

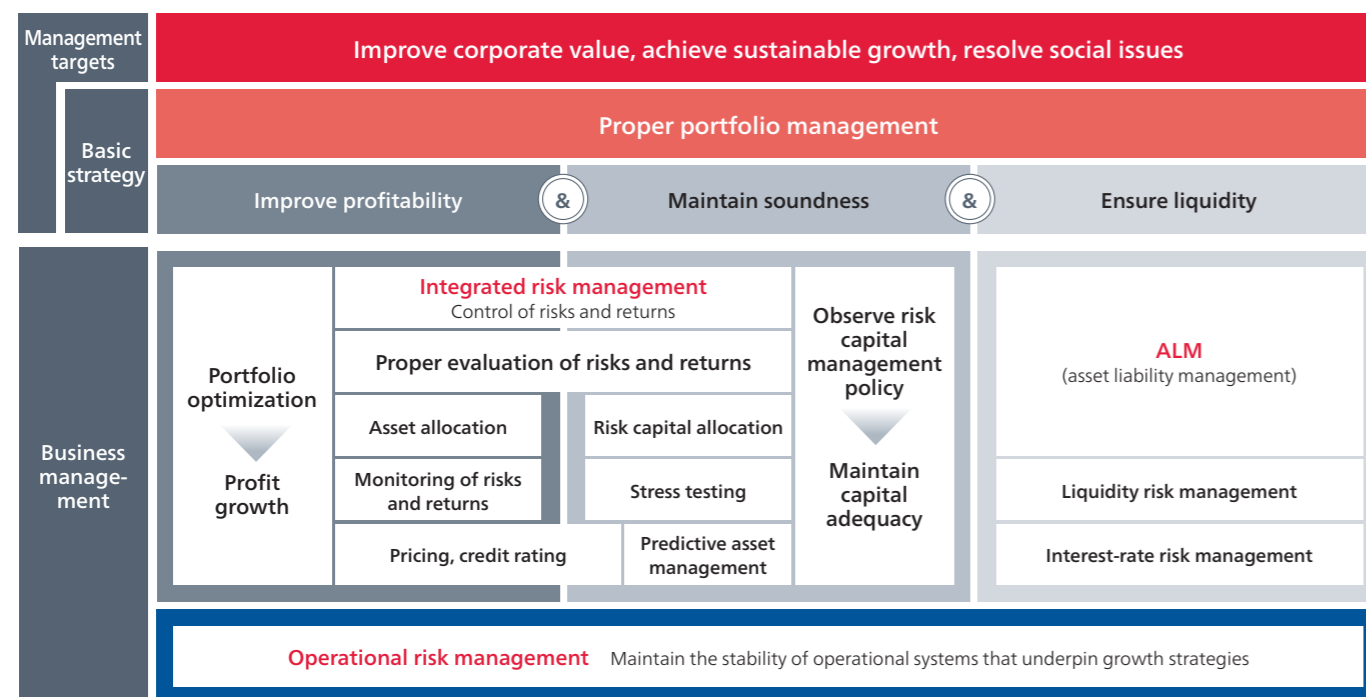
Risk Management

Risk Management System Overview

The Group uses the framework described in the first subsection below (“Integrated Risk Management”) to comprehensively manage risks to primary businesses that could have a substantial impact on investors’ decisions. The second subsection (“Important Risks Managed Within the Integrated Risk Management Framework”) presents an overview of the risks as well as specific details about efforts to address them. The Group has established a suitable system to manage these types of risks, and is making efforts to prevent them from manifesting and to minimize their impact.

Additionally, to manage envisaged risk factors, we operate a risk management system in which the departments that oversee specific risks monitor issues arising from developments in the external environment or other changes, regularly consider measures to address such risks, and then promptly report them to the Executive Committee, the consultative and decision-making body that controls the execution of business. Specifically, committees that discuss issues and countermeasures for each risk—including the Asset Liability Management (ALM) Committee, the Compliance Committee, and the J-SOX Disclosure Committee—as well as the Risk Management Committee, which comprehensively and systematically manages risks pertaining to overall management, deliberate and discuss policies for reporting and responding to the status of risks at meetings held each quarter and as necessary. The Board of Directors receives reports about, and deliberates over, important matters from each meeting.

