

AEON Financial Service's Corporate Governance

■ Corporate Governance Structure

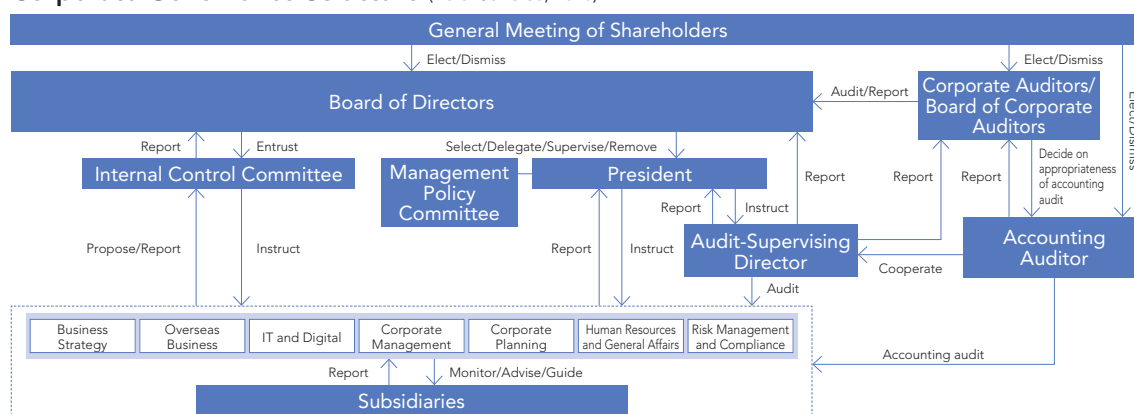
As a bank holding company, the Company aims to further strengthen the management control function and corporate governance structure. In order to realize this, we have established the Management Policy Committee and Internal Control Committee in addition to the Board of Directors. The Management Policy Committee was established as an advisory body to discuss management decisions that are executed on the President's authority. With the aim of realizing sustainable growth and medium- and long-term corporate value enhancement for the Group, the Internal Control 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 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. By performing detailed studies and deliberations on individual themes, the Committee is able to provide instructions and advice to the relevant parties. It also makes decisions on the matters that the Board of Directors designates to it and provides reports and 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 the Company and its group (the "Group") after deliberation in the Management Policy Committee and Internal Control 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, etc., seek to achieve mutual understanding with the directors, accounting auditor, internal audit departments, and other employees, and strive to collect information and create an audit environment. In addition, the corporate auditors attend Board of Directors meetings and other important meetings, receive reports from directors and employees about the execution status of their duties, and request explanations when necessary. The 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, 2016)



■ Internal Control System

In order to develop a system to ensure that the corporate group composed of the Company, as a financial holding 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. In addition, the Company is pushing ahead with building management structures through development of its internal control system, including its compliance system, risk management system, and internal audits.

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

The AEON Code of Conduct has been established to provide guidance for appropriate judgments and actions in line with the social norms and corporate ethics upheld by the AEON Group. The Group, meanwhile, has established the AFS (AEON Financial Service) Group Policies on Compliance. Considering both these guidelines to be common standards of values, all officers and employees of the Group ensure compliance with these guidelines.

The Group has formulated the Compliance Regulations and Compliance Manual 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. In addition, the Group holds compliance training at regular intervals and whenever else it is required.

The Company has established the Risk Management and Compliance Department as a department charged with overseeing the compliance of the Group. It performs monitoring of the compliance status of the respective Group companies and provides guidance and advice when necessary.

The Internal Control Committee performs monitoring of compliance inside the Group and examines the measures carried out in response to the issues relating to compliance.

The Board of Directors receives reports and opinions relating to compliance in the Group from the Internal Control Committee and also makes decisions on important matters relating to compliance.

Each Group company has a contact point for consultation to ensure the promotion of compliance and the integrity of the compliance system of the Group. 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 Group 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 and each Group company collect and analyze data about anti-social forces collected from both inside and outside the Group and report the status of management to the Company. The Company monitors the status of management of all Group companies regarding the exclusion of anti-social forces, and provides instructions and guidance when necessary.

AEON Financial Service Corporate Governance Structure

■ Risk Management Structure

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

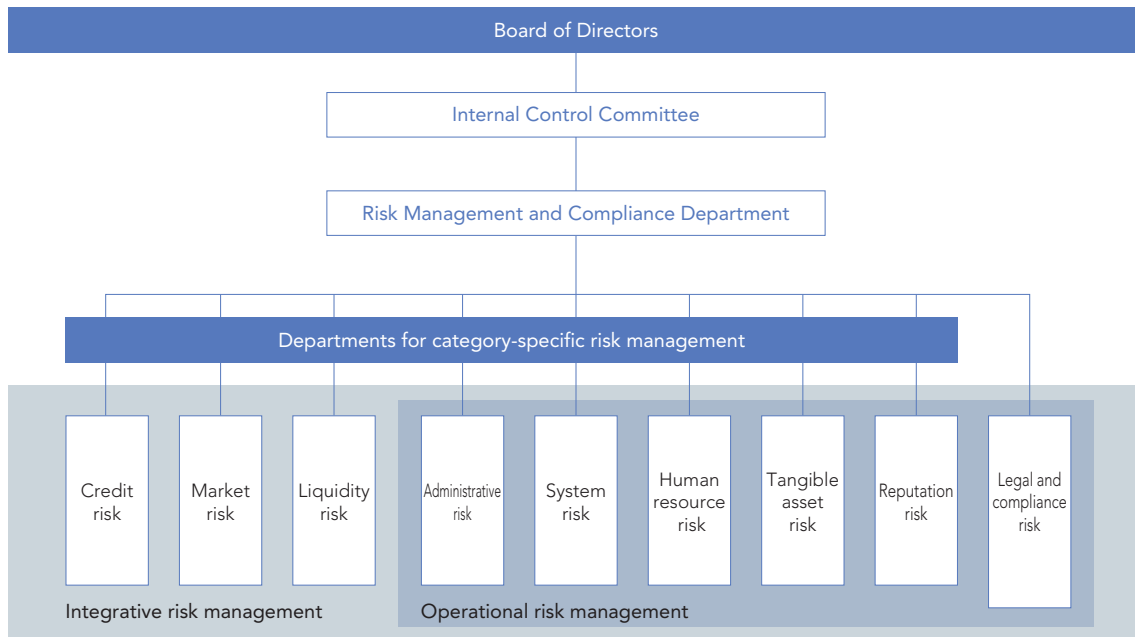
As a structure to promote this risk management, the Company has established the Risk Management and Compliance Department to oversee risk management of the Group.

The Internal Control Committee comprehensively studies and deliberates on matters relating to overall risk management in the Group and refers important matters to the Board of Directors.

The role of the Board of Directors with respect to risk management is to regularly receive reports on the status of risk management, perform monitoring of risk management, and deliberate and decide on important fundamental matters relating 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

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 and Compliance Department identifies and manages operational risk on a comprehensive level.

■ 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 departments audit all departments of the Company, its domestic and overseas subsidiaries and verify the appropriateness and effectiveness of the Group's stance toward internal management. In addition, the internal audit departments improve the quality of internal auditing of subsidiaries and 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 internal 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.