

# Risk Management

## Achieving Our 10-year Vision through effective enterprise risk management and a sound risk culture in response to changes in the business environment

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### Risk Management Initiatives to Enhance Business Management

#### Importance of risk management in expanding business domains

In more than 20 countries and regions around the world, the Mitsubishi HC Capital Group is expanding its business domains to include asset holding businesses in the aviation, logistics, and mobility fields and investment and loan businesses in the environment & energy and real estate fields, in addition to financial services such as leasing and installment sales, which is our founding business. With the increasingly uncertain political, economic, and social climate in recent years, various unpredictable and challenging risks, such as geopolitical and cyberattack risks, have become apparent. In this environment, we recognize that the importance of a framework for detecting new risks that are expected to emerge and managing them in a timely and appropriate manner has increased even more than before. By analyzing information and data from multiple perspectives and enhancing the precision of our risk management, we will maintain sound management and fulfill our social responsibility as a company to meet the expectations of our stakeholders.

#### Enhancement of risk management framework

The Group is building a management framework to deal with new risks that arise in the process of changes in the external environment and the evolution and layering of business models. Specifically, we have established a system that enables us to make investment decisions by having management divisions work together to analyze

information and data in a flexible and rational manner in response to risks arising from new business areas, and a risk/return evaluation system that takes into account the actual business conditions. We are also focusing on the development of management models that can capture signs of deterioration in the industry environment of our business partners and in asset markets such as aircraft and real estate. In addition, we are actively engaged in risk communication with our business units and overseas offices to clarify the risk appetite of the entire Group, thereby increasing the sensitivity of risk management, and we are implementing various other initiatives to enhance the sophistication of our enterprise risk management framework.

#### Toward further business growth

On the other hand, risk is also a source of profit. In order for our Group to achieve further growth, it is important to assess the risks of each business in a timely and appropriate manner and optimize our business portfolio to maximize returns. By continuously developing such an effective enterprise risk management framework, we will make management decisions such as selectively investing in businesses with high growth potential and replacing the portfolio at appropriate times. We will continue to appropriately grasp the rapidly changing external environment and actively share risk-related management information throughout the entire Group, thereby building a sound risk culture and contributing to the sustainable and stable enhancement of corporate value.

#### Basic Risk Management Policy

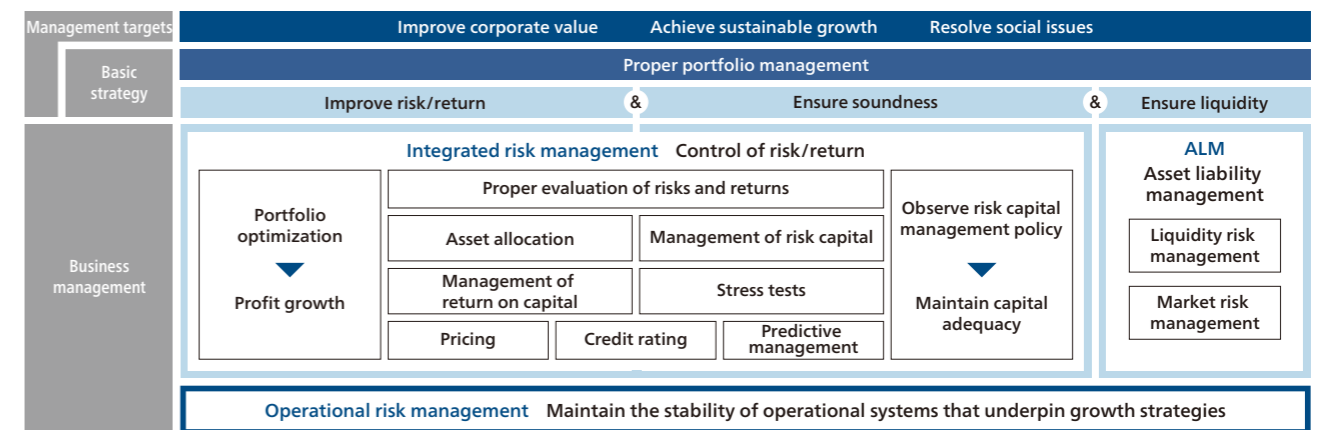
The Group shall comprehensively assess a wide range of risks and fully consider various risks expected to arise from new business operations in order to ensure sound management. By doing so, we will contribute to the sustainable improvement of corporate value while establishing an enterprise risk management framework designed to fulfill the Group's social responsibility as a corporation to its customers, shareholders, employees, local communities, and other stakeholders.