Overview of Risk Management Framework



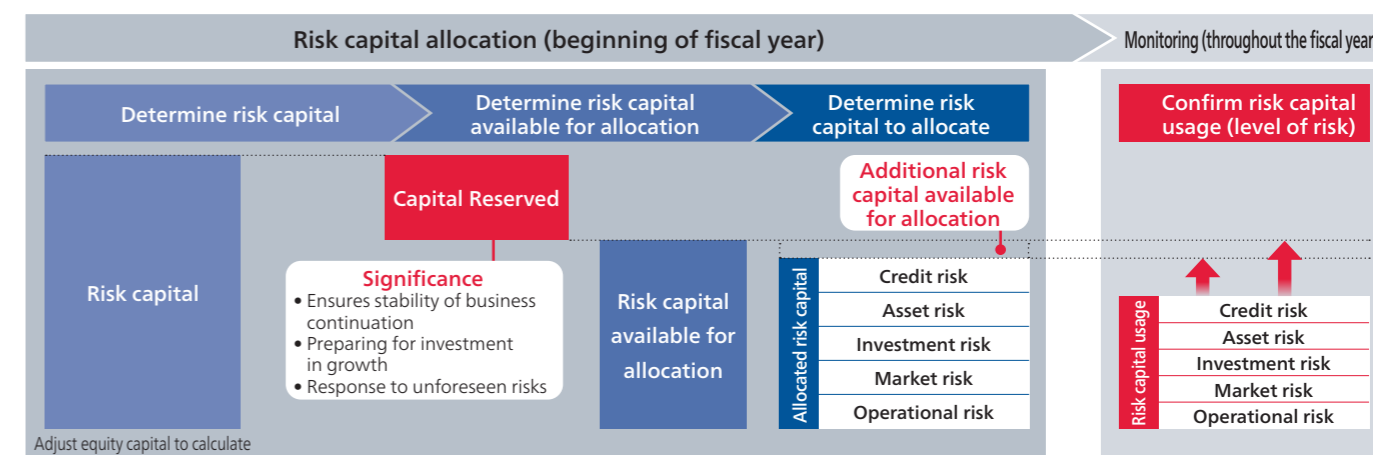
1 Integrated Risk Management

The Company incorporates the framework of Integrated Risk Management into its implementation of business operations in an effort to achieve sustainable growth based on a balance between maintaining the soundness of management and improving profitability. The important risks managed under the framework include, but are not limited to, credit risks, asset risks, investment risks, market risks, liquidity risks, and operational risks; these risks are managed on a group-wide basis.

Specifically, within the framework, individual risks are quantified using methods of evaluation that correspond to the attributes of the assets and businesses, and the Company’s risk capital management policy guides decisions for allocating risk capital to each risk category and taking reasonable risks within the range of risk tolerance.

Within the framework, the circumstances under which risk capital is used and the status of the different portfolios are monitored on a regular basis. These are reported to and deliberated by the Risk Management Committee, the Executive Committee, and the Board of Directors in an effort to develop appropriate responses and improve internal communication about risks. The framework is designed such that the Board of Directors ascertains and supervises the status of risk management and the framework itself.

Managing Risk Capital to Ensure Soundness



2 Important Risks Managed Within the Integrated Risk Management Framework

The Group engages in business activities around the world, and provides the capital investment and services that clients need for their businesses in the form of leases and the like. We hold a diverse array of assets for leasing and other transactions, from general movable assets such as office equipment and production facilities to assets used in specific industries, such as aircraft. Lease transactions decrease if demand for capital investment declines substantially because clients are facing deteriorating business environments as a result of economic slowdowns and recessions in Japan and elsewhere; this and other developments could negatively impact the Group’s business performance and financial circumstances.

Negative impacts to performance and circumstances could also materialize as a result of internal processes, people, or systems that are unsuitable or fail to function, or losses caused by the occurrence of events outside the Group.

Accordingly, these envisioned risks are included in the scope of the important risks the Company manages within the framework set out in the first subsection (“Integrated Risk Management”).

- Credit risk
- Asset risk
- Investment risk
- Market risk
- Liquidity risk
- Risk pertaining to business base expansion, strategic partnerships, M&As, etc.
- Operational risk

See Page 26 for details.

3 Other Important Risks

As explained in the second subsection (“Important Risks Managed Within the Integrated Risk Management Framework”), the Group manages reasonably envisioned risks within the integrated risk management framework. The Group is also aware of the following types of important risks that either exceed the scope of reasonably envisioned risks or are difficult to envision within the bounds of reason; when it is evident that these other important risks may materialize, we analyze their impact on the individual risk items managed under the framework as well as combined impacts spanning multiple risk items (including the status and outlook of the other important risks). Furthermore, we formulate policies for responding to other important risks, in addition to conducting stress testing and the like using new and combined scenarios as necessary to verify our capacity to withstand risk from many aspects.

