaries previously included in consolidated accounts						10		
Net income						98,331		
Issuance of common stock	333,334		66,666		33,333			
Issuance of preferred stock		866,667		260,000				
Net increase in foreign currency translation adjustments								¥1,303
BALANCE, MARCH 31, 2001	2,834,870	914,811	147,745	272,036	33,333	6,457		1,303
Exclusion of affiliated companies previously included in consolidated accounts						73		
Net income						18,703		
Cash dividends to preferred stock						(1,852)		
Net increase in unrealized loss on available-for-sale securities (Note 2.d)							¥(235)	
Net decrease in foreign currency translation adjustments								(518)
BALANCE, MARCH 31, 2002	2,834,870	914,811	¥147,745	¥272,036	¥ 33,333	¥ 23,381	¥(235)	¥785

	Thousands of U.S. Dollars (Note 1)					
	Common Stock	Preferred Stock	Capital Surplus	Earned Surplus	Unrealized Loss on Available-for-sale Securities	Foreign Currency Translation Adjustments
BALANCE, MARCH 31, 2001	$1,108,781	$2,041,547	$250,157	$48,462		$9,785
Exclusion of affiliated companies previously included in consolidated accounts				548		
Net income				140,365		
Cash dividends to preferred stock				(13,904)		
Net increase in unrealized loss on available-for-sale securities (Note 2.d)					$(1,764)	
Net decrease in foreign currency translation adjustments						(3,890)
BALANCE, MARCH 31, 2002	$1,108,781	$2,041,547	$250,157	$175,471	$(1,764)	$5,895

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Aozora Bank, Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2002 and 2001

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2002	2001	2002
Operating activities:			
Income before income taxes and minority interests	¥ 18,150	¥ 92,037	$ 136,211
Adjustments for:			
Depreciation and amortization	1,541	1,171	11,566
Net loss from non-consolidated entities accounted for by the equity method	48		364
Amortization of goodwill		(65)	
Decrease in reserve for possible loan losses	(63,650)	(767,666)	(477,677)
Decrease in reserve for losses on loans sold		(100,628)	
Decrease in reserve for retirement allowances		(8,991)	
Increase in liability for retirement benefits	91	15,881	685
Decrease in reserve for losses on disposition of specific assets		(14,794)	
Increase in reserve for credit losses on off-balance-sheet instruments	249	717	1,871
Interest income	(88,956)	(108,061)	(667,591)
Interest expenses	29,450	56,848	221,019
Net losses (gains) on sales and maturities securities	825	(116,523)	6,194
Profit from money held in trust	(1)	(3)	(10)
Net exchange gains	(7,889)	(10,124)	(59,209)
Net losses on disposal of premises and equipment	261	1,400	1,964
Net decrease (increase) in trading account assets	143,099	(347,164)	1,073,917
Net increase (decrease) in trading account liabilities	(20,843)	46,576	(156,424)
Net decrease (increase) in loans and bills discounted	(207,942)	1,027,269	(1,560,541)
Net increase (decrease) in deposits	393,153	(850,074)	2,950,496
Net decrease in debentures	(1,004,329)	(1,227,958)	(7,537,185)
Net increase (decrease) in borrowed money (excluding subordinated)	11	(483)	89
Net increase (decrease) in due from banks	587,832	(561,563)	4,411,504
Net decrease (increase) in call loans and bills bought	276,391	(322,368)	2,074,233
Net decrease (increase) in cash collateral on borrowed bonds	370,486	(455,423)	2,780,388
Net increase (decrease) in call money and bills sold	585,500	(1,066,300)	4,393,996
Net decrease in commercial paper	(10,000)	(110,000)	(75,047)
Net decrease (increase) in foreign exchange (assets)	(7,751)	6,594	(58,172)
Net decrease in foreign exchange (liabilities)		(26)	(2)
Interest received in cash	88,966	111,115	667,669
Interest paid in cash	(33,145)	(66,711)	(248,745)
Other—net	(129,869)	423,702	(974,632)
Sub-total	921,680	(4,351,614)	6,916,931
Special financial assistance		3,236,536	
Payments of income taxes	1,834	(1,108)	13,765
Net cash provided by (used in) operating activities	923,515	(1,116,186)	6,930,696
Investing activities:			
Purchases of securities	(1,960,730)	(4,556,530)	(14,714,673)
Proceeds from sale of securities	1,149,114	887,587	8,623,746
Proceeds from redemption of securities	489,069	4,119,758	3,670,318
Increase in money held in trust	(114,042)	(3,004)	(855,850)
Decrease in money held in trust	60,217	4,728	451,914
Increase in premises and equipment	(1,684)	(1,029)	(12,644)
Proceeds from sale of premises and equipment	991	8,475	7,440
Proceeds from sale of subsidiaries stocks (affecting the scope of consolidation)	399		2,999
Net cash provided by (used in) investing activities	(376,664)	459,986	(2,826,750)
Financing activities:			
Repayments of subordinated borrowed money	(11,250)	(107,650)	(84,428)
Payments for redemption of subordinated bonds	(7,995)	(14,200)	(60,000)
Proceeds from issuance of subsidiaries' stocks paid by minority stockholders	400		3,002
Dividends paid to preferred stock	(1,852)		(13,904)
Issuance of common and preferred stock		357,703	
Dividends paid to the minority stockholders	(105)	(817)	(792)
Net cash provided by (used in) financing activities	(20,803)	235,036	(156,122)
Foreign currency translation adjustment on cash and cash equivalents		(98)	
Net increase (decrease) in cash and cash equivalents	526,047	(421,262)	3,947,824
Cash and cash equivalents, beginning of year	31,774	453,037	238,460
Increase in cash and cash equivalents due to change in scope of consolidation		1	
Decrease in cash and cash equivalents due to change in scope of consolidation		(1)	
Cash and cash equivalents, end of year	¥ 557,822	¥ 31,774	$ 4,186,284

See notes to consolidated financial statements.

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Aozora Bank, Ltd. (the "Bank" or the "Parent Company") and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Accounting Standards. The consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Bank is incorporated and operates. Japanese yen figures less than a million yen are rounded down to the nearest million yen, except for per share data. As a result, the totals do not necessarily agree with the sum of the individual amounts. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥133.25 to $1, the approximate rate of exchange at March 31, 2002. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation—
The consolidated financial statements as of March 31, 2002 include the accounts of the Bank and its consolidated subsidiaries, including Aozora Trust Bank, Ltd., Aozora Loan Services Co., Ltd. and 8 other subsidiaries in 2002 (11 other subsidiaries in 2001) (together, the "Group").

Under the control or influence concept, those companies in which the Bank, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

The consolidated financial statements do not include the accounts of 8 subsidiaries in 2002 (6 subsidiaries in 2001), because the combined total assets, total income, net income and earned surplus would not have had a material effect on the consolidated financial statements.

Investments in the remaining 8 unconsolidated subsidiaries in 2002 (6 unconsolidated subsidiaries in 2001) and 1 affiliated company in 2002 (1 affiliated company in 2001) are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

The excess of the cost of an acquisition over the fair value of the net assets of the acquired subsidiaries at the date of acquisition is charged to income when incurred. On the other hand, the fair value of the net assets of subsidiaries acquired over the cost of an acquisition is charged to income as incurred.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized gains included in assets resulting from transactions within the Group is eliminated.

b. Cash Equivalents—
Cash equivalents consist of cash and on hand and due from The Bank of Japan.

c. Trading Account Assets/Liabilities—
Transactions for trading purposes (the purpose of seeking to capture gains arising from short-term changes in interest rates, currency exchange rates or market prices of securities and other market-related indices or arbitrage opportunities) are included in "Trading account assets" and "Trading account liabilities" on a trade date basis. Trading account assets and liabilities are stated at fair value.

Profits and losses on transactions for trading purposes are shown as "Trading account profits" and "Trading account losses" on a trade date basis.

d. Securities—
All applicable securities are classified and accounted for, depending on management's intent, as follows: (1) trading securities which are held for the purpose of earning capital gains in the near term are stated at fair value, and the related unrealized gains and losses are included in earnings, (2) held-to-maturity debt securities which are expected to be held to maturity with the positive intent and ability to hold to maturity are stated at amortized cost, and (3) available-for-sale securities which are not classified as either of the aforementioned securities are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of stockholders' equity.

Securities included in money held in trust on behalf of the Bank are stated at fair value, and the related unrealized gains and losses are included in earnings.

Prior to April 1, 2001, available-for-sale securities were reported at average cost or amortized cost. Effective April 1, 2001, the Group adopted a new accounting standard for financial instruments. Under this standard, available-for-sale securities are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of stockholders' equity as stated above. The effect of adopting the new standard was to decrease stockholders' equity by ¥235 million ($1,764 thousand) for the year ended March 31, 2002.

e. Derivatives and Hedging Activities—
Derivatives for purposes other than trading are stated at fair value.

The Bank has adopted so-called "macro hedging," a strategy to employ derivative transactions and control interest rate risks arising from financial assets and liabilities, such as loans, debentures and deposits, etc. within a set range, with aims to reduce risk as a whole. This strategy is a risk management method of the risk adjustment approach prescribed in "Temporary Treatment for Accounting and Auditing of Application of Accounting Standard for Financial Instruments in Banking Industry" (Industry Audit Committee Report No. 15 of the Japanese Institute of Certified Public Accountants). The Bank adopts this risk adjustment approach as the temporary accounting prescribed in the above Industry Audit Committee Report No. 15 of the Japanese Institute of Certified Public Accountants.

f. Premises and Equipment—
Premises and equipment are stated at cost. Depreciation of premises and equipment of the Bank and its consolidated domestic subsidiaries is computed by the declining-balance method at rates based on the estimated useful lives of the assets, while the straight-line method is applied to buildings. The range of useful lives is principally 50 years for buildings and from 5 to 15 years for other premises and equipment.

The Bank has decided to move its head office during the current fiscal year and has shortened the useful lives of the buildings of the head office. The effect of the change in useful lives was to decrease income before income taxes and minority interests by ¥552 million ($4,143 thousand).

g. Software—
Capitalized purchased software costs are depreciated over the estimated useful lives of the software (principally 5 years).

h. Deferred Charges—
The Bank's deferred charges are amortized as follows.

Discounts on discount debentures are amortized by the straight-line method over the terms of the debentures. Debenture issuance expenses are amortized by the straight-line method over the shorter of the terms of the debentures or the 3-year period stipulated in the Commercial Code of Japan (the "Code").

Stock issuance costs are charged to income as incurred.

Subsidiaries' deferred charges on issuance of debentures are amortized by the straight-line method over 5 years.

i. Write-off of Loans and Reserve for Possible Loan Losses—
Write-off of loans and reserve for possible loan losses of the Bank are accounted for as follows in accordance with internal write-off and reserve standards.

Loans to borrowers under legal proceedings, such as bankruptcy, and loans in similar conditions, are written off by the amount of loans exceeding the estimated realizable value of collateral and guarantees. The amount written off in the current fiscal year amounted to ¥77,515 million ($581,733 thousand) and ¥126,396 million for the years ended March 31, 2002 and 2001.

For loans to borrowers not yet bankrupt but likely to fall into bankruptcy, the necessary specific reserve amounts are provided for through an overall assessment of the borrowers' ability to pay, after subtracting from the loan balance the amount collectible on disposal of collateral or execution of guarantees. As to other loans, the Bank provides for a general reserve by applying the historical loan-loss ratio determined over a certain period. An allowance for loans to specific foreign borrowers (including the allowance for losses on overseas investments provided pursuant to Article 55-2 of the Special Taxation Measures Law) is provided based on the amount of expected losses due to the political and economic situation of their respective countries.

The Bank has also taken into account the precondition of exercise of the cancellation right in determining the necessary reserve amount. Under the clause of "Warranty of Loan Related Assets" described in the Share Purchase Agreement (see Note 17), a precondition of exercise of the cancellation right is the existence of a defect and a 20% deterioration of assets in value.

All loans are subject to asset quality assessment conducted by the business-related divisions in accordance with the Self-Assessment Standards, and the results of the assessments are reviewed by the Asset Audit Division, which is independent from business-related divisions, before the reserve amount is finally determined.

As to general loans, consolidated subsidiaries provide for a necessary reserve by applying the historical loan-loss ratio. For doubtful loans, consolidated subsidiaries provide a specific reserve in the amount deemed irrecoverable based on the individual loan's assessment.

j. Retirement Benefits and Pension Plans—

Effective April 1, 2000, the Group adopted a new accounting standard for employees' retirement benefits and accounted for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. Prior service cost is amortized using the straight-line method. Net actuarial gain (loss) is amortized using the straight-line method commencing from the next fiscal year of incurrence.

k. 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 determined by the same methodology which is used in determining the reserve for loan losses.

l. Other Reserves—

Other reserves include the reserve for securities transaction liabilities.

