

August 27, 2012

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

Re: Buyback of a portion of Own Preferred Shares (Series 5 Preferred Shares)
(Repurchase of own shares pursuant to article 156 of the Companies Act)

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 the Buyback of a portion of Own Preferred Share (Series 5 Preferred Shares) (the "Buyback") from the Resolution and Collection Corporation (the "RCC") as outlined below,

The Bank plans to retire the repurchased Series 5 preferred shares immediately after the acquisition.

1. Description of the details in the repurchase

(1) Type of shares to be repurchased	The Series 5 preferred shares (Class C preferred shares)
(2) Total number of shares to be repurchased	44,220,205 shares
(3) Consideration for buyback	Cash
(4) Total buyback amount	22,700,000,035 yen
(5) Buyback period	From immediately after the conclusion of the extraordinary meeting of shareholders to be held on September 27, 2012 to March 31, 2013

* The items described in the table above are subject to approval of the relevant authorities.

2. Rationale for the buyback of own preferred shares

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 Buyback will be implemented as part of the Recapitalization Plan. The Bank will repay 22.7 billion yen, a portion of the remaining public funds, through the buyback of a portion of the Series 5 preferred shares as described in item #1 above.

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 the Buyback.

3. Buyback price

The Bank determined the buyback price of the Series 5 preferred shares as 513.34 yen per preferred share, taking into consideration the objective and purpose of the Act on the Emergency Measures for Early Strengthening of Financial Functions, the nature of the Series 5 preferred shares as public funds, the Bank's financial condition, actual business performance and forecasts, the impact of the repayment of public funds on the Bank's corporate value and stockholder value, and other factors, while obtaining a valuation report from Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. ("Morgan Stanley") as the third party appraisal agent. The buyback price is equivalent to the 385 yen average book value per underlying common share of the two series of preferred shares.

The valuation made by Morgan Stanley was based on a consideration of the following: (1) Comparable Companies Analysis, (2) Book Value Analysis, (3) Cost of Equity Analysis, (4) Discounted Dividend Model Analysis (the "DDM Analysis") and (5) Dividend Yield Analysis, assuming the series of measures in the Recapitalization Plan will be implemented.

The implementation of the Recapitalization Plan will cause changes in the number of the Bank's shares issued and its capital composition. As Morgan Stanley recognized it was possibly not appropriate to make a valuation of the Series 5 preferred shares based on past market share prices which do not reflect the abovementioned changes, Morgan Stanley did not adopt a Market Share Price Analysis as valuation methodologies. The 513.34 yen buyback price per the Series 5 preferred share is higher than the range of the valuation based on (1) Comparable Companies Analysis, (2) Book Value Analysis and (5) Dividend Yield Analysis. However, it is within or lower than the range of the results of (3) Cost of Equity Analysis and (4) DDM Analysis and the 600 yen as the issued price per the Series 5 preferred share. (Please refer to the valuation summary below.)

【Reference : Valuation Summary of the Series 5 preferred shares by Morgan Stanley】

Valuation Methodologies	Range of the per Share Value
(1) Comparable Companies Analysis	208 Yen～367 Yen
(2) Book Value Analysis	423 Yen
(3) Cost of Equity Analysis	533 Yen～616 Yen
(4) DDM Analysis	467 Yen～579 Yen
(5) Dividend Yield Analysis	356 Yen～457 Yen

(1) Comparable Companies Analysis

The Comparable Companies Analysis resulted in a per share value for the preferred shares ranging from 208 to 367 yen through a comparison with financial indexes including share price and profitability of listed companies operating relatively similar businesses to that of Aozora.

(2) Book Value Analysis

The Book Value Analysis resulted in a per share value of the preferred shares of 423 yen through an analysis of actual book value per share of Aozora's common shares.

(3) Cost of Equity Analysis

The Cost of Equity Analysis resulted in a per share value of the preferred shares ranging from 533 to 616 yen through an analysis of Aozora's cost of equity and its long-term normalized earnings.

(4) Discount Dividend Model (DDM) Analysis

The DDM analysis resulted in a per share value of the preferred shares ranging from 467 to 579 yen by analyzing the equity value of Aozora using the present value of dividends expected to be distributed in the future discounted at a certain level of discount rate, based on the earnings projections of Aozora.

(5) Dividend Yield Analysis

The Dividend Yield Analysis resulted in a per share value of the preferred shares ranging from 356 to 457 yen through a comparison with share price and dividend amount of listed companies operating relatively similar businesses to that of Aozora.

