May 15, 2015

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Listed exchange: TSE, Code 8304
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Aozora Announces Early and Full Repayment of Public Funds; Establishes Updated Business Model and Mid-term Financial Targets
～Primary Secondary Bank: An *Even More* Reliable Partner～

The full repayment of public funds has been a corporate priority at Aozora, and the Bank has strived to ensure sound management as well as increase its corporate value. In August 2012, the Bank announced its ‘Comprehensive Recapitalization Plan’ and has implemented its public funds repayment process in accordance with the plan, while also focusing on enhancing returns to shareholders.

As a result of the Bank’s strong business performance and the increase in its share price, we believe that conditions have now been satisfied for the early and full repayment of public funds. Aozora is pleased to announce its decision to make an early and full repayment of public funds. Subject only to the approval of the regulatory authorities, the Bank intends to fully repay the remaining 143.4 billion yen in public funds on June 29, 2015, following the next installment payment (annual super preferred dividend) of approximately 20.5 billion yen.

After the repayment of public funds, Aozora will aim to become a ‘Primary Secondary Bank: An *Even More* Reliable Partner’ for its customers through the provision of differentiated and specialized financial services, while making every effort to fulfill its public role as a bank in Japan. The Bank also reaffirms its commitment to a strong risk management framework and the maintenance of sound management, in order to preserve its financial strength and institutional discipline under any future conditions.

Aozora has established the following plans indicating its mid-term direction after the full repayment of public funds:
① Updated business model centered on ‘6 Focuses’;
② Mid-term financial targets; and
③ Capital policy (Target capital adequacy ratio, dividend payout ratio, etc.).

Going forward, Aozora intends to put more emphasis on quality communications with its stakeholders, including its shareholders. We also expect to provide full support for our customers as well as contribute to the economic and social development of Japan.

We would like to thank all of our stakeholders for their continued support.

Early and Full Repayment of Public Funds

- In August 2012, Aozora announced its Comprehensive Recapitalization Plan towards the annual installment repayment of public funds over 10 years. Since Aozora started its repayment process, the Bank has repaid a total of 63.7 billion yen. Aozora has expressed its intention to fully repay public funds as early as possible when conditions, such as the share price requirement, are met, also carefully considering the Bank's financial soundness and market conditions.
- The remaining amount of public funds is currently 163.9 billion yen. Following the next installment payment (an annual super preferred dividend payment of approximately 20.5 billion yen) scheduled for late June of this year, the remaining amount will be 143.4 billion yen.
- In order for the Bank to make an early and full repayment of public funds, one condition is that the fair value of preferred shares must exceed the remaining amount of public funds. The current fair value of preferred shares, calculated based on market prices, is 178.4 billion yen and will exceed the remaining 143.4 billion yen in public funds following the next installment payment.

Preferred shares:	Series 4 Preferred Shares: 24,072,000 shares, Series 5 Preferred Shares: 214,579,295 shares
Fair value calculation based on: market value	Number of common shares equivalent × Average share price
Number of common share: equivalents	406,465,726 shares
Average share price:	Simple average closing price (439 yen) on the Tokyo Stock Exchange over the 3-month period immediately preceding the date on which the Bank made the decision to fully repay the public funds (60 business days from February 16 to May 14)

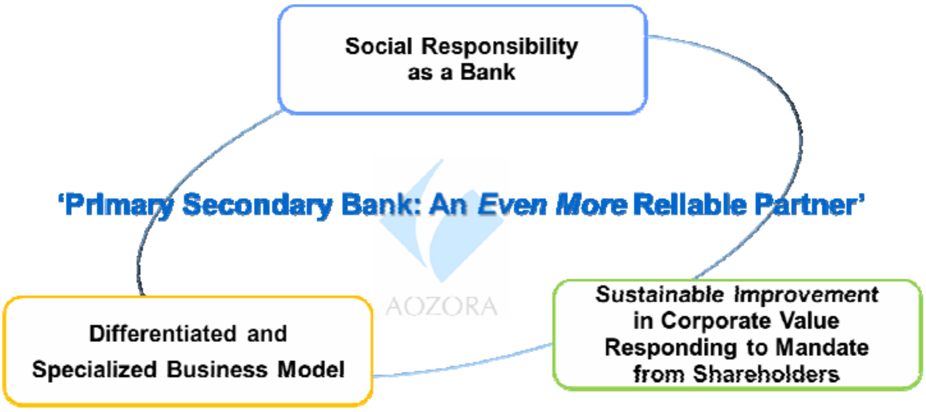
(Note) In evaluating the value of shares based on market price, the average share price for the most recent 1-month or 3-month period, etc. is typically employed to eliminate temporary fluctuations in the market price. The Bank has elected to use the 3-month average share price calculation method based on the advice of our legal and financial advisors.

