

June 28, 2016

Company name: Aozora Bank, Ltd.
Name of representative: Shinsuke Baba, President and CEO
(Listed exchange: TSE, Code 8304)
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Issuance of Equity Compensation Type Stock Options

Tokyo June 28, 2016 - Aozora Bank, Ltd. (President and CEO: Shinsuke Baba; Head Office: Tokyo) ('Aozora' or 'the Bank') announced that its Board of Directors today approved a resolution for granting Equity Compensation Type Stock Options to Full-time Directors and Executive Officers (the "Officers") based on Article 236, Article 238 and Article 240 of the Companies Act.

1. Reason

Equity Compensation Type Stock Options will be issued in order to further motivate Officers to contribute to the enhancement of business performance and corporate value of the Bank, and to strengthen their awareness of shareholder-focused management.

2. Outline of the Issuance of Stock Options

(1) Name of stock options plan

Aozora Bank, Ltd. 3rd Equity Compensation Type Stock Options

(2) Eligibility, number of persons eligible for allotment, and number of stock options

Four (4) Full-time Directors of the Bank; 1,395 units in total

Eighteen (18) Executive Officers of the Bank; 2,038 units in total

(3) Total number of stock options

3,433 units

This is the number of stock options to be allotted. In the event that the number of allotted stock options decreases as a result of non-acceptance on the part of Officers, or for other reasons, the total number of stock options issued will reflect the decreased allotment.

(4) Class and number of shares

The class of shares to be issued or transferred upon exercise of the stock options shall be Aozora common shares, and the number of common shares to be issued or transferred per unit of stock options (hereinafter the "Number of Underlying Shares") is 100 shares. (The number of common shares issued upon exercise of all the granted stock options will be 343,300 shares.)

In the case of stock splits (including allotment of shares without contribution; this is applicable to stock splits stated below), or reverse stock splits after the date of the allotment of stock options (hereinafter “date of allotment”), the Bank will adjust the Number of Underlying Shares of stock options yet to be exercised as of the date of stock splits or reverse stock splits, using the formula below.

$$\text{Adjusted Number of Underlying Shares} = \text{‘Number of Underlying Shares before adjustment’} \times \text{‘ratio of split or reverse split’}$$

Other than the above, when it is necessary to adjust the Number of Underlying Shares due to merger, corporate split, share exchange, or any comparable transaction, the Bank may make an adjustment with the approval of the Board of Directors.

When the number of shares after adjustment, as stated above, includes a fraction of less than one unit, the fraction is rounded down to nil.

(5) Calculation of amount to be paid in at the allocation of stock options

The amount to be paid in at the allocation of stock options is calculated by multiplying the option price per share, which is calculated using the following base figures ② - ⑦ on the day of the allocation of stock options based on the Black-Scholes model, by the number of shares granted. (When the calculated result includes a fraction of less than one yen, such fraction is rounded up to one yen.)

$$C = S \cdot e^{-qt} \cdot N(d_1) - X \cdot e^{-rt} \cdot N(d_2)$$

where

$$d_1 = \{\ln(S/X) + (r - q + \sigma^2/2)t\} / (\sigma\sqrt{t})$$

$$d_2 = d_1 - \sigma\sqrt{t}$$

- ① Option price per share (C)
- ② Stock price (S): TSE closing price of Aozora common stock on the day of allocation (if there is no closing price, the standard price on the subsequent trading date.)
- ③ Exercise price (X): 1 yen
- ④ Estimated remaining period (t): 2 years
- ⑤ Volatility (σ): Volatility as calculated based on the historical consecutive weekly closing price of Aozora common stock for the period corresponding to the estimated remaining exercise period shown in ④ above.
- ⑥ Risk free rate (r): Risk free rate as represented by the yield on JGBs with remaining maturity corresponding to the remaining exercise period shown in ④ above.
- ⑦ Dividend yield (q): Latest annual dividend amount divided by the stock price used in ② above.

⑧ Cumulative distribution equation on standard normal distribution $N(\cdot)$.

The price calculated above is a fair value of the Stock Acquisition Rights (Stock Options) and thus the issuance does not constitute an advantageous issuance of common stocks. At the allocation of the stock options to Officers, the Officers' claim to compensation from the Bank will be offset by the amount to be paid in, instead of actual payment to Officers.

