

August 27, 2012

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**Re: “Aozora Bank’s Comprehensive Recapitalization Plan”
and “Where Aozora Goes From Here”**

The full repayment of public funds has been a corporate priority for Aozora Bank, Ltd. (“Aozora” or the “Bank”), and management has strived to establish a sustainable business foundation and increase the Bank’s corporate value. Having survived large losses during the financial crisis triggered by the Lehman Shock, Aozora recognized and fixed the problems, aiming to regain a sound business management. The Bank focused on its core business and improvement of its profitability through various measures including a return to the domestic lending business, strict control on costs, establishment of a stable funding base, etc.

As the Bank approaches the October 3, 2012 mandatory conversion date for its Series 5 preferred shares, it has been in discussions with its major stakeholders to develop a comprehensive capital policy toward a new phase.

Today, we are pleased to announce that the Bank has finalized ‘Aozora Bank’s Comprehensive Recapitalization Plan’ toward a full repayment of public funds over time which can benefit all of its shareholders, outlined as in the attached. Moreover, the Bank also published today a document entitled: ‘Where Aozora Goes From Here’ aimed at offering a mid-term direction of its business development.

Please refer to Attachments 1 and 2 for details of the ‘Comprehensive Recapitalization Plan’ and ‘Where Aozora Goes From Here’

Aozora defines its Management philosophy as “Aozora is firmly established in the Japanese financial system and is truly committed to contributing to the economic and social growth of the country.” Aozora as a bank receiving public funds support places more emphasis on the Bank’s public role in the Japanese financial system under its Management Philosophy. The Bank continues embracing its responsibility to society as a credit intermediary and contributing to the success of our customers and the economic and social growth of the country, without seeking only short-term revenues.

We would like to thank all of our stakeholders including customers, investors and employees, for their support again, and ask for everyone’s continued support.

End

Re: Aozora Bank's Comprehensive Recapitalization Plan

As the Bank approaches the October 3, 2012 mandatory conversion date for its Series 5 preferred shares, Aozora has finalized a Comprehensive Recapitalization Plan toward a full repayment of public funds over time which can benefit all of its shareholders.

The outline of the Plan is described below.

Outline of Aozora's Comprehensive Recapitalization Plan

The plan will insure the full repayment of the remaining public funds within the next 10 years (Please refer to page 7 for details).

- ✓ The Bank will first create a distributable amount (source of repayment) which is sufficient for a full repayment of public funds through a change in capital composition, i.e. capital reduction, so that it can fully repay the remaining public funds at any time in the future when conditions are met.
- ✓ The Bank will make a 22.7 billion yen upfront repayment of public funds through a repurchase/retirement of a portion of the Series 5 preferred shares, while extending the conversion period of the two series of preferred shares to June 2022. The Bank will make annual installment repayments of public funds through a 20.49 billion yen annual super preferred dividend payment from other capital surplus over the next 10 years (until 2022), in addition to the existing preferred dividend. The cumulative repayment amount during the 10 years (the total repayment amount of public funds) will total 227.6 billion yen. While we assume a maximum repayment schedule of 10 years, the amount of the remaining public funds will become smaller than the value of the preferred shares over time. Therefore, it will be possible to make a full repayment of public funds in a period of less than 10 years through a buyback of the preferred shares at an amount equal to the amount of remaining public funds or by some other means. The Bank intends to fully repay the remaining public funds as early as possible when conditions are met, carefully examining the Bank's financial soundness as well as stability in the market.
- ✓ In addition, upon the Bank's commencing to repay its public funds described above, it plans to conduct a common share buyback of 330 million shares (equivalent to approximately 20% of the number of shares issued). The common share buyback will be implemented through a typical buyback program from the market beginning on October 1, 2012, as well as through the ToSTNeT-3, the TSE system, and/or a tender process to be arranged at a later date. In implementing the common share buyback, the Bank will sufficiently ensure the fairness and equity between shareholders and the transparency of the buyback procedures.
- ✓ In order to enhance its return to shareholders, the Bank will also adopt a dividend policy whereby it sets the dividend payout ratio for common shares at 40% of consolidated net income, so long as the Bank continues repaying the public funds. The Bank may also consider making quarterly common share dividend payments beginning in June 2013.