The reserve for securities transaction liabilities is required to be provided under the Securities and Exchange Law of Japan.

m. Lease Transactions—

All leases of the Bank and its domestic consolidated subsidiaries are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the consolidated financial statements.

n. Income Taxes—

Deferred income taxes are recorded to reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. These deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

o. Foreign Currency Items—

The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for stockholders' equity, which is translated at the historical rate.

Such differences are shown as "Foreign currency translation adjustments" in a separate component of stockholders' equity in accordance with the revised accounting standard for foreign currency transactions.

Assets and liabilities denominated in foreign currencies held by the Bank at the year end are translated into Japanese yen at exchange rates prevailing at the end of fiscal year except equity securities of affiliated companies which are translated at historical rates. Accounts of the Bank's foreign branches are translated into Japanese yen at exchange rates prevailing at the end of the fiscal year.

Foreign currency accounts held by consolidated foreign subsidiaries are translated into the currency of the subsidiaries at exchange rates prevailing at the end of the respective fiscal year.

p. Dividends—

Dividends are generally paid semiannually. Interim and year-end dividends are authorized subsequent to the end of the period to which they are related, and are reflected in the consolidated statements of stockholders' equity when duly declared and authorized.

No dividend was proposed for stockholders of common stock for the years ended March 31, 2002 and 2001.

q. Per Share Information—

The computation of net income per share is based on the weighted average number of common shares outstanding during the year. In arriving at the net income per share, preferred stock dividends are deducted for each year presented.

Diluted net income per share of common stock assumes full conversion of the preferred stock.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at March 31, 2002 and 2001, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Cash on hand	¥ 21,916	¥23,370	$ 164,475
Due from The Bank of Japan	535,906	8,404	4,021,809
Total	¥557,822	¥31,774	$4,186,284

4. TRADING ACCOUNT ASSETS AND LIABILITIES

Trading account assets and liabilities at March 31, 2002 and 2001, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Trading account assets:			
Trading securities	¥101,775	¥179,524	$ 763,795
Derivatives of trading securities	13	168	98
Derivatives of securities held to hedge trading transactions	50	34	375
Derivatives of trading transactions	142,782	170,603	1,071,542
Other	178,072	215,463	1,336,382
Total	¥422,694	¥565,793	$3,172,192
Trading account liabilities:			
Trading securities sold in short	¥ 15,726	¥ 8,286	$ 118,020
Derivatives of trading securities	191	13	1,437
Derivatives of securities held to hedge trading transactions	60		455
Derivatives of trading transactions	146,340	174,861	1,098,237
Total	¥162,318	¥183,161	$1,218,149

5. SECURITIES

Securities at March 31, 2002 and 2001, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Japanese national government bonds	¥ 734,003	¥456,962	$5,508,472
Japanese local government bonds	6,649	30,448	49,903
Japanese corporate bonds	68,186	82,401	511,722
Japanese stocks	3,079	6,602	23,110
Other	242,099	145,062	1,816,879
Total	¥1,054,019	¥721,477	$7,910,086

The carrying amounts and aggregate fair values of securities at March 31, 2002, were as follows:

	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Market Value
Securities classified as:				
Available-for-sale:				
Japanese national government bonds	¥733,380	¥ 658	¥ 46	¥733,992
Japanese local government bonds	6,393	257	1	6,649
Japanese corporate bonds	44,535	290	1,708	43,117
Japanese stocks	451	28	7	472
Other	78,603	1,320	1,025	78,898
Held-to-maturity—Japanese national government bonds	10			10
Total	¥863,375	¥2,555	¥2,789	¥863,141

	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Market Value
Securities classified as:				
Available-for-sale:				
Japanese national government bonds	$5,503,795	$ 4,945	$ 350	$5,508,390
Japanese local government bonds	47,982	1,931	10	49,903
Japanese corporate bonds	334,224	2,178	12,821	323,581
Japanese stocks	3,388	213	57	3,544
Other	589,898	9,908	7,699	592,107
Held-to-maturity—Japanese national government bonds	82			82
Total	$6,479,369	$19,175	$20,937	$6,477,607

The carrying amounts and aggregate fair values of securities at March 31, 2001, were as follows:

	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Market Value
Securities classified as:				
Available-for-sale:				
Japanese national government bonds	¥456,951	¥1,642	¥1	¥458,592
Japanese local government bonds	30,448	1,139		31,587
Japanese corporate bonds	70,696	1,356		72,052
Japanese stocks	2,559	363		2,923
Other	94,883	718	2	95,599
Held-to-maturity—Japanese national government bonds	10			10
Total	¥655,550	¥5,220	¥5	¥660,766

In cases where available-for-sale securities at March 31, 2001, have been evaluated at fair value, the net unrealized gains (losses) after the tax effect were as follows:

	Millions of Yen
Difference (fair value minus book value)	¥5,215
Deferred tax liabilities	(2,187)
Net unrealized gains	3,027

Available-for-sale securities and held-to-maturity securities whose fair value is not readily determinable as of March 31, 2002 and 2001, were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Available-for-sale:			
Japanese corporate bonds	¥ 25,069	¥11,705	$ 188,141
Japanese stocks	2,607	4,042	19,566
Other	163,201	50,178	1,224,772
Total	¥190,877	¥65,926	$1,432,479

Proceeds from sales of available-for-sale and gross realized gains and losses on these sales of March 31, 2002 and 2001, were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Proceeds from sales of available-for-sale securities	¥1,507,846	¥17,928,499	$11,315,925
Gross realized gains on available-for-sale securities	3,050	151,661	22,893
Gross realized losses on available-for-sale securities	1,770	21,408	13,284

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale and held-to-maturity at March 31, 2002 and 2001, were as follows:

	Millions of Yen		Thousands of U.S. Dollars	
March 31, 2002	Available for Sale	Held to Maturity	Available for Sale	Held to Maturity
Due in one year or less	¥ 325,791		$2,444,962	
Due after one year through five years	639,743	¥10	4,801,075	$82
Due after five years through ten years	38,972		292,480	
Due after ten years	25,867		194,125	
Total	¥1,030,374	¥10	$7,732,642	$82

	Millions of Yen	
March 31, 2001	Available for Sale	Held to Maturity
Due in one year or less	¥442,301	¥10
Due after one year through five years	148,843	
Due after five years through ten years	57,087	
Due after ten years	62,312	
Total	¥710,543	¥10

The carrying values and valuation gain recognized in the consolidated statements of income of the trading securities which classified as trading assets at March 31, 2002 and 2001, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Trading securities:			
Carrying value	¥279,848	¥394,988	$2,100,178
Valuation gain (loss) included in the income (loss) before income taxes	(110)	420	(827)

The above trading securities include negotiable certificates of deposits and commercial paper which were classified as trading assets.

6. LOANS AND BILLS DISCOUNTED

Loans and bills discounted at March 31, 2002 and 2001, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Bills discounted	¥ 4,669	¥ 3,713	$ 35,047
Loans on notes	915,147	938,689	6,867,901
Loans on deeds	2,211,280	2,046,987	16,594,975
Overdrafts	166,895	100,099	1,252,496
Total	¥3,297,993	¥3,089,490	$24,750,419

"Loans to bankrupt borrowers" are loans to borrowers who are legally bankrupt and amounted to ¥18,270 million ($137,115 thousand) and ¥27,931 million as of March 31, 2002 and 2001, "Past due loans" refers to non-accrual loans except for loans to bankrupt borrowers and loans to borrowers for which concessions on payments of interests were made in order to assist the reorganization of borrowers and amounted to ¥313,555 million ($2,353,139 thousand) and ¥321,781 million as of March 31, 2002 and 2001, respectively.

"Loans over due for three months or more" refers to those loans for which principal or interest remains unpaid at least for three months, excluding loans to bankrupt companies and past due loans and amounted to ¥1,590 million ($11,937 thousand) and ¥1,714 million as of March 31, 2002 and 2001, respectively.

"Restructured loans" refers to loans, excluding loans to bankrupt borrowers, past due and/or overdue for three months or more, for which agreement was made to provide reduction or moratorium of interest payments, or concessions in the borrower's favor on interest or principal payment or to waive claims for the purpose of assisting the reconstruction of insolvent borrowers and amounted to ¥154,326 million ($1,158,175 thousand) and ¥319,531 million as of March 31, 2002 and 2001, respectively.

The amounts referred to above are the amounts before bad debts are written off and specific reserve for possible loan losses are provided for.

7. FOREIGN EXCHANGES

Foreign exchanges at March 31, 2002 and 2001, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Assets:			
Foreign bills bought	¥ 100	¥ 150	$ 757
Due from foreign banks	9,339	1,538	70,092
Total	¥9,440	¥1,689	$70,849
Liabilities—Due to foreign banks	¥ 2	¥ 2	$ 20
Total	¥ 2	¥ 2	$ 20

8. PREMISES AND EQUIPMENT

Accumulated depreciation amounted to ¥19,522 million ($146,507 thousand) and ¥20,027 million at March 31, 2002 and 2001, respectively.

9. CUSTOMERS' LIABILITIES FOR ACCEPTANCES AND GUARANTEES

All contingent liabilities arising from acceptances and guarantees are reflected in acceptances and guarantees. As a contra account, customers' liabilities for acceptances and guarantees are shown as assets representing the Bank's right of indemnity from customers.

10. RESERVE FOR POSSIBLE LOAN LOSSES

Reserve for possible loan losses at March 31, 2002 and 2001, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
General reserve	¥175,602	¥190,559	$1,317,842
Specific reserve	116,882	166,279	877,163
Reserve for loans to restructuring countries	653		4,905
Total	¥293,138	¥356,838	$2,199,910

11. COLLATERAL

The carrying amounts of assets pledged as collateral and the collateralized debt at March 31, 2002 and 2001, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Securities	¥500,467	¥ 51,500	$3,755,855
Loans	313,402	50,516	2,351,991
Securities in custody and other	64,062	22,800	480,772
Total	¥877,933	¥124,816	$6,588,618
Call money and bills sold	¥611,700	¥110,000	$4,590,619
Total	¥611,700	¥110,000	$4,590,619

In addition, the following assets were pledged or deposited as margin money with respect to foreign exchange settlements and derivatives at March 31, 2002 and 2001:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Securities	¥146,821	¥286,997	$1,101,852
Loans		33,096	
Securities in custody and other	4,307	227,199	32,329
Total	¥151,129	¥547,293	$1,134,181

12. DEBENTURES

Debentures at March 31, 2002 and 2001, consisted of the following:

March 31, 2002	Millions of Yen	Thousands of U.S. Dollars	Interest Rates
One-year discount debentures	¥ 159,240	$1,195,053	0.06%–0.44%
One-year coupon debentures	408,300	3,064,165	0.10%–0.90%
Two-year coupon debentures	613,400	4,603,377	0.40%–1.30%
Three-year coupon debentures	84,050	630,769	0.55%–1.25%
Five-year coupon debentures	203,202	1,524,976	0.20%–3.05%
Total	¥1,468,193	$11,018,340	

March 31, 2001	Millions of Yen	Interest Rates
One-year discount debentures	¥ 263,760	0.27%–0.44%
One-year coupon debentures	1,168,400	0.30%–0.80%
Two-year coupon debentures	354,700	0.90%–2.10%
Three-year coupon debentures	23,250	1.00%–1.25%
Five-year coupon debentures	662,413	0.50%–3.05%
Subordinated step-up perpetual notes	6,885	LIBOR + 1.15%– LIBOR + 2.65%
Total	¥2,479,408	

13. DEPOSITS

Deposits at March 31, 2002 and 2001, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Current deposits	¥ 114,337	¥ 29,742	$ 858,068
Ordinary deposits	434,835	91,622	3,263,309
Deposits at notice	56,005	41,580	420,301
Time deposits	1,022,223	1,230,314	7,671,469
Negotiable certificates of deposit	527,908	372,820	3,961,786
Other	9,331	5,293	70,029
Total	¥2,164,641	¥1,771,373	$16,244,962

14. BORROWED MONEY

The weighted averaged annual interest rate applicable to the borrowed money was 2.83% and 2.88% at March 31, 2002 and 2001, respectively.

Borrowed money includes subordinated borrowings, which amounted to ¥44,195 million ($331,670 thousand) and ¥55,445 million at March 31, 2002 and 2001, respectively.

