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Abolition of the Officer Retirement Allowance Program and Introduction of Equity Compensation Type Stock Options for Full-time Directors

Tokyo May 27, 2014 – 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 the Abolition of the Officer Retirement Allowance Program, as part of the reform of the remuneration structure for Bank officers. The Board also approved the submission of a proposal to the 81st Ordinary General Meeting of Shareholders ('General Shareholders Meeting'), scheduled for June 26, 2014, regarding the Introduction of Equity Compensation Type Stock Options for full-time directors.

1. Objective

The Bank will abolish the retirement allowance program for Bank officers and introduce equity compensation type stock options as part of its commitment to enhancing its corporate value, as well as promoting a greater management focus on the Bank's stock price.

2. Outline of New Remuneration Structure

(1) Abolition of the Officer Retirement Allowance Program

Proposals are to be submitted to the General Shareholders Meeting with regard to (i) the abolition of the Officer Retirement Allowance Program upon the closing of the General Shareholders Meeting (ii) making lump sum payments equivalent to the retirement allowance to officers who will be re-elected at the General Shareholders Meeting or continue to serve as Audit & Supervisory Board members following the meeting, in accordance with their respective periods of service, and (iii) offering retirement allowances to officers whose retirements will be effective upon the closing of the meeting. The actual payment of the lump sum amounts shall not be made until after their respective retirements as officers.

(2) Introduction of Equity Compensation Type Stock Options for Full-time Directors

The Bank will introduce equity compensation type stock options (exercise price of one yen per share) for full-time directors in order for them to share the risks and benefits of stock price fluctuations together with its shareholders and be further motivated to enhance the corporate value and stock price of Aozora from both a mid-term and a long-term perspective.

Under this proposal, stock options will be granted to full-time directors to replace the Officer Retirement Allowance Program. We will submit a proposal to the General Shareholders Meeting to grant equity compensation type stock options of up to 150 million yen a year to full-time directors, in addition to the annual maximum basic remuneration of 600 million yen approved for directors (including full-time and outside directors). Outside directors and Audit & Supervisory Board members will not be eligible for equity compensation type stock options, and only base remuneration will be granted to them.

(3) Outline of Stock Options to be issued to Full-time Directors

(a) Number of Stock Options

The number of stock options that may be allotted to full-time directors within any one (1) year commencing after the date of the annual general shareholders meeting shall not exceed a total of 7,500 units.

(b) Class and Number of Shares to be Delivered upon Exercise

The class of share to be issued or transferred upon the exercise of these 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.

If the Bank judges that it is appropriate to change the Number of Underlying Shares due to merger, corporate splits, stock splits, stock dividends (allotment of shares without contribution), or consolidation of stocks (reverse stock split), or any comparable transaction, the Bank may make an adjustment to the Number of Underlying Shares that the Bank considers necessary.

(c) Amounts to be Paid-in at Grant of Stock Options

The Issue Price of stock options is determined by the Board of Directors based on the fair value calculated on the day of allocation of stock options by using fair valuation models such as the Black-Scholes Formula.

At the allocation of the stock options to directors, a director's claim to compensation from the Bank will be offset by the amount to be paid-in instead of the director actually making payments to the Bank.

(d) Amount of Assets to be Contributed upon Exercise of Stock Options

The amount of assets contributed upon the exercise of each stock option shall be calculated by multiplying the exercise price of one yen per share by the number of shares granted through exercise of the stock options.

(e) Time Period in which the Stock Options are Exercisable

The time period in which the stock options are exercisable, which is limited to a maximum period of 30 years, shall be determined by the Board of Directors immediately following the allotment date of the stock option.

(f) Major Conditions for the Exercise of Stock Options

The holder of the stock options may only exercise the granted stock options once during the ten-day period following the day on which the holder ceases to be a director of the Bank as long as such exercise occurs within the period stated in (e).

(g) Restrictions on Acquisition of a Transferred Stock Option

The acquisition of stock options through transfer shall require approval through a resolution of the Board of Directors.

(h) Determination of Details of Stock Options

Other matters pertaining to the conditions of stock options, including conditions for allocation, shall be determined by the Board of Directors.

End