### Risk Management and Operations

In order to achieve its management objectives, the Group conducts risk management based on its business strategy and strategy to strengthen its management foundation. To achieve appropriate portfolio management, it is necessary to improve risk/return and ensure soundness, and we conduct integrated risk

management using the framework and methods shown in the diagram below. In addition, we conduct comprehensive asset and liability management to ensure stable funding and liquidity, and operational risk management to maintain a stable business operating structure that supports our growth strategy.

#### Overview of risk management framework of the Group



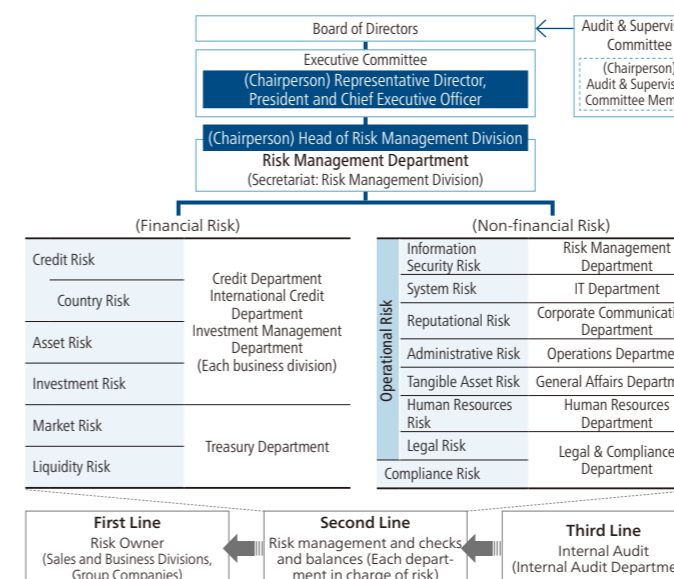
### Risk Management System

The Group identifies and recognizes various risks across the entire Group, and is structured to manage risks according to the risk category by the department in charge. The Risk Management Committee, chaired by the Head of Risk Management Division, comprehensively and systematically manages risks for the entire Group on a global basis, and reports and deliberates on

important matters to the Executive Committee, chaired by the President, and the Board of Directors. In addition, the Group has introduced a "three-lines model"\* process to establish an effective risk management framework.

\* A risk management framework with three lines of defense (First Line: sales and business divisions, Group companies, Second Line: each department in charge of risk, and Third Line: Internal Audit Department).

#### Diagram of risk management system



#### Significant risks to the Group

<b>Credit Risk</b>	Risk of an increase in credit costs due to deterioration in the financial condition of the party to whom credit for leases and other financial services is extended, etc.
<b>Country Risk</b>	Risk of incurring losses in global transactions due to political and economic conditions in the countries and regions with which we do business
<b>Asset Risk</b>	Risk of declines in the value of assets such as real estate, aircraft, marine containers, etc., or loss of revenue opportunities due to deterioration in economic or market conditions
<b>Investment Risk</b>	Risk of loss of revenue opportunities and reduced return on investments in projects and business investments due to deterioration of economic and market conditions
<b>Market Risk</b>	Risk that the cost of funds, etc. may rise due to significant fluctuations in market conditions or foreign exchange rates in fund procurement
<b>Liquidity Risk</b>	Risk of inability to raise sufficient funds due to sudden deterioration of financial conditions or turmoil in financial markets, etc.
<b>Operational Risk</b>	Risk of stagnation in business operations due to natural disasters, wars, system or administrative incidents within the Group, etc.
<b>Compliance Risk</b>	Risk of non-compliance with laws, various regulations, and internal rules, resulting in business restrictions or stoppages, or loss of public trust