Annual maturities of borrowed money as of March 31, 2002, for the next five years and thereafter were as follows:

Years ending March 31	Millions of Yen	Thousands of U.S. Dollars
2003	¥ 3,000	$ 22,514
2004	4,100	30,769
2005	13,900	104,315
2006	23,195	174,071
2007		
2008 and thereafter	115	864
Total	¥44,310	$332,533

15. OTHER ASSETS AND LIABILITIES

Other assets and liabilities at March 31, 2002 and 2001, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Other assets:			
Accrued income	¥ 12,698	¥ 11,815	$ 95,295
Accounts receivables	4,567	5,581	34,281
Investments in partnership	23,004	17,673	172,642
Derivative financial instruments	20,642	18,131	154,918
Financial stabilization fund	32,628	32,628	244,863
Securities in custody and other	93,341		700,498
Cash collateral on borrowed bonds	87,191		654,344
Other	6,965	15,940	52,275
Total	¥281,039	¥101,768	$2,109,116
Other liabilities:			
Accounts payables:			
For trading account transactions	¥160,049	¥283,419	$1,201,121
Other	3,462	138,065	25,987
Accrued expenses	16,473	18,992	123,625
Collateral under securities lending transactions	114,887	53,555	862,197
Borrowed securities	69,238		519,611
Other	115,813	107,447	869,140
Total	¥479,924	¥601,478	$3,601,681

16. RETIREMENT BENEFITS AND PENSION PLANS

The Bank has employees' retirement benefits plans. Such retirement benefits are made in the form of a lump-sum severance payment from the Bank and annuity payments from trustees.

Effective April 1, 2000, the Group adopted a new accounting standard for employees' retirement benefits.

The liability for employees' retirement benefits plans at March 31, 2002 and 2001, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Projected benefit obligation	¥40,389	¥ 34,529	$ 303,107
Fair value of plan assets	(17,650)	(17,686)	(132,461)
Unrecognized prior service cost	1,050		7,885
Unrecognized actuarial loss	(7,818)	(962)	(58,676)
Net liability	¥15,970	¥ 15,881	$ 119,855

The components of net periodic benefit costs of the employees' retirement benefits plans for the years ended March 31, 2002 and 2001, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Service cost	¥1,653	¥1,586	$12,407
Interest cost	1,115	1,094	8,371
Expected return on plan assets	(570)	(578)	(4,281)
Amortization of prior service cost	(14)		(111)
Recognized actuarial loss	260		1,952
Amortization of transitional obligation		6,356	
Others		612	
Net periodic benefit costs	¥2,443	¥9,071	$18,338

Assumptions used for the years ended March 31, 2002 and 2001, are set forth as follows:

	2002	2001
Discount rate	2.4%	3.3%
Expected rate of return on plan assets:		
Approved retirement annuities	2.3%	2.3%
Fund of welfare pension	3.5%	3.5%
Amortization period of prior service cost	12 years as average remaining service period	Average remaining service period
Recognition period of actuarial gain/loss	5 years or average remaining service period if less than 5 years	5 years or average remaining service period if less than 5 years
Amortization period of transitional obligation		1 year

17. STOCKHOLDERS' EQUITY

(1) Capital Stock and Capital Surplus

The authorized numbers of shares at March 31, 2002, were 5,189 million shares of common stock and 943 million shares of non-voting and non-cumulative preferred stock.

Japanese companies are subject to the Code to which certain amendments became effective from October 1, 2001.

Prior to October 1, 2001, the Code required at least 50% of the issue price of new shares, with a minimum of the par value thereof, to be designated as stated capital as determined by resolution of the Board of Directors. Proceeds in excess of amounts designated as stated capital were credited to additional paid-in capital. Effective October 1, 2001, the Code was revised and common stock par values were eliminated resulting in all shares being recorded with no par value.

The Code permits to transfer portions of additional paid-in capital and legal reserve to stated capital by resolution of the Board of Directors. The Code also permits to transfer portions of unappropriated retained earnings, available for dividends, to stated capital by resolution of the stockholders.

On June 29, 2000, the Bank used capital surplus to reduce the deficit in accordance with the resolution of the stockholders meeting.

On June 30, 2000, SOFTBANK CORP., ORIX Corporation, The Tokio Marine and Fire Insurance Co., Ltd. and other financial institutions (the "Consortium"), Deposit Insurance Corporation of Japan and the Bank signed the Share Purchase Agreement for the transfer of the Bank's stock (the "Share Purchase Agreement"). On September 1, 2000, the Consortium purchased the Bank's ordinary stock in accordance with the Share Purchase Agreement from Deposit Insurance Corporation of Japan, as a result, which terminated the Bank's special public management.

On September 2, 2000, the Bank issued 333,334 thousand stocks of common stock with a par value of ¥50 per share at the issue price of ¥300 per share to the Consortium.

On October 3, 2000, the Bank made a capital reduction by the retirement of 560,254 thousand preferred shares and a decrease in the stated value of common stock. This capital reduction was made without repayment to stockholders; therefore, the corresponding amount was transferred to capital surplus from capital stock in conformity with the Share Purchase Agreement and decisions of extraordinary stockholders meeting held on August 31, 2000 and on September 26, 2000.

On October 4, 2000, the Bank issued 866,667 thousand shares of preferred stock at the issue price of ¥300 per share to The Resolution and Collection Corporation ("the RCC") in conformity with Financial Early Stabilization Law.

Preferred stock for the years ended March 31, 2002 and 2001, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Preferred stock—authorized, 76,144 thousand shares; issued and outstanding, 48,144 thousand shares of fourth preferred stock	¥ 12,036	¥ 12,036	$ 90,326
Preferred stock—authorized, 867,000 thousand shares; issued and outstanding, 866,667 thousand shares of fifth preferred stock	260,000	260,000	1,951,221
Total	¥272,036	¥272,036	$2,041,547

(2) Earned Surplus

Under the Bank Law of Japan, an amount equivalent to at least 20% of cash dividends and bonuses to directors and statutory auditors must be appropriated as a legal reserve, until the reserve equals 100% of the Bank's stated capital. A legal reserve amount is not available for dividends but may be used to reduce a deficit by resolution of the stockholders or may be capitalized by resolution of the Board of Directors.

The Bank's legal reserve amount, which is included in retained earnings, totals ¥370 million ($2,781 thousand) as of March 31, 2002.

18. OTHER OPERATING INCOME

Other operating income for the years ended March 31, 2002 and 2001, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Other operating income:			
Gain on sales of bonds	¥2,747	¥1,501	$20,622
Gain on redemption of bonds	115	1,235	868
Other	2,361	1,263	17,726
Total	¥5,225	¥3,999	$39,216

19. OTHER INCOME

Other income for the years ended March 31, 2002 and 2001, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Gain on sales of stocks and other securities	¥ 616	¥150,160	$ 4,627
Other	9,077	15,469	68,123
Total	¥9,693	¥165,629	$72,750

20. OTHER OPERATING EXPENSES

Other operating expenses for the years ended March 31, 2002 and 2001, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Other operating expenses:			
Amortization of debenture issuance costs	¥ 272	¥ 341	$ 2,046
Loss on foreign exchange transactions	155	233	1,166
Loss on sales of bonds	930	2,147	6,986
Loss on redemption of bonds	1,762	1,812	13,229
Loss on derivatives		413	
Other	431	188	3,238
Total	¥3,553	¥5,136	$26,665

21. OTHER EXPENSES

Other expenses for the years ended March 31, 2002 and 2001, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Provision for possible loan losses		¥ 2,460	
Provision for reserve for credit losses on off-balance-sheet instruments	¥ 249	717	$ 1,871
Write-off of claims	4,796	35,641	35,999
Loss on sales of stocks and other securities	962	20,660	7,220
Loss on disposal of premises and equipment	414	570	3,108
Loss on transfer to the RCC of inappropriate assets		1,021	
Loss on special public management account		7,537	
Amortization of transitional obligation of employees' retirement benefits plans		6,356	
Other	12,467	14,930	93,568
Total	¥18,890	¥89,897	$141,766

22. INCOME TAXES

The Bank and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rates of approximately 41.7% and 41.9% for the years ended March 31, 2002 and 2001, respectively.

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2002 and 2001, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Deferred tax assets:			
Tax loss carryforwards	¥206,899	¥ 181,284	$1,552,714
Loss on devaluation of securities	919	1,762	6,898
Reserve for possible loan losses	155,269	189,789	1,165,246
Other	11,773	10,982	88,355
Less valuation allowance	(363,877)	(374,208)	(2,730,785)
Total	10,983	9,610	82,428
Deferred tax liabilities			1
Net deferred tax assets	¥ 10,983	¥ 9,610	$ 82,427

At March 31, 2002, the Bank and a consolidated subsidiary have tax loss carryforwards which are available to be offset against taxable income in future years. These tax loss carryforwards, if not utilized, will expire as follows:

Year ending March 31	Millions of Yen	Thousands of U.S. Dollars
2005	¥179,962	$1,350,561
2006	41	308
2007	26,895	201,845
Total	¥206,899	$1,552,714

A reconciliation between the normal effective statutory tax rate for the years ended March 31, 2002 and 2001, and the actual effective tax rates reflected in the accompanying consolidated statements of income was as follows:

	2002	2001
Normal effective statutory tax rate	41.7%	41.9%
Expenses not deductible for income tax purposes	(0.7)	(1.2)
Valuation allowance	(45.5)	(50.3)
Other—net	0.8	1.7
Actual effective tax rate	(3.7)%	(7.9)%

23. LEASE TRANSACTIONS

The Bank and consolidated subsidiaries lease certain equipment and other assets.

Lease payments under finance leases were ¥1,373 million ($10,310 thousand) and ¥1,535 million for the years ended March 31, 2002 and 2001, respectively.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligation under finance lease, depreciation expense and interest expense of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2002 and 2001, was as follows:

	Millions of Yen			Thousands of U.S. Dollars		
For the Year Ended March 31, 2002	Equipment	Other	Total	Equipment	Other	Total
Acquisition cost	¥5,175	¥401	¥5,577	$38,840	$3,016	$41,856
Accumulated depreciation	2,747	31	2,779	20,622	235	20,857
Net leased property	¥2,427	¥370	¥2,798	$18,218	$2,781	$20,999

	Millions of Yen		
For the Year Ended March 31, 2001	Equipment	Other	Total
Acquisition cost	¥8,322	¥43	¥8,365
Accumulated depreciation	5,125	34	5,159
Net leased property	¥3,196	¥ 9	¥3,205

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Due within one year	¥1,016	¥1,335	$ 7,625
Due after one year	1,782	1,869	13,374
Total	¥2,798	¥3,205	$20,999

Depreciation expense under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Depreciation expense	¥1,373	¥1,535	$10,310

Depreciation expense is calculated using the straight-line method with zero residual value.

The amounts of acquisition cost, obligations and depreciation expense includes interest expense portion, because of its immateriality.

The minimum rental commitments under noncancelable operating leases at March 31, 2002 and 2001, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Due within one year	¥71	¥121	$536
Due after one year		41	3
Total	¥71	¥162	$539

24. DERIVATIVES

a. Derivatives Transactions

Derivative financial instruments dealt

Derivatives involve interest rate-related transactions (such as interest rate futures, interest rate options and interest rate swaps), currency related transactions (such as currency swaps, foreign exchange forward contracts and currency options), and stock and bond-related futures and options.

Policy and purpose to use derivatives

Derivative activities are significant to business operations. The Bank has been using derivatives actively, while controlling the various risks of derivatives, such as market and credit risks. The purpose of derivatives is to offer customers products to hedge market risks such as interest rate risk and foreign exchange risk and to take the Bank's own trading position by exploiting short-term fluctuations and differences among markets in interest rates, foreign exchange rates, securities prices and other factors. In order to stabilize and maximize earnings, the Bank also uses derivatives in ALM operations, maintaining interest rate risk and other risks of on-balance-sheet assets and liabilities at an appropriate level.