The Bank also announced today that it will hold an extraordinary meeting of shareholders on September 27, 2012 in order to seek approval from its shareholders on the implementation of the Comprehensive Recapitalization Plan.

The implementation of the respective measures herein is subject to approval from the relevant authorities, as well as approval at an extraordinary general meeting of shareholders.

Comprehensive Recapitalization Plan – Background and Specific Measures

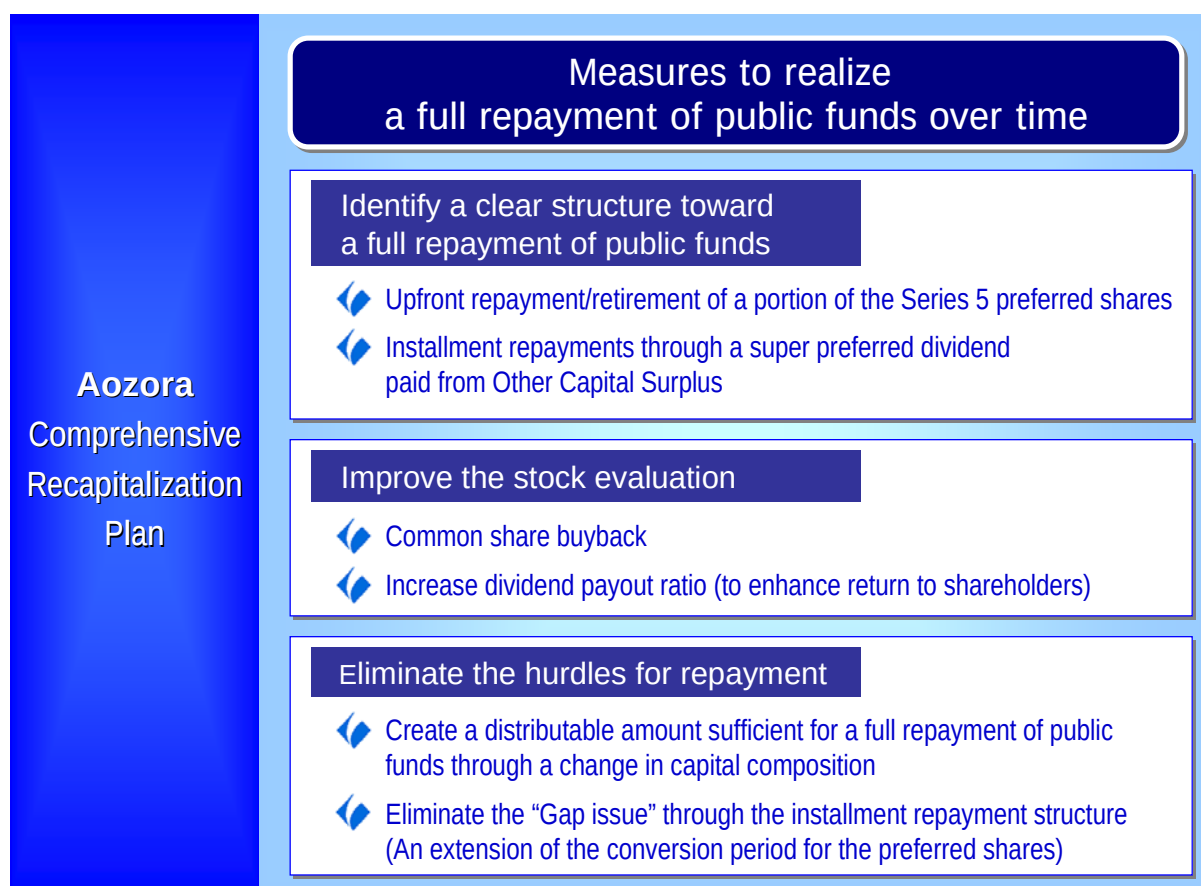
The full repayment of public funds has been a corporate priority for Aozora.