- The Bank expects to meet its target capital adequacy ratio with a projected ratio of 10.6% immediately following the repayment of public funds. The Bank also expects its Common Equity Tier 1 ratio (CET 1 ratio) to remain at an adequate level of 9.8%.
- Subject to approval from the regulatory authorities, and following the next installment payment, Aozora intends to fully repay the remaining 143.4 billion yen in public funds on June 29, 2015 through a buyback of its 24,072,000 Series 4 Preferred Shares and its 214,579,295 Series 5 Preferred Shares from the Deposit Insurance Corporation of Japan (DIC) and The Resolution and Collection Corporation (RCC), respectively.
- For further details, please refer to the Bank's press release entitled 'Buyback and cancellation of all preferred shares (Class-A Series 4 preferred shares and Class-C Series 5 preferred shares) for full repayment of public funds', which was announced today.

Aozora's Vision

1. Management Policy

After the repayment of its public funds, all executive officers and employees of Aozora will contribute to the Bank's objective of earning a high reputation from society through the provision of differentiated and specialized financial services. Aozora also reaffirms its commitment to a strong risk management framework and the maintenance of management soundness, in order to preserve its financial strength and institutional discipline under any future conditions. By implementing these policies, the Bank aims to create a "virtuous cycle" which leads to further improvement in corporate value, in response to its shareholders' growth mandate.



Differentiated and Specialized Business Model	➢ Aozora intends to capitalize on its unique position as a mid-sized independent bank with a nationwide branch network, positioned differently from both mega banks and regional banks. Leveraging these characteristics, the Bank will further strengthen its differentiated Business Model and upgrade its products and services, with the aim of providing higher value-added financial services to its customers.
Social Responsibility as a Bank	➢ The Bank will firmly establish its new competitive advantages as a "Primary Secondary Bank: An *Even More* Reliable Partner" by providing solutions for social challenges through fulfillment of its financial intermediary function, and will continue contributing proactively to the economic and social development of Japan. ➢ Aozora reaffirms its commitment to a strong risk management framework and the maintenance of management soundness, in order to preserve its financial strength and institutional discipline by properly responding to changes in the internal and external environment.
Sustainable Improvement in Corporate Value Responding to Mandate from Shareholders	➢ To respond to the mandate from shareholders supporting the Bank, Aozora will pursue a sustainable improvement in its corporate value over the medium to long term and a stable return to shareholders, while putting more emphasis on communications with shareholders. ➢ Aozora will adopt a highly transparent corporate governance structure, distinguished by disciplined management, with the aim of becoming a bank which can be selected as a safe and relatively easy to understand investment.

2. Business Strategy

➢ **Vision**：”Primary Secondary Bank: An *Even More* Reliable Partner”

Aozora will strengthen its position as a trusted “Primary Secondary Bank: An *Even More* Reliable Partner” by building upon its differentiated and specialized financial services centered on “6 Focuses” as the core components of its updated business model, creating more opportunities for customers to consult with the Bank.

➢ **Points of the Plan**

✓ Aozora will continue to expand its business base centered on “6 Focuses” by leveraging and building upon the Bank’s long-standing differentiated advantages.

✓ The Bank will continue to conduct “selection and concentration” with respect to its management resources, upgrading its expertise in the “6 Focuses” for each line of business in order to strengthen its differentiated and specialized Business Model.