Risk associated with derivatives and risk management system for derivatives

The two most significant derivatives-related risks are market and credit risks. Market risk can cause loss due to the volatility of markets such as interest rates and foreign exchange. Credit risk occurs when the counter-parties to a transaction fail to fulfill their obligations under a contract. It is the Bank's policy to conduct comprehensive control of market risk and credit risk for on-balance-sheet and off-balance-sheet transactions, thereby maintaining a proper balance between risk and profitability. The risk management procedures are fully documented internally. Each business department conducts business operations and risk management in accordance with such procedures. Independently of business departments, the Risk Management Division monitors market risk and credit risk resulting from market transactions including derivatives, and submits regular reports to management. For market risk, the maximum estimated loss is calculated on a daily basis using the value-at-risk method and the result is monitored based on specified limits. If an actual loss exceeds a maximum estimate, causal analysis is conducted. During the 245 business days from April 2001 to March 2002 and the 246 business days from April 2000 to March 2001, the actual value-at-risk figure in trading operations at the head office were estimated as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Maximum	¥612	¥308	$4,590
Minimum	54	52	409
Average	204	132	1,529

As to credit risk, the exposure is calculated by the current exposure method, the sum of the replacement cost and the potential cost in connection with expected changes in market conditions, and is controlled together with credit risk related to on-balance-sheet transactions such as lending. These risks are managed in line with internal regulations. Credit risk equivalent amounts for capital adequacy ratio calculation purposes (based on a standard for domestic operations) as at March 31, 2002 and 2001, were estimated as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Currency related transactions	¥ 10,670	¥ 6,597	$ 80,080
Interest rate related transactions	192,313	222,888	1,443,253
Netting effect	(138,537)	(169,125)	(1,039,681)
Total	¥ 64,446	¥ 60,360	$ 483,652

Supplementation to market-value calculation

OTC derivatives in the trading account are valued in accordance with internal rules established in line with the Long-term Credit Bank Law Enforcement Regulations.

b. Fair Value of Derivatives Transactions

The Bank and consolidated subsidiaries had the following derivatives contracts, which were quoted on listed exchanges, outstanding at March 31, 2002 and 2001:

	Millions of Yen		Thousands of U.S. Dollars	
March 31, 2002	Contract or Notional Amount	Fair Value	Contract or Notional Amount	Fair Value
Interest rate contracts:				
Futures written	¥12,477	¥12,487	$ 93,643	$ 93,715
Futures purchased	19,975	19,980	149,907	149,944
Options purchased	39,975	6	300,000	53
Bonds contracts:				
Futures written	49,038	49,251	368,018	369,619
Futures purchased	47,269	47,277	354,740	354,800
Futures options purchased	5,000	13	37,523	98
Equity contracts:				
Futures index purchased	278	277	2,092	2,080
Options index written	1,650	45	12,383	338
Options index purchased	3,850	50	28,893	375

	Millions of Yen	
March 31, 2001	Contract or Notional Amount	Fair Value
Interest rate contracts:		
Futures written	¥364,473	¥365,428
Futures purchased	288,327	289,233
Options written	163,900	8
Options purchased	247,800	15
Bonds contracts:		
Futures written	21,109	21,013
Futures purchased	27,560	27,611
Futures options purchased	28,667	68
Equity contracts:		
Futures written	1,430	1,479
Futures purchased	1,420	1,479

The Bank and consolidated subsidiaries had the following derivatives contracts, which were not quoted on listed exchanges, outstanding at March 31, 2002 and 2001:

March 31, 2002	Millions of Yen: Contract or Notional Amount	Millions of Yen: Fair Value	Thousands of U.S. Dollars: Contract or Notional Amount	Thousands of U.S. Dollars: Fair Value
Interest rate contracts:				
Interest rate swaps:				
Receive fixed and pay floating	¥6,570,953	¥199,385	$49,312,975	$1,496,325
Receive floating and pay fixed	6,273,007	(204,174)	47,076,983	(1,532,267)
Receive floating and pay floating	2,000		15,009	
Other written	189,222	114	1,420,054	858
Other purchased	228,171	1,098	1,712,358	8,242
Foreign exchange—				
Currency swaps	302,874	(315)	2,272,979	(2,364)

March 31, 2001	Millions of Yen: Contract or Notional Amount	Millions of Yen: Fair Value
Interest rate contracts:		
Interest rate swaps:		
Receive fixed and pay floating	¥8,067,419	¥236,014
Receive floating and pay fixed	8,418,733	(240,216)
Other written	268,459	
Other purchased	237,000	1,440
Foreign exchange—Currency swaps	238,355	(1,541)

The contracts or notional amounts of derivatives which are shown in the above table do not represent the amounts exchanged by the parties and do not measure the exposure of the Bank and consolidated subsidiaries to credit or market risk.

Derivative transactions for trading purposes are stated at fair value in the accompanying consolidated financial statements.

25. SUBSEQUENT EVENT—APPROPRIATION OF EARNED SURPLUS

The following plan of the Bank for the appropriation of earned surplus was approved at the ordinary stockholders meeting held on June 24, 2002:

	Millions of Yen	Thousands of U.S. Dollars
Appropriations—Legal reserve	¥ 692	$ 5,200
Year-end dividends:		
The fourth preferred, ¥5 ($0.04) per share	240	1,807
The fifth preferred, ¥3.72 ($0.03) per share	3,224	24,195
Total	¥4,157	$31,202

Tohmatsu & Co.
MS Shibaura Building
13-23, Shibaura 4-chome,
Minato-ku, Tokyo 108-8530, Japan

Tel: +81-3-3457-7321
Fax: +81-3-3457-1694
www.tohmatsu.co.jp

Deloitte Touche Tohmatsu

INDEPENDENT AUDITORS' REPORT

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

We have examined the consolidated balance sheets of Aozora Bank, Ltd. and consolidated subsidiaries as of March 31, 2002 and 2001, and the related consolidated statements of income, stockholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. Our examinations were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of Aozora Bank, Ltd. and consolidated subsidiaries as of March 31, 2002 and 2001, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan applied on a consistent basis.

Our examinations also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 24, 2002

CONSOLIDATED CAPITAL ADEQUACY RATIO (DOMESTIC STANDARD)

(Millions of Yen)

March 31			2002	2001
Tier I	Capital		419,781	419,781
	Non-cumulative perpetual preferred stock		272,036	272,036
	incl. Newly issued stock		—	—
	Capital surplus		33,333	33,333
	Consolidation surplus		19,819	4,499
	Minority interest in consolidated subsidiaries		843	338
	Preferred stock issued overseas		—	—
	Net unrealized losses on available-for-sale securities		(235)	—
	Treasury stock		0	—
	Foreign currency translation adjustments		785	1,303
	Goodwill		—	—
	Amount equal to consolidation adjustments		—	—
	Total	(A)	474,327	459,255
Tier II	Forty-five percent of the difference between fair value and book value in respect of land		—	—
	General reserve for possible loan losses		23,006	21,487
	Subordinated debt		20,317	39,641
	Total		43,323	61,128
	Tier II capital qualifying as capital	(B)	43,323	61,128
Items deducted	Intentional holding for the purpose of supplying capital to other financial institutions	(C)	135	130
Capital	(A) + (B) – (C)	(D)	517,515	520,253
Risk-weighted assets	Balance-sheet exposure		3,580,495	3,401,341
	Off-balance-sheet exposure		100,495	36,620
	Total	(E)	3,680,990	3,437,962
Capital adequacy ratio (domestic standard) = $\frac{(D)}{(E)}$ x 100			14.05%	15.13%

Notes: 1. The capital adequacy ratio has been calculated according to the formula stipulated in the MOF notice based on Article 14-2 of the Banking Law applied in the first half of Article 17 of the Long-Term Credit Bank Law. The Bank employs the domestic standard.

2. The Bank employs the domestic standard. However, pursuant to a revision of Article 14-2 of the Banking Law used in the first half of Article 17 of the Long-term Credit Bank Law, which results from changes to related laws to restructure Japan's financial system, the Bank has calculated a consolidated capital ratio.The deduction item (C) represents the bank's intentional holding for the purpose of supplying capital to other financial institutions and investments in items that are excluded from the scope of consolidation.

NON-CONSOLIDATED BUSINESS RESULTS

Non-consolidated Financial Highlights [Five-year Summary]

(Millions of Yen)

Years ended March 31	2002	2001	2000	1999	1998
Operating income	100,984	270,720	219,956	409,474	644,508
Ordinary profits (loss)	13,706	98,971	(113,703)	(3,560,709)	16,376
Net income (loss)	18,563	99,690	—	(467,161)	17,083
Capital stock	419,781	419,781	353,114	353,114	353,114
Number of outstanding shares (in thousands)					
Common stock	2,834,870	2,834,870	2,501,536	2,501,536	2,501,536
The 2nd preferred stock		—	102,000	102,000	102,000
The 3rd preferred stock		—	386,398	386,398	386,398
The 4th preferred stock	48,144	48,144	120,000	120,000	120,000
The 5th preferred stock	866,667	866,667			
Stockholders' equity	476,166	459,690	—	—	467,161
Total assets	5,687,366	6,174,922	8,500,368	14,055,429	12,659,064
Debentures	1,470,193	2,472,528	3,684,002	4,206,525	5,346,174
Deposits	1,649,332	1,406,119	1,785,011	1,884,073	1,805,807
Loans and bills discounted	3,304,379	3,092,049	4,104,221	7,209,084	7,781,830
Securities	1,060,690	727,758	1,135,653	1,198,950	2,172,793
Equity per share (in yen)	67.76	61.95	—	—	92.94
Dividend per share (in yen)					
Common stock	—	—	—	—	—
The 2nd preferred stock		—	—	—	—
The 3rd preferred stock		—	—	—	—
The 4th preferred stock	5.00	5.00	—	—	—
The 5th preferred stock	3.72	1.86			
(Interim dividend per share(in yen))					
(Common stock)	(—)	(—)	(—)	(—)	(—)
(The 2nd preferred stock)		(—)	(—)	(—)	(—)
(The 3rd preferred stock)		(—)	(—)	(—)	(—)
(The 4th preferred stock)	(—)	(—)	(—)	(—)	(—)
(The 5th preferred stock)	(—)	(—)			
Net income per share (in yen)	5.32	36.31	—	(186.74)	7.39
Dividend payout ratio (%)	—	—	—	—	—
Capital adequacy ratio (domestic standard) (%)	14.00	15.10	—	—	8.25
Number of employees	1,376	1,438	1,582	2,050	2,290

Notes: 1. Equity per share is calculated by dividing stockholders' equity at the fiscal year end, less the product of the number of preferred shares issued and outstanding at the fiscal year end and the issue price, by the number of common shares issued and outstanding at the fiscal year end (excluding treasury stock in fiscal 2001, ended March 31, 2002). However, since stockholders' equity in the bank was nil (¥0) for the fiscal years ended March 31, 1999 and 2000, equity per share for those years is calculated by dividing stockholders' equity at the fiscal year end by the number of shares issued and outstanding at the fiscal year end.

2. Net income (loss) per share is calculated by dividing net income (loss), less total dividends on preferred shares for fiscal 2001, ended March 31, 2002, by the average number of common shares issued and outstanding during the fiscal year (excluding treasury stock in fiscal 2001).

3. The figures for the number of employees in fiscal 1999, ended March 31, 2000 and subsequent fiscal years includes overseas local staff and executive officers, but excludes seconded employees, temporary and part-time employees. Prior to fiscal 1999, the number of employees excluded temporary and part-time employees, overseas local staff executive officers, but included seconded employees.

Non-consolidated Financial Review

1. Profit and Loss

For the fiscal year ended March 31, 2002, net business profits before general loan-loss reserve jumped ¥9.1 billion to ¥25.9 billion, as a result of augmentations in prime assets, improvement in the bank's financing structure, and further cost reductions.

After continued disposals of problem loans, write-offs, and a suitable level of provisions to the loan-loss reserve, credit-related expenses amounted to ¥3.0 billion, as an other loss item of ¥6.4 billion was partly offset by a special income item of ¥3.6 billion.

Net income for the year declined ¥81.1 billion to ¥18.6 billion, mainly because last year's income statement recorded substantial gains from sales of bank-held equity securities to improve the bank's capital in preparation ahead of the end of special public management.

Profit and Loss

(Millions of Yen)

Years ended March 31	2002	2001	Change
Gross business profits	**64,741**	**56,782**	**7,959**
Net interest income	60,027	52,223	7,804
Net fees and commissions	3,956	3,013	943
Net trading revenues	558	3,140	(2,582)
Net other operating income	198	(1,595)	1,793
General and administrative expenses	**(38,816)**	**(39,987)**	**1,171**
Business profits before general loan-loss reserve	**25,925**	**16,795**	**9,130**
General loan-loss reserve (Note 1)	**(219)**	**54,546**	**(54,765)**
Business profits	**25,706**	**71,341**	**(45,635)**
Other income (loss)	**(11,999)**	**27,629**	**(39,628)**
Expenses of problem loan disposals	(6,433)	(95,820)	89,387
Gains on stock transactions	(898)	128,382	(129,280)
Ordinary profits	**13,706**	**98,971**	**(85,265)**
Special income (loss)	**3,745**	**(6,907)**	**10,652**
Reduction in loan-loss reserve (Note 2)	3,614	—	3,614
Expenses of inappropriate loan disposals	—	6,731	(6,731)
Transitional expenses of retirement benefits	—	(6,338)	6,338
Special financial assistance	—	(7,537)	7,537
Income before income taxes	**17,451**	**92,063**	**(74,612)**
Current income taxes	**(38)**	**(1,655)**	**1,617**
Deferred income taxes	**1,150**	**9,282**	**(8,132)**
Net income	**18,563**	**99,690**	**(81,127)**
Total credit-related expenses (Note 3)	**(3,037)**	**(41,274)**	**38,237**

Notes: 1. General loan-loss reserve includes net provisions to reserve for-off-balance-sheet credit risk.
2. For fiscal 2001, reductions in general loan-loss reserve in excess of additions thereto, a net gain, were accounted for as a special income item.
3. Credit-related expenses = Net provision to general loan-loss reserve + Disposal of problem loans.
(For fiscal 2001, reductions in general loan-loss reserve, special income item, were included in the calculation.)

