

Summary of “Business Revitalization Plan”

August, 2005
Aozora Bank, LTD.

1. Strategies for Rationalization of Operations

(1) Business Model, Management Strategies

Aozora Bank has achieved a position of financial strength and stability, with a strong capital base, a high quality and diversified asset portfolio, and a funding base that is stable, diverse and highly liquid.

We continue to develop a business model and operating platform that will deliver sustainable superior performance to Aozora Bank's stakeholders. By establishing industry best practice policies, procedures and systems and developing our staff as specialists through enhanced training and recruiting programs, Aozora Bank is establishing a strong platform focused on growth with best practice standards of Risk Management and Internal Control. We have refined our business plans to focus our efforts on existing and new product development and markets where we can take a leadership position.

(2) Restructuring Plan

We have managed the banks costs and headcount to achieve the objectives of the Business Revitalization Plan. Having achieved a position of financial strength, we now plan to grow the business through the development of new products, markets and customers. To support such growth, investment into systems, staff and infrastructure are critical. Such investments are necessary to ensure the business growth is underpinned by a strong framework of corporate governance, risk management and internal control that can support efficient operations. Revenue growth will therefore require an increase in the overall level of expenditures, however productivity will be maintained with costs expected not to exceed the level of 45% of revenues going forward.

%	March 2005	March 2006	March 2007	March 2008	March 2009
OHR	45.0%	45.0%	44.9%	43.6%	42.2%

OHR is same level as the average ratio for Japanese Mega Banks. It will be improved further more.

JPY 100 mil.	March 2005	March 2006	March 2007	March 2008	March 2009
Personnel+Non-personnel Expenses	383	428	456	485	515

Management requires investment into capital and human resources to realize the full potential of the Bank, including investment into risk management technology and programs to improve the overall level of internal control in the Bank. Costs are expected to grow.

① Personnel Expenses

JPY 100 mil, Headcount	March 2005	March 2006	March 2007	March 2008	March 2009
Personnel Expenses	167	186	200	215	230
Staffs	1,492	1,550	1,600	1,670	1,700

Overall personnel cost will increase because due to the planned recruitment of senior professional staff with specific and valuable skills and experience. Many new staff will be contract employees where the market rate for remuneration is on average higher than Aozora's existing traditional existing staff base. Much of the compensation for the new recruits is expected to be in the form of performance bonuses based on the achievement of pre-agreed goals and objectives.

② Non-Personnel Expenses

JPY 100 mil.	March 2005	March 2006	March 2007	March 2008	March 2009
Non-personnel Expenses	216	242	256	270	285
Excluding System Expenses	149	168	176	185	195

Non-Personnel Expenses are expected to grow in line with expansion of operations. Increased costs will result from improvements to layout in head office and the computer center, which should be mitigated by increased productivity and risk reduction. The New York Representative Office is planned to be opened in 2005.

③ Affiliates/Related Companies

Future changes will be made depending on business needs. These include the establishment of an internet banking business in cooperation with Yahoo Japan using the Aozora Trust Bank, Ltd., and the possible establishment of overseas incorporated non-bank finance subsidiaries.

2. Summary of Table 1

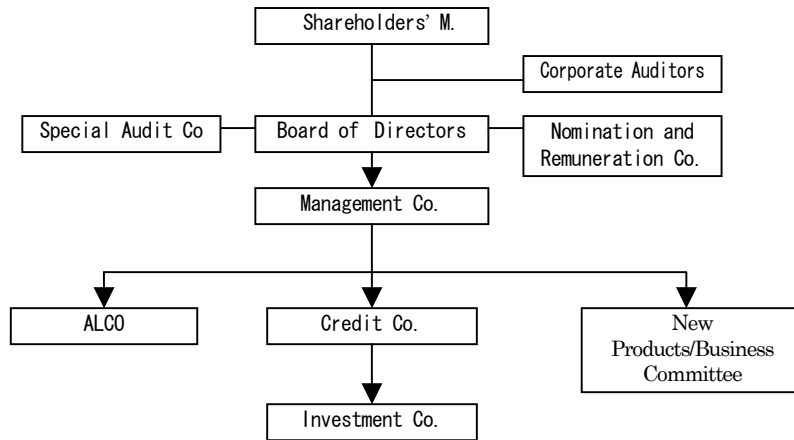
(JPY 100 mil.)

	March 2005 Result	March 2006 Plan	March 2007 Plan	March 2008 Plan	March 2009 Plan
Net Revenue	904	1,000	1,070	1,170	1,280
General and Administrative Expenses	407	450	480	510	540
Business Profit (*)	497	550	590	660	740
Credit-related Expenses	-278	150	160	200	250
Gains / Losses on sales of stocks and other securities	6	—	—	—	—
Operating Profits	437	380	415	450	490
Net income	869	420	430	460	500
OHR	45.02%	45.00%	44.85%	43.58%	42.18%

(*) Business Profit before General Loan-Loss Reserve

3 Management Systems

(1) Corporate Governance



The Board of Directors determines the basic policies of the Bank and empowers the executive officers to execute the day to day operations of the Bank. At the Board level there are two committees; the Nomination and Remuneration Committee and the Special Audit Committee. The Management Committee is the main executive committee within the Bank and is staffed by representative directors and Executive Officers who head business or support groups. The Management Committee in turn delegates authority to a number of special purpose committees including the Credit Committee, The Asset and Liability Committee, the New Products/Business Committee and the Investment Committee.

