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Re: Aozora Bank's Business Model

– Aiming to become “Primary Secondary Bank: Another Reliable Partner” –

The full repayment of public funds has been a corporate priority for Aozora Bank, Ltd. (“Aozora” or the “Bank”), and Aozora finalized and announced a Comprehensive Recapitalization Plan toward a full repayment of public funds over time which can benefit all of its shareholders on August 27, 2012.

The Bank also released a document entitled: ‘Where Aozora Goes From Here’ aimed at offering a mid-term direction of its business development. Today, Aozora announced its Business Model that reflects the Bank’s continuous work to identify specific initiatives through various approaches including a project team involving mid-level and front line officers and employees.

In the Business Model, Aozora describes its intention to leverage its “10 Advantages” to effectively utilize its management resources and consolidate its financial expertise in its “4 Focuses”, in order to become a “Primary Secondary Bank: Another Reliable Partner” for its customers.

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 its public role in the Japanese financial system.

Entering a new phase toward the steady implementation of its Comprehensive Recapitalization Plan, the Bank will continue upgrading its sustainable business model to improve its corporate value and contributing to the economic and social growth of the country.

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

End

I. Business Environment Surrounding the Bank

After the financial crisis in 2008, it has been difficult to have a clear vision for the global economy in the future. In Japan, a sense of uncertainty about the future is likely to be caused by many factors including uncertainty in the global economy, progress in recovery from the Great Earthquake and Tsunami and the impact of the expected increase in consumer tax, etc.

In the domestic household sector, the composition of the population has changed significantly with the aging society and declining birthrate resulting in a declining population, and a large portion of financial assets are owned by people aged 60 or over. The Bank expects this situation to continue for the foreseeable future where the senior generation will come to hold increasing financial assets. In addition, as approximately 10 million employed workers are expected to retire in the decade ahead, there should be an increasing demand for asset management of household financial assets.

In the SME sector, responses to the upcoming expiration of the Act Concerning Temporary Measures to Facilitate Financing for SMEs (the “SME Financing Facilitation Act”), increasing demand for business development in Asia and other foreign countries and other factors require all financial institutions to actively exercise their varied consulting functions.

In response to these changes in the business environment, Aozora will provide its individual, corporate and regional financial institution customers with tailor-made, high value-added solutions for their challenges, leveraging its “10 Advantages” and concentrating on its “4 Focuses”, and through the consolidation of its financial expertise.

II. Outline of Aozora’s Business Model

 Where Aozora Goes From Here:

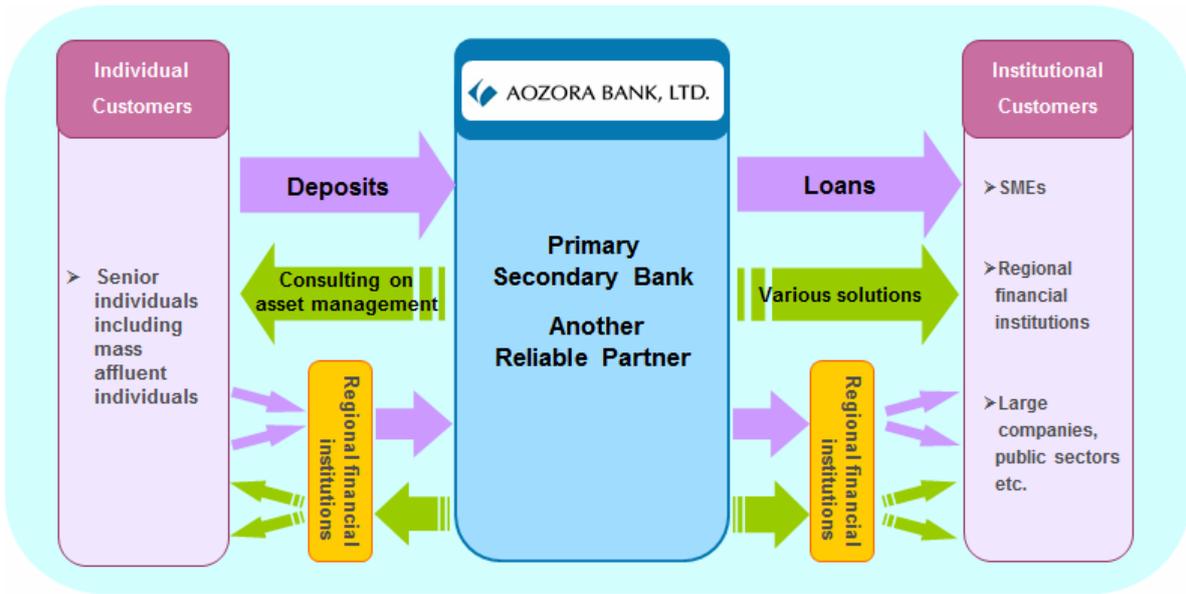
“Primary Secondary Bank: Another Reliable Partner”