- Global pandemic risk
- Climate change risk
- Risk associated with expanding business fields
- Intensification of competition
- Risk pertaining to securing human resources
- Risk pertaining to labor/employment management

4 Stress Testing

In the course of executing management strategies, we take steps to ascertain the level of impact during stress periods caused by various risk events that could impact the Group’s business, including, but not limited to, economic downturns, market fluctuations, and deteriorating market conditions. Specifically, we design multiple scenarios envisioning intense stressors (e.g. market fluctuations in business sectors, worsening credit, simultaneous materialization of multiple major risks), in addition to scenarios in which the global economy is deteriorating, and analyze and verify the extent to which periodic performance and equity capital could be impacted under stress.

This multifaceted verification allows us to confirm the capacity of our management plans to withstand risk (e.g. ensuring an appropriate appetite for risk).

Major Risks and Management Systems

Risk category	Details of risk	Primary efforts to counter risk
Credit risk	We engage in the business of providing credit over the medium and long term by providing financial services tailored to the formats of leasing and installment sales, cash loans, and the like. Trends in the economy and changes in financial conditions could erode the credit standing of companies, increasing the amount of bad debt and necessitating actions such as transferring additional allowances for doubtful receivables, which could negatively impact the Group's business performance and financial circumstances. Also, because we engage in business around the world, we are exposed to country risk—losses caused by political, economic, or other circumstances of the countries and regions in which we have clients or targets of investment.	<ul style="list-style-type: none"> • We closely examine the credit standing of our clients and conduct comprehensive evaluations based on factors such as country risks and the values of properties for lease. • We continuously check the credit standing of our clients, even after commencing transactions. • We manage credit based on diversification of risk to avoid concentration of credit with specific clients, industries, countries, regions, etc. • We regularly measure and monitor the level of credit risk in our portfolios.
Asset risk	Global assets	<ul style="list-style-type: none"> • We comprehensively investigate matters such as future asset liquidity in addition to matters for confirmation during transactions involving movable property. • We establish and enforce investment criteria for maintaining portfolios based on the diversification of risks (e.g. target models, regions/timing of expiration). • We continuously check the credit standing of our clients and industry trends, even after commencing transactions. • We regularly hold predictive management meetings to investigate indications that could impact trends in target industries and asset value fluctuations. • We regularly measure and monitor the credit risk of our clients and the level of asset value fluctuation risk in our portfolios.
	Real estate	<ul style="list-style-type: none"> • We carefully examine factors such as future asset values and liquidity, and make decisions in a comprehensive manner. • We continuously check the status of asset deployment, trends in prices, and industry trends, even after commencing efforts. • We regularly hold predictive management meetings to investigate indications that could impact asset value fluctuations and industry trends. • We regularly measure and monitor the level of asset value fluctuation risk in our portfolios.
Investment risk	We engage in investment and lending activities in various businesses, including investing in, and financing, projects. These investment activities involve a wide array of risks—including risk associated with economic fluctuation, declining demand, and other changes in the business environment; risk of profits failing to meet expectations and the decreased likelihood of recovering investments stemming from factors such as lackluster performance by partners and investment targets; risk of investment target share prices falling below a certain level; and the risk of prolonged share price declines due to factors such as rapid changes in economic and financial circumstances and turbulence in financial markets—and there are cases where we lose all or a portion of our investments or are required to contribute additional funds. Further risks include the risk of the Group being unable to withdraw from or reorganize businesses using preferred methods or at the desired times, and the risk of unprofitability due to the inability to obtain proper information from investment targets; risks in these cases may negatively impact the Group's business performance and financial circumstances.	<ul style="list-style-type: none"> • We host investment meetings in response to factors such as the severity of risks and investment amounts in individual projects. • We carefully examine factors such as future investment values and liquidity from a broad perspective, and make decisions in a comprehensive manner. • We continuously check the status of investment management and industry trends, even after commencing efforts. • We regularly measure and monitor the level of investment value fluctuation risk in our portfolios.
Market risk	Interest-rate fluctuation risk	<ul style="list-style-type: none"> • Asset liability management (ALM) allows us to monitor mismatches in exchange and interest rates between asset management and capital procurement as necessary. • We consider interest rate trends and conduct hedge operations as appropriate to manage interest rate risk. • In response to exchange rate risk, we procure capital in currencies that match our operating assets in foreign currencies as a general rule to minimize losses and gains on the valuation of foreign exchange. • We regularly measure and monitor levels of risk quantified using statistics of past performance to determine how likely we are to suffer losses—and the extent of those losses—at a certain probability over certain periods of time on our portfolio positions. • We hold ALM Committee meetings each quarter or as necessary depending on the circumstances.
	Exchange rate fluctuation risk	We are proactively expanding our business outside of Japan and accordingly our assets in foreign currency are increasing, as is their ratio of consolidated operating assets. In principle, our overseas consolidated subsidiaries procure capital in the same currency as their assets; however, because the figures in each company's financial statements are expressed in the local currency, substantial fluctuations in exchange rates could negatively impact the Group's business performance and financial standing when the figures are converted to Japanese yen.