(1) Gross business profits

Gross business profits rose to ¥64.7 billion because of a year-on-year increase of ¥8.0 billion, mainly in net interest income and net fees and commissions.

Breakdown of Gross Business Profits (Non-consolidated)

(Millions of Yen)

Years ended March 31	2002	2001	Change
Net interest income	60,027	52,223	7,804
Net fees and commissions	3,956	3,013	943
Net trading revenues	558	3,140	(2,582)
Net other operating income	198	(1,595)	1,793
Gross business profits	**64,741**	**56,782**	**7,959**

a. Net interest income

Net interest income rose ¥7.8 billion to ¥60.0 billion, due mainly to an increase in the outstanding balance of loans and improved spreads on loans on deposits and bonds, thanks largely to lower interest rates on interest-bearing liabilities.

Breakdown of Interest-earning Assets and Interest-bearing Liabilities (Non-consolidated)

(Millions of Yen, %)

	Average balance			Return/rates		
Years ended March 31	2002	2001	Change	2002	2001	Change
Balance of interest-earning assets	**5,040,225**	**5,573,169**	**(532,944)**	**1.77**	**1.97**	**(0.20)**
Loans and bills discounted	3,439,516	3,475,451	(35,935)	2.01	2.09	(0.08)
Securities	818,460	1,011,841	(193,381)	1.20	1.81	(0.61)
Balance of interest-bearing liabilities	**4,477,329**	**6,044,918**	**(1,567,589)**	**0.65**	**0.95**	**(0.30)**
Debentures	2,066,802	2,896,649	(829,847)	0.87	1.26	(0.39)
Deposits and negotiable certificates of deposit	1,884,575	2,408,385	(523,810)	0.32	0.36	(0.04)

b. Net fees and commissions

Net fees and commissions increased ¥0.9 billion to ¥4.0 billion. The increase mainly came from the lending and investment banking businesses.

c. Net trading revenues

Earnings from derivative financial instruments amounted to ¥0.6 billion.

d. Net other operating income

The bank netted ¥0.2 billion in other operating income, which included transactions in government bonds and other bonds and foreign exchange transactions.

(2) General and administrative expenses

General and administrative expenses dropped ¥1.2 billion from the previous year, as the bank, while compressing payroll expenses, reviewed costs of fixed assets and cut down on rents, for example, by rethinking office layouts and relocating branches.

Breakdown of Operating Expenses

(Millions of Yen)

Years ended March 31	2002	2001	Change
Personnel	15,522	16,007	(485)
Property and equipment	21,859	22,566	(707)
Taxes	1,434	1,413	21
Total	38,816	39,987	(1,171)

(3) Business profits

Business profits before general loan-loss reserve increased ¥9.1 billion, or 54%, to ¥25.9 billion, as a result of the previously mentioned increases in net interest income and fees and commissions augmented by further decreases in general and administrative expenses.

(4) Other income

a. Credit-related expenses

The bank has continued to rid itself of problem loans determinedly, through write-offs and the sale of assets. Consequently, it expended a ¥6.4 billion special loss on disposal of problem loans, while capitalizing a net ¥3.6 billion reduction in a contra account of reserve for possible loan losses in accordance with generally accepted accounting standards. In sum, credit-related expenses amounted to ¥3.0 billion.

Breakdown of Credit-related Expenses

(Millions of Yen)

Years ended March 31	2002	2001	Change
General loan-loss reserve	**(219)**	**54,546**	**(54,765)**
Other income			
Expenses of problem loan disposals	(6,433)	(95,820)	89,387
Loan write offs	(4,795)	(35,641)	30,846
Provision to the specific reserve for possible loan losses	—	(57,632)	57,632
Net provision to the specific reserve for overseas receivables	—	—	—
Loss on the sale of other receivables and other items	(1,637)	(2,546)	909
Special income			
Reduction in loan-loss reserve	3,614	—	3,614
Credit-related expenses	**(3,037)**	**(41,274)**	**38,237**

b. Gains on stock transactions

Including losses on stock transactions and write-downs of securities held, a loss of ¥0.9 billion was posted, down ¥129.3 billion from the year before, when substantial gains from sales of most of bank-owned equity securities at the end of special public management were recorded.

Breakdown of Gains on Stock Transactions

(Millions of Yen)

Years ended March 31	2002	2001	Change
Gains on stock transactions	**(898)**	**128,382**	**(129,280)**
Gain on sale of equity securities	564	150,055	(149,491)
Loss on sale of equity securities	(962)	(20,446)	19,484
Write down of equity securities	(500)	(1,225)	725

(5) Ordinary profits

Ordinary profits for the year shrunk ¥85.3 billion to ¥13.7 billion, mainly because the previous year's accounts included gains on the sales of equity securities to boost the bank's capital at the end of special public management.

(6) Special income

A gain of ¥3.7 billion was booked, as the loan-loss reserve was depleted.

(7) Net income

In total, net income amounted to ¥18.6 billion, down ¥81.1 billion from the year before, in which an extraordinary item, an ¥85.0 billion gain on sales of securities, was included. If subtracted, net income increased ¥3.9 billion, an improvement of 26% year on year.

2. Assets and Liabilities

Assets and Liabilities

(Millions of Yen)

March 31	2002	2001	Change
Assets	**5,687,366**	**6,174,922**	**(487,556)**
Loans and bills discounted	3,304,379	3,092,049	212,330
Securities	1,060,690	727,758	332,932
Trading assets	422,694	565,793	(143,099)
Call loans	78,611	386,263	(307,652)
Liabilities	**5,211,200**	**5,715,231**	**(504,031)**
Debentures	1,470,193	2,472,528	(1,002,335)
Deposits	1,649,332	1,406,119	243,213
Negotiable certificates of deposit	527,908	372,820	155,088
Call money and bills sold	728,500	143,000	585,500
Stockholders' equity	**476,166**	**459,690**	**16,476**

(1) Assets

Loans and bills discounted increased ¥212.3 billion to ¥3,304.4 billion, on account of vigorous efforts to shore up the Bank's portfolio with prime assets. Marketable securities increased ¥332.9 billion to ¥1,060.7 billion, largely as a result of the efficient management of surplus funds, which temporarily increased toward the end of the previous term. In total, however, assets at March 2002 decreased ¥487.6 billion year on year to ¥5,687.4 billion, due to curbs on short-term investments such as call loans and bond repo transactions.

(2) Liabilities

Funded by the special public infusion of last year, the bank has continued its efforts in liability compression and efficient funding. Consequently, debentures decreased ¥1,002.3 billion to ¥1,470.2 billion, and deposits and negotiable certificates of deposits increased ¥398.3 billion to ¥2,177.2 billion. Total liabilities fell ¥504.0 billion to ¥5,211.2 billion.

(3) Stockholders' equity

Stockholders' equity increased ¥16.5 billion to ¥476.2 billion reflecting dividends on preferred shares and net income.

3. Non-consolidated Capital Adequacy Ratio (Domestic standard)

(Millions of Yen, %)

March 31	2002	2001	Change
Capital adequacy ratio	**14.00%**	**15.10%**	**(1.10)%**
Tier I ratio	**12.83%**	**13.32%**	**(0.49)%**
Tier I (a)	**472,899**	**458,580**	**14,319**
Tier II (b)	**43,349**	**61,149**	**(17,800)**
General reserve for possible loan losses	23,032	21,508	1,524
Subordinated debt	20,317	39,641	(19,324)
Items deducted (c)	—	—	—
Capital (a+b-c)	**516,248**	**519,730**	**(3,482)**
Risk-weighted assets	**3,685,213**	**3,441,396**	**243,817**

Non-consolidated Balance Sheets (Unaudited)

Aozora Bank, Ltd.
March 31, 2002 and 2001

	Millions of Yen		Thousands of U.S. Dollars
ASSETS	2002	2001	2002
Cash and cash equivalents	¥ 557,257	¥ 31,772	$ 4,182,046
Due from banks	47,384	635,062	355,605
Call loans and bills bought	78,611	386,263	589,952
Commercial paper and other debt purchased	32,041	8,350	240,458
Trading account assets	422,694	565,793	3,172,192
Money held in trust	0	4	6
Securities	1,060,690	727,758	7,960,153
Loans and bills discounted	3,304,379	3,092,049	24,798,344
Foreign exchanges	9,440	1,689	70,849
Securities in custody and other	93,341	448,320	700,498
Cash collateral on borrowing securities	87,191	457,678	654,344
Other assets	102,435	100,076	768,747
Premises and equipment	33,045	34,217	247,995
Deferred charges	289	716	2,173
Customers' liabilities for acceptances and guarantees	141,354	32,774	1,060,823
Deferred tax assets	10,432	9,282	78,289
Reserve for possible loan losses	(293,223)	(356,888)	(2,200,552)
TOTAL	¥5,687,366	¥6,174,922	$42,681,922

LIABILITIES AND STOCKHOLDERS' EQUITY	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
LIABILITIES:			
Debentures	¥1,470,193	¥2,472,528	$11,033,349
Deposits	2,177,240	1,778,939	16,339,519
Call money and bills sold	728,500	143,000	5,467,167
Commercial paper		10,000	
Trading account liabilities	162,318	183,161	1,218,149
Borrowed money	44,195	62,882	331,670
Foreign exchanges	129	137	968
Borrowed securities	69,238	416,664	519,611
Other liabilities	401,387	598,713	3,012,288
Liability for retirement benefits	15,668	15,673	117,587
Reserve for credit losses on off-balance-sheet instruments	974	755	7,310
Other reserves			2
Acceptances and guarantees	141,354	32,774	1,060,823
Total liabilities	¥5,211,200	¥5,715,231	$39,108,443
STOCKHOLDERS' EQUITY:			
Capital stock:			
Common stock	147,745	147,745	1,108,781
Preferred stock	272,036	272,036	2,041,547
Capital surplus	33,333	33,333	250,157
Legal reserve	370		2,781
Earned surplus	22,915	6,576	171,977
Unrealized loss on available-for-sale securities	(235)		(1,764)
Total stockholders' equity	476,166	459,690	3,573,479
TOTAL	¥5,687,366	¥6,174,922	$42,681,922

Non-consolidated Statements of Income (Unaudited)

Aozora Bank, Ltd.
Years Ended March 31, 2002 and 2001

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
INCOME:			
Interest on:			
Loans and discounts	¥ 69,395	¥ 75,048	$520,794
Securities	9,895	18,406	74,263
Due from banks	951	3,126	7,144
Other	9,085	13,327	68,186
Fees and commissions	4,461	3,368	33,484
Trading account profits	1,287	3,140	9,664
Other operating income	3,717	3,385	27,902
Other income	6,336	159,352	47,556
Total income	105,133	279,156	788,993
EXPENSES:			
Interest on:			
Debentures	18,028	36,525	135,295
Deposits	6,142	8,710	46,096
Borrowings and rediscounts	1,609	5,802	12,081
Commercial Paper	11	94	86
Other	3,510	6,553	26,343
Fees and commissions	507	358	3,809
Trading account losses	729		5,473
Other operating expenses	3,516	4,978	26,389
General and administrative expenses	39,008	40,025	292,749
Other expenses	14,618	84,044	109,706
Total expenses	87,682	187,092	658,027
INCOME (LOSS) BEFORE INCOME TAXES	17,451	92,063	130,966
Income taxes			
Current	38	1,655	286
Deferred	(1,150)	(9,282)	(8,630)
Total income taxes	(1,111)	(7,626)	(8,344)
NET INCOME	¥18,563	¥99,690	$139,310

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK	2002	2001	2002
Net income	¥5.32	¥36.31	$0.04
Diluted net income	4.90	29.81	0.04
Cash dividends of common stock			
Cash dividends of the fourth preferred stock	5.00	5.00	0.04
Cash dividends of the fifth preferred stock	3.72	1.86	0.03

74

Non-consolidated Statements of Earned Surplus (Unaudited)

Aozora Bank, Ltd.
Years Ended March 31, 2002 and 2001

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Balance at beginning of year	¥ 6,576	¥(467,161)	$ 49,353
Appropriation (Disposition)			
Transfer of capital surplus		114,047	
Capital reduction without repayment		260,000	
Cash dividends	(1,852)		(13,904)
Transfer to legal reserve	(370)		(2,782)
Net income	18,563	99,690	139,310
Balance at end of year	22,915	6,576	171,977

NON-CONSOLIDATED CAPITAL ADEQUACY RATIO (DOMESTIC STANDARD)

(Millions of Yen)

March 31			2002	2001
Tier I	Capital		419,781	419,781
	incl. Non-cumulative perpetual preferred stock		272,036	272,036
	Newly issued stock		—	—
	Capital surplus		33,333	33,333
	Legal reserve		1,063	370
	Voluntary reserve		—	—
	Profit carried forward to next term		18,170	3,791
	Others		785	1,303
	Net unrealized losses on available-for-sale securities		(235)	—
	Treasury stock		0	—
	Goodwill		—	—
	Total	(A)	472,899	458,580
Tier II	Forty-five percent of the difference between fair value and book value in respect of land		—	—
	General reserve for possible loan losses		23,032	21,508
	Subordinated debt		20,317	39,641
	Total		43,349	61,149
	Tier II capital qualifying as capital	(B)	43,349	61,149
Items deducted	Intentional holding for the purpose of supplying capital to other financial institutions	(C)	—	—
Capital	(A)+(B)–(C)	(D)	516,248	519,730
Risk-weighted assets	Balance-sheet exposure		3,584,717	3,404,750
	Off-balance-sheet exposure		100,495	36,645
	Total	(E)	3,685,213	3,441,396
Capital adequacy ratio (Domestic standard) = $\frac{(D)}{(E)}$ x 100			14.00%	15.10%

Note: The capital adequacy ratio has been calculated according to the formula stipulated in the MOF notice based on Article 14-2 of the Banking Law applied in the first half of Article 17 of the Long-term Credit Bank Law. The Bank employs the domestic standard.

