

August 27, 2012

Company name: Aozora Bank, Ltd.
Name of representative: Brian F. Prince, President and CEO
Listed exchange: TSE, Code 8304
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Financial Management Division (03 3263 1111)

Re: Change in Capital Composition

Aozora announced today that its board resolved at its August 27, 2012 meeting to put on the agenda at the extraordinary meeting of shareholders to be held on September 27, 2012 a Change in Capital Composition with the reduction of amount of capital stock (the "Capital Reduction").

1. Purpose of the Capital Reduction

The repayment of public funds has been a corporate priority for Aozora, and the Bank has finalized a Comprehensive Recapitalization Plan toward a full repayment of public funds over time (the "Recapitalization Plan") which will benefit all of its shareholders.

The Capital Reduction will be implemented as part of the Recapitalization Plan. The Bank will change its capital composition by transferring a portion of Capital Stock to Other Capital Surplus in order to create a distributable amount sufficient for the full repayment of the remaining public funds. In addition, the Bank will transfer another portion of Capital Stock to Legal Capital Surplus to eliminate the need to accumulate Legal Retained Earnings upon each dividend payment in the coming years.

Please refer to 'Re: "Aozora Bank's Comprehensive Recapitalization Plan" and "Where Aozora Goes From Here"' which was separately announced by the Bank today for details in the Recapitalization Plan including this Capital Reduction.

2. Outline of the Capital Reduction

Capital Stock reduction amount and amount to be transferred to Legal Capital Surplus and Other Capital Surplus:

Capital Stock will be reduced from 419,781,203,990 yen as of July 31, 2012 to 100,000,000,000 yen by transferring 319,781,203,990 yen.

Out of the amount transferred out from Capital Stock above, 53,980,000,000 yen will be transferred to Legal Capital Surplus, and the remaining 265,801,203,990 yen will be transferred to Other Capital Surplus.

3. Timeline for the Capital Reduction (planned)

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| (1) | Resolution at the Bank's Board of Director Meeting | August 27, 2012 |
| (2) | Special resolution at the extraordinary meeting of shareholders | September 27, 2012 |
| (3) | Deadline for making objection by creditors | October 29, 2012 |
| (4) | Effective date of the Capital Reduction | November 15, 2012 |

4. Others

Capital Reduction shall become effective subject to approval of the relevant authority pursuant to paragraph 3, article 5 of the Banking Act of Japan, approval of the Capital Reduction, as well as the Amendments to the Articles of Incorporation concerning the preferred shares and the Buyback of a portion of Own Preferred Shares (Series 5 Preferred Shares) as separately announced, at the extraordinary meeting of shareholders to be held on September 27, 2012, and approval of the Amendments to the Articles of Incorporation concerning the preferred shares at the respective class meetings of common shareholders and the Series 4 and 5 preferred shareholders to be held on the same day.

5. Future outlook

The Capital Reduction is made through a change in capital composition (i.e. transfers within the Bank's Net Assets), and no impact on the Bank's financial conditions or performance is anticipated.

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