

# Summary of “Business Revitalization Plan”

August 2007

Aozora Bank, LTD.

## 1 . Strategies for Rationalization of Operations

### ( 1 ) Business Model, Management Strategies

Aozora Bank has demonstrated its commitment to the attainment of global best standard frameworks in corporate governance, internal control, and risk management, and has successfully reconstructed its management framework since re-privatization in September 2000. The Bank's performance has exceeded consecutive yearly plans, and these efforts culminated in the listing of the Bank's shares on the First Section of the Tokyo Stock Exchange in November 2006.

We have now brought to a close the first stage of reconstruction to make way for a new era of growth.

In our unique position as neither a mega bank, nor a regional financial institution, our aim is to be a contemporary company, which is firmly rooted in the Japanese financial system. The further expansion of our established customer base, made up of corporate customers, focused on medium-sized corporations spread around diverse industries and regions of Japan, financial institution clients, which include our network of domestic financial institutions, and our retail customer base, consisting principally of affluent savers and investors, will form the foundation for our business model. The establishment of a diversified and sustainable revenue base can be achieved as we take full advantage of the Bank's expertise in deal structuring, assessment and risk management know-how, and as we develop our strengths in the investment banking and global investment businesses. We see the effective utilization of our strengths, in terms of speed, skill, network, diversity, and our financial strength as the key to the success of the Bank's business model.

### ( 2 ) Restructuring Plan

Aozora Bank has achieved its Business Revitalization Plan profit targets each year since the ending of the period of Special Public Management. The Bank and has effectively controlled its expenses and the number of personnel, and has achieved all of the related targets it has set for itself in the BRP, and in addition, has secured a level of retained earnings required for the redemption of public funds.

As we enter a new stage of growth, Aozora Bank reasserts its commitment to the attainment of global best standard frameworks in corporate governance, internal control, and risk management, and in conjunction sees the active investment in personnel and IT as indispensable in the development of new products, together with the cultivation of customers and our market. While the Bank ensures a high level of efficiency in its operations, continuing additional expenses are forecast, focusing particularly on system-related expenses, in line with the growth of the Bank.

%	March 2007	March 2008	March 2009	March 2010	March 2011
O H R	43.12%	45.45%	47.64%	46.56%	45.08%

We expect to maintain an OHR within the 40% range which equates to high efficiency in terms of Japanese banks, and aim to meet a target level of 45% in FY2010.

JPY 100 mil.	March 2007	March 2008	March 2009	March 2010	March 2011
Personnel+Non-personnel Expenses	434	470	525	545	565

Aozora Bank reasserts its commitment to the attainment of global best standard frameworks in corporate governance, internal control, and risk management, and in conjunction sees the active investment in personnel and IT as indispensable in the business development. Aozora continues to

have stringent cost control, but expects G&A expenses to increase

#### Personnel Expenses

JPY 100 mil, Headcount	March 2007	March 2008	March 2009	March 2010	March 2011
Personnel Expenses	190	205	217	227	237
Staffs	1,491	1,540	1,580	1,620	1,660

We will continue to actively recruit experienced professionals with special skills, experience and networks, in addition to the creation of new grades for the acceleration of our business expansion. The total number of employees is expected to increase. In addition, a part of "Property & Equipment Expenses" is posted as "Personnel Expenses" due to review of responsibilities within Aozora Group. As a result, total personnel cost is expected to grow.

A "Job-grading program" has been introduced into both managerial and non-managerial positions in order to realize a pay system which works in accordance with the roles and responsibilities of each job, and a bonus system closely linked with job performance.

#### Non-Personnel Expenses

JPY 100 mil.	March 2007	March 2008	March 2009	March 2010	March 2011
Non-personnel Expenses	244	265	308	318	328
System Expenses	78	100	135	135	135
Excluding System Expenses	166	165	173	183	193

We have built a system infrastructure and have renewed the main business systems. As a next step, we are considering the introduction of new Core Banking system renewing the current aging Kanjokei system which is costly in terms of maintenance.

As a result, we anticipate that the amount of system-related expenses will remain at a high level for the coming four years; however, as the system investment is one of the top-priority items from the strategic viewpoint, we intend to build a robust infrastructure for the future management by intensive investment.

#### Affiliates/Related Companies

Since the previously agreed Business Revitalization Plan, changes in the scope of the consolidation include the sale of Blue Planet, the merger of Aozora Computer and Aozora Business Services, and the establishment of Aozora Securities Co., Ltd., Aozora Asia Pacific Finance Limited, Aozora Investment Management Limited, etc. Future changes will be made dependent on business requirements.