Debenture Operations

Outstanding Balance and Average Balance of Debentures

(Millions of Yen)

Years ended March 31	2002 Term-end balance	2002 Average balance	2001 Term-end balance	2001 Average balance
Nippon Credit debentures/Aozora debentures	1,310,952	1,839,756	2,208,763	2,627,769
Discounted Nippon Credit debentures/ Discounted Aozora debentures	159,240	227,045	263,765	268,879
Total	**1,470,193**	**2,066,802**	**2,472,528**	**2,896,649**

Notes: 1. Debentures do not include debenture subscriptions.
2. As of March 28, 2001, "Nippon Credit debentures" and "Discounted Nippon Credit debentures" changed into "Aozora debentures" and "Discounted Aozora debentures," respectively.

Balance by Residual Period

(Millions of Yen)

March 31	2002 Total	2002 Aozora debentures	2002 Discounted Aozora debentures	2001 Total	2001 Aozora debentures	2001 Discounted Aozora debentures
Less than 1 year	991,105	831,864	159,240	1,931,223	1,667,457	263,765
1 – 3 years	397,300	397,300		485,726	485,726	
3 – 5 years	81,787	81,787		55,578	55,578	
5 – 7 years	—	—		—	—	
Over 7 years	—	—		—	—	
Total	1,470,193	1,310,952	159,240	2,472,528	2,208,763	263,765

Deposit Operations

Balance by Deposit Accounts

(Millions of Yen)

Years ended March 31			2002 Total	2002 Domestic operations	2002 International operations	2001 Total	2001 Domestic operations	2001 International operations
Deposits	Liquid deposits	Average balance (%)	235,030	235,030	—	165,573	165,573	—
			(17.48)	(17.97)	—	(9.34)	(9.57)	—
		Term-end balance (%)	616,754	616,754	—	169,986	169,986	—
			(37.39)	(38.25)	—	(12.09)	(12.40)	—
	Interest-bearing deposits	Average balance (%)	206,223	206,223	—	145,525	145,525	—
			(15.34)	(15.77)	—	(8.21)	(8.41)	—
		Term-end balance (%)	502,349	502,349	—	139,661	139,661	—
			(30.46)	(31.16)	—	(9.93)	(10.19)	—
	Time deposits	Average balance (%)	1,101,717	1,070,556	31,160	1,595,971	1,563,632	32,339
			(81.95)	(81.87)	(84.94)	(90.04)	(90.34)	(77.37)
		Term-end balance (%)	1,023,038	992,597	30,441	1,230,624	1,198,989	31,634
			(62.03)	(61.57)	(81.96)	(87.52)	(87.45)	(90.22)
	Deregulated interest rate time deposits (fixed)	Average balance (%)	1,016,783	1,016,783		1,509,099	1,509,099	
			(75.63)	(77.76)		(85.14)	(87.19)	
		Term-end balance (%)	928,387	928,387		1,177,442	1,177,442	
			(56.29)	(57.59)		(83.74)	(85.88)	
	Deregulated interest rate time deposits (floating)	Average balance (%)	53,773	53,773		54,533	54,533	
			(4.00)	(4.11)		(3.08)	(3.15)	
		Term-end balance (%)	64,210	64,210		21,547	21,547	
			(3.89)	(3.98)		(1.53)	(1.57)	
	Others	Average balance (%)	7,610	2,085	5,525	10,984	1,527	9,457
			(0.57)	(0.16)	(15.06)	(0.62)	(0.09)	(22.63)
		Term-end balance (%)	9,540	2,841	6,698	5,509	2,081	3,427
			(0.58)	(0.18)	(18.04)	(0.39)	(0.15)	(9.78)
	Total	Average balance (%)	1,344,358	1,307,672	36,685	1,772,529	1,730,733	41,796
			(100.00)	(100.00)	(100.00)	(100.00)	(100.00)	(100.00)
		Term-end balance (%)	1,649,332	1,612,193	37,139	1,406,119	1,371,057	35,061
			(100.00)	(100.00)	(100.00)	(100.00)	(100.00)	(100.00)
Certificates of deposit		Average balance	540,217	540,217	—	635,855	635,855	—
		Term-end balance	527,908	527,908	—	372,820	372,820	—
Total		Average balance	1,884,575	1,847,890	36,685	2,408,385	2,366,588	41,796
		Term-end balance	2,177,240	2,140,101	37,139	1,778,939	1,743,877	35,061

Notes: 1. Time deposits (in general) = Time deposits
Deregulated interest rate time deposits (fixed) = Deregulated interest rate time deposits for which the interest up to the due date is determined when the deposits are made.
Deregulated interest rate time deposits (floating) = Deregulated interest rate time deposits for which the interest varies according to changes in market interest rates during the period of deposit.
2. Deposits = Deposits at notice + Ordinary deposits + Current deposits
3. Average balance of domestic offices' foreign-currency denominated transactions in the international operations sector has been computed by the daily current method.

Balance of Time Deposits by Residual Period

(Millions of Yen)

March 31	2002 Total	2002 Deregulated interest rate (fixed)	2002 Deregulated interest rate (floating)	2001 Total	2001 Deregulated interest rate (fixed)	2001 Deregulated interest rate (floating)
Less than 3 months	306,642	298,882	7,760	594,361	574,631	19,730
3 – 6 months	29,993	29,483	450	110,018	109,318	700
6 months – 1 year	130,368	95,927	4,000	72,602	71,485	1,117
1 – 2 years	349,020	308,570	40,450	126,197	94,563	—
2 – 3 years	138,248	127,398	10,850	327,055	327,055	—
More than 3 years	68,825	68,125	700	388	388	—
Total	**1,023,038**	**928,387**	**64,210**	**1,230,624**	**1,177,442**	**21,547**

Outstanding Balance by Depositor

(Millions of Yen, %)

March 31	2002 Balance	2002 Share	2001 Balance	2001 Share
Corporations	551,244	34.1	419,806	30.6
Individuals	673,363	41.6	529,512	38.5
Public sector	36,909	2.3	39,154	2.9
Financial institutions	355,498	22.0	385,268	28.0
Total	**1,617,016**	**100.0**	**1,373,741**	**100.0**

Note: The above balance does not include certificates of deposit, deposits at overseas offices and specific international financial transaction accounts.

Loan Operations

Outstanding Balance of Loans

(Millions of Yen)

Years ended March 31		2002 Total	2002 Domestic operations	2002 International operations	2001 Total	2001 Domestic operations	2001 International operations
Loans on deeds	Average balance	2,342,087	2,302,301	39,785	2,108,063	2,068,089	39,973
	Term-end balance	2,211,767	2,164,008	47,759	2,047,572	2,018,644	28,927
Loans on notes	Average balance	979,105	978,604	500	1,294,389	1,293,946	442
	Term-end balance	921,047	920,514	533	940,664	940,169	495
Overdrafts	Average balance	114,677	114,677	—	70,913	70,913	—
	Term-end balance	166,893	166,893	—	100,099	100,099	—
Bills discounted	Average balance	3,646	3,646	—	2,086	2,086	—
	Term-end balance	4,669	4,669	—	3,713	3,713	—
Total	**Average balance**	**3,439,516**	**3,399,230**	**40,286**	**3,475,451**	**3,435,035**	**40,416**
	Term-end balance	**3,304,379**	**3,256,087**	**48,292**	**3,092,049**	**3,062,626**	**29,423**

Notes: 1. Average balance of domestic offices' foreign-currency denominated transactions in the international operations sector has been computed by the daily current method.
2. Since March 2001, the bank has conducted the partial or direct write offs of Loans. This likewise applies to the tables shown below.

Balance by Residual Period

(In millions of Yen)

March 31	2002 Total	2002 Fixed interest	2002 Floating interest	2001 Total	2001 Fixed interest	2001 Floating interest
Less than 1 year	1,412,405			1,365,320		
1 – 3 years	632,734	516,580	116,154	582,509	518,483	64,025
3 – 5 years	704,658	500,490	204,167	678,442	526,032	152,409
5 – 7 years	234,471	184,910	49,560	195,466	163,519	31,947
Over 7 years	319,214	215,426	103,787	269,226	225,060	44,165
Indefinite period	894	—	894	1,083	—	1,083
Total	**3,304,379**			**3,092,049**		

Note: No distinction has been made between fixed interest and floating interest, as to loans with a residual period of less than 1 year.

Breakdown of Loans by Industry

(Number of Borrowers, Millions of Yen, %)

March 31	2002 Number of borrowers	2002 Balance of loans	2002 Share	2001 Number of borrowers	2001 Balance of loans	2001 Share
Loans from domestic offices (excluding special international financial transaction accounts)	**6,157**	**3,286,793**	**100.00%**	**6,694**	**3,081,729**	**100.00%**
Manufacturing	552	512,078	15.58	502	466,498	15.14
Agriculture, forestry & fisheries	11	4,567	0.14	9	4,498	0.15
Mining	14	12,745	0.39	15	13,642	0.44
Construction	112	207,667	6.32	113	249,625	8.10
Financial & insurance	108	489,552	14.89	107	508,639	16.51
Wholesale & retail	518	334,288	10.17	385	241,920	7.85
Real estate	385	730,212	22.22	332	740,277	24.02
Transport & telecommunications	173	278,237	8.46	168	216,016	7.01
Utilities	30	25,139	0.76	28	40,516	1.31
Services	653	638,474	19.43	519	556,598	18.06
Municipalities	—	—	—	1	18	0.00
Individuals	3,579	25,010	0.79	4,492	26,391	0.86
Overseas yen loans by domestic offices	22	28,820	0.88	23	17,085	0.55
Loans from overseas offices, and special international financial transaction accounts	**17**	**17,586**	**100.00%**	**12**	**10,319**	**100.00%**
Governments & official institutions	—	—	—	—	—	—
Financial institutions	—	—	—	—	—	—
Commercial & industrial	17	17,586	100.00	12	10,319	100.00
Others	—	—	—	—	—	—
Total	**6,174**	**3,304,379**		**6,706**	**3,092,049**	

Breakdown of Loans by Collateral

(Millions of Yen)

March 31	2002	2001
Securities	48,830	34,714
Claims	624,765	634,559
Merchandise	—	—
Land & buildings	930,167	990,237
Factories	1,565	2,155
Foundations	274,175	275,371
Vessels	14,413	9,951
Others	793,737	717,705
Total	**2,687,655**	**2,664,695**
Guarantees	140,902	147,344
Credits	475,821	280,010
Total	**3,304,379**	**3,092,049**

Note: Includes loans reserved with conditions necessary for counteraction against a third party.

Write-off of Loans

(Millions of Yen)

March 31	2002	2001
Write-off of loans	4,795	35,641

Reserves for Possible Loan Losses

(Millions of Yen)

Years ended March 31	2002					2001				
			Reduction during year					Reduction during year		
	Balance at beginning of year	Provision	Used for specific purpose	Other	Balance at end of year	Balance at beginning of year	Provision	Used for specific purpose	Other	Balance at end of year
General reserve for possible loan losses	190,586	175,688	—	190,586	175,688	245,887	190,586	—	245,887	190,586
Specific reserve for possible loan losses	(10) 166,291	116,882	60,039	106,252	116,882	(△191) 878,844	166,302	762,421	116,423	166,302
Possible loan losses related to non-residents	(10) 277	—	—	277	—	(△187) 11,041	288	10,922	118	340
Provision for country risk reserve	—	653	—	—	653	—	—	—	—	—

Note: Figures enclosed in parentheses in the column showing figures for balances at beginning of the year represent the difference arising from foreign currency translation adjustments.

Country Risk Reserve

(Millions of Yen)

March 31	2002	2001
Indonesia	4,589	—
Total	**4,589**	—
(Percentage of total assets)	**(0.08%)**	

Note: Receivables associated with specific overseas countries consist of loans and bills discounted, and are provided for as reserves for possible loan losses (country risk reserve).

