

AEON Financial Service's Corporate Governance

■ Corporate Governance Structure

At our predecessor company, AEON CREDIT SERVICE CO., Ltd., we conducted, as its basic policy, due debate and review of management issues within the decision-making bodies such as the Board of Directors. We did this to realize basic management policy and our medium-term vision, and to continuously improve corporate value. We also took actions to strengthen management supervision and internal control functions on an ongoing basis. The purpose of these actions was to secure objectivity of decision-making processes and compliance in terms of overall management.

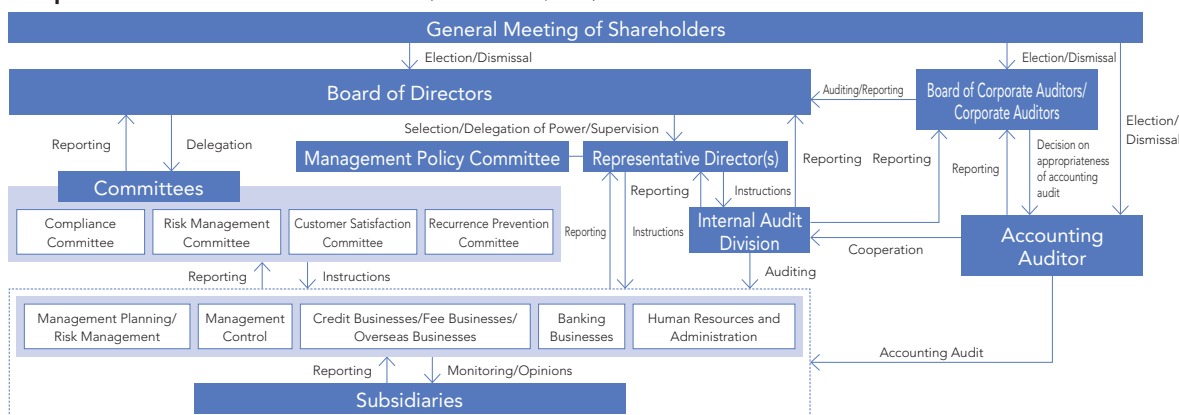
As a bank holding company, AEON Financial Service Co., Ltd. aims to further strengthen the management control function and corporate governance structure. In order to realize this, we have established four committees. Each of these committees studies and makes decisions on certain items in each field within the scope delegated by the Board of Directors and then reports and provides opinions to the Board of Directors.

With a focus on maneuverability and prompt decision-making, the Board of Directors is made up of a small number of directors. The Board of Directors makes decisions on important matters related to the management of AEON Financial Service Co., Ltd. and its group (the "Group") after deliberation in each committee and the Management Policy Committee from the perspectives of business efficiency and effectiveness. The Board of Directors meeting is held regularly once per month, and as needed on an extraordinary basis.

AEON Financial Service Co., Ltd. is a company with a Board of Corporate Auditors. The Board of Corporate Auditors comprises four outside corporate auditors (including two independent directors/auditors). Pursuant to the Board of Corporate Auditors Audit Criteria formulated by the Board of Corporate Auditors, the corporate auditors, in accordance with the audit policies and division of duties, attend Board of Directors meetings and other important meetings, and receive reports and explanations from directors and employees about the execution status of duties. Corporate auditors also read important decision-making documents and other materials, and audit the directors' execution of duties by investigating business operations and assets at the head office as well as at key business sites.

In addition, the Company has elected two outside directors and four outside corporate auditors. They were elected because we judged that they are capable of providing appropriate opinions with respect to the Company's management from an objective standpoint based on their wealth of knowledge and experience.

Corporate Governance Structure (As of June 30, 2014)



■ Internal Control System

In order to develop a system to ensure that the Company properly conducts business operations, AEON Financial Service Co., Ltd. has formulated a Basic Policy for Developing an Internal Control System by resolution of the Board of Directors. In addition, the Company is working to enhance its internal control system, including its compliance system, risk management system, and internal audits, to build a firm management framework.

Also, with respect to the internal control report system in accordance with the Financial Instruments and Exchange Act, the Company works with its corporate auditors and accounting auditor to develop and evaluate the internal control system related to the Group's financial reporting, in order to ensure the credibility of its financial reporting.