## 2 . Summary of Table 1

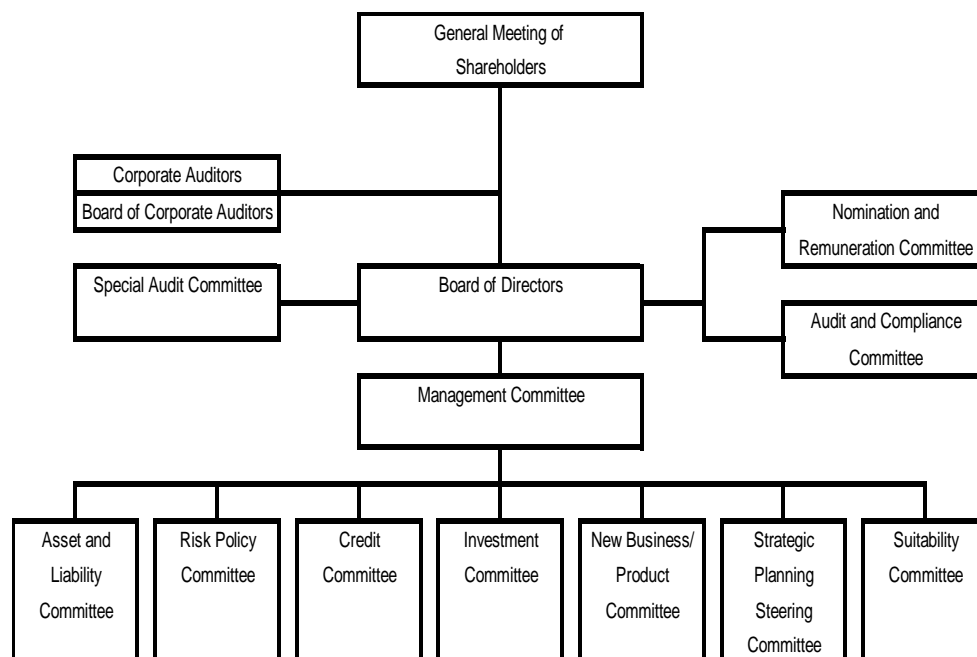
( JPY 100 mil. )

	March 2007 Result	March 2008 Plan	March 2009 Plan	March 2010 Plan	March 2011 Plan
Net Revenue	1,077	1,100	1,165	1,235	1,320
General and Administrative Expenses	464	500	555	575	595
Business Profit ( * )	613	600	610	660	725
Credit-related Expenses	-136	35	110	115	120
Gains / Losses on sales of stocks and other securities	48	55	55	55	55
Operating Profits	620	570	545	590	650
Net income	822	760	515	348	384
O H R	43.12%	45.45%	47.64%	46.56%	45.08%

( \* ) Business Profit before General Loan-Loss Reserve

### 3 Management Systems

#### <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 three committees for supervision; the Special Audit Committee, the Nomination and Remuneration Committee and the Audit and Compliance Committee. The Management Committee is the main executive committee within the Bank and is staffed by representative Directors and Executive Officers who head businesses or support groups. The Management Committee delegates authority to seven special purpose committees including the Credit Committee and the Asset and Liability Committee.

### 4 Strategy for Prevention of Profit Drain through Dividend

#### (1) Basic Policy

The Bank has met all PL targets under the Business Revitalization Plan since re-privatization and has already accumulated retained earnings to secure a source of funds to fully buy back and cancel the preferred shares. The Bank continues to ensure the achievement of the Business Revitalization Plan and to distribute an appropriate return to stockholders as a listed company.

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

After re-listing of common stock in November 2006, the Bank has considered a target level of dividend payment, from the perspective of appropriate return to stockholders and the maintenance of a sound financial base. As a result, we aim to increase a payout ratio at least comparable to Japanese major banks in the medium term.

Common stock dividend stated in this plan is as follows:

#### < Common stock Dividend >

	Dividend per stock (yen)	Total Common Stock Dividend Amount (100 mil yen)	Pay-out Ratio 1 (Note)
FY2007	3.86	64	8.4%
FY2008	4.17	69	13.4%
FY2009	4.47	74	21.2%
FY2010	4.77	79	20.5%

(Note) Total dividend amount on common stock divided by net income

Actual dividend payment amount should be reviewed based on the Financial Reconstruction Commission rule that the dividend yield of common stock cannot be higher than that of 5th preferred stock.

The Nomination and Remuneration Committee is comprised of non-executive directors with a mandate to determine remuneration for each Director. While bonus payments for Executive Officers are not forecast in this plan, the resumption of payment may be considered in light of the effect of management performance on profit trends, or based on such forecasts.

