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Mid-Term Plan FY2018-20

“Primary Secondary Bank: the partner of choice”

Leveraging Core Competencies

Aozora Bank, Ltd. (“Aozora” or “the Bank”) today announced its new three year plan which spans fiscal years 2018-20.

The banking sector faces increasing pressure and uncertainties owing to changes in domestic demographics, increasingly uncertain economic and financial conditions domestically and overseas, as well as newly arising competitive threats posed by advances in technology. Consumers have increased the pace of reallocating their financial assets from basic savings accounts to investment products. The requirements of institutional customers are also expanding to M&A and business succession advisory services. These changes in the business environment are expected to present attractive growth opportunities for banks in the years ahead.

To pursue sustainable growth in corporate value, the Aozora Group intends to offer differentiated and high-quality financial services to customers by leveraging its core competencies in order to continue earning the trust of its customers. In addition, Aozora will take a number of actions including further improving efficiency as well as further promoting selection and concentration by way of allocating resources to strategic areas of focus while maintaining sound risk-taking based on disciplined risk management and best practices.

1. Further Embracing Core Values

The Aozora Group has developed the “6 Areas of Focus” in its business model by providing differentiated and specialized financial services with the aim of becoming the “Primary Secondary Bank: the partner of choice.”

In the new Mid-term Plan (FY2018-20), Aozora will strive to achieve sustainable growth as the “Primary Secondary Bank: the partner of choice” by further leveraging its core competencies and unique market position relative to that of megabanks and regional financial institutions in order to contribute to the development of Japan’s economy and society.

The Aozora Group’s concept of *Leveraging Core Competencies* is summarized below.

■ For customers

- Differentiated services/products
- Responsive and customized approach
- Trusted partnerships

■ For shareholders

- Stable shareholder returns
- Governance
- Open and direct investor communications

■ For employees

- Diverse workforce
- Open communications and teamwork
- High job satisfaction; embracing change

2. Key Strategies

Sharpen “6 Areas of Focus”

Aozora will embrace and further enhance the “6 Areas of Focus” of its current business model. The Bank will promote selection and concentration based on redeployment of resources in line with the Aozora’s risk appetite framework with the intention of providing differentiated products and services and leveraging the Bank’s core competencies.

Business Model “6 Areas of Focus”

Retail Banking	Corporate Finance	Financial Institutions
Retail Banking for senior generation mass-affluent customers	Business solutions for corporate customers	Partnerships with regional financial institutions
Specialty Finance	International	Financial Markets
Specialty Finance	International Business	Diversified global investments and risk consulting

Aozora intends to become a banking group as the “Primary Secondary Bank: the partner of choice” by developing and offering products and services that continue to meet the evolving needs of its customers in the Retail Banking, Corporate Finance and Financial Institutions businesses.

In Retail, we intend to continue providing high quality consulting services designed to meet the asset management and estate planning needs of our senior generation mass affluent customers. Looking ahead, the Bank plans to focus more of its attention on the pre-retirement emerging senior generation in order to broaden its customer base. In Corporate Finance, Aozora intends to meet a variety of customer needs by delivering value-added products and services such as financing for strategic growth and business restructuring and products to more effectively manage business risk, as well as M&A and business succession advisory services. Examples include the Bank’s plan to focus additional resources on its M&A advisory and private equity investment strategic growth areas. With its longstanding industry leadership position in the Financial Institutions business, Aozora will further promote partnerships with regional financial institutions in order to provide their customers with solutions in areas such as asset management.

For our longstanding leadership positions in “Specialty Finance,” “International,” and “Financial Markets,” Aozora intends to take selective risks based on the focused allocation of its resources and human capital while reinforcing and ensuring strong risk management.

Enhance risk management

In order to preserve its financial strength and institutional discipline under a broad range of future market and economic conditions, Aozora intends to continue conducting risk management based on discipline and best practices in all of its investment and lending activities. These activities align with the Bank’s commitment to a strong risk management framework and the maintenance of management soundness, predictive control and proactive risk management.

- Predictive control and proactive risk management addressing changes in market

conditions

- Diversified investing and lending portfolio with attractive risk-return profiles
- Enhanced risk management and credit selection frameworks for proactive investing and lending activities

Build for the future

Building for the future, Aozora plans to launch its Internet banking business in July 2018 through GMO Aozora Net Bank*¹ jointly with GMO Internet Group. The new bank aims to become a “No.1 technology bank benefitting customers” by combining and leveraging the strengths of each partner.

In addition, Aozora will continue to selectively explore growth opportunities in both the domestic and overseas markets and deploy capital for investments or M&A in order to enter new businesses which are expected to have synergy or the potential to further strengthen or leverage the Bank's business model.

3. Financial Targets

Earnings

In the new plan, Aozora intends to achieve net earnings of at least 43 billion yen in each year over the next three years. This result will be achieved through a number of avenues including leveraging the existing business model “6 Areas of Focus”, implementation of sound risk-taking based on disciplined risk management, growth in non-interest income mainly in Retail and M&A advisory as well as selectively exploring new business areas.

KPIs

The table below summarizes the KPI targets for the new Mid-term Plan. Aozora will continue to pursue stable and sustainable growth while maintaining efficient management as one of the recognized strengths of the Aozora Group.