■ Compliance System

As the guidelines for all officers and employees to make appropriate decisions and take appropriate actions in accordance with both social norms and corporate ethics, it was prescribed that all officers and employees must comply with the AEON Code of Conduct. The Company has formulated the AEON Financial Service Group Policies on Compliance, which clarify the basic stance on compliance of the Group with the Company as a bank holding company. In addition, the Compliance Regulations and Compliance Manual have been formulated to thoroughly inform all officers and employees about the laws and regulations that they must comply with, as well as specific points to watch out for, and how to respond should they discover any compliance violations. Also, the Company carries out regular and as-needed compliance training for officers and employees in order to address up-to-date laws and regulations as well as any amendments to the Company's articles of incorporation.

The Company has set up a Compliance Committee to develop and establish the Group's compliance system. The Compliance Committee holds meetings once a month, in principle. In accordance with the stipulations in the Compliance Committee Regulations, the Compliance Committee studies and deliberates on compliance-related matters in a comprehensive and professional manner, and provides necessary instruction to related parties. The Committee also passes resolutions on matters delegated to it by the Board of Directors, and provides necessary reports and opinions to the Board of Directors.

Each Group company has a contact point for consultation to ensure the promotion of compliance and the integrity of the compliance system. In addition, all officers and employees are informed about the AEON Code of Conduct "110" hotline contact point and the outside hotline contact point for consultation. In addition to issues involving legal violations, the contact points for consultation receive consultations on every matter for which finding a resolution at the workplace level is difficult, including issues related to daily business operations. By investigating the facts and devising measures for improving or resolving issues, the contact points for consultation protect the consulting individuals and help the Group companies to take corrective action.

The Company has formulated the Basic Policy for Handling Anti-Social Forces. This policy clearly informs officers and employees that relationships with anti-social forces are to be blocked, and they are to be resolutely excluded. The Company has also created a division charged with handling anti-social forces on an organizational basis. This division collects, analyzes and manages data about anti-social forces collected from both inside and outside the Company in an integrated fashion.

AEON Financial Service Corporate Governance Structure

■ Risk Management Structure

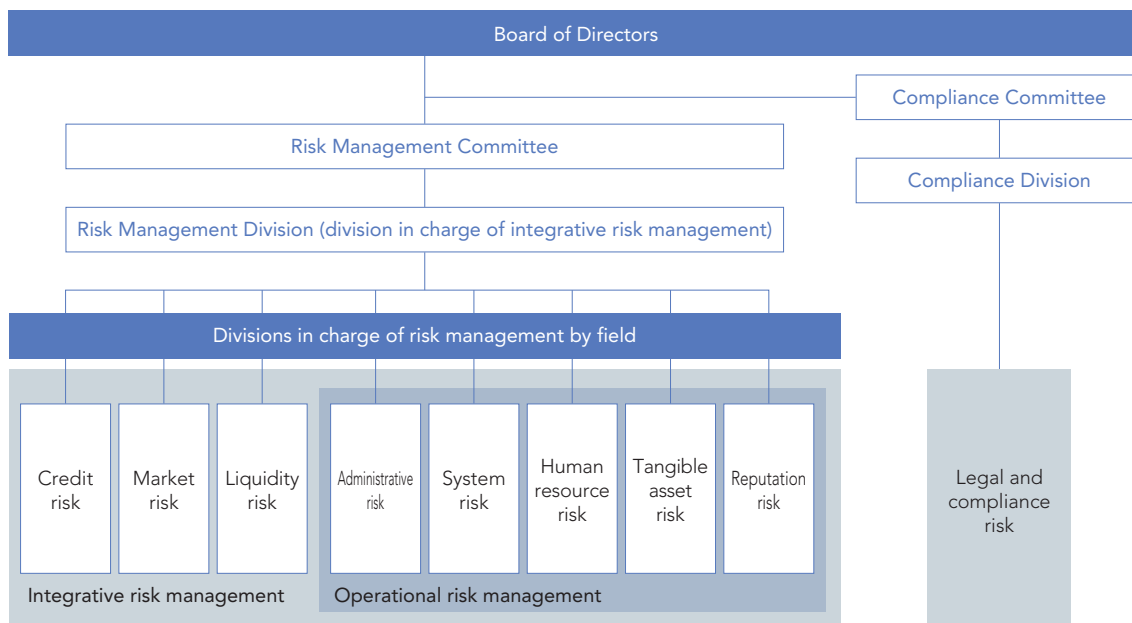
AEON Financial Service Co., Ltd. promotes an integrative risk management. The Company evaluates the various risks it faces by risk category, and appropriately manages the risks in light of the Company’s corporate strength, thereby maintaining management soundness and contributing to achieving more certain and consistent operating results.