➢

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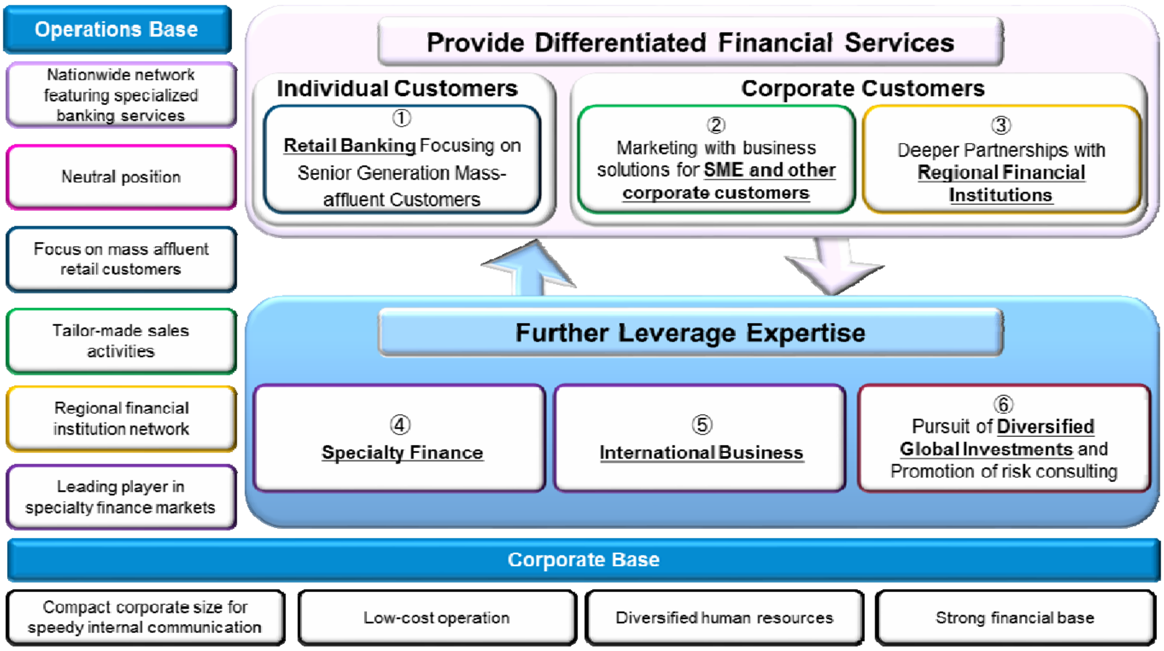