Aozora aims to be a truly trusted partner for its customers, where more customers “wish to consult with the Bank”.

 Main features of Aozora’s Business Model:

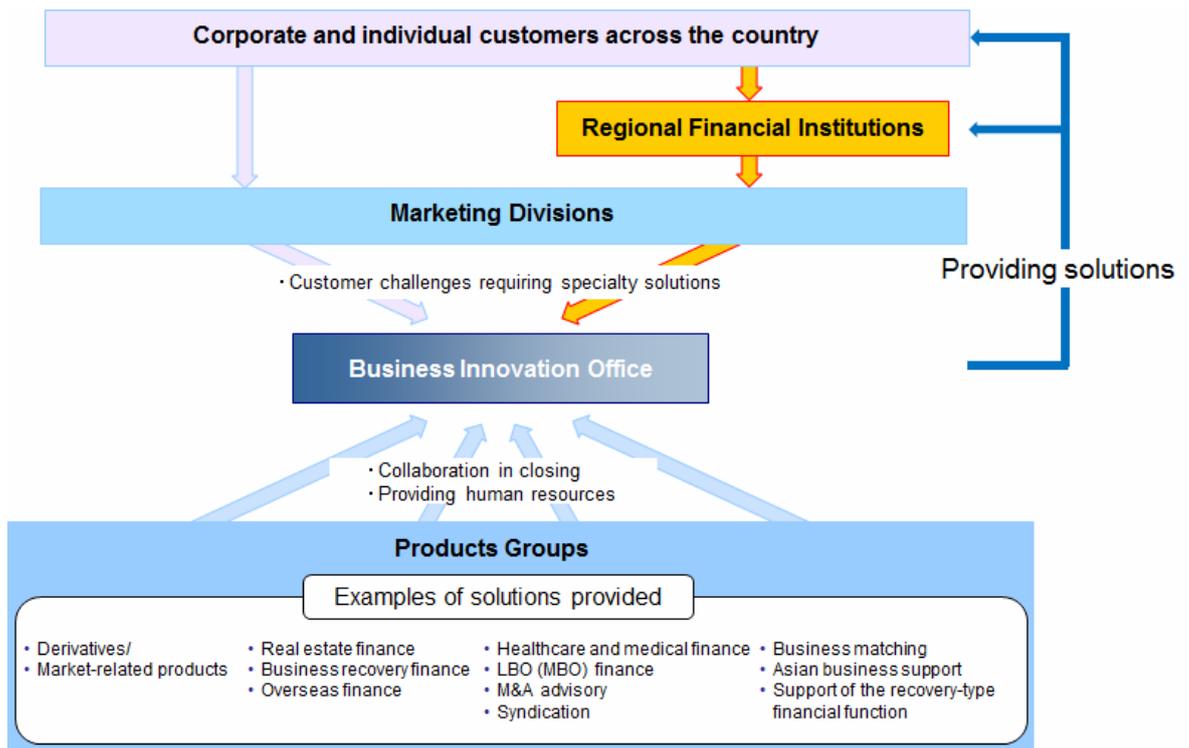
- Aozora’s business model is centered on high value-added lending businesses, which meet the financing needs of its SMEs and other corporate customers, leveraging its advanced financial skills, and having deposits from the senior generation customer class, including mass affluent individuals with 30-500 million yen in financial assets, as its core funding source.
- Aozora will effectively respond to the various needs of its 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 various areas such as real estate and business recovery for corporate customers.
- Aozora will actively develop its business with SMEs and other customers in the regional economies in collaboration with RFIs.