Given significant changes in the financial environment and a slump in the stock market, however, it has been difficult to realize an immediate full repayment of the Bank's remaining public funds through a traditional repayment structure due to the following two hurdles:

- (1) distributable amount (source of repayment) is not currently sufficient for a full repayment of public funds, despite the fact that the Bank's total capital is approximately 600 billion yen; and
- (2) there is a "gap" between the value of the preferred shares as public funds and total target repayment amount of public funds ("Gap issue").

The Series 5 preferred shares are approaching their mandatory conversion date in October 2012. If the preferred shares were to be converted into common shares, it would not only create dilution in the stock value for existing shareholders, but it would be more difficult for both the government and the Bank to have a clear path for the full repayment of public funds.

Given this situation, a "Comprehensive Recapitalization Plan" has been developed in order to eliminate the above hurdles for the repayment of public funds and to realize a full repayment of the Bank's remaining public funds within the next 10 years by implementing the measures shown below.



Specific measures and policies in the Comprehensive Recapitalization Plan are as below.

(Please refer to our public announcements separately made available today: “Re: Change in Capital Composition”, “Re: Buyback of a portion of Own Preferred Shares (Series 5 Preferred Shares)” and “Re: Amendments to the Articles of Incorporation” for details.)

1. Change capital composition, i.e., capital reduction, to create a distributable amount sufficient for the repayment of public funds.

The Bank will first create a distributable amount sufficient for a full repayment of public funds through a change in capital composition, i.e., capital reduction. As a result, the Bank will be able to repay the public funds at any time in the future when conditions are met.

For the implementation of this change in capital composition, i.e., capital reduction, we will seek a special resolution at the extraordinary meeting of shareholders to be held on September 27, 2012. (Notes)

Approval of the relevant authorities is also required for the implementation

2. Extend the conversion period of the Series 4 and 5 preferred shares.

In order to make the installment repayments described in item #4 below, we will extend the conversion dates of the Series 4 and 5 preferred shares to June 2022 through changes to the terms of the two series of preferred shares stated on the Bank's Articles of Incorporation.

We will seek special resolutions at the extraordinary meeting of shareholders to be held on September 27, 2012 to make amendments to the Articles of Incorporation as to this item #2, as well as item #4 below. (Amendments to the Articles of Incorporation also require resolutions at respective class meetings of common shareholders, the Series 4 preferred shareholders and the Series 5 preferred shareholders.) (Notes)

3. A 22.7 billion yen upfront repayment in FY2012 through a repurchase/retirement of a portion of the Series 5 preferred shares.

We will make a 22.7 billion yen upfront repayment of public funds in FY2012 through a repurchase/retirement of approximately 59 million shares (in terms of the underlying common shares) of the Series 5 preferred shares. The repurchase price will be 385 yen per underlying common share of preferred shares or 513.34 yen per the Series 5 preferred share, taking into consideration the valuation made by a third party appraiser and other factors. The 385 yen price is equivalent to the average book value per underlying common share of the two series of preferred shares.

For the repurchase/retirement of a portion of the Series 5 preferred shares, we will seek a special resolution at the extraordinary meeting of shareholders to be held on September 27, 2012. (Notes)
Approval of the relevant authorities is also required for the implementation

4. Installment repayments through a super preferred dividend on the Series 5 preferred shares.

We will pay a 20.49 billion yen annual fixed super preferred dividend in addition to the existing preferred dividend during the 10-year extension period (until June 2022). This super preferred dividend will be paid from the increased Other Capital Surplus created through a change in capital composition described in item #1 above, and will be treated as a repayment of public funds (Please refer to the attached Technical Supplement). The annual repayment amount during the 10-year repayment period, together with the upfront repayment amount described in item #3, will total 227.6 billion yen, the total repayment amount of the public funds, in this structure.

