



## Building a Uniquely Profitable Franchise

**Unique Business Model, Strong & Diversified Earnings,  
Solid Capital Base, High Asset Quality**

**September, 2007**



# Aozora Bank at a Glance

(as of Mar. 2007)

## Overview

Headquarter:	Tokyo
Domestic branches:	19
Overseas offices:	5
Full-time employees (consolidated):	1,868
FY06 Consolidated Net Income:	JPY 81.51 billion
Consolidated Stockholder's Equity:	JPY 792.48 billion
Consolidated Total Assets:	JPY 6,543.99 billion
Credit Rating (as of Aug. 31, 2007):	A2 (Moody's); A- (S&P); A- (Fitch); A- (R&I); A (JCR)

## Common Stock Shareholders

Cerberus NCB Acquisition, L.P.

37.49%

ORIX Corporation

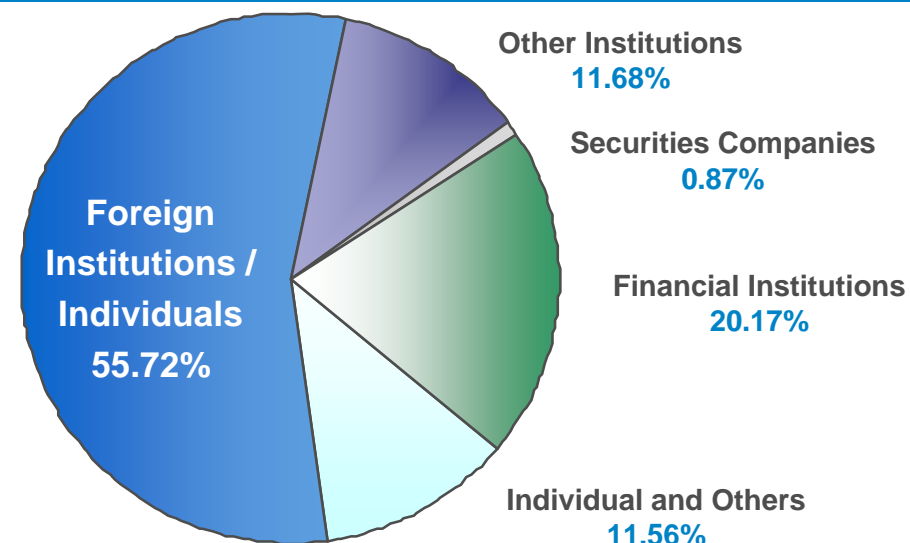
9.08%

Tokio Marine & Nichido Fire  
Insurance Co., Ltd.

9.08%

Others

44.35%



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# Overview

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## Unique Business Model

**Strong & Diversified Earnings**

**Solid Capital Base & High Asset Quality**



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## Established Leader in Japanese Wholesale Banking

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- **2,500 mid-large sized corporate clients across wide range of industries and regions**
- **Comprehensive suite of high margin specialty finance products**
- **Longstanding relationships with over 500 regional financial institutions**
- **More than 210,000 mass affluent retail customers**
- **Portfolio of international investment partnerships, and quality investment fund portfolio**



# Financial Solutions for Japanese Corporations

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## Dedicated marketing force

- Expansion of the client base through targeted marketing

## Experienced relationship managers

- Share of mind: first call, last look
- Share of wallet: comprehensive product suite

## Focused target market of mid-large corporations

- Expertise in risk management delivers better, faster credit decisions
- Gaining recognition as a leading alternative to the “mega” and international investment banks

