Risk management at Ashikaga Holdings Group

In addition to managing each of the various risks that we face individually, the Group has in place and is committed to improving an overall risk management framework to control risk within acceptable limits. It does this by forming a clear idea of overall possible risk limits, and then comparing and contrasting them with the financial resources of the Group.

● ALM and risk management frameworks

We manage risk based on the Comprehensive Group Risk Management Policy compiled by the Board of Directors of Ashikaga Holdings. We have established a Group ALM Meeting as a management-level committee charged with implementing specific measures laid down in the Comprehensive Group Risk Management Policy. The necessary decision-making authority has been vested in this Council.

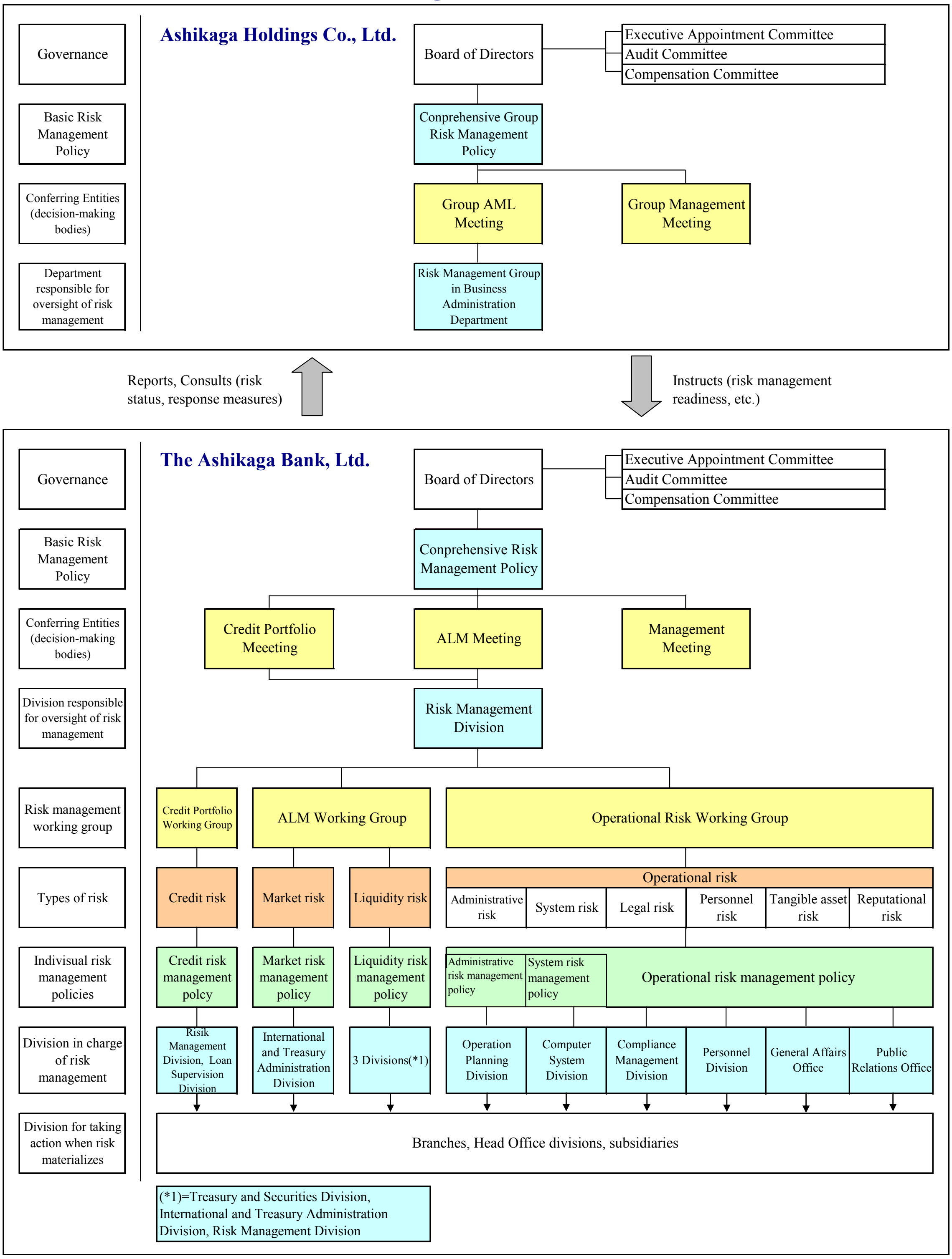
The Group ALM Meeting ensures that management always focuses on the risk-return balance and takes measures to accelerate and streamline decision-making, by ensuring that reviews and consultation are carried out with risk and revenue management closely linked, while maintaining due controls on risk. In addition, we have set up a Risk Management Group in the Business Administration Department, to ensure oversight and integration of various kinds of risk management.