## 5 . Strategy relating to advancement of Credit products

In addition to traditional loans for facility and equipment investment and for working capital, which we have actively dealt with, we also strive to be a true partner to our clients by providing them with financial solutions for management issues such as business revitalization, or regeneration of new business on a business unit basis, and Leveraged Finance to be utilized in raising funds for MBO and M&A.

In taking up a business deal with a client, we believe it is important to identify appropriate risk/return, having a thorough understanding of the financial position and strategic plans of the client. When involving highly sophisticated or complex structured products, we always examine for the suitability of the product to the client.

With regard to specific measures taken, we provide a wide array of custom-made products to meet the diverse needs of clients. In evaluating credit for a transaction, we continue to respond to the needs of clients in any business sector by adopting credit screening methods through which, we evaluate accurately the technological capability, uniqueness and competitiveness of their business model, in addition to physical collateral, in order to weigh the client's cash flow generation ability.

We implemented organizational reform in September 2006, whereby we deployed Relationship Managers in each marketing division and branch with the purpose of uncovering the needs of clients. We made Credit Divisions adopt a system whereby each credit officer assumes responsibility for assigned divisions/branches in order to enable a swift response. Further, in order to enhance our client base, we set up a new division to exclusively engage in the development of new clients. In April 2007, aiming at further enhancement of client base and improvement of services, the aforementioned division for new client development was placed in the business line of Corporate Business Divisions

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

The Bank has met all PL targets under the Business Revitalization Plan since re-privatization and has already accumulated retained earnings to secure a source of funds to fully buy back and cancel the preferred shares. The Bank is putting strategic priority on the redemption and cancellation of all of the remaining preferred shares, subject to meeting the pricing terms and other criteria for redemption and the approval of the relevant authorities.

Change in Retained Earnings

(100 mil. Yen)

March 2007	March 2008	March 2009	March 2010	March 2011
3,398	4,045	4,454	4,691	4,957

\* Summary of the preferred 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 fundamental risk policy is clearly explained in the Risk Management Master Policies to ensure that all officers and employees conduct their business activities in full compliance. Risk Management starts at the Board of Directors and its assisting committees including the Special Audit Committee, Nomination and Remuneration Committee and Audit and Compliance Committee.

The Board of Directors approves the business operations plan drawn up by the Management Committee and determines the Group's risk tolerance, taking into account the Bank's financial resources, such as its capital and earnings target. The Board of Directors is committed to conducting appropriate corporate governance and business operations by granting approval to any material decisions made by each Committee and receiving detailed regular risk management reports.

Credit risk, market risk and operational risk are managed by the respective risk management divisions under the supervision of the Chief Officer assigned to them. The Integrated Risk Management Division is responsible for the unification of the risk management stance of the Bank as a whole, while the head of the Integrated Risk Management Group supervises each risk management division.

The Internal Audit Division conducts audits of all the branches / divisions / subsidiaries including the divisions above in charge of risk management, and verifies the appropriateness and effectiveness of the risk management system from an independent standpoint.

<Measures to Avoid Becoming a Captive Bank>

To maintain sound and proper operations, as required in the provisions of the Banking Law and FSA's Guidelines for Supervision, the Bank is committed to avoiding becoming a captive bank. 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

To be revised

Approval authority on credit transactions lies with the Credit Committee, in which the Head of Integrated Risk Management Group (“Head of IRMG”) serves as Chairperson. The Credit Committee delegates its approval authority on transactions, except for those subject to the approval thereof, to the Chief Credit Risk Officer (“CCRO”), in addition to the power to redelegate this approval authority.

The Credit Committee consists of the Chairman, President, CCRO, the General Manager of Credit Division I, the General Manager of Credit Division II, in addition to the Head of IRMG as the Chairperson of the Committee, and is held on a weekly basis in principle.

Approval authority of investment transactions lies with the Investment Committee, in which the Head of IRMG serves as Chairperson. The Investment Committee partially delegates its authority to the Chief Market Risk Officer (“CMRO”) and Senior Managing Executive Officers in charge.

The Investment Committee consists of the Chairman, President, and CMRO, CCRO, etc., in addition to the Head of IRMG as the Chairperson of the Committee, and is held on a monthly basis in principle.

(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

We have recorded approximately 12.3 billion yen unrealized losses on securities. Although we are aware that there is no need to take impairment or reserves on most of these securities at this time, we will do so in accordance with accounting standards for impairment and reserves when necessary.

Also, we anticipate potential losses for the land and building held and used as a computer center, however, we understand that we are not required to record any impairment loss for this asset even in accordance with the accounting for the impairment of assets.