## Strict control of credit quality

- Risk management is our competitive advantage



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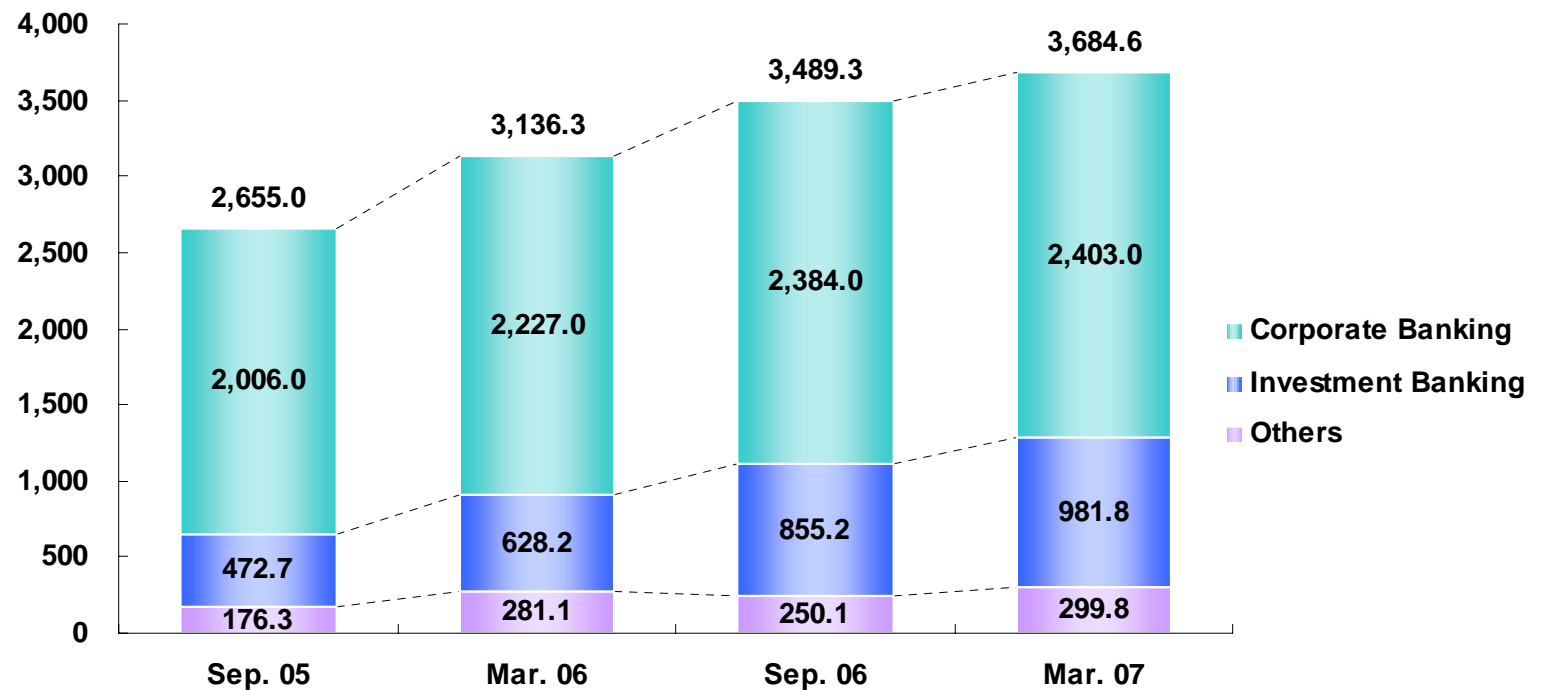
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# Core Corporate Banking Business Continuing to Grow

## Consolidated Loans Outstanding Driving Revenues

- Strong loan book growth has resulted from more targeted marketing and relationship management, growth in specialty finance and growth in offshore loan participation.
- In the quarter to June 2007, net interest income and the net interest margin both grew.

(Billions of yen)



# Higher Margin Specialty Finance

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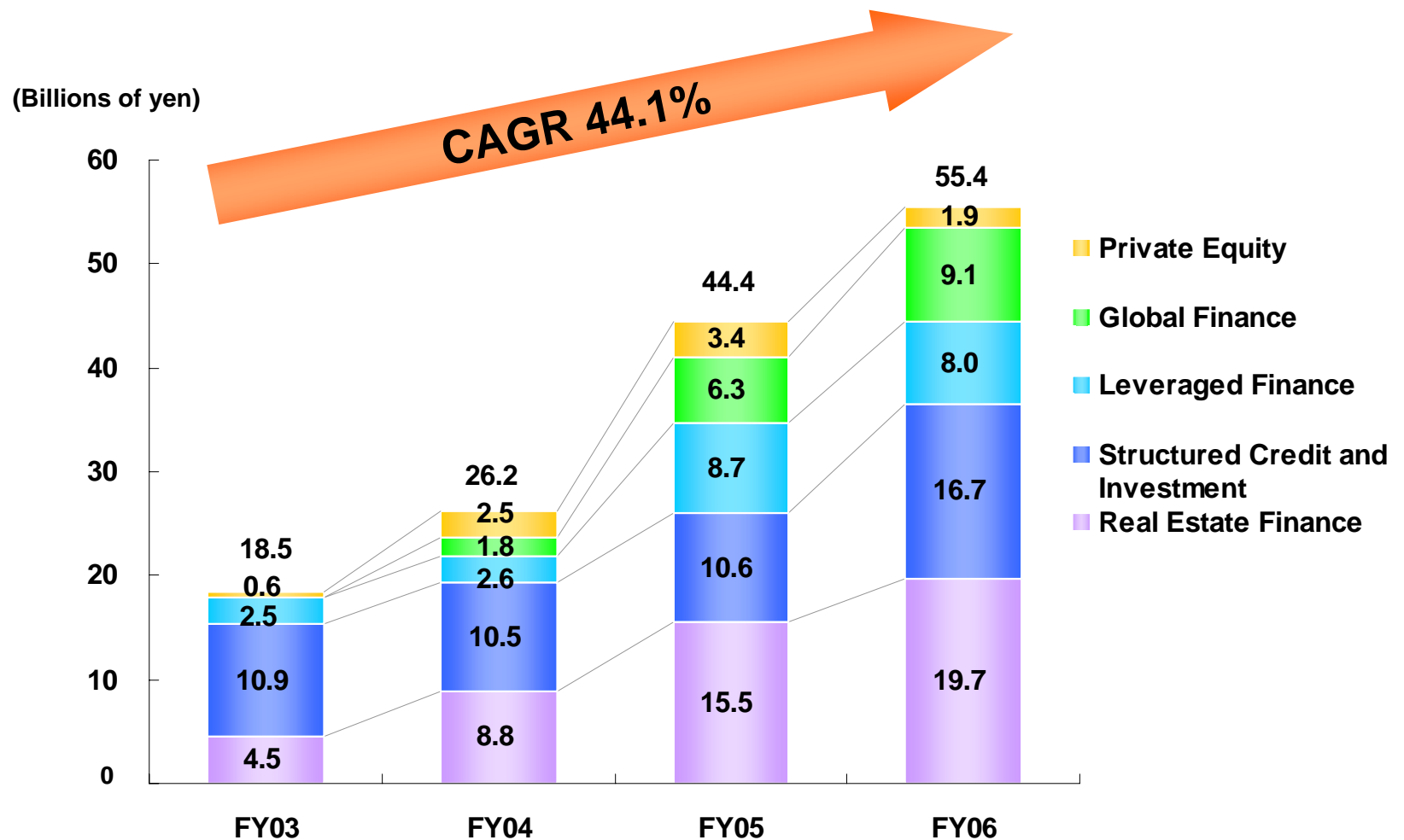
## Strong Revenue Growth Across Range of High Margin Products