Securities

Outstanding Balance and Average Balance of Securities Held

(Millions of Yen)

Years ended March 31		2002 Total	2002 Domestic operations	2002 International operations	2001 Total	2001 Domestic operations	2001 International operations
Total	**Average . . . . . .**	**818,460**	**667,868**	**150,592**	**1,011,841**	**912,615**	**99,226**
	balance (%) . . .	**(100.00)**	**(100.00)**	**(100.00)**	**(100.00)**	**(100.00)**	**(100.00)**
	Term-end	**1,060,690**	**841,540**	**219,149**	**727,758**	**591,113**	**136,644**
	balance (%) . . .	**(100.00)**	**(100.00)**	**(100.00)**	**(100.00)**	**(100.00)**	**(100.00)**
National government bonds	Average	558,349	558,349	—	566,941	566,941	—
	balance (%) . . .	(68.22)	(83.60)	—	(56.03)	(62.12)	—
	Term-end	733,992	733,992	—	456,951	456,951	—
	balance (%) . . .	(69.20)	(87.22)	—	(62.79)	(77.30)	—
Local government bonds	Average	12,455	12,455	—	35,130	35,130	—
	balance (%) . . .	(1.52)	(1.87)	—	(3.47)	(3.85)	—
	Term-end	6,649	6,649	—	30,448	30,448	—
	balance (%) . . .	(0.63)	(0.79)	—	(4.19)	(5.15)	—
Corporate bonds	Average	68,656	68,656	—	61,868	61,868	—
	balance (%) . . .	(8.39)	(10.28)	—	(6.12)	(6.78)	—
	Term-end	68,062	68,062	—	82,241	82,241	—
	balance (%) . . .	(6.42)	(8.09)	—	(11.30)	(13.91)	—
Stocks	Average	10,584	10,584	—	241,142	241,142	—
	balance (%) . . .	(1.29)	(1.58)	—	(23.83)	(26.42)	—
	Term-end	9,772	9,772	—	12,974	12,974	—
	balance (%) . . .	(0.92)	(1.16)	—	(1.78)	(2.20)	—
Others	Average	166,413	17,821	150,592	106,759	7,532	99,226
	balance (%) . . .	(20.58)	(2.67)	(100.00)	(10.55)	(0.83)	(100.00)
	Term-end	242,212	23,063	219,419	145,142	8,497	136,644
	balance (%) . . .	(22.83)	(2.74)	(100.00)	(19.94)	(1.44)	(100.00)
Securities lent	Average	—	—	—	—	—	—
	balance (%) . . .	—	—	—	—	—	—
	Term-end	—	—	—	—	—	—
	balance (%) . . .	—	—	—	—	—	—

Notes: 1. "Others" in total column represents the total of "Other" of domestic operations plus that of international operations.
2. Average balance of Securities lent is classified and included according to type of securities.
3. Treasury stock is included in "Stocks."
4. Average balance of domestic offices' foreign-currency denominated transactions in international operations is computed by the daily current method.

Balance of Securities by Residual Period

(Millions of Yen)

March 31	2002 National government bonds	2002 Local government bonds	2002 Corporate bonds	2002 Stocks	2002 Others	2002 Securities lent	2001 National government bonds	2001 Local government bonds	2001 Corporate bonds	2001 Stocks	2001 Others	2001 Securities lent
Less than 1 year	292,971	115	3,511		29,192	—	370,015	88	44,426		27,764	—
1 – 3 years	340,290	3,577	21,881		54,826	—	74,801	5,193	7,310		26,390	—
3 – 5 years	100,731	813	27,529		90,083	—	1,158	11,378	10,604		11,951	—
5 – 7 years	—	1,006	10,429		17,926	—	1,024	1,014	1,197		5,830	—
7 – 10 years	—	552	4,711		4,232	—	9,951	12,211	18,703		7,054	—
Over 10 years	—	584	—		25,282	—	—	562	—		62,749	—
Indefinite period	—	—	—	9,772	20,671	—	—	—	—	12,974	3,400	—
Total	733,992	6,649	68,062	9,772	242,212	—	456,951	30,448	82,241	12,974	145,142	—

Note: Treasury stock is included in "Stocks."

Derivatives Transactions

Notes: 1. The bank applies the "risk adjustment approach" specified by the JICPA as a hedge accounting method (Macro hedge), to control the interest rate risk arising from the bank's extensive portfolio of financial assets and liabilities.
2. Unrealized gains or losses on hedging instruments that qualify for hedge accounting are as shown below.
3. The appraisal value of interest rate swaps includes the equivalent of ¥548 million in accrued interest on interest rate swap transactions over the term, which is accounted for on the income statement.

Interest Rate Swaps

(Millions of Yen)

Year ended March 31, 2002		Contract amount		Fair value	Valuation gains (losses)
			Over one year		
Total		**2,959,373**	**2,867,373**	**21,589**	**21,589**
	Receivable fixed rate / Payable floating rate	1,926,000	1,905,000	79,753	79,753
	Receivable floating rate / Payable fixed rate	1,033,373	962,373	(58,163)	(58,163)
	Receivable floating rate / Payable floating rate	—	—	—	—

Interest Rate Futures

(Millions of Yen)

Year ended March 31, 2002		Contract amount		Fair value	Valuation gains (losses)
			Over one year		
Total		**101,743**	—	**(1)**	**(1)**
	Bought	53,368	—	(13)	(13)
	Sold	48,374	—	12	12

Capitalization

History of Capitalization

(Millions of Yen)

Month/Year	Capital increases	Capital thereafter	Remarks
Mar. 1988	2,694	96,364	Conversion of convertible bonds (Nov. 2, 1987–Mar. 31, 1988)
Oct. 1988	2,321	98,686	Conversion of convertible bonds (Apr. 1, 1988–Oct. 31, 1988)
Nov. 1988	27,985	126,671	Compensatory public subscription 5,000 thousand shares; Issue price ¥11,194; Transfer to capital ¥5,597
Mar. 1989	1,415	128,086	Conversion of convertible bonds (Nov. 1, 1988–March 31, 1989)
Mar. 1990	20,290	148,377	Conversion of convertible bonds (Apr. 1, 1989–March 31, 1990)
Mar. 1991	3,814	152,191	Conversion of convertible bonds (Apr. 1, 1990–March 31, 1991)
Mar. 1992	28	152,220	Conversion of convertible bonds (Apr. 1, 1991–March 31, 1992)
Mar. 1995	71	152,292	Conversion of convertible bonds (Apr. 1, 1994–March 31, 1995)
Oct. 1996	25,500	177,792	Compensatory private placement (the 2nd preferred stock 102,000 thousand shares); Issue price ¥500; Transfer to capital ¥250
Jul. 1997	83,498	261,290	Compensatory private placement (common stock 766,039 thousand shares); Issue price ¥218; Transfer to capital ¥109
Jul. 1997	61,823	323,114	Compensatory private placement (the 3rd preferred stock 386,398 thousand shares); Issue price ¥320; Transfer to capital ¥160
Mar. 1998	30,000	353,114	Compensatory private placement (the 4th preferred stock 120,000 thousand shares); Issue price ¥500; Transfer to capital ¥250
Sep. 2000	66,666	419,781	Compensatory private placement (common stock 333,334 thousand shares); Issue price ¥300; Transfer to capital ¥200
Oct. 2000	(260,000)	159,781	Non-compensatory reduction of capital • Capital reduction of ¥105,287 million by redemption of the 2nd preferred stock 102,000 thousand shares, the 3rd preferred stock 386,398 thousand shares, and the 4th preferred stock 71,856 thousand shares • Capital reduction of ¥154,712 million exceeding face amount of common stock and transferred to capital
Oct. 2000	260,000	419,781	Compensatory private placement (the 5th preferred stock 866,667 thousand shares); Issue price ¥300; Transfer to capital ¥300

Major Shareholders

(as of March 31, 2002)

a. **Common Stock**

	Number of shares held	Share of total outstanding shares
SOFTBANK CORP.	1,385,548 thousand	48.87%
ORIX Corporation	425,041	14.99
The Tokio Marine and Fire Insurance Co., Ltd.	425,041	14.99
Cerberus NCB Acquisition LLC	326,600	11.52
Chase Manhattan International Finance Ltd	14,200	0.50
UBS Capital Asia Pacific Ltd	14,200	0.50
Silicon Valley Bancshares	7,100	0.25
Shinkin Central Bank	5,680	0.20
The Shinkumi Federation Bank	5,680	0.20
The Rokinren Bank	5,680	0.20
THE MICHINOKU BANK, LTD.	5,680	0.20
The Hachijuni Bank, Ltd.	5,680	0.20
THE SURUGA BANK, LTD.	5,680	0.20
The Bank of Kyoto, Ltd.	5,680	0.20
The Chugoku Bank, Limited	5,680	0.20
The Hiroshima Bank, Ltd.	5,680	0.20
The Yamaguchi Bank, Ltd.	5,680	0.20
THE BANK OF FUKUOKA, LTD.	5,680	0.20
THE NISHI-NIPPON BANK, LTD.	5,680	0.20
The Fukuoka City Bank, Ltd.	5,680	0.20

b. **The 4th Preferred Stock**

	Number of shares held	Share of total outstanding shares
Deposit Insurance Corporation	48,144 thousand	100.00%
Total	48,144 thousand	100.00%

c. **The 5th Preferred Stock**

	Number of shares held	Share of total outstanding shares
Resolution and Collection Corporation	866,667 thousand	100.00%
Total	866,667 thousand	100.00%

Corporate History

April	1957	Established as The Nippon Fudosan Bank, Limited (Capital: ¥1 billion) in accordance with the Long-term Credit Bank Law
October		Opened Osaka Branch
November		Started issuance of debentures
September	1958	Started issuance of discount debentures
October		Opened Nagoya Branch Office
July	1964	Started foreign exchange business as an authorized foreign exchange bank
September		Listed stock on the Tokyo Stock Exchange
February	1970	Listed stock on the Osaka Securities Exchange
October	1977	Changed name to The Nippon Credit Bank, Ltd.
November	1989	Started issuance of two-year debentures
February	1992	Established The Nippon Credit Trust Bank, Ltd., the first domestic subsidiary classified as other type of business
August	1994	Split ¥500 par value stock into ¥50 par value stock
June	1996	Started issuance of one and three-year debentures
December	1998	Started special public management in accordance with application of the Financial Reconstruction Law Terminated listing of stock on Tokyo Stock Exchange, Osaka Securities Exchange
June	2000	Share Purchase Agreement regarding the transfer of the Bank's shares is signed between DIC and SOFTBANK CORP., ORIX Corporation, The Tokio Marine and Fire Insurance Co., Ltd., and other financial institutions
September		Ended special public management
January	2001	Changed name to Aozora Bank, Ltd.
December		Aozora Card Co., Ltd. was jointly established by ORIX Corporation and ORIX Credit Corporation

Business Activities

● Debentures

Issuance of debentures and discounted debentures

● Deposits

Deposits

Checking accounts, savings accounts, time deposits, deposits-at-notice, tax-savings deposits, non-residents deposits in yen currency, and deposits in foreign currencies

Certificates of deposit

Limited to national and local public entities, bond management firms and other specified customers

● Lending and guarantee of liabilities

Loans, discounts on promissory notes, guarantee of liabilities for equipment funds and long-term operating fund services

Also, loans for long-term funds (term exceeding six months) other than equipment funds and long-term operation funds

Loans for short-term funds are (term of less than six months) limited to the total amount of deposits or corresponding funds

Discounts on promissory notes, guarantee of liabilities and acceptance of promissory notes

● Securities

Security investment business

Underwriting of public bonds

Over-the-counter sales of public bonds including national government bonds, and securities investment trusts

Sales/Purchase of security products

Receipt of payment for stocks or corporate bonds, or payment of dividends

Registration of public bonds as a registered institution under the Corporate Bonds Registration Law

Consignment business for soliciting or managing public bonds

Trust business for secured corporate bonds

● Brokerage business for securities futures

Brokerage business for securities futures, option transactions, and forward rate agreement transactions

● Domestic exchange

Services such as money orders between head/branch offices, and head/branch offices of other banks

Checking account payment collection of bills

● Foreign exchange

Remittance to foreign countries and other foreign currency-related businesses

● Other services

Revenue agency for Bank of Japan and agency business for national bonds

Receipt of public funds of local public entities including Tokyo

Agency business for Japan Small Business Corp., Employees Retirement Allowance Corp., Environmental Service Corp., Government Pension Investment Fund Employment Promotion Corp., Oil Corp., and Social Welfare Medical Corp.