The amount of the remaining public funds will eventually become smaller than the value of the preferred shares over time, resolving the aforementioned “Gap issue”. Therefore, it will be possible to make a full repayment of public funds in less than 10 years through a buyback of the preferred

shares at an amount equal to the amount of remaining public funds or by some other means. The Bank intends to fully repay the remaining public funds as early as possible when conditions are met, carefully examining the Bank's financial soundness as well as stability in the market.

In addition, we will revise the conditions for the Series 4 and 5 preferred shares, in order to reduce their existing preferred dividends depending on the declining balance of the remaining public funds resulting from the installment repayments.

These condition changes will be made through amendments to the Bank's Articles of Incorporation, together with item #2 above. (Notes)

5. A 330 million common share buyback.

As a countermeasure to eliminate the aforementioned "Gap issue", which is one of the hurdles for the repayment of public funds at this point, utilizing the Bank's strong capital base, we plan to make a common share buyback of 330 million shares (equivalent to approximately 20% of the number of shares issued). We expect that improvements in our stock valuation through the improved per-share indexes would contribute to eliminating the "Gap issue". We plan to conduct buybacks through a typical buyback program from the market, beginning from October 1, 2012, as well as through the ToSTNeT-3, the TSE system, and/or a tender process to be arranged at a later date. In implementing the common share buyback, the Bank will sufficiently ensure the fairness and equity between shareholders and the transparency of the buyback procedures.

This buyback program is scheduled to be conducted upon a resolution at the Bank's Board meeting after obtaining approvals for the agenda items regarding #1 to #4 above at the extraordinary meeting of shareholders.

6. Increase in the common share dividend payout ratio.

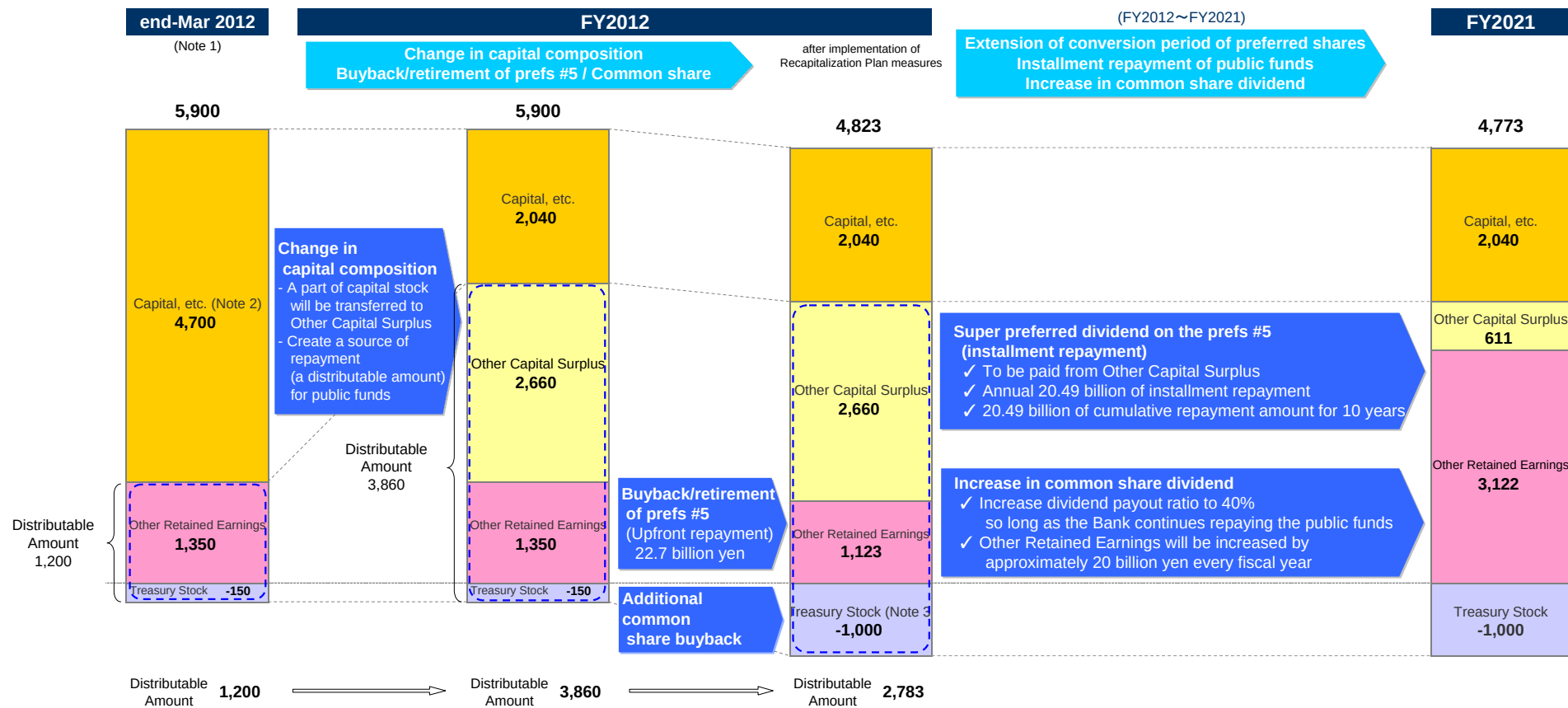
The Bank will adopt a dividend policy whereby it sets the dividend payout ratio for common shares at 40% of consolidated net income, so long as the Bank continues repaying the public funds through installment repayments in this repayment structure. The Bank may also consider making quarterly common share dividend payments beginning in June 2013. We expect that we can eliminate the Gap issue through an improvement in our share valuation resulting from the enhancement of our return to shareholders, coupled with the common share buyback described in item #5.