- **Investment Banking clients acquired through Marketing Force activities as well as our existing Corporate Banking and Financial Institutions customer base**
- **Global expertise and deep domestic network maintain our competitiveness, leadership position**
- **Disciplined risk management**
- **Global market capabilities**



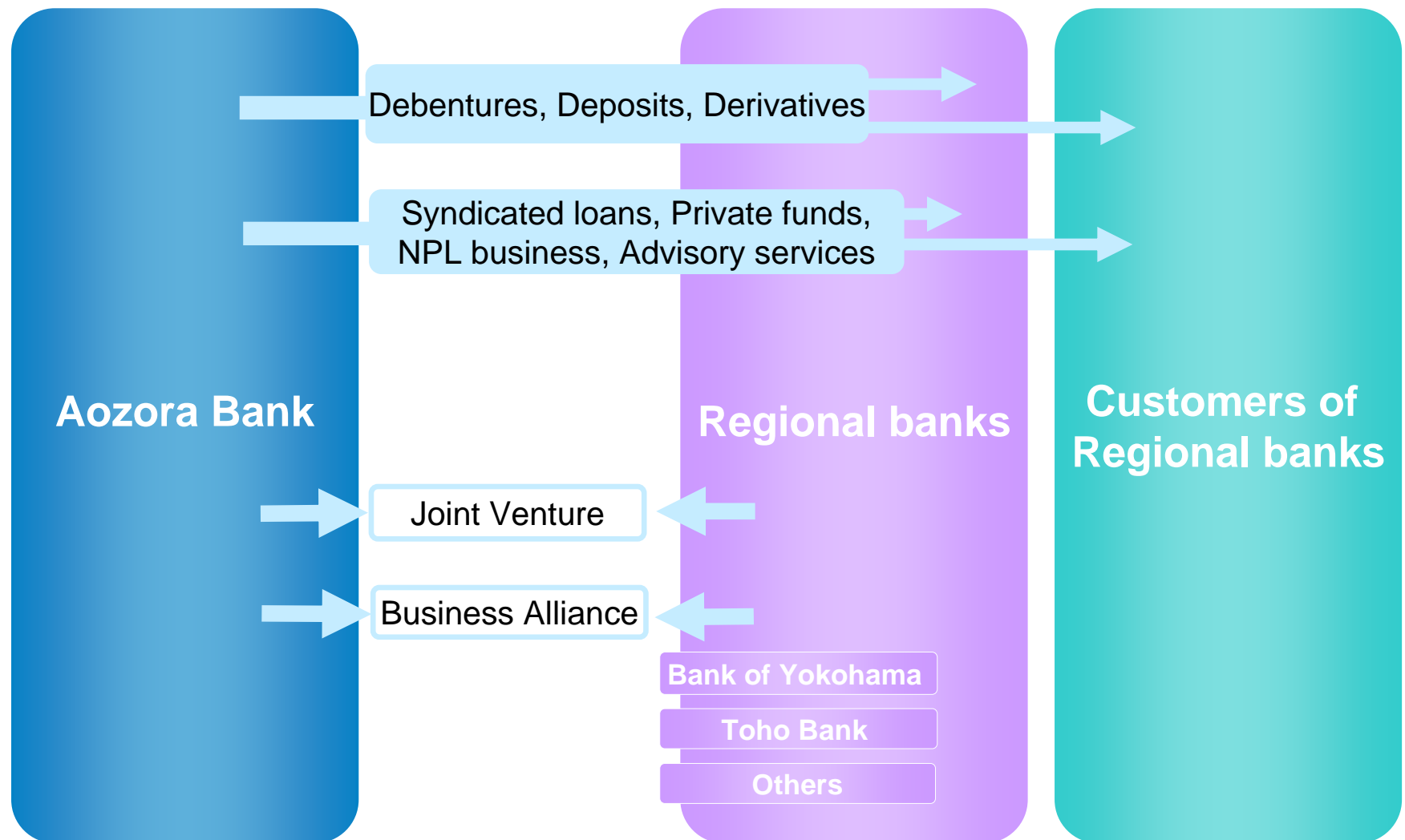
# Specialty Finance: Diversified Growth

## Specialty Finance Related Revenue\*



# A Partner of Japan for over 50 Years

- 60 relationship managers, 80% coverage of over 700 regional financial institutions