Risk category	Details of risk	Primary efforts to counter risk
Liquidity risk	We are procuring extensive funds in the course of acquiring properties for leasing and engaging in businesses such as installment sales and cash loans. Cases where it becomes difficult to ensure sufficient funds due to heightened risk aversion among financial institutions and investors as a result of factors such as rapid changes in economic and financial circumstances and turbulence in financial markets or the lowering of the Group's creditworthiness could have a negative impact on the Group's business performance and financial standing.	<ul style="list-style-type: none"> • We diversify by procuring funds directly from the market (e.g. issuing corporate bonds and commercial paper, securitizing lease receivables) in addition to borrowing. • We ensure capital liquidity by taking measures to enhance liquidity during emergencies (e.g. acquiring commitment lines). • We manage capital liquidity in stages and check the status of liquidity to ensure the necessary capital even when the procurement environment has deteriorated, and report to the ALM Committee. • The ALM Committee analyzes interest rate sensitivity and credit in addition to comprehensively investigating factors such as the impact of profits and losses and state of market and capital liquidity risks under stress from financial markets and the like, and determining fundraising strategies and policies for responding to risk. The ALM Committee also cooperates with the Risk Management Committee. • As part of efforts to rebuild regional financial hubs, we are staffing our corporation in New York in addition to equipping it to provide financial services and establishing a Group Finance Framework for North America. We also share knowledge and information throughout the Group to strengthen our ability to monitor financial circumstances.
Risk pertaining to business base expansion, strategic collaboration, M&As, etc.	In pursuit of sustained growth through business base expansion, we strive not only for our own expansion in Japan and the rest of the world, but also to diversify and improve our business portfolios through M&As and strategic collaboration with outside entities. These efforts may not deliver the expected results due to factors such as changes in economic and financial circumstances, intensification of competition, and changes to partners' business environments or strategies; similarly, we may need to record additional expenses, for example if we are pressed to book goodwill impairment in the course of M&A. Cases like these could negatively impact the Group's business performance and financial standing.	<ul style="list-style-type: none"> • The relevant departments conduct investigations in response to factors such as the amount of investment and severity of risk of individual investments, and enlist the help of outside experts to carefully examine factors such as future investment effects from a broad perspective, and make decisions in a comprehensive manner. • We establish systems to ensure that the Group's rules and the like are applied, and that operations are managed properly after M&As are executed. • We monitor business plans, performance management, and the like, and establish systems for undertaking the necessary measures in a timely manner.
Operational risk	Risk pertaining to earthquakes, natural disasters, infectious diseases, terrorism, etc.	<ul style="list-style-type: none"> • In crisis situations, we establish headquarters for countermeasures and systems for taking action. • We formulate business continuity plans (BCP). • We take redundancy measures for core systems. • We establish systems and infrastructure that enable telecommuting for the purpose of business continuity. • We take measures such as having people report to work in alternating shifts after limiting operations to those necessary to continue business.
	Information system risk	<ul style="list-style-type: none"> • The Company and its contractors collaborate to establish and operate robust maintenance and management systems. • When malfunctions occur, we promptly share information and take action in response to the causes. • We establish a series of systems for responding, including formulating and implementing measures to prevent recurrence. • We implement IT control on a group-wide basis.
	Cybersecurity/information security risk	<ul style="list-style-type: none"> • We install an organization-wide Security Incident Response Team (MHC-SIRT). • We update software and develop control systems to prevent trouble by detecting unauthorized access by outsiders, computer viruses, and cyberattacks. • We establish a system of internal and external collaboration to respond to incidents, and conduct training. • We continuously conduct drills for recognizing targeted email attacks and internal training on information security for all employees.
	Compliance risk	<ul style="list-style-type: none"> • We continuously conduct training on compliance. • We prevent money laundering, financing of terrorism, and other misconduct.
	Institutional change risk	<ul style="list-style-type: none"> • We continuously monitor systems for revisions and changes. • We proactively enlist the help of outside experts to reinforce our monitoring. • We promptly gather information about changes and revisions and swiftly implement measures.
Administrative risk	We implement various administrative management for each of the different types of transactions we handle. If improper administrative management resulting from human error or misconduct interrupts our operations (e.g. contracts, collection) and the provision of services to clients, hobbling business activities and undermining our credibility, this could negatively impact the Group's business performance and financial standing.	<ul style="list-style-type: none"> • We set out rules for administrative management for each transaction, and execute operations according to those rules. • We revise the rules as necessary. • We establish a system for swiftly responding and making reports about accidents when they occur, identifying the causes of the accidents, and formulating and implementing measures to prevent recurrence.