(Notes) Items #1 to #4 above will become effective subject to approval for all of items #1 to #4 at the extraordinary meeting of shareholders to be held on September 27, 2012 (and to approval for both items #2 and #4 at respective class meetings of common shareholders, the Series 4 preferred shareholders and the Series 5 preferred shareholders on the same day).

(Reference) Outline of Aozora's "Comprehensive Recapitalization Plan"

Note: This chart is prepared to show a conceptual overview of the Comprehensive Recapitalization Plan with description of the respective measures.
(in 100 millions of JPY)

Capital Balance (based on net income assumed as 35 billion yen)



(Note 1) Figures as of the end of March 2012 are after deduction of dividend amount paid in June 2012.

(Note 2) Capital, etc. is a total of Capital Stock, Legal Capital Surplus and Legal Retained Earnings (including valuation, translation adjustments and others).

(Note 3) Purchase at around 250 yen per share is assumed.

					(FY2014)	(FY2015)	(FY2016)	
Balance of remaining public funds	227.6 billion yen	227.6 billion yen	Upfront repayment 22.7 billion yen	204.9 billion yen	143.43 bil yen	122.94 bil yen	102.45 bil yen	— (fully repaid)
Value of the preferred shares *	140.3 billion yen	140.3 billion yen		124.5 billion yen	124.1 bil yen	123.9 bil yen	123.7 bil yen	—

* Value of the preferred shares = (Number of underlying shares of the preferred shares) x (Net assets per share)

Technical supplement regarding installment repayment of public funds through a “super” preferred dividend paid from Other Capital Surplus

The installment repayment of public funds through a “super” preferred dividend paid from Other Capital Surplus is one of the key points in this repayment structure.

Under the Company Act, accounting and tax system in Japan, treatment of dividends for the shareholders who receive such dividends are differentiated depending on the source of the dividend payment.

In the typical case where shareholders receive a traditional “dividend on profit” paid from Retained Earnings, such dividends are treated as income/profit. This is the treatment for the existing preferred dividend.

However, if shareholders receive a dividend from “Other Capital Surplus”, such a dividend shall be treated as a return of capital made by the issuer with the dividend paid being deducted from the shareholders’ book value of the relevant shares for accounting purpose. The 20.49 billion yen annual “super” preferred dividend in this repayment structure will be paid from the increased Other Capital Surplus created via a change in capital composition (i.e. capital reduction), and shall be treated as a repayment of public funds.