# Risk Management

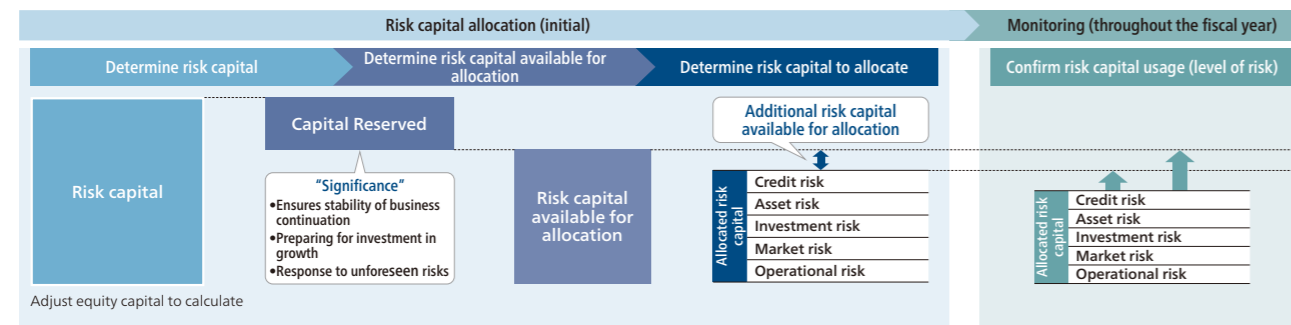
## Risk Capital Management

The Group measures and quantifies the various risks it faces using statistical and other methods in the framework of integrated risk management on a uniform scale as much as possible. We then manage risk capital by adding up the figures for various risks and comparing it to our equity capital (= risk capital), which is our management strength.

Specifically, the Company sets maximum risk limits for

each risk category (determined allocated risk capital) for credit risk, asset risk, investment risk, market risk, and operational risk, and is prepared to take risks within the limits of its risk tolerance. We regularly monitor and report to top management on the status of risk capital used and the status of the portfolio. Through such risk capital management, we maintain capital adequacy and ensure sound management.

### Managing risk capital to ensure soundness



### Stress Tests

We conduct stress tests on a regular basis to understand the impact of risks that cannot be comprehended by statistical methods. Specifically, we analyze and verify the potential impact on the Group's periodic profit and loss and capital adequacy under stress conditions based on multiple scenarios, such as deterioration of the global economy, market fluctuations and credit conditions in

each business field, and concentration of credit risk on large customers.

Through this multifaceted verification, we check whether our management and business plans are reasonable in their risk appetite and whether our risk endurance is sufficient.

### Other Important Risks

In addition to the major risks listed on the previous page, we recognize the following risks as having a significant impact on management. Since these risks have an impact

on multiple risk items, we are working to enhance our risk management through measures such as the formulation of policies to respond to changes in the situation.

#### Conduct risks

Risk of stakeholders being disadvantaged by actions of officers and employees of the Group that deviate from customer protection, market soundness, social norms, etc., resulting in a loss of trust in the Group

#### Risks related to expansion of operating base, strategic partnerships, M&A and others

Risk of not achieving expected results in strategic alliances and M&As due to changes in domestic and international economic and financial conditions, changes in related laws and regulations, etc., or incurring goodwill and other expenses

#### Climate change risks

- Risk of not being able to respond to regulatory changes, technological innovations, business model changes, etc. associated with the transition to a decarbonized society
- Risk of response or disclosure of climate change risks being deemed inadequate, leading to a loss of corporate value

#### Risks related to securing human resources

Risk that we may not be able to continuously secure and foster the competent human resources needed to maintain and strengthen the competitiveness of our various businesses in Japan and overseas

#### Risks associated with expansion of business areas

Risks associated with expansion of business areas that exceed the scope of experience, knowledge, and risk assessment, and that unexpected risks may materialize, or business may not progress as expected

#### Human rights violation risks

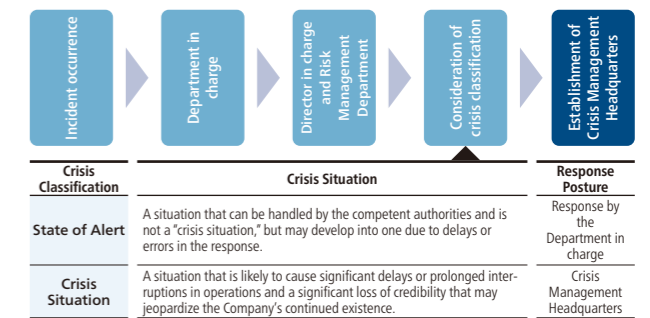
Risk of human rights violations at the Group or at business partners, in which the Group is deemed to have facilitated or been involved, leading to a loss of corporate value