Based on Group policy, risk management at the Bank includes the compilation of the Comprehensive Group Risk Management Policy and the establishment of an ALM Meeting as a management-level committee, as with Ashikaga Holdings. In addition, we are creating a Risk Management Division to supervise risk management, and divisions in charge of management of individual risk categories.
And from fiscal 2013, the Bank transferred its credit risk management function from Loan Supervision Division to Risk Management Division in order to better control the risk as well as achieving the efficiency of its operation by making the function independent from the loan field.

The Group ALM Meeting and the ALM Meeting is held on a monthly basis, attended by full-time (Head Office) executives at Ashikaga Holdings and the Bank, and Audit Committee members, and receive reports about progress in comprehensive risk management and management of individual risk categories. In addition, they discuss possible steps to be taken to deal with changes in the internal or external business environment.

To ensure effective communication regarding risk, we have various information-relaying systems in place. We plan to strengthen our mechanisms for gathering information.

Risk Management Framework



● Comprehensive Risk Management

We use the Value-at-Risk (VaR) method to quantify the various types of risk that arise in our various businesses including lending and market trading, and apply the results of such analysis in our business management (comprehensive risk management). At the Bank, we use the Risk Capital System as a specific tool for comprehensively managing risk.

In concrete terms, we allocate capital (risk capital) for internal management purposes within the scope of credit risk, market risk, strategic stock investment risk, banking account interest rate risk and operational risk, ensuring that the total amount does not exceed Tier 1 capital. Based on risk capital, we establish risk limit amounts every six months.

During the term, we ensure sound management by respecting risk limits in risk-taking and risk control. In addition, we confirm risk quantification results and the appropriateness and effectiveness of risk management methods using back-testing and stress-testing.

We have established a clear-cut Comprehensive Risk Management Policy and set of rules, governing basic approaches to the Risk Capital System, and methods of evaluation and monitoring of risk.

● Credit risk management

Credit risk is the risk of losses from reduction or loss of the value of loans and other assets held by the Bank due to deterioration of the financial standing of borrowers.

Based on the credit risk management policy approved at a meeting of the Board of Directors, the Bank clarifies the risk, etc. that needs to be appraised and managed, and, in the conviction that credit risk management is an essential prerequisite for ensuring sound financial health and profitability, adopts the following policies to further control risk.

Credit policy	・The Bank's credit policy clearly lays down basic policy for community contributions, borrower profiles, appropriate lending practices, soundness of assets, and ensuring adequate levels of profitability. ・This policy shapes our lending activities, laying down main directions and specific action plans. ・As a regional financial institution with its core business area in Tochigi Prefecture and northern Kanto, our lending activities chiefly target regional small-and-medium-sized enterprises, individual business owners and individuals with which we have close relations.
Credit risk management	・Division in charge of credit risk management, which is organizationally and functionally independent from the business promotion, credit-screening and management divisions, is responsible for planning and operational management of credit rating systems, asset self-assessment and write-offs and provisions to the reserve for loan losses. In addition, it monitors loan assets and is the specialized organization responsible for comprehensive oversight of the credit portfolio. ・In addition, the Credit Portfolio Meeting regularly deliberates and reviews the Bank's credit risk status and issues on an organization-wide basis.

Borrower rating system	・Under our borrower rating system, borrowers are divided into 14 categories based on quantitative analysis of their assets and qualitative analysis of the business environment and other issues they face. The borrower rating system is the basis of credit risk management. It enables instant appraisal of changes in credit circumstances at borrowers, helps make the credit screening decision-making process more efficient, and helps us set interest rates on loans and acts as a standard for credit portfolio management.
Credit portfolio management	・We analyze portfolio characteristics in terms of borrower credit rating, industrial sector, geographical area and other criteria, and carry out regular reviews of specified corporate groups and increases or decreases in credit in specific industries, and strengthen monitoring to ensure credit risk is not overly concentrated in certain sectors. In addition, in tandem with strengthening measures for loans for SMEs and individuals, we aim to create a portfolio that is capable of credit asset small-lot diversification and generation of steady earnings. ・We have established a Credit Portfolio Meeting as a management-level committee, in which the necessary decision-making authorities have been vested. The Credit Portfolio Meeting, which is held quarterly, is attended by executive officers and audit committee members of Ashikaga Holdings and the Bank. They receive reports on the status of and issues relating to credit risk in reaction to changes in the credit portfolio. In addition, they discuss responses to changes in the internal and external business environment.
Quantification of credit risk	・We calculate credit risk amounts on a monthly basis using credit risk measurement systems. The amount of measured credit risk and changes in such amount are mainly analyzed to identify contributing factors, and a report is made to the ALM Meeting regarding future measures.