# Access to Regional Financial Institution Network

## Solutions, Collaborations and Unlimited Opportunities

### Sourcing

- Non-performing loan investment
- Ship finance
- Hospital-related finance

### Distribution

- Asset-backed securities
- Asset-backed commercial paper
- Collateralized loan obligations
- Privately placed fund products

### Advisory

- Structured debt instruments
- Arranger of syndicated loans
- Loan portfolios for securitization
- Other Asset-backed securitizations



# Focused Retail Banking Business

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## A Strategic, Measured Approach

- 18 retail branches
- Enhanced, popular call center service
- Internet Banking service planned for increased convenience

## Carefully Targeted Demographic

- Mass affluent “baby boomers”
- 210,000 existing clients, average deposits over 6.5 million yen

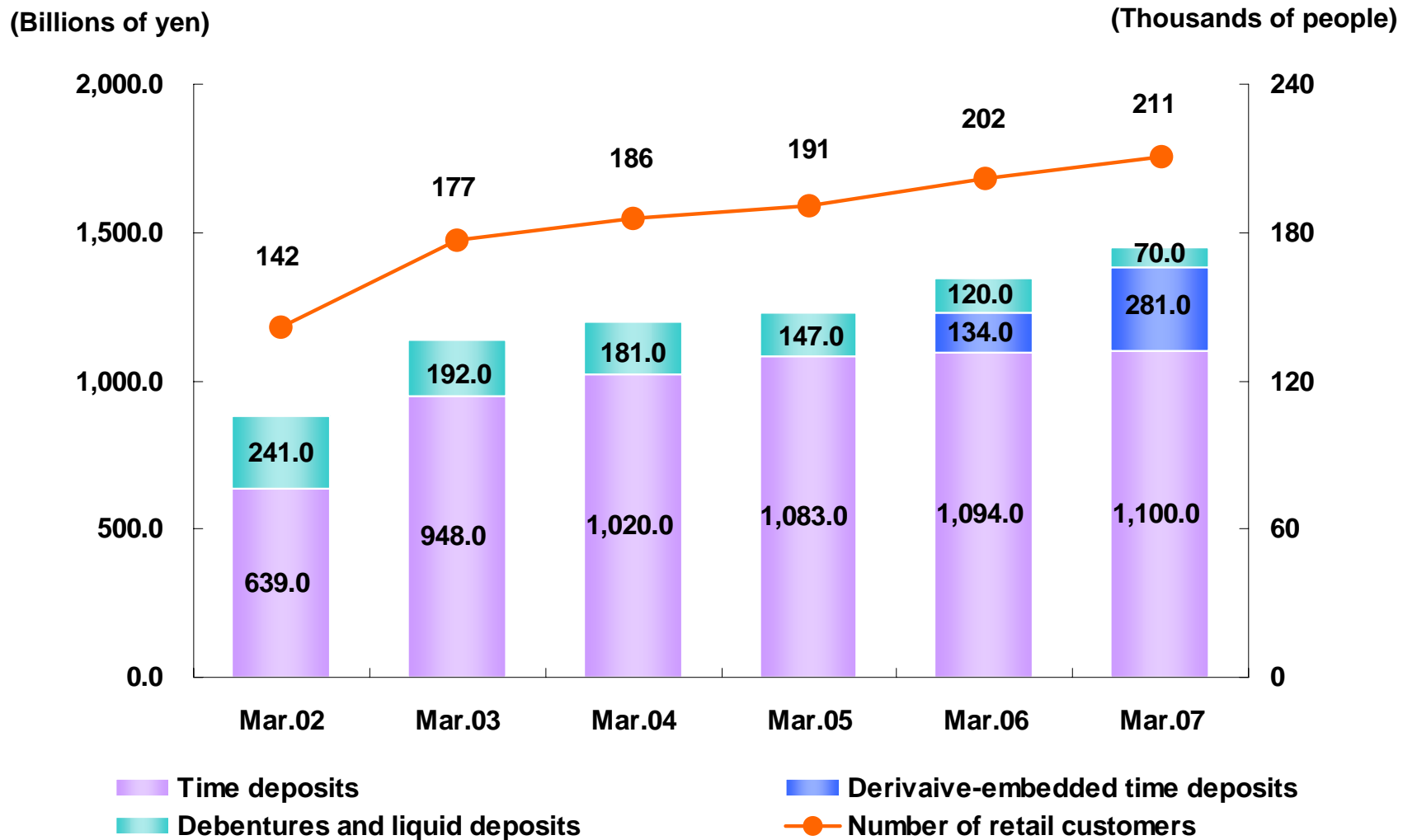
## High Quality, Low Cost Source of Funding