Safe-keeping deposits

Rental of safe-deposit boxes

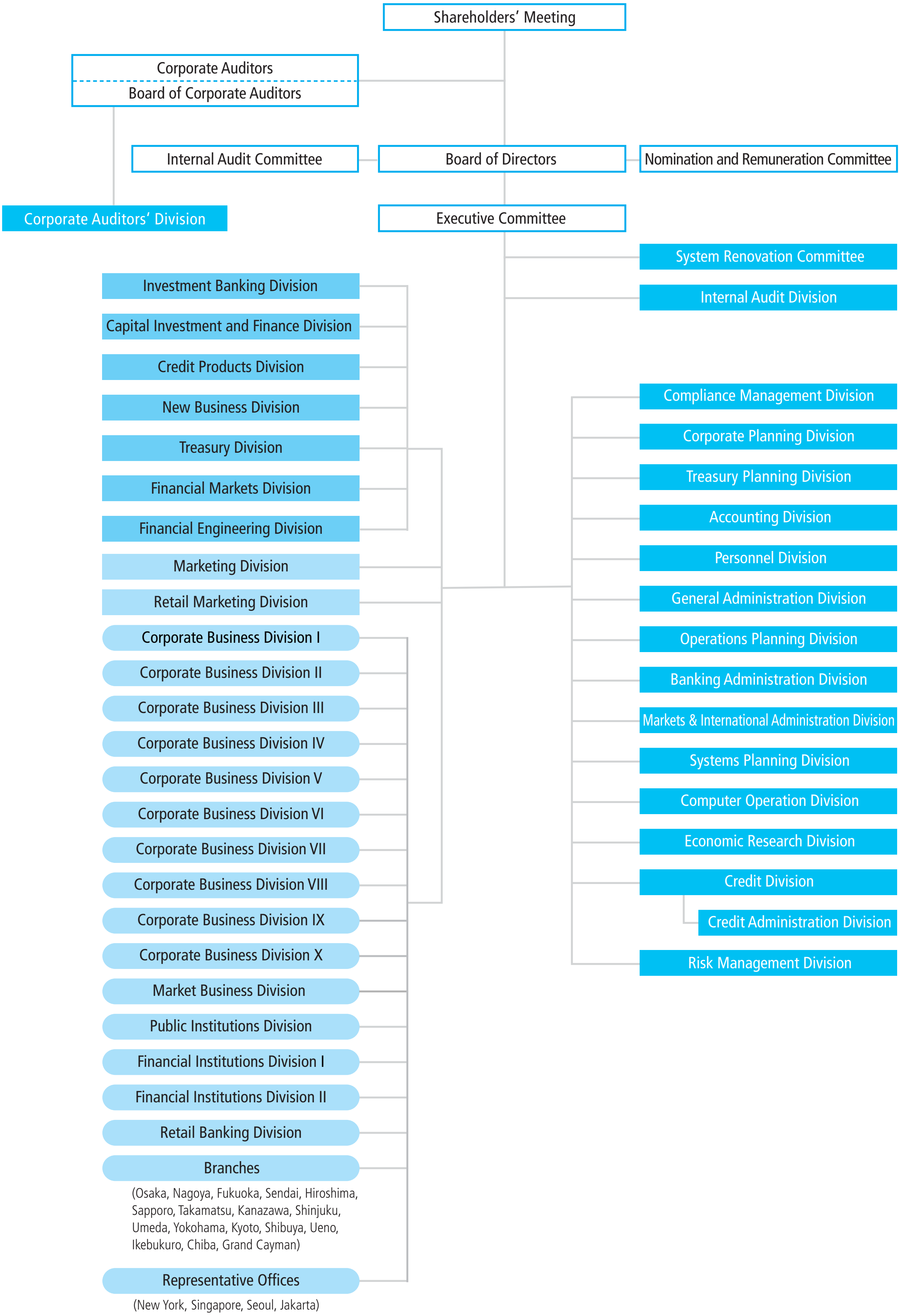
Purchase of securities

Commercial paper

Interest rate, currency and other derivative transactions

Organization Chart

(as of June 30, 2002)



Office Directory

(as of June 30, 2002)

Overseas Network

Branch

Grand Cayman Branch

General Manager
Kazuo Hoshino

Deputy General Manager
Hiroshi Ushio

Address
P.O. Box 1040
West Wind Building,
George Town, Grand Cayman
c/o Aozora Bank, Ltd.
Head Office
Telex: J26921 NCBTOK
J28788 NCBTOK

Representative Offices

New York Representative Office

Chief Representative
Akihiro Yamasaki

Address
101 East 52nd Street,
29th Floor, New York,
NY 10022, U.S.A.
Tel: 212-751-7330
Fax: 212-751-0987

Singapore Representative Office

Head of South East Asia
Shinya Takahashi

Address
6 Temasek Boulevard, #23-02
Suntec Tower 4,
Singapore 038986,
Singapore
Tel: 6333-6781
Fax: 6333-6807

Seoul Representative Office

Senior Representative
Masayuki Ohga

Address
12th Floor
Kyobo Building, 1 Chongoro,
1-ka, Chongoro-ku,
Seoul 110-714
Republic of Korea
Tel: 02-734-8120
Fax: 02-734-8126

Jakarta Representative Office

Chief Representative
Hiroshi Matsumoto

Address
17th Floor, Jakarta Stock
Exchange Building Tower II
Jl. Jend. Sudirman Kav.
52-53, Jakarta 12190,
Indonesia
Tel: 021-515-5155
Fax: 021-515-5156

Domestic Network

HEAD OFFICE

13-10, Kudan-kita 1-chome
Chiyoda-ku, Tokyo
102-8660, Japan
Tel: 03-3263-1111
Telex: J26921, J28788
(General)
NCBTOK
SWIFT: NCBTJPJT

BRANCH OFFICES

Osaka

2-4, Nishi-Shinsaibashi 1-chome
Chuo-ku, Osaka 542-0086
Tel: 06-6245-2121

Nagoya

5-28, Meieki 4-chome
Nakamura-ku, Nagoya 450-0002
Tel: 052-566-1900

Fukuoka

14-18, Tenjin 1-chome
Chuo-ku, Fukuoka 810-0001
Tel: 092-751-9627

Sendai

2-1, Chuo 3-chome
Aoba-ku, Sendai 980-0021
Tel: 022-225-1171

Hiroshima

13-13, Motomachi
Naka-ku, Hiroshima 730-0011
Tel: 082-211-0125

Sapporo

1-4, Kita Sanjo-Nishi 4-chome
Chuo-ku, Sapporo 060-0003
Tel: 011-241-8171

Takamatsu

6-1, Bancho 1-chome
Takamatsu 760-0017
Tel: 087-821-5521

Kanazawa

37, Takaokacho 2-chome
Kanazawa 920-0864
Tel: 076-231-4151

Shinjuku

37-11, Shinjuku 3-chome
Shinjuku-ku, Tokyo 160-0022
Tel: 03-3354-1600

Umeda

47, Kakutacho 8-chome
Kita-ku, Osaka 530-0017
Tel: 06-6315-1111

Yokohama

48, Honcho 5-chome
Naka-ku, Yokohama 231-0005
Tel: 045-212-3481

Kyoto

394 Shimomaruya-cho
Oike-sagaru
Kawaramachi-Dori
Nakagyo-ku, Kyoto 604-8006
Tel: 075-211-3341

Shibuya

24-12, Shibuya 1-chome
Shibuya-ku, Tokyo 150-0002
Tel: 03-3409-6411

Ueno

6-12, Ueno 2-chome
Taito-ku, Tokyo 110-0005
Tel: 03-3835-7511

Ikebukuro

28-13, Minami-Ikebukuro
2-chome, Toshima-ku
Tokyo 171-0022
Tel: 03-3988-0911

Chiba

3-1, Fujimi 2-chome
Chuo-ku, Chiba 260-0015
Tel: 043-227-3111

HOME PAGE ADDRESS http://www.aozorabank.co.jp/

Business Network

(as of March 31, 2002)

*All companies listed below are consolidated subsidiaries.

Aozora Bank, Ltd.

- **Banking operations**
  - Head Office and branches
  - Main affiliates: (Aozora Trust Bank, Ltd.)
- **Securities services**
  - Head Office and branches
- **Trust services**
  - Main affiliates: Aozora Trust Bank, Ltd. — Trust services, banking operations
- **Other operations**
  - Main affiliates:
    - AOZORA Loan Services Co., Ltd. — Distressed loan servicing
    - Aozora Card Co., Ltd. — Card loan services
    - Aozora Investment Co., Ltd. — Venture capital investment
    - Aozora Business Service Co., Ltd. — Administrative services
    - Aozora Information Systems Co., Ltd. — Systems development

Subsidiaries at a Glance

(as of March 31, 2002)

(Millions of Yen, %)

Company Name	Location	Business Content	Established	Capital	Aozora Bank's Shareholding	Group Shareholding
Aozora Trust Bank, Ltd.	11-5, Kudan-kita 1-chome Chiyoda-ku, Tokyo	Trust services, banking operations	February 28, 1994	5,000	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 Card Co., Ltd.	3-4, Nibancho Chiyoda-ku, Tokyo	Card loan services	December 6, 2001	1,000	60.00	–
Aozora Investment Co., Ltd.	13-10, Kudan-kita 1-chome Chiyoda-ku, Tokyo	Venture capital investment	May 17, 1991	20	100.00	–
Aozora Business Service Co., Ltd.	13-10, Kudan-kita 1-chome Chiyoda-ku, Tokyo	Administrative services	September 21, 1987	10	100.00	–
Aozora Information Systems Co., Ltd.	8-15, Hyakunincho 2-chome Shinjuku-ku,Tokyo	Systems development	April 1, 1967	150	100.00	–
AOZORA SOFTWARE CORPORATION	8-15, Hyakunincho 2-chome Shinjuku-ku,Tokyo	Systems development	May 9, 1973	12	–	100.00
Aozora Computer Co., Ltd.	21, Nikkocho 1-chome Fuchu-shi, Tokyo	Computer operation	April 1, 1991	20	5.00	95.00
The Nippon Credit Bank (Curacao) Finance, N.V. (in liquidation)	Curacao, the Netherlands Antilles	In liquidation	October 25, 1978	26	100.00	–
The Nippon Credit Bank (Curacao) Capital, N.V. (in liquidation)	Curacao, the Netherlands Antilles	In liquidation	August 6, 1996	20	100.00	–

Directors and Auditors

(as of June 30, 2002)

DIRECTORS

Chairman
Kazuhiko Kasai
Director
SOFTBANK CORP.

President and CEO
Hiroshi Maruyama

Senior Managing Director
Fudeji Hama

Senior Managing Director
Kenji Kajiwara

Director
Yuji Inagaki

Director
Izumi Ogura

Director
Masayoshi Son
President & CEO
SOFTBANK CORP.

Director
Yoshihiko Miyauchi
Chairman and CEO
ORIX Corporation

Director
Koukei Higuchi
Chairman
The Tokio Marine
and Fire Insurance Co., Ltd.

Director
James Danforth Quayle
Former Vice President of the United States of America

Director
Fumikatsu Tokiwa
Former Senior Advisor
Kao Corporation

Director
Kazuhito Ikeo
Professor
Keio University

AUDITORS

Standing Auditor
Ken Shigihara

Auditor
Yoshio Nakanishi

Auditor
Hideaki Kubori

Auditor
Koichi Hori

EXECUTIVE OFFICERS

Chief Executive Officer
Hiroshi Maruyama

Senior Executive Officer
Fudeji Hama

Senior Executive Officer
Kenji Kajiwara

Managing Executive Officer
Yuji Inagaki

Managing Executive Officer
Izumi Ogura

Managing Executive Officer
Tomoaki Ishii

Managing Executive Officer
Shiro Nagaki

Managing Executive Officer
Yoshiyuki Kurihara

Managing Executive Officer
Norimichi Kurakake

Executive Officer
Ryoichi Kawai

Executive Officer
Tadaaki Satoyoshi

Executive Officer
Tetsuo Ninomiya

Executive Officer
Tadashi Tomozawa

Executive Officer
Yukimichi Nakatani

Executive Officer
Hirokazu Takino

Executive Officer
Katsutoshi Ishida

Executive Officer
Akira Takami

AOZORA BANK, LTD.

13-10, Kudan-kita 1-chome, Chiyoda-ku, Tokyo 102-8660, Japan
Phone 03-3263-1111
URL http://www.aozorabank.co.jp/

Forward-Looking Statements

This annual report contains forward-looking statements regarding the bank's financial condition and results of operations. These forward-looking statements, which include our views and assumptions with respect to future events, involve certain risks and uncertainties. Actual results may differ from forecasts due to changes in economic conditions.

Published: August 2002
Investors Relations Department,
Corporate Planning Division,
Aozora Bank, Ltd.

AOZORA BANK, LTD.

13-10, Kudan-kita 1-chome, Chiyoda-ku, Tokyo 102-8660, Japan
Phone 03-3263-1111
URL http://www.aozorabank.co.jp/

Printed in Japan