In providing this report, Morgan Stanley has assumed and relied upon, without independent verification, the accuracy and completeness of the information that was publicly available or supplied or otherwise made available to Morgan Stanley by Aozora, and formed a substantial basis for this analysis. With respect to the financial projections, Morgan Stanley assumed that they had been reasonably prepared on bases reflecting the best currently available estimates and judgments of the management of Aozora of the future financial performance of Aozora. Morgan Stanley did not conduct any independent valuation or appraisal of the assets or liabilities of Aozora, nor was Morgan Stanley furnished with any such appraisals.

Morgan Stanley has assumed that in connection with the receipt of all the necessary governmental, regulatory or other approvals and consents required for the transaction, no delays, limitations, conditions or restrictions will be imposed that would have a material adverse effect on the contemplated benefits expected to be derived in the transaction.

Morgan Stanley is not a legal, accounting, tax, or regulatory advisor. Morgan Stanley is a financial advisor only and has relied upon, without independent verification, the assessment of Aozora and its legal, accounting, tax and regulatory advisors with respect to legal, accounting, tax, regulatory matters.

Morgan Stanley's analysis is necessarily based on financial, economic, market and other conditions as in effect on, and the information made available to Morgan Stanley as of, the date hereof. Events occurring after the date hereof may affect this report and the assumptions used in preparing it, and Morgan Stanley does not assume any obligation to update, revise or reaffirm this report.

Please be advised that Morgan Stanley expresses no opinion with respect to the terms and conditions of the transaction, nor do Morgan Stanley expresses any opinion or recommendation as to how the shareholders of Aozora should vote at the shareholders' meeting to be held in connection with the transaction.

Morgan Stanley has acted as financial advisor to Aozora in connection with this transaction and will receive a fee for its services.

Please note that Morgan Stanley, together with its affiliates (including, without limitation, Morgan Stanley group companies and Mitsubishi UFJ Financial Group companies) (the "Group"), is a global financial services firm engaged in the banking, securities, trust, investment management, credit services and other financial businesses (collectively, "Financial Services"). The Group's securities business is engaged in securities underwriting, trading, and brokerage activities, as well as providing investment banking, financing and financial advisory services. In the ordinary course of its activities, the Group may hold long or short positions, may provide Financial Services to Aozora, or companies that may be involved in this transaction and may trade or otherwise effect transactions, for its own account or the accounts of customers, in debt or equity securities or loans of Aozora, or any company that may be involved in this transaction.

4. Outline of the counterparty of buyback

(1) Name	The Resolution and Collection Corporation (RCC)
(2) Official address	46-1, Honcho 2-chome, Nakano-ku, Tokyo
(3) Title and name of representative	Representative Director, President Shozo Fujita
(4) Business	Purchase of assets including loans, and management/ services of such assets Subscription of shares, etc. issued by financial institutions Lending to financial institutions through subordinated loans Purchase of trust beneficiary rights, etc.
(5) Capital stock	12 billion yen
(6) Establishment	April 1, 1999
(7) Major shareholder and Shareholding %	The Deposit Insurance Corporation of Japan (DIC) 100%
(8) Relation with Aozora in:	
- Capital	RCC holds 258,799,500 shares of the Series 5 preferred shares
- Personnel	No personnel relationship
- Transactions	No transactions
- Relevant items	No relevant items

(Note) This Buyback is implemented under the procedures pursuant to articles 158 and 159 of the Companies Act, and is not implemented as a buyback from the specific shareholders stipulated in article 160 of the Companies Act.

5. Others

Pursuant to article 459 of the Companies Act and article 50 of the Bank's Articles of Incorporation, the approval authority for a buyback of own preferred shares is delegated to the Bank's board of directors, and a resolution at the general meeting of shareholders is not required.

Given the buyback price determined based on the various analysis as described above as part of the Recapitalization Plan, however, management has elected to submit an agenda item for the Buyback of a portion of Own Preferred Shares (Series 5 Preferred Shares) as described in item #1 above to the extraordinary meeting of shareholders in order to confirm the intention of the shareholders before making a resolution on the item at the Board meeting to be held after conclusion of the extraordinary meeting of shareholders.

The Buyback shall become effective subject to approval of the relevant authority, approval of the Buyback, as well as the Change in Capital Composition and the Amendments to the Articles of Incorporation concerning the preferred shares as separately announced, at the extraordinary meeting of shareholders, 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.

End