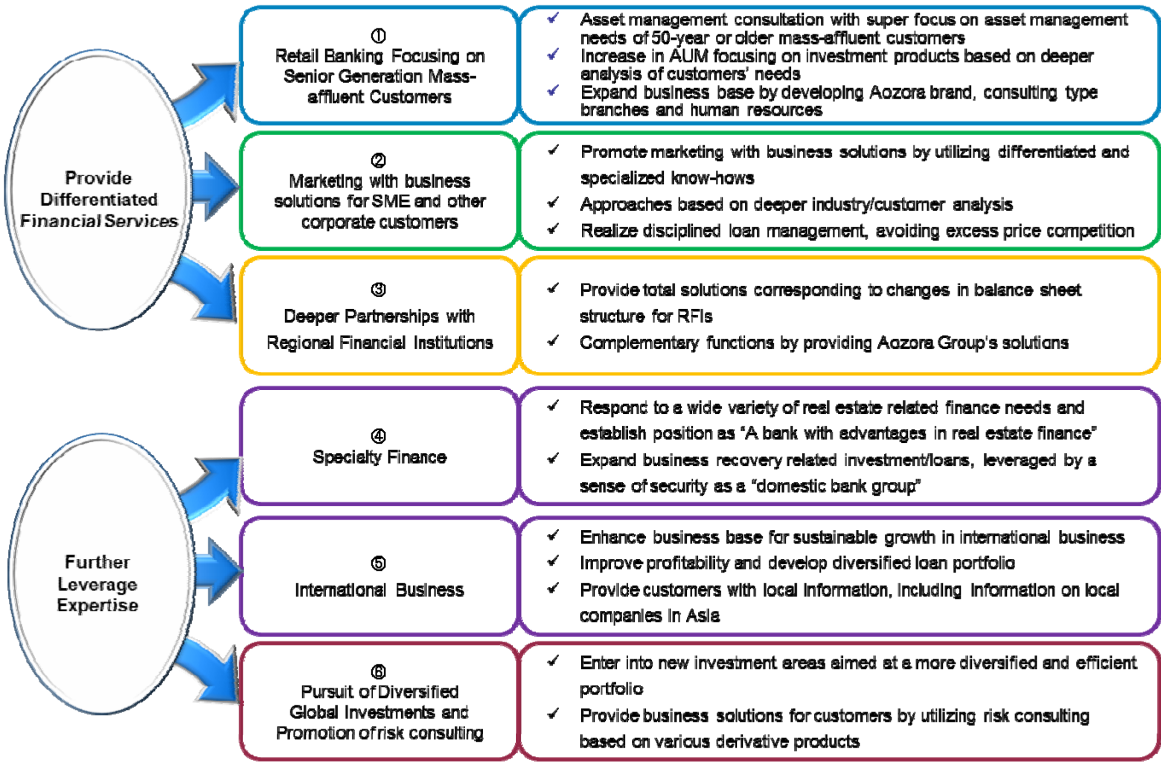
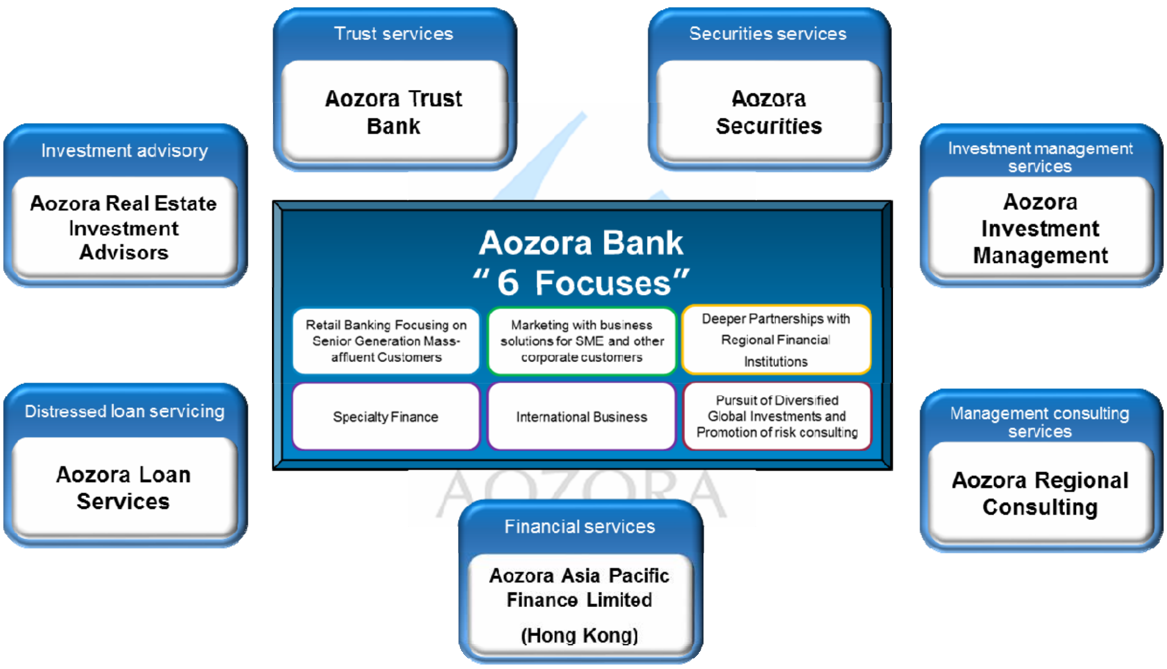