KPI	FY2017 actuals	Mid-term Plan targets (FY2018-20)
NIM	1.30%	1.2%
Non-interest income ratio	44%	45-55%
OHR	54%	50%
ROE	10.0%	9%
ROA	0.9%	0.8%

*¹ “Aozora Trust Bank, Ltd.” will change its corporate name to “GMO Aozora Net Bank, Ltd.” on June 1, 2018.

4. Capital and Dividend Policy

Aozora intends to enable sustainable growth in its corporate value by maintaining balance among “financial strength,” “stable shareholder returns,” and “strategic investments.”

Capital

Aozora will maintain its capital adequacy ratio (domestic standard) of at least 10%. This approach incorporates a consideration of the likelihood of more restrictive financial regulations, the desire to maintain a strong credit rating, and the ability to respond to investment opportunities.

Dividend policy

Management's intent is to maintain a relatively stable cash dividend with a target dividend payout ratio of 50%. Aozora will continue with its practice of paying dividends on a quarterly basis.

End

Aozora Bank

Mid-Term Plan (FY2018-20)

“Primary Secondary Bank: the partner of choice”
Leveraging Core Competencies

May 14, 2018

Mid-Term Plan Overview (FY2018-20)

Leveraging Core Competencies

- Achieve sustainable growth by further leveraging focused business model
- Redeploy resources in line with Aozora's risk appetite framework

Environment

- Challenging conditions for banks
- Technology and social trends creating threats and opportunities
- More restrictive international regulations

Key Strategies

- 1 Sharpen 6 areas of focus**
Responsive to changing business conditions
- 2 Enhance risk management**
Asset allocation discipline and best practices
- 3 Build for the future**
Internet bank JV; strategic opportunities

Further Embrace Core Values

Primary Secondary Bank : The Partner of Choice

Customers

- ✓ Differentiated services/products
- ✓ Responsive and customized approach
- ✓ Trusted partnerships

Shareholders

- ✓ Stable shareholder returns
- ✓ Governance
- ✓ Open and direct investor communications

Employees

- ✓ Diverse workforce
- ✓ Open communications & teamwork
- ✓ High job satisfaction; embracing change

Culture

Adaptability - improvement - results orientation

Mid-Term Plan Highlights

6 Areas of Focus

Meet customer needs + broaden customer base

1	Retail Banking	- Higher quality consultation and products to senior generation mass affluent customers; simplified and digitalized services targeted at emerging seniors, primarily through the Internet and smartphones - Value-added products including derivatives, M&A and business succession advisory services to corporates, financial institutions and their customers - Selective and diversified investments in private equity focusing on defined criteria
2	Corporate Finance	
3	Financial Institutions	

Build upon historic strengths + selectively explore new opportunities

4	Specialty Finance	- Continued credit discipline focused on overseas loans, real estate and recovery finance - Carefully explore markets and products where we can leverage our expertise and monitor risks - Maintain a diversified securities portfolio while operating with a strong awareness of market conditions and risk return
5	International	
6	Financial Markets	

Build for the future

+	Internet Banking	- Successful launch of GMO Aozora Net Bank in 2018 - Access new market segments including younger generation and e-commerce companies
+	Opportunistic Strategic Investments	Selectively explore opportunities for inorganic growth in domestic and overseas markets based on disciplined criteria

Mid-Term Plan Highlights

Risk Management

Basic policy: Maintain disciplined risk management and best practices in all investment and lending activities

- Predictive control and proactive risk management addressing changes in market conditions
- Focused risk management based on Aozora's Risk Appetite Framework
- Maintain strong ALM portfolio focusing on the balance/correlation of multiple risks
- Continue to employ integrated stress testing designed to enhance risk management of the Bank's investing and lending portfolio
- Enhance risk management and credit selection frameworks for increasingly diversified overseas investing, lending and equity investments
- Establish risk management framework for new products and businesses based on the Bank's risk appetite

Human Resource Redeployment

■ Strengthen workforce in business areas of focus

M&A advisors, retail consultants and financial institution RMs

■ Streamlining retail banking and corporate finance operations

Centralize middle/back office

Internal Process Improvements

■ Work style reforms

Promote flexible working arrangements

■ Business process reform

Promote paperless operations and process streamlining

■ Office environment / IT development

Mobile work; automate routine manual processes

Mid-Term Financial Targets and KPIs

	FY2015 Results	FY2016 Results	FY2017 Results	Mid-Term targets (FY2018-20)
Earnings				(billion yen)
Net revenue	91.4	85.3	87.5	100.0 ≤
Profit attributable to owners of parent	43.5	43.8	43.0	43.0 ≤
Key Performance Indicators (KPIs)				
Net interest margin	1.31%	1.28%	1.30%	1.20%
Non-interest income ratio	46%	46%	44%	45-55%
Overhead ratio (OHR)	47%	53%	54%	50%
ROE	8.9%	10.6%	10.0%	9.0%
ROA	0.9%	1.0%	0.9%	0.8%
Capital and Dividend Policy				
Capital adequacy ratio	11.0%	10.8%	10.4%	10%
Dividend payout ratio	50%	50%	50%	50%*

[Note] Management's intent is to maintain a relatively stable cash dividend payment with a target payout ratio of 50%. Dividend payments to be made quarterly.