Therefore, the unpaid balance of public funds will decline through an annual “super” preferred dividend (or installment repayment), and the remaining amount of public funds will eventually become smaller than the value of the preferred shares over time, resolving the “Gap issue”.

Where Aozora Goes From Here

– Primary Secondary Bank: Another Reliable Partner –

Having survived large losses during the financial crisis caused by the Lehman Shock, Aozora has recognized and fixed the problems, aiming to regain a sound business management. The Bank focused on its core business and improvement of its profitability through various measures including a return to the domestic lending business, strict control on costs, establishment of a stable funding base, etc.

Aozora defines its Management Philosophy as “Aozora is firmly established in the Japanese financial system and is truly committed to contributing to the economic and social growth of the country.” Aozora as a bank receiving public funds support places more emphasis on the Bank’s public role in the Japanese financial system under its Management Philosophy. The Bank continues embracing its responsibility to society as a credit intermediary and contributing to the success of our customers and the economic and social growth of the country, without seeking only short-term revenues.

1. Aozora’s advantages

Aozora can take advantage of its strengths including “strong consulting ability for the senior generation customers”, “regional financial institution networks”, “advanced financial skills”, “strong financial base”, and “diversified human resources” in order to meet the ever more sophisticated and diversified needs of our customers.

Strong Consulting Ability for the Senior Generation Customers

With its historical background as a bank issuing the bank debentures, Aozora has a broad customer base mainly with the senior generation individuals for whom the Bank has provided consulting services for their greater demand for savings and investments. Aozora has also transformed itself from a bank funded through debentures from the market to a bank funded mainly through deposits from individual customers, aimed at improving its stable funding base. The Bank believes it can further utilize its longstanding experience and skills in consulting for the senior generation customers, given the aging society and declining birthrate.

Regional Financial Institution Networks

Aozora’s longstanding nationwide network with regional financial institutions based on the Bank’s neutrality with neither capital ties nor business groups is the Bank’s particular asset. Through mutually supplementary and beneficiary relationships with regional financial institutions, the Bank would like to contribute to the local economies by creating synergies.

Advanced Financial Skills

Aozora has continued focusing on and putting its management resources on the business areas such as real estate finance and the business rehabilitation finance which require specialized skills. The Bank continues providing the appropriate financial solutions, while leveraging its capability in making proposals based on its rich experiences and advanced skills, ability in deal origination, quality credit review and disciplined risk management, to supply funds to the various sectors.

Strong Financial Base

The Bank’s high-level capital adequacy ratio and ample liquidity can represent its strong financial base which enables Aozora to promptly respond to various business opportunities or strategic acquisitions and alliances.

Diversified Human Resources

Diversity and openness in human resources represents one of Aozora's particular features, and the Bank emphasizes the importance of human resources as a valuable asset for the financial institution. Through its balanced composition of diversified human resources with various nationalities or experiences in mega banks, foreign or regional financial institutions, securities firms, etc. as well as long-contributing staff, the Bank will realize a vibrant organization and improved performance.