- Stable source of funding, 25% of the Bank’s total non-capital funding



# Retail Banking Growth

## Retail Banking Shows Stable Growth



# Diversified Fund Investment Portfolio

- Positioned as one of the major revenue sources
- Potential strategic opportunities in FIG area

## Fund Investment Performance

	<u>FY05</u>	<u>FY06</u>
<b>Return</b>	<b>10.60%</b>	<b>10.58%</b>
<b>Volatility</b>	<b>2.48%</b>	<b>2.51%</b>
<b>Sharpe Ratio</b>	<b>2.66</b>	<b>2.11</b>

- **Stable, consistent returns year-on-year**
  - ✓ Over 10% investment returns in FY05 and FY06
- **Low volatility relative to HFRX**
- **Disciplined risk management**
  - ✓ Well-diversified with 49 various funds (as of Jun. 2007)
  - ✓ Maintained around 3% of total assets



# Overview

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**Unique Business Model**

**Strong & Diversified Earnings**

**Solid Capital Base & High Asset Quality**



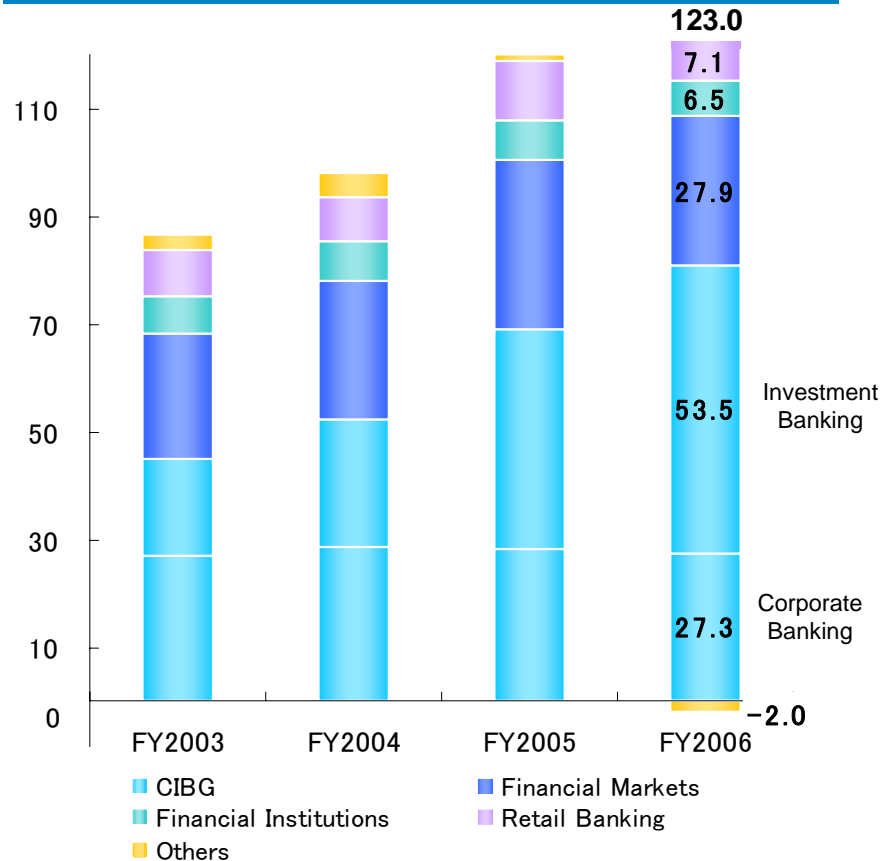
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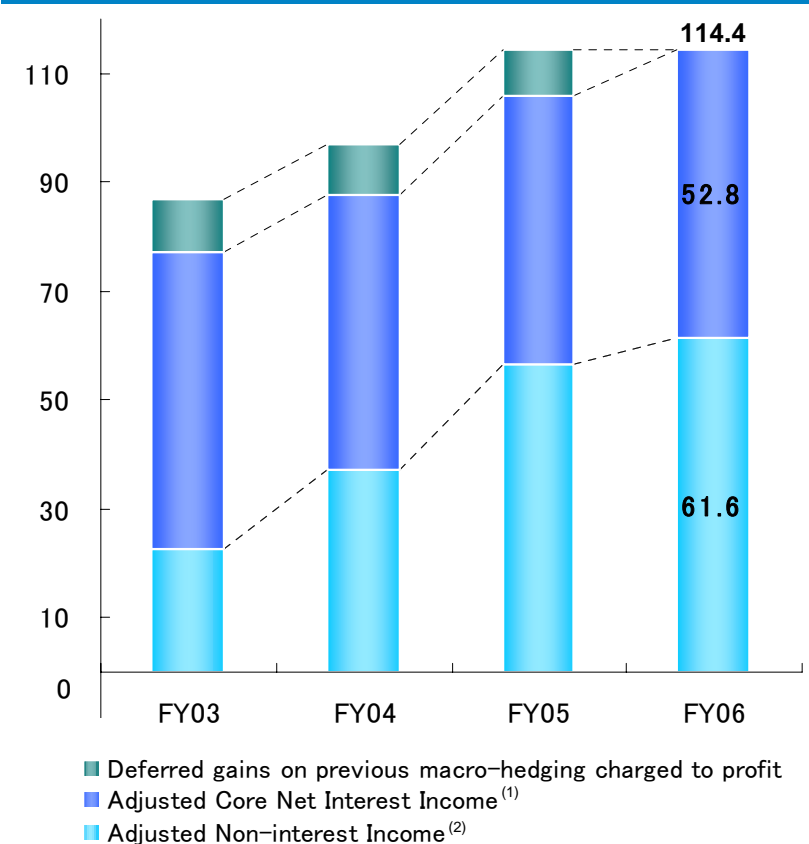
# Sustainable, Consistent Top-Line Growth