3. Business Model

➢ **"6 Focuses"**



➢ **Group Companies to support Business Model "6 Focuses"**



4. Opportunities

- Aozora will evaluate capital investment or M&A opportunities from a mid- to long-term viewpoint, in accordance with the following basic principles aimed at further growth or new business leading to next generation market segments.

Basic Principles for capital investment or M&A	➢ Existence of clear synergy and/or complementary relationship ➢ Target business should be manageable ➢ Appropriate investment costs, financially acceptable and future value can be expected ➢ Timing should be appropriate

5. Resource Plan

- The Bank will maintain/upgrade its business base through the following resource plan designed to support sustainable improvement in corporate value over the medium to long term as a "Primary Secondary Bank: An *Even More* Reliable Partner".

Risk Management Framework	➢ Implement proactive risk management (management of early indicators) ➢ Structure/manage a credit portfolio where risk appetite and risk resistance are balanced ➢ Continue reviewing risk management framework in light of changes in financial regulations including Basel regulation
Human Resources	➢ Develop human resources and establish reputation as a "Team of highly-motivated and compassionate professionals" ➢ Foster human resources who have a strong sense of ethics and welcome challenges, and establish a better workplace for people with diverse backgrounds
IT and Facility investments	➢ Improve service quality and provide prompt response for customers as well as realize stable system operation by Kanjo-kei System Replacement Project(*) which has been a corporate priority for the Bank

(*) The Bank has decided to adopt the "BeSTAcloud" outsourcing service operated by NTT DATA Corporation. Please see the news release "Aozora Announces New IT Strategy" dated July 31, 2013

Post-Repayment Financial Targets

1. Earnings

Through the promotion of our business model, Aozora aims to achieve sustainable top line revenue growth, as well as stable annual net income of at least 40 billion yen even after the normalization of the effective tax rate in FY2017.

Earnings	FY2014 Results	Mid-term targets (FY2017)
Net revenue	92.8 billion yen	100+ billion yen
Net income	43.7 billion yen	40 billion yen or more

2. Key Performance Indicators (KPIs)

To ensure continued efficiency in our operations as one of the Bank's advantages and to achieve sustainable earnings growth even after the full repayment of public funds, we have established the following target KPIs. While our ROE target for the mid-term (FY2015 - FY2017) is 9% or higher, we intend to achieve 10% over the longer term.

Key Performance Indicators (KPIs)	FY2014 Results	Mid-term targets (FY2015 - FY2017)	
Net interest Margin	1.21%	1.20%	
Non-interest income ratio	46%	40 ～ 50%	
Overhead ratio (OHR)	43.3%	45% or below	
Credit cost ratio	- (*)	0.10 ～ 0.20%	
ROE	8.1%	9% or higher	Long-term target ROE: 10%
ROA	0.9%	0.8%	

(*) Credit-related expenses were a net reversal in FY2014.

Revised Capital Policy

1. Capital Adequacy Ratio

The Bank intends to efficiently deploy its capital by setting its target capital adequacy ratio (Basel III basis, domestic standard) at 10% or higher, a level necessary for achieving all the above financial targets while maintaining its financial soundness. The Bank projects a capital adequacy ratio of 10.6% and a Common Equity Tier 1 ratio (CET1 ratio) of 9.8% immediately following the repayment of public funds. In light of the global trend towards strengthening capital regulations, we will ensure that we maintain sufficient capital going forward.

2. Shareholder Return Policy

Aozora intends to provide returns to its shareholders primarily in the form of dividends based on the Bank's performance. The dividend payout ratio for common shares is currently set at 40% of consolidated net income. Following the full repayment of public funds, the Bank will adopt a dividend policy of 50% of consolidated net income, effective from FY2015. The Bank will continue to make quarterly dividend payments.

3. Cancellation of Treasury Shares

Aozora currently has 484 million shares (29% of the total number of issued shares) of treasury stock, with an approximate book value of 100 billion yen. The Bank plans to retain 16.5 million shares (equivalent to 1% of the total number of issued shares) allocated to future stock options, and cancel the remaining 467.3 million shares at the time of the full repayment of public funds. The cancellation of treasury shares will have no effect on the Bank's capital adequacy ratio.

Capital / Dividend Policy

	FY2014	Mid-term Plan (FY2015-FY2017)
Capital adequacy ratio*	14.45% (Preliminary)	10% or higher
Dividend payout ratio	40%	50%

* Basel III basis, domestic standard

For further details, please refer to the Bank's press release entitled 'Cancellation of Treasury Shares (Common Shares)', which was announced today.

Note: From FY2015 onwards, consolidated net income represents 'profit attributable to owners of parent' in accordance with the Revised Accounting Standards for Business Combinations and related standards and implementation guidance.

Aozora Bank, Ltd. is a leading provider of lending, securitization, business and asset revitalization, asset management, loan syndication and investment advisory services to financial institutions, corporate and retail customers. Originally established in 1957 as the Nippon Fudosan Bank, Ltd., the Bank changed its name to Aozora Bank, Ltd. in 2001. Aozora is proud of its heritage and the long-term relationships it has developed with corporate, financial and individual customers over the years. Building on this heritage, Aozora has created a strong customer-oriented and performance-based culture that will contribute to both innovative business solutions for customers and sustainable earnings growth for investors and shareholders.

News and other information about Aozora Bank, Ltd. is available at http://www.aozorabank.co.jp/english/

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 costs and the effectiveness of our operational, legal and other risk management policies.