

AEON Financial Service's Corporate Governance

■ Corporate Governance Structure

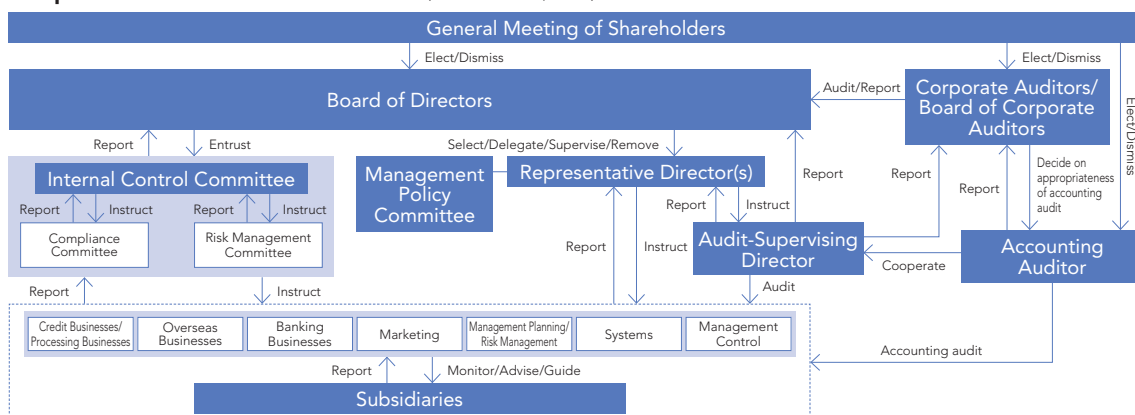
As a bank holding company, AEON Financial Service Co., Ltd. (the "Company") aims to further strengthen the management control function and corporate governance structure. In order to realize this, we have established the Internal Control Committee. With the aim of realizing sustainable growth and medium- and long-term corporate value enhancement for the Group, the Committee comprehensively and expertly discusses and makes decisions on matters regarding developing the internal control system within the scope entrusted by the Board of Directors and then provides reports and opinions to the Board of Directors. The Internal Control Committee is chaired by the President, and its members are designated by the Board of Directors. The Committee develops a system to flexibly operate and improve the internal control system. The Internal Control Committee establishes the Compliance Committee and the Risk Management Committee and, as necessary, various other committees. It gives instructions to these committees regarding detailed studies and deliberations on individual themes and receives reports on the progress and results thereof.

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 the Company and its group (the "Group") after deliberation in each committee and the Management Policy Committee from the perspectives of business efficiency and effectiveness.

The Company is a company with a Board of Corporate Auditors. The Board of Corporate Auditors comprises three outside corporate auditors (including two independent auditors) and one corporate auditor. 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 with a wealth of knowledge and experience so that they may provide appropriate opinions with respect to the Company's management and others from an objective standpoint.

Corporate Governance Structure (As of June 30, 2015)



■ Internal Control System

In order to develop a system to ensure that the corporate group composed of the Company and its subsidiaries and the like properly conducts business operations, the Company has formulated a Basic Policy for Developing an Internal Control System by resolution of the Board of Directors. Specifically, the Company has established the Internal Control Committee and allocated a director to be in charge of supervising the internal audit departments. In addition, the Company is pushing ahead with development of its internal control system, including its compliance system, risk management system, and internal audits, and implementing initiatives to increase the effectiveness of its internal control.

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 comprehensively and expertly studies and deliberates on compliance-related matters, and provides reports, opinions and the like to the Internal Control Committee. The Internal Control Committee receives reports from the Compliance Committee and others, deliberates over matters regarding development and establishment of the compliance system, and provides instructions to the Compliance Committee as well as reports and opinions to the Board of Directors, as necessary. The Board of Directors makes decisions on important basic matters and the like related to development and establishment of the compliance system of the Group.

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, these contact points deal with all matters that are difficult to resolve at the workplace level, including even 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. In addition, the Company has also created a department charged with handling anti-social forces on an organizational basis. This department collects, analyzes and manages data about anti-social forces collected from both inside and outside the Company in an integrated fashion, and provides instructions and guidance to all Group companies regarding development of the management structure for excluding anti-social forces.