- Top-line growth driven by Corporate and Investment Banking
- Strong growth in non-interest income
- Net Interest Income now on growth trajectory

Revenue Breakdown by Group<sup>(1)</sup>  
(Billions of yen)



Net Revenue Trend  
(Billions of yen)



(1) Consolidated Managerial Accounting Net Revenue

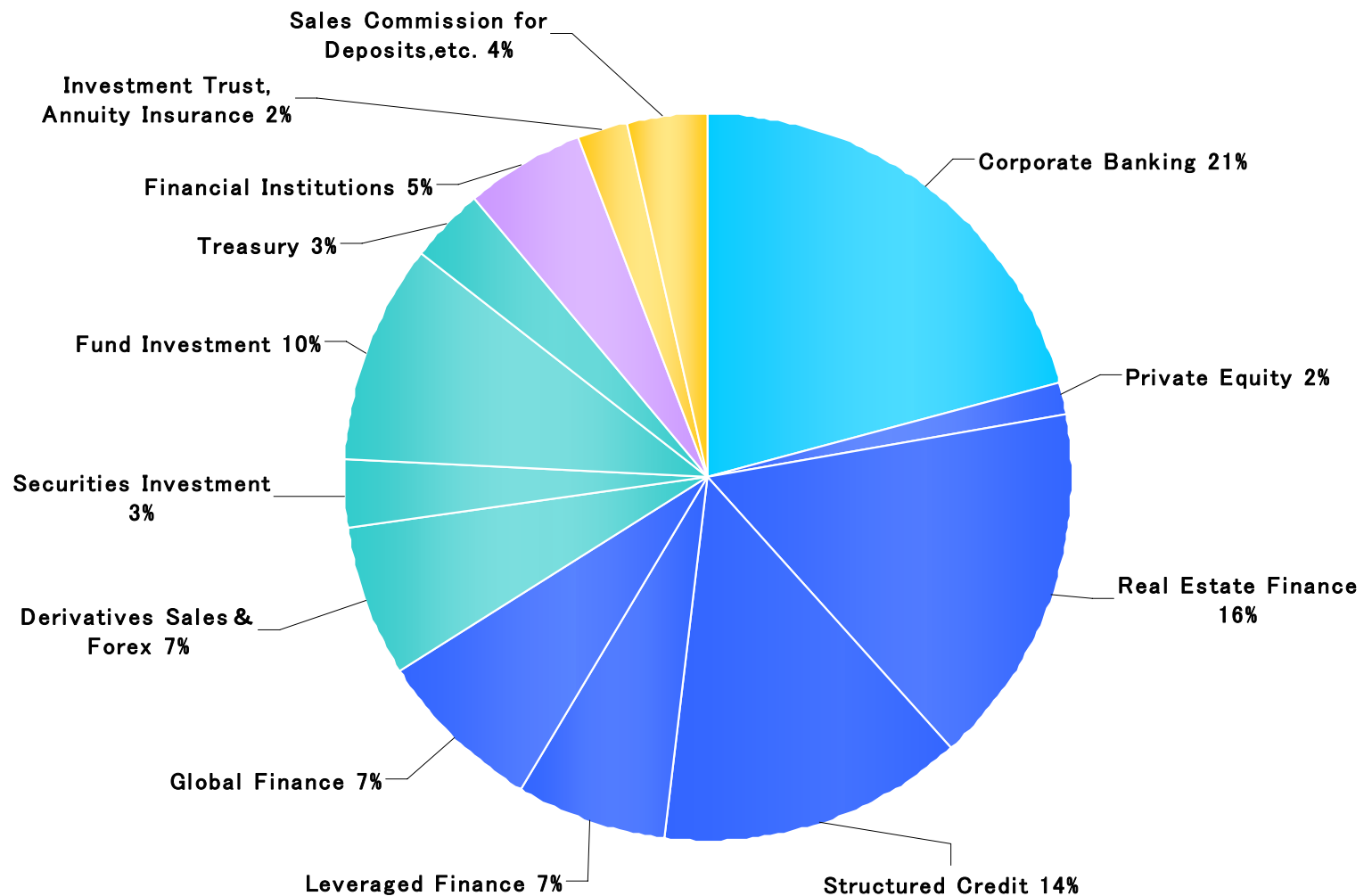
(1) Net Interest Income as adjusted to exclude both deferred gains on previous macro-hedging and estimated funding costs on fund investments and TK investments