● Market risk management

Market risk is the risk of losses from changes in the value of financial assets and liabilities held by the Bank, due to changes in market interest rates, foreign exchange rates and stock market prices.

When we engage in market transactions, we carry out prior investigations and analyses, and make investments based on appraisal of identified risk. In addition to ensuring market liquidity and a suitable balance between returns and risk, we apply risk control parameters, in as much as they are feasible, to use and management of financial derivative products. Market risk management is carried out in an appropriate way based on a comparison of our own financial resources and amount at risk, while paying due consideration to secondary risk from the above-mentioned market transactions.

We set clear risk management parameters, measurement (monitoring) standards, control standards and reporting measures for market transactions, strategic stock investments and interest rate risk affecting banking account transactions. Every six months, we set risk management benchmarks (risk limits, loss limits, etc) under a strict management regime.

In addition, we adopt internal ALM models for liquid deposits and ALM management taking account of deposit characteristics.

● Liquidity risk management

Liquidity risk is the risk of incurring a loss due to difficulties in raising funds needed for settlements and other purposes, or being forced to procure funds at a higher interest rate than normal.

The Bank has positioned itself to respond swiftly to all liquidity risk situations from normal banking operations to emergencies, and has compiled countermeasures for each possible situation. Specifically, in conventional cash flow management operations, we avoid increasing liquidity risk by managing trends in deposits and loan balances and managing indicators such as upper limits for fund procurement, in addition to using major benchmarks such as funding gaps and the balance of liquidity assets.

In a response to liquidity emergencies (establishment of a crisis headquarters, liaison and reporting mechanisms, response measures, delegation of decision-making, and chain of command), we have established a liquidity risk contingency plan. Based on it, we carry out regular drills to ensure its effectiveness during an actual emergency.

● Operational risk management

Because operational risk is very diverse, comprising administrative risk, system risk, legal risk, personnel risk, tangible asset risk and reputational risk, it is jointly managed by a range of different divisions.

At the same time, operational risk is supervised on an integrated basis by the Risk Management Division, because all of our operations and divisions are subject to risk that could prevent continuation of business.

Management of administrative risk	・Administrative risk refers to the risk of losses due to errors, accidents, fraud or other irregularity on the part of executives or other employees. ・Depending on the nature of business and risk profile, the Bank has in place administrative regulations that are comprehensive and compliant with laws and regulations, enabling us to ensure that all employees from executives down perform their administrative duties correctly, without accidents or fraud or other irregularity. ・We introduced a registration and analysis system for administrative error, enabling systematic logging of a wide range of administrative errors and accidents that occur during the course of business. By using the accumulated data, we strengthened our administrative risk management readiness by establishing appropriate processes for identification, evaluation, monitoring, control and reduction of administrative risk.
Management of system risk	・System risk is the risk of losses arising from computer system failure, system malfunction due to operator error, or abuse of computer systems. ・The Bank has compiled a system risk management policy, to serve as a basic policy for taking measures to assure the security and reliability of computer systems. When computers have stopped functioning normally, due to causes such as disaster impact, we have duplicated backbone systems and established a contingency plan for dealing with emergencies. We are taking measures to ensure we can respond swiftly to such failure scenarios.

Management of information security	・The adoption of appropriate security policies for information assets is a key requirement not only for continuation and stable conduct of our business, but also for upholding our public reputation. ・We have compiled a Data Security Policy as a management policy for due protection of information assets in our possession. We take care to rigorously manage all information relating to our customers, having created information asset manager positions at Head Office and in branches, as well as an information security management system.
Business continuity system	・Natural disasters, computer-system failures and epidemics of infectious diseases are among the events that can trigger an unavoidable suspension of operations. In the event of an emergency situation, we have in place business continuation measures that enable us to quickly resume or maintain as many core services as possible, as a matter of public duty. ・Under our basic policy on creating a business continuity system, the roles of individual employees are clarified. We are committed to ensuring as rapid a response to a crisis as possible.