AEON Financial Service Corporate Governance Structure

■ Risk Management Structure

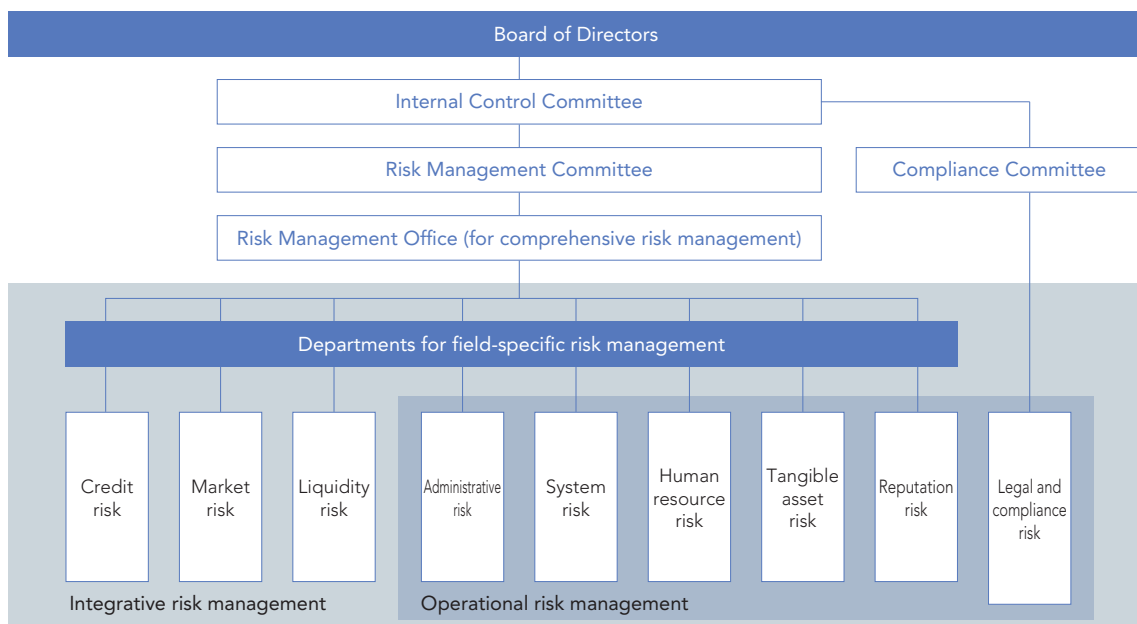
AEON Financial Service Co., Ltd. promotes an integrative risk management. The Company evaluates the various risks it faces by risk category, and appropriately manages the risks in light of the Company's corporate strength, thereby maintaining management soundness and contributing to achieving more certain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

As a structure to promote this risk management, the Company has established an Internal Control Committee, a Risk Management Committee, and a Risk Management Office as a department to 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 provides reports, opinions and the like to the Internal Control Committee. The Internal Control Committee receives reports from the Risk Management Committee and others, deliberates over matters regarding risk management, and provides instructions to the Risk Management Committee as well as reports and opinions to the Board of Directors, as necessary. The Board of Directors makes decisions on important basic matters and the like related to the risk management of the Group.

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

Credit risk management is primarily 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

Market risk management is carried out by ensuring a mutual check and balance system for business operations through the development of risk management organs and systems that are independent from profit-making departments. Quantitative analysis of risks from financial instruments held is also carried out. Specifically, risk is managed to ensure that the measured risk does not exceed the maximum risk amount resolved at the Board of Directors.

Liquidity risk management

Liquidity risk management involves systems that are developed to respond to the actual cash flow situation at each Group company. Risk is managed with an emphasis on securing liquidity, while also taking the efficiency of funds operations into consideration.

Operational risk management

With respect to 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. Departments responsible for each risk management manage risks from its position of expertise, while the Risk Management Office 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 Company has established the following audit departments: the Internal Audit Department, which audits all departments of the Company and its domestic subsidiaries; the Overseas Audit Department, which audits overseas subsidiaries; and the Inspection Department, which inspects the sales bases of domestic subsidiaries. The Company verifies the appropriateness and effectiveness of the Group's stance toward internal management. In addition, the Company's audit departments verify the effectiveness of the internal auditing stances of subsidiaries through monitoring of the audit implementation of audit departments of subsidiaries and periodically held meetings of those in charge of internal auditing. The audit departments coordinate and cooperate with the corporate auditors and the accounting auditor of the Company, conduct audits from an independent and objective standpoint, and periodically provide reports to the Board of Directors and the Board of Corporate Auditors.