(1) Basic Policy

The Bank gives priority to secure a source of funds to redeem 5th preferred shares and to prepare for the injection of management resources into an area that leads to expansion of profits by accumulating retained earnings.

(2) Dividend, Remunerations/Bonuses to Directors and Officers

Considering the revenue prospects and required distribution of profits to shareholders, the Bank will pay out dividend to shareholders as required and as deemed by Management, the Board of Directors and shareholders as appropriate.

Director's remuneration is determined at the Nomination and Remuneration Committee comprised of external directors.

Although director bonuses are not reflected in this Plan as an appropriation of profit, it may be possible to resume payment of those after cautiously considering management performance including a revenue trend and future outlook.

4 Strategy for Prevention of Profit Drain through Dividend

5. Strategy relating to advancement of Credit products

Aozora plans to increase the level of credit products provided to customers through both growth in the product and customer bases, on the proviso that a sound and stable, global best practice standard Risk Management and Internal Control infrastructure is implemented. Aozora's goal is to source, develop and deliver innovative and flexible credit products and services to customers where the Bank can take a leadership position of providing financial assistance. Appropriate risk and return tradeoffs must be taken based upon a strong, detailed and contemporaneous understanding of the financial position and strategic plans of our customers. Product suitability must always be considered before the advancement of sophisticated or structured credit products to our customers.

We propose and provide tailor-made financing to meet each customer's individual needs.

As for small/medium-sized customers, we have created three new divisions at the head office as special divisions for SME loans that are making strong marketing efforts. Aozora management is planning to change the organization structure to enhance the efficiency and effectiveness of the provision of credit products to customers.

6 Strategy to Secure Financial Resources from profits for the Cancellation and Reimbursement of Stocks and Redemption or Repayment of Borrowings in connection with the Issuance of Stocks

(1) Policy relating to Cancellation, Reimbursement, Redemption or Repayment
The profit projection to FY 2010 indicates that Retained Earnings will reach the required level within the time-frame. The Bank is currently ahead of its original and previously modified earnings targets.

(2) Change in Retained Earnings

(100 mil. Yen)

	March 2005	March 2006	March 2007	March 2008
Retained Earnings	1,520	1,868	2,227	2,615

	March 2009	March 2010	March 2011
Retained Earnings	3,036	3,286	3,554

* Summary of the preference stock

Total issue Amount	260 Billion Yen
Mandatory Conversion to Common Stock	October 3, 2012

7 Strategies for Sound and Appropriate Finance and Business Operations

(1) Control of various risks

The Bank's policy is clearly explained in the *Master Policy for Risk Management*. The Board of Directors sets the risk management framework for the Bank, including capital allocation and the setting of risk limits for the Bank. The Risk Management Division is responsible for unifying the risk management stance of the Bank as a whole. Each division is the primary manager of those risks unique to its business, including credit risk, market risk and operational risk. The Internal Audit Division audits and reports as to whether procedures have been executed as required, and checks and reports that procedures are in line with policies..

<Measures to Avoid Becoming a Captive Bank>

To maintain sound and proper operations of the Bank as required in the provisions of the Long-Term Credit Bank Law and FSA's Guidelines for Supervision, the Bank is committed to prevent itself from becoming a captive bank for any particular shareholders. In the event that relevant law and ordinances are revised, the Bank shall comply by taking proper measures.

(2) Final Decision-Making Authority pertinent to Asset Management

The Credit Committee, chaired by the CCO, has authority for all credit transactions including investment. The Committee may delegate a part of its authority to other designated organization and officers, such as the CCO and the Investment Committee etc. The Committee is chaired by the CCO, and also consists of the Chairman, the President, Vice Chairman and the General Managers of the Credit Divisions I and II. In principle, the Committee is held

weekly.

(3) Policy regarding Write-Offs and Provisioning

As before, we would like to implement adequate self-assessment and write-off/allowance pursuant to the Financial Inspections Manual .

<Concept of Debt Forgiveness>

The decision to write off assets will only be taken after the following items are considered.

1. We can find economic rationality in offering loan forgiveness which is expected to promote revitalizing the ailing customer and would better enhance the recovery prospects of the remaining loans.
2. By giving support by way of loan forgiveness, we can prevent social loss from the failure of the corporate customer.
3. The management responsibility of the borrower has been clarified through the formulation/implementation of a reconstruction plan, etc.

(4) Holding gains/ losses and our plan for future handling of them

There is no material unrealized loss on securities, for which we must take special attention.

Premises of the computer center has a market value below book value, but does not qualify for the application of impairment accounting, so no write down is expected. (。)