(2) Non-Interest Income as adjusted to reflect estimated funding costs on fund investments and TK investments

# Diverse Revenue Sources

## Diversified Revenue Sources<sup>(1)</sup>

FY2006 Net Revenue



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<sup>(1)</sup> Consolidated Managerial Accounting Net Revenue

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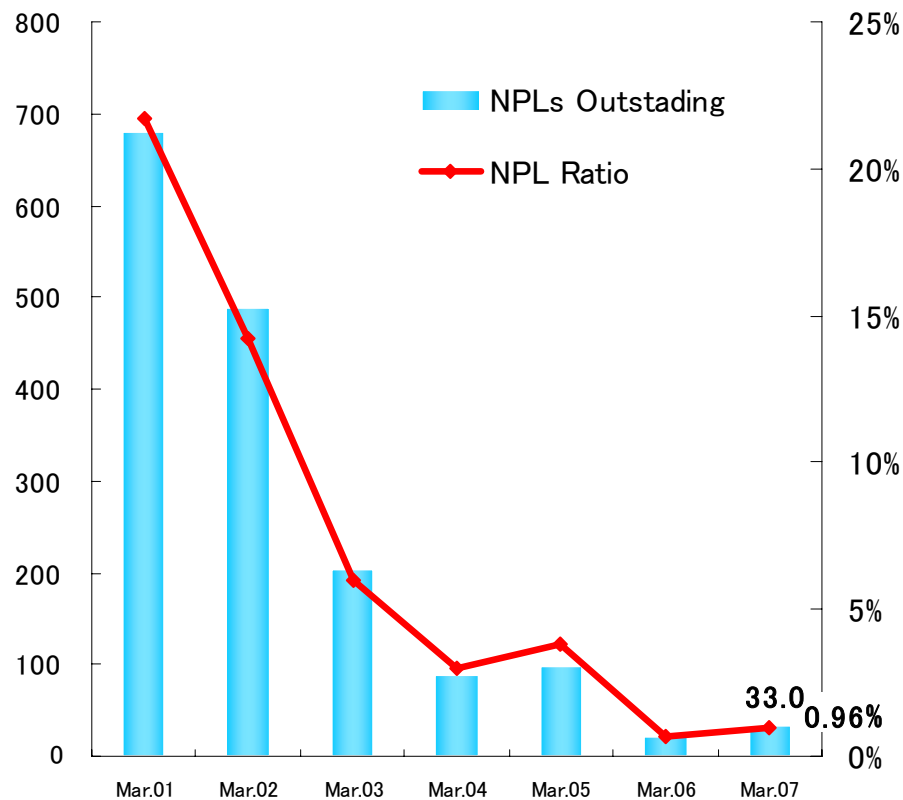
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# Asset Quality

- Significant decrease in NPLs strengthen asset quality
- Aozora Boasts industry-high NPL coverage

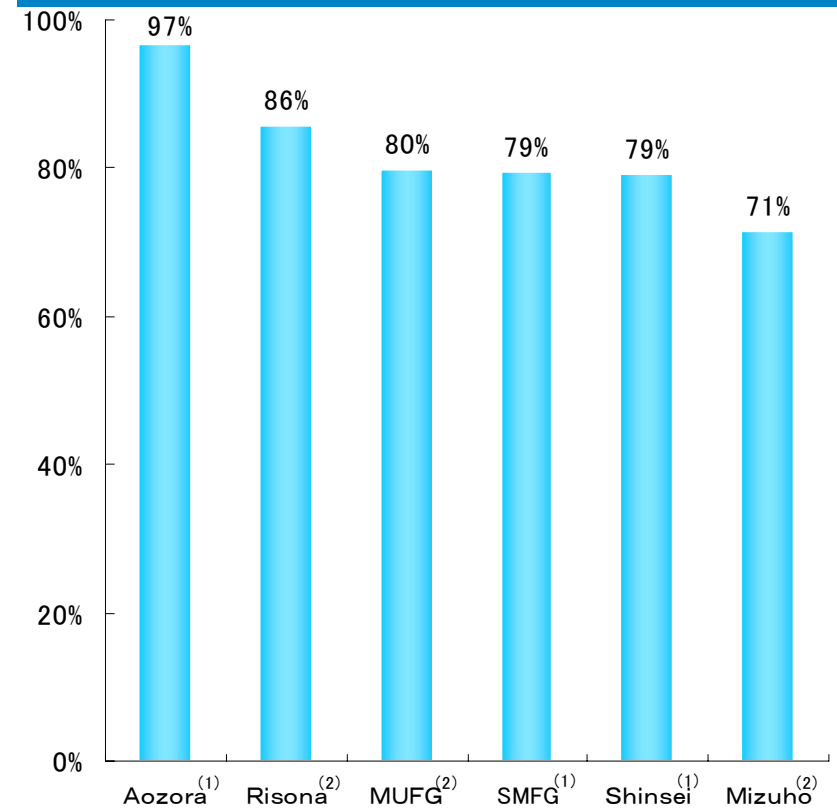
### NPL Trend <sup>(1)(2)(3)</sup>

(Billions of yen, %)