[Overview of Aozora Business Model]



III. Consolidation of Expertise/Skills

◆ One-stop financial service through ‘Business Innovation Office’
 Aozora will create a function to provide its customers with “one stop and advanced solutions”, consolidating internal expertise and skills such as those in the specialty finance areas. This change will enable the Bank to provide “higher quality” solutions “more promptly” in response to the diversifying and increasingly sophisticated needs of its customers.



IV. “10 Advantages” and “4 Focuses”

◆ Aozora concentrates on its 4 focuses leveraging its 10 advantages.



V. “4 Focuses” and Key Initiatives

◆ Retail Banking Focusing on Senior Individual Customers

Aozora continues promoting its retail banking business, further focusing on senior generation customers.

The Bank’s face-to-face type of sales using low counters is suitable for consulting with senior generation customers for their various asset management needs. Aozora will continue making efforts to further differentiate its services by responding to customer needs through sales activities or as a financial intermediary for a range of investment solutions including investment trusts and insurance products, launching the branch renewal project aimed at allowing customers greater privacy as they discuss their asset management needs in a relaxed atmosphere, and implementing a training program for higher level consulting-type marketing activities.

Specific initiatives include the following.

- Marketing focused on senior generation customers as the target
 - The Bank believes that an environment where the proportion of senior generation citizens is growing will provide Aozora with many business opportunities given its rich experience in consultation for the senior generation customers. Aozora can be of further service for their asset management by providing a series of products which may contribute to the customers’ asset building and/or inheritance and by more actively providing product information.

➤ Creation of Retail Training Center

Aozora emphasizes the importance of ‘human resources’ as the infrastructure for the Bank to provide its customers with appropriate solutions. The Bank will establish a Retail Training Center where people can realize: “acquisition of product knowledge”, “upgrade of consulting skills through role playing”, as well as experience of practical case-study training”, in order to build up a marketing force to ensure a high level of customer satisfaction.

The Bank also puts priority on an increase in the number of marketing staff in charge of individual customers, in order to enhance both the quality and quantity of its consulting abilities.

➤ Branch relocation / re-branding

The Bank launched an advanced branch renewal project based on the concept of an “Urban Oasis”, aimed at promoting its asset management consulting activities. (Renewals completed for Umeda, Hiroshima, Ueno, Sapporo and Jiyugaoka branches and office.)

The new branches feature consultation booths and reception rooms which allow customers greater privacy as they discuss their asset management needs in a relaxed atmosphere. In addition, the Bank relocated its Chiba Branch on February 12, 2013 and its Shibuya Branch on February 25, 2013.



Proactive Approach to SME Customers

In August 2010, the Bank established a business group specializing in SME transactions derived from the Corporate Banking Group, aimed at responding more appropriately and promptly to the various needs of its SME customers. Also, a Credit Group was established as an independent division specialized in the credit review for SME transactions. These approaches are intended to establish a more appropriate framework for SME transactions. The Bank makes effort to accumulate expertise in various ways including people-to-people exchanges with regional financial institutions.

Aozora has promoted tailor-made sales activities to meet the business needs of its SME customers. The Bank will further promote the provision of financial solutions, fully leveraging its expertise and skills represented by its “business recovery” and its nationwide regional financial institution network.