For more information, please visit the website.  
[https://www.mitsubishi-hc-capital.com/english/sustainability/governance/risk\\_management.html](https://www.mitsubishi-hc-capital.com/english/sustainability/governance/risk_management.html)

## Crisis Management

The Group has established Crisis Management Regulations, Disaster Response Regulations, and a response manual, and has built an infrastructure to minimize the impact of natural disasters, man-made disasters, accidents, etc. on management. Furthermore, in the event of a crisis, the Group determines the crisis category based on the status of the event in question and establishes a Crisis Management Headquarters if it determines the situation to be a "crisis situation." Under the leadership of management and in close cooperation with related departments, the Crisis Management Headquarters collects and shares information, and examines and issues instructions on response policies.

### Crisis response flow



### BCP

Based on the experience of the Great East Japan Earthquake, we have developed a practical Business Continuity Plan (BCP) and conduct periodic drills. Specifically, we have established a system infrastructure that allows for system redundancy and telecommuting, set up a response headquarters in the event of a disaster, conducted drills for debt fulfillment operations, and provided BCP training, etc.

Furthermore, in the last fiscal year, we held an in-house Disaster Prevention Workshop to identify issues after reaffirming our response procedures based on disaster scenarios, in an effort to improve the effectiveness of these procedures.

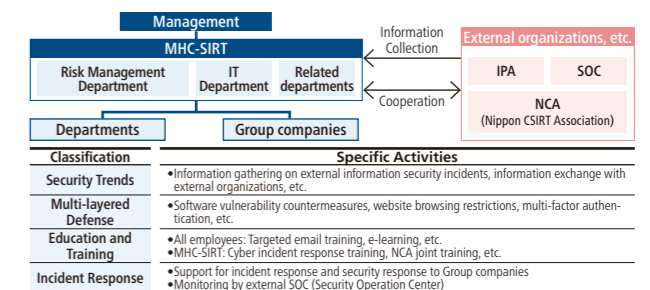
### BCP measures

Phase	Objectives	Items to be implemented	Main concrete measures
Initial response	Ensuring employee safety	"Appropriate initial response" Confirming the safety of employees and directing the initial response policy	<ul style="list-style-type: none"> <li>Introduction of safety check systems</li> <li>Multiplexing of communication means               <ul style="list-style-type: none"> <li>Company iPhone, MCA radio, etc.</li> </ul> </li> <li>Dual information systems               <ul style="list-style-type: none"> <li>Email, etc.</li> </ul> </li> </ul>
Business continuity	Fulfillment of minimum social responsibilities	"debt fulfillment" Payments to suppliers and repayments to financial institutions, etc.	<ul style="list-style-type: none"> <li>Periodic training/education               <ul style="list-style-type: none"> <li>Safety check/communication check training</li> <li>Disaster response headquarters start-up training</li> <li>Debt fulfillment training</li> <li>System switchover/recovery training</li> <li>BCP training (e-learning), etc.</li> </ul> </li> </ul>
Restoration	Ensuring business infrastructure	"Normal operations" Establishing an infrastructure that enables the implementation of key system operations	<ul style="list-style-type: none"> <li>Redundant core systems               <ul style="list-style-type: none"> <li>Core systems (main systems)</li> </ul> </li> </ul>

### Information Security

To protect all of its information assets from various security threats, the Group strives to establish an effective information security management framework and rules. We have also established a cross-organizational team, the MHC-SIRT (Security Incident Response Team), which is responsible for preventing cyberattacks, conducting periodic in-house education and training, and examining responses and investigating causes when incidents occur.

### MHC-SIRT activity overview



### Holding of GRMC

The Group is engaged in a variety of initiatives to deepen communication and mutual understanding with its Group companies. Last fiscal year, for the first time, the Global Risk Management Conference (GRMC) was held between our Risk Management Division and overseas Group companies.

The GRMC was attended by approximately 60 people, including President Hisai, officers and employees of overseas Group companies, and members of the Risk Management Division, including the Head. The GRMC consisted of two parts: a plenary session and a subcommittee meeting. During the plenary session, participants exchanged opinions on the activities of the Group's risk management framework based on the three-lines model and on the risk management plan and the risk events to be on the lookout for in fiscal 2024. In addition, the subcommittees share the policies, frameworks, and initiatives of the Company and overseas Group companies, and utilize the expertise of each company to strengthen the risk management framework of the entire Group.