### Comparison of NPL Coverage Ratio

Mar. 2007



- (1) Non-consolidated
- (2) Financial Reconstruction Law standard
- (3) Aozora returned 445.4 billion yen of NPLs to the DIC between September 1, 2000 and September 30, 2003 through its cancellation rights, which have expired

Source: Company disclosure

- (1) Non-consolidated
- (2) Aggregate of subsidiary banks

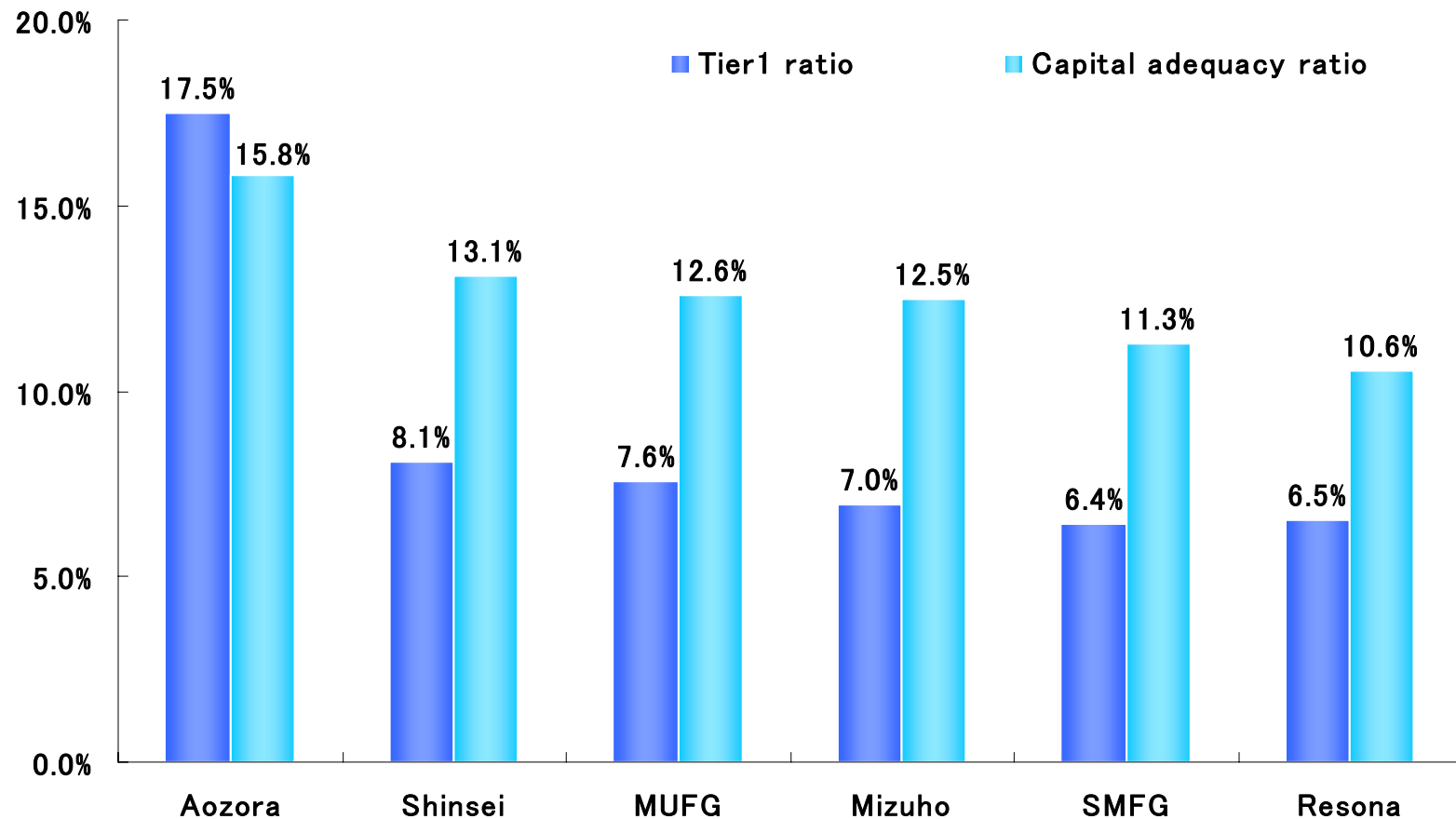


# Solid Capital Base

- Sufficient capital retained even after potential repayment of public funds

Capital Adequacy / Tier I Ratio (Consolidated basis)

Mar. 2007



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# Efficient Capital Policy

## Medium term capital targets

- **Capital adequacy ratio: 12%~13%**  
**Tier 1 capital ratio: 10%~11%**
- **Strategic priority: repayment and cancellation of public funds**
- **Target dividend ratio: in line with other banks in sector**
- **In the absence of appropriate alternatives, Aozora may consider the option of buying back and canceling common stock after public funds have been repaid**





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