Specific initiatives include the following.

➤ Promotion of business recovery support loans

Aozora promotes support for the substantial improvement of management and business recovery based on actual customer situations, by exercising its consulting function through its advantage in tailor-made type of marketing activities.

The Bank will support the business recovery of SME customers through providing credit lines for working capital and equipment funds to companies under the substantial and fundamental rehabilitation proceedings, utilizing mezzanine finance, etc.

- Inter-regional business matching

Aozora fully leverages its 'nationwide network with full banking services' and 'regional financial institution network' as the Bank's advantages to introduce business partners across regions, of different sizes, industries and business categories to the customers of regional financial institutions, as well as to its own customers, in order to provide solutions for SME customers' challenges, including the expansion of sales channels, the enhancement of business and various rationalization.
- Establishment of "Aozora Regional Research Institute"

Aozora distributes the information for recovery and revitalization of regional economies through "Aozora Regional Research Institute", fully leveraging its expertise and skills in the business recovery and revitalization of regional economies, as well as its network with the governmental entities based on people-to-people exchanges and experience in practical public administration.

The Bank will continue proactively contributing to the revitalization of regional economies by promoting and enhancing its financial services in business recovery areas, etc.

Collaboration with Regional Financial Institutions

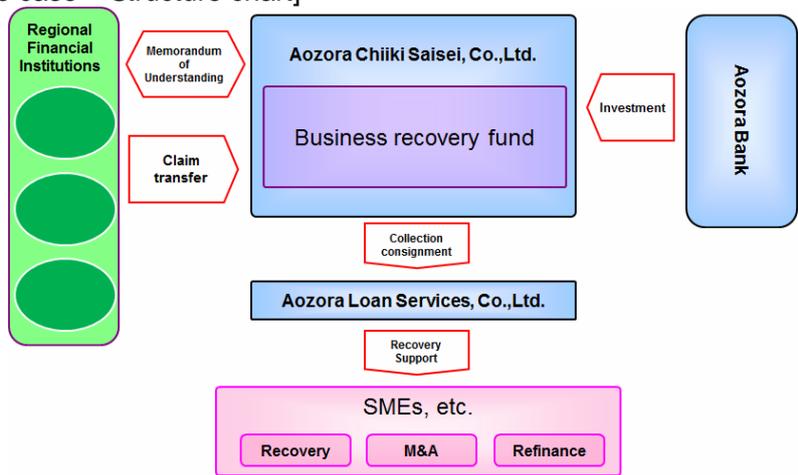
Aozora has longstanding financial institution relationships across the country which extends back over 50 years, having a broad range of transactions with them. Aozora will continue providing solutions to their broad customer networks, utilizing the Bank's financial expertise and skills, aimed at contributing to regional economies.

Specific initiatives include the following.

- Support of the recovery-type financial function of regional financial institutions

Business recovery finance and non-performing assets related business through Aozora Loan Services, the Bank's servicer subsidiary, or funds jointly established with regional financial institutions are the business areas which Aozora has focused on for years and can take advantage. Aozora will continue to contribute to the business recovery of SMEs and revitalization of regional economies through establishment and operation of business recovery funds in collaboration with regional financial institutions, even after the expiration of the SME Financing Facilitation Act.

[Example case – Structure chart]



- Provision of various solutions through advanced financial skills
Given the difficult business environment for financial institutions, challenges for management of regional financial institutions have become more complicated and diversified. The Bank will contribute to regional financial institutions for their new lending opportunities, as well as to their customers for their new funding measures, utilizing the Bank's expertise and skills.

Aozora continues to collaborate with regional financial institutions which do not provide derivatives products to offset risks due to various restrictions, in order to provide its customers with solutions to their challenges and expand Aozora's sales channels.

- Business and capital alliance with regional banks
Aozora has established business alliances with regional financial institutions, aimed at upgrading its longstanding network to "strategic business partner" based on a mutually supportive relationship.