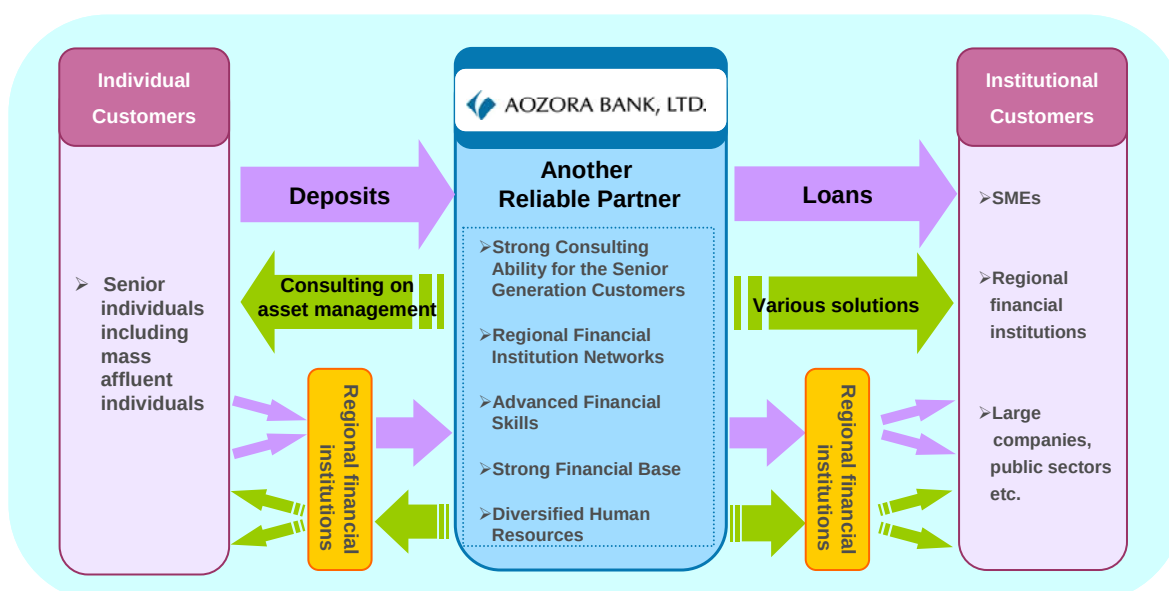
2. Aozora's Business Model

- ◆ Aozora's business model is centered on high value-added lending businesses, which meet the financing needs of its SMEs and other corporate customers, leveraging its advanced financial skills, having deposits from the senior generation customer class, including mass affluent individuals with 30-500 million yen financial assets, as its core funding source.
- ◆ Aozora will effectively respond to various needs of customers, through sales activities or as a financial intermediary in a range of investment solutions including investment trusts and insurance products for individual customers and by providing the most appropriate solutions in the various areas such as real estate and business rehabilitation for corporate customers.
- ◆ Aozora will actively develop its business with the SMEs and other customers in the regional economies in collaboration with its important business partners, the regional financial institutions, aimed at supplementing its limited number of outlets.

The main feature of Aozora's Business Model can be defined by a unique application of its advanced skills and specialties for business with customers, taking full advantage of its strengths including a strong customer base in the senior generation individuals and longstanding networks with regional financial institutions which the Bank has established as a domestic financial institution.

The Bank believes that the continued management efforts in line with the above fundamental focuses can maintain and improve its presence as "Primary Secondary Bank: Another Reliable Partner" with stability and sustainability.

< Aozora's Business Model >



3. Key Performance Indicators

	FY2011		FY2012 - FY2014
 ROE	7.9%		8~10%
 OHR	45.9%		less than 50%
 Retail Funding Ratio	68.6%		65~75%
 Tier-1 Ratio	19.37%		10% or higher
 Capital Adequacy Ratio	17.86%		10~12% or higher

4. Approach toward the future

Aozora defines its Management Philosophy as ‘Aozora is firmly established in the Japanese financial system and is truly committed to contributing to the economic and social growth of the country.’ The Bank aims to further develop and establish its business model as a bank with stable and sustainable base of earnings, without seeking only short-term revenues, from the viewpoint to realize its Management Philosophy.

In order to further develop its business model, the Bank will continue its work to identify specific initiatives through its project team which involves mid-level and front line officers/employees of the next generation, and will integrate these measures into its ‘Business Revitalization Plan’ to be revised and announced later this fiscal year.

Moreover, in order to realize a management framework suitable for the implementation of the Bank’s business plan, it will continue to review and further enhance its management and corporate governance.

End

Forward-Looking Statements

This announcement contains forward-looking statements regarding the Bank’s financial condition and results of operations. These forward-looking statements, which include the Bank’s 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 and other factors including the effects of changes in general economic conditions, changes in interest rates, stock markets and foreign currency, and any ensuing decline in the value of our securities portfolio, incurrence of significant credit-related cost and the effectiveness of our operational, legal and other risk management policies.