

Corporate Governance and Internal Control System at Ashikaga Holdings Group

Ashikaga Holdings Co., Ltd, along with The Ashikaga Bank, Ltd, and other subsidiaries, is strengthening management supervisory and business operation functions, and further developing and strengthening internal controls, under the Committee-based management system of corporate governance.

● Basic Approach to Corporate Governance

A commitment to management characterized by responsibility, and sound, appropriate business operations will earn greater trust for the Group from all stakeholders — customers, shareholders, local communities and employees — and boost corporate value. We see higher standards of corporate governance as a management priority. We are committed to ensuring transparency, reinforcing management supervisory functions, speeding up decision-making and strengthening business operations.

The Group and its main subsidiary, The Ashikaga Bank, are working to reinforce and improve management supervisory functions and business operations under the committee-based system of corporate governance.

● Management Structure

(Board of Directors)

The Board of Directors is composed of 7 directors (including 4 outside directors). It has decision-making powers over basic management policies and important operational matters, and supervises the execution of duties by directors and executive officers. The outside directors comprise a lawyer rich in experience and with successful track records in corporate turnarounds, a certified public accountant, an ex-director of a bank and a member of the regional business community. This system enables us to implement management decisions and carry out supervisory tasks from a wide range of perspectives, resulting in improved management and stronger corporate governance.

Among the directors (excluding outside directors), one director serves on the Audit Committee on a full-time basis.

(Executive Appointment Committee)

The Executive Appointment Committee, composed of one director and two outside directors, decides on proposals to be submitted to the annual meeting of shareholders concerning the appointment and dismissal of directors.

(Audit Committee)

The Audit Committee, composed of one director and two outside directors, audits the performance of

duties by directors and executive officers. It also decides on proposals to be submitted to the annual meeting of shareholders concerning the appointment and dismissal of independent auditors, or their non-reappointment.

(Compensation Committee)

The Compensation Committee, composed of one director and two outside directors, decides on policy for decision-making on compensation for individual directors and executive officers, as well as individual compensation levels.

(Executive Officers and Group Management Meeting, etc)

The Company has four executive officers — the President and Chief Executive Officer, and three Executive Officers authorized by the Board of Directors to supervise respectively the Corporate Planning Department, Business Administration Department and Auditing Department. While maintaining close contacts with divisions of The Ashikaga Bank, Ltd., they supervise operations and delegate authority on a Group-wide basis, carrying out their management duties promptly and in a manner befitting the management of the holding company. The Company holds various Group meetings, such as the Group Management Meeting, Group ALM Meeting and Group Compliance Meeting, through which Executive Officers, to the extent approved by the Board of Directors, discuss or decide on important issues concerning business operations.

● **Internal Control System**

The Company's Board of Directors has adopted a "Basic Policy for Internal Controls (Whole Group)" for effective development and implementation of internal controls, based on the Company Law.

(Basic Policy for Internal Controls (Whole Group))

1. Conformity of performance of duties by Executive Officers and employees with laws, ordinances and the Company's articles of incorporation
 - (1) The Group and its subsidiaries position compliance as a management priority. It has compiled a basic Group compliance policy to which all directors and employees are subject.
 - (2) It has established a Compliance Management Group in the Business Administration Department to improve legal compliance systems.
 - (3) The Board of Directors monitors whether or not the compliance system is functioning effectively, through supervision of Executive Officers' performance and assessment and evaluation at the Audit Committee.
 - (4) The Group and its subsidiaries take a strict line with illegal or wrongful conduct, including

disciplinary penalties. When directors and employees find evidence of actual or suspected illegality or misconduct, they should report the details to the Audit Committee or Compliance Management Group under the Business Administration Department.

2. Systems for storage and management of information concerning the performance of duties by Executive Officers

- (1) The Group and the Company require Executive Officers to document their performance of duties and create an appropriate document management system.
- (2) The Audit Committee or its members have access at all times to documents concerning the performance of duties by Executive Officers.

3. Rules and other systems for management of risk of losses

- (1) The Company has formulated a basic Group risk management policy to establish and improve risk management systems. It carries out appropriate risk management through a Risk Management Group set up under the Business Administration Department.
- (2) The Board of Directors and the Audit Committee require the Risk Management Group in the Business Administration Department to periodically file reports on the status of risk controls, and develop and upgrade Group risk management systems.

4. System for ensuring the efficiency of performance of duties by Executive Officers

- (1) The Board of Directors decides on basic matters regarding organizational structure, division of authority, organization of staff positions and other business matters, to ensure smooth and appropriate operations.
- (2) Executive Officers carry out their duties in line with the basic policy of management and division of authority decided by the Board of Directors.
- (3) Executive Officers perform their duties assigned by the Board of Directors appropriately and effectively to the extent that they are authorized, and periodically report on the status of their performance of duties at meetings of the Board of Directors.

5. Systems for ensuring appropriate conduct of operations by the Company and Group affiliated companies

- (1) The Group aims to achieve its business goals through legal and appropriate means and sound corporate management of the Group as a whole.
- (2) The Group drafts management policies, and works to ensure full legal compliance, customer protection and appropriate risk management.
- (3) The Auditing Department verifies the legality and appropriateness of overall operations at the

Group, and reports its findings to the President and Chief Executive Officer, Executive Officers in charge of departments and the Audit Committee.

6. Support staff for the Audit Committee

The Company has established a secretariat and has deployed support staff for the Audit Committee.

7. Independence of support staff in the previous article

The Company ensures the independence of all support staff as they carry out their duties from any undue restrictions by Executive Officers.

8. Mechanisms for reporting by Executive Officers and employees to the Audit Committee, and other reporting to the Audit Committee

(1) To enable the Audit Committee to deal appropriately with important matters affecting the Group, the Company has specified certain matters the Executive Officers and employees must report on to the Audit Committee.

(2) A member of the Audit Committee may at any time ask Executive Officers or employees to file reports when this is felt to be necessary for the execution of their duties.

9. Other mechanisms for ensuring effective auditing by the Audit Committee

To ensure the effectiveness of its auditing, the Audit Committee works together with the Auditing Department, which devises its audit plan and reports it, as well as audit results, to the Audit Committee.