As a structure to promote this risk management, the Company has established a Risk Management Committee to make the necessary decisions about risk management within the scope delegated by the Board of Directors and a Risk Management Division oversee risk management of each Group company.

The Risk Management Committee comprehensively studies and deliberates on matters related to the Group’s overall management of risk, and brings up matters and makes reports on necessary matters to the Board of Directors meeting. The Board of Directors regularly receives reports on the status of risk management for monitoring purposes, and deliberates and makes decisions on important basic matters related to risk management.

The Group categorizes risks that occur in the course of operations into a number of categories: credit risk, market risk, liquidity risk, and operational risk. Risks are managed according to their specific characteristics.

Risk Management Structure



Credit risk management

The Group's primary credit risk is related to credit provided to individuals, such as housing loans and credit cards, and therefore these risks are diversified into small lots. Credit risk associated with housing loans is reduced through stringent pre-screening and follow-up monitoring, as well as by securing loans with the associated properties.

Market risk management

With respect to market risk management, AEON Bank, Ltd., a Group company, carries out market-related operations in line with the ALM Operations Policy based on the characteristics of the business and the market environment. Systems to appropriately control risk to prevent excessive risk are in place, including measuring various risks and establishing limits. The bank uses specific risk indicators including Value at Risk, interest rate sensitivity, and comprehensive gains and losses. These risk indicators are monitored and reported on a daily basis to make sure its market risk does not exceed allowed threshold. Furthermore, at AEON Bank, Ltd., independent offices are responsible for risk management in the market front, back, and middle office functions, thereby ensuring mutual checks and balances for business operations.

Liquidity risk management

The system to manage liquidity risk involving systems according to the actual cash flow situation at each Group company is in place. Risk is managed with an emphasis on securing liquidity, while also taking the efficiency of funds operations into consideration.

Operational risk management

The Group classifies operational risks into six categories: administrative risk, system risk, human resource risk, tangible asset risk, reputation risk, and legal and compliance risk. Divisions responsible for each risk management manage risks from its position of expertise, while the Risk Management Division identifies and manages operational risk on a comprehensive level. Given its importance, a separate system, including the Compliance Committee, is in place to manage legal and compliance risk.

■ Internal Audits

Based on the recognition that building an internal audit system is critical for developing an appropriate risk management structure, the Company has formulated an Internal Audit Basic Policy for the Group, which aims to ensure the effectiveness of internal audits. The Internal Audit Division of the Company conducts internal audits of each division of the Company as well as supervises the Group's internal audit function. Specifically, the Division verifies the appropriateness and effectiveness of each Group company's internal management and internal audit structure by monitoring the status of internal audits, and conducting direct audits as necessary. The Division provides necessary opinions and guidance based on the results of these reviews. In addition, from the standpoint of ensuring the efficiency and effectiveness of audits, the Internal Audit Division exchanges opinions and information with the corporate auditors and accounting auditor regularly as well as on an as-needed basis.



Directors

President & CEO	Akinori Yamashita
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Executive Vice President	Masao Mizuno
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Executive Vice President	Takamitsu Moriyama
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Director	Takashi Kiyonaga
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Director	Hideki Wakabayashi
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Director	Tsunekazu Haraguchi
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Director	Hiroyuki Watanabe
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Director(Outside)	Motonari Otsuru
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Director(Outside)	Chieko Matsuda
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Auditors

Standing Auditor(Outside)	Yotoku Hiramatsu
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Auditor(Outside)	Koshi Yamaura
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Auditor(Outside)	Kazumasa Hamada
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Auditor(Outside)	Hiroshi Kato
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