The Bank intends to continuously establish business and capital alliances with regional financial institutions, in order to develop synergy and improve corporate value from the viewpoint of mutual support.

Advanced Services in Specialty Finance Areas

Real estate finance, business recovery finance, domestic/ overseas acquisition and project finance businesses are the business areas which require expertise and advanced skills. The Bank has focused on and put its human resources on these areas, positioning them as the business areas which have the highest growth potential and profitability.

These areas remain an important source of earnings and asset accumulation, and the Bank continues to pursue a quality portfolio with a suitable return on risk.

The Bank will also collaborate with regional financial institutions, offering its advanced financial expertise and skills, in order to proactively provide solutions for the needs of their customers in regional economies.

Specific initiatives include the following.

- Real estate related finance
The Bank has been a leading player in the real estate non-recourse loan market for many years, and has established good partnerships with market participants and customers through its longstanding deal experience. The Bank will continue to focus on the non-recourse finance as one of its core businesses.

In addition, expanding globalization in the real estate market requires financial services with a global viewpoint. Given this trend, the Bank will take up finance transactions in the North-American or other real estate markets where the Bank can utilize its knowledge and experience.

- Business recovery finance
Given the uncertainty in the economy which has continued after the Lehman Shock, we see the increasing need for DIP finance and bankruptcy related finance. Such trends are expected to continue in the foreseeable future, and the Bank will try to make further contributions by appropriately capturing the needs for respective deals.

➤ Cross border and overseas finance

Given economic growth in neighboring countries and the globalization of corporate finance, cross border and overseas finance markets in the Asian areas, etc. has been expanding, while the sovereign debt crisis or other factors have increased Japanese banks' presence.

While the Bank has continued research and study in the North-America, Asia and other areas through its overseas offices/subsidiary and newly established Asian Business Promotion Division, it plans to more proactively pursue growth opportunities upon these aforementioned changes in the global financial markets, utilizing its expertise and skills, human resources having long work experience in overseas business, etc.

The Bank will also consider various joint loan/investment deals through its regional financial institutions network.

➤ Collaboration/alliance with external specialists

The Bank will upgrade and enhance its aforementioned expertise and skills in specialty finance acquired through its longstanding deal experience through the collaboration and alliance with external specialists such as lawyers, real estate appraisers, accountants, etc., aimed at maintaining and increasing its presence as a 'Primary Secondary Bank: Another Reliable Partner'.

VI. IT and other infrastructure

As part of its mid-term strategy, the Bank plans to renew its Kanjo-kei core system which was a longstanding issue for the Bank's management.

The existing aged system is limited in flexibility for additional incremental development, and it could adversely affect the Bank's business development in the future. Reasonable system investments appropriate for the Bank's future business development and business environment will be a corporate priority, aimed at upgrading system stability and further developing its business strategies.

VII. Business alliances and acquisitions

Aozora has formed business alliances and acquired some businesses/companies to date, in order to upgrade its capability of providing products and responding to the needs of its customers, as well as providing broader and higher-value-added services.

The Bank continues to seek opportunities which are complementary or logical extensions to its existing businesses or otherwise expand its business scope or open new business opportunities as a measure to improve its corporate value.

VIII. Reorganization

In order to efficiently implement the aforementioned specific initiatives/measures and insure the Bank's growth strategies, Aozora will make necessary reorganizations as needed in the future.

IX. Key Performance Indicators

	FY2011	FY2012-FY2015
◆ Net Interest Margin	1.04%	1.1% - 1.3%
◆ Non-interest Income Ratio	46%	40% - 45%
◆ OHR	46%	below 45%
◆ Credit Cost Ratio	0.03%	0.2% - 0.3%
◆ ROE	7.90%	8% - 10%
◆ ROA	0.90%	0.7% - 1.0%
◆ Retail Funding Ratio	69%	60% or higher

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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.