(6) Date of allotment

July 15, 2016

(7) Amount of assets contributed upon exercise of stock options

The amount of assets contributed upon exercise of each stock option is calculated by multiplying the exercise price per share of one yen by the total Number of Underlying Shares.

(8) Time Period in which stock options are exercisable

From July 16, 2016 to July 15, 2046

(9) Conditions for the exercise of stock options

A stock option holder may exercise the granted stock options only once during the ten-day period following the day on which the holder ceases to be a Director and an Executive Officer.

(10) Acquisition of stock options

① When a stock option holder cannot exercise the granted stock options pursuant to the provision in (9) or the provisions in a stock option allotment agreement before such exercise, the Bank may acquire said stock options without contribution, on a day separately specified by the Board of Directors.

② When the general shareholders meeting (or the Board of Directors if approval of the general shareholders meeting is not required) approves a resolution to conclude a merger agreement under which the Bank will be a defunct company, an absorption-type company split agreement/ an incorporation-type company split plan under which the Bank will be a split company, or a share exchange agreement/ a share transfer plan under which the Bank will be a wholly-owned subsidiary, the Bank may acquire stock options, which are not exercised as of a day separately specified by the Board of Directors, without contribution on said day.

(11) Restrictions on acquisition of stock options through transfer

The acquisition of stock options through transfer requires approval through a resolution by the Board of Directors.

(12) Increases in capital and legal capital surplus due to the issuance of shares upon exercise of stock options

① The amount of capital to be increased due to issuance of stocks upon exercise of stock options shall be half of the capital increase limit calculated in accordance with

Article 17-1 of the Ordinance on Company Accounting. When the calculated result includes a fraction of less than one yen, such fraction is rounded up to one yen.

- ② The amount by which legal capital surplus is to be increased due to issuance of stocks upon exercise of stock options is calculated by subtracting the amount of capital to be increased stated in ① from the increase limit of the capital stated in ①.

(13) Stock options to be issued upon reorganization

In the case of a merger (only when the Bank is absorbed as the non-surviving company through the merger), absorption-type company split, incorporation-type company split, share exchange or share transfer (hereinafter, collectively referred to as “reorganization”) by the Bank, remaining stock options as of the effective day of such reorganization will be extinguished, while stock options of the company, as stated in Article 236-1-8 (a) to (e) of the Companies Act (“reorganized company”), will be newly issued based on the following conditions.

However, such issuance is made only when new issuance of stock options of the reorganized company based on the following conditions is prescribed in a merger agreement, an absorption-type company split agreement, an incorporation-type company split plan, a share exchange agreement or a share transfer plan.

- ① Number of stock options of the reorganized company to be issued

The number of stock options of the reorganized company to be issued shall be the same as the number of stock options owned by stock option holders prior to the reorganization.

- ② Class and number of shares

The class of shares to be issued or transferred upon the exercise of these stock options shall be common shares of the reorganized company, and the number of common shares of the reorganized company to be issued upon exercise of all the granted stock options will be determined pursuant to (4), in consideration of such factors as the conditions of the reorganization.

- ③ Amount of assets to be contributed upon exercise of stock options

The amount of assets contributed upon exercise of each stock option is calculated by multiplying the exercise price after the reorganization, stated below, by the number of shares granted through the exercise of said stock options. The exercise price after the reorganization shall be one yen per share of the reorganized company issued through the exercise of the stock options.

- ④ Time period during which stock options are exercisable

From either the first day of the time period for exercising stock options stated in (8) or the effective day of the reorganization, whichever comes later, to the end of the time period for exercising stock options stated in (8).

- ⑤ Matters regarding acquisition of stock options

Matters regarding acquisition of stock options are determined pursuant to (10).

⑥ Restrictions on acquisition of a transferred stock option

The acquisition of stock options through transfer requires approval of a resolution by the Board of Directors.

⑦ Matters regarding capital and capital reserves to be increased due to the issuance of shares upon exercise of stock options

Matters regarding capital and capital reserves to be increased due to the issuance of shares upon exercise of stock options are determined pursuant to (12).

(14) Number of stocks less than one unit

When the number of shares issued to a stock option holder upon exercise of the granted stock option includes a fraction of less than one unit, such fraction is rounded down to nil.

(15) Business unit to which contributed assets upon exercising stock options are paid in:

Head office of Aozora Bank, Ltd.

3-1, Kudan-minami 1-chome, Chiyoda-ku, Tokyo

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