# Business Risks and Other Risks

The group's financial position, operating results, cash flows, and other categories of business risk that we recognize as having the potential to materially affect investors' decisions are discussed below.
In addition to taking mitigating measures in each of these risk categories, the group is working to develop and strengthen its risk management system so that it can respond quickly and appropriately when actual risks materialize.
Note that any statements regarding the future included in this section are based on judgments made as of the end of the current consolidated fiscal year.

**(1) Risks Related to the Operating Environment**
The group's business development effort centers on leasing transactions in support of customers' business activities.
The group's business results stand to be affected if worsening business performance among our customer base sharply curtails capital investment. Circumstances that could precipitate this include a spike in energy and resource prices against a backdrop of regional conflict, manufacturing cutbacks amid disruption to global supply chains, and pronounced international market volatility in interest and forex rates.

**(2) Credit risk**
The group's leasing operations and other primary business activities revolve around transactions that provide customers with credit in the form of leasing over relatively long periods (averaging around five years). While initial earnings projections are premised on collecting the full amount of leasing and other fees from customers, these initial revenue expectations face the potential risk that the economic situation could worsen, undermining the customer's business environment, and making it impossible to collect the initially expected payments.
Prior to entering into a potential transaction, our group mitigates nonpayment risk through such measures as strict initial credit checks and thorough assessments of the future resale value of leased items. During the term of a live transaction, we regularly monitor the lessee's credit situation and take measures to protect our receivables as necessary.
In addition, if a customer's credit situation deteriorates and they fail to make payments, we will try to recover as much as possible by selling the leased properties or diverting them to other customers.
Nevertheless, if our cost of credit exceeds our projections due to such factors as a sudden shift in economic conditions or deterioration in the customers' creditworthiness, the group's business results may ultimately be affected.

**(3) Liquidity Risk (funding)**
In order to obtain the capital necessary to run our business, our group funds its operations through such means as bank loans and the issuance of debt instruments, including corporate bonds and commercial paper. If volatility in the financial markets or deterioration in the group's financial position complicates our fundraising objectives, restrictions on access to capital could affect the group's business activities.
In order to minimize such liquidity risk, we are diversifying our array of funding methods, adjusting our funding framework to better account for market conditions, and maintaining liquidity on hand.

**(4) Interest Rate Risk**
In order to obtain the capital necessary to run our business, our group funds its operations through such means as bank loans and the issuance of debt instruments, including corporate bonds and commercial paper.
The group's interest income and expenses are exposed to interest rate risk stemming from the differing interest parameters — e.g., levels, term, degree of variability (fixed, adjustable) — on its receivables and payables, the former being lease income and returns on investments in marketable securities and the latter consisting of interest obligations on its borrowing.
To respond to interest volatility, the group procures funds that balance against the interest rate conditions of its assets and also hedges using derivative strategies.
Specifically, using the asset and liability management (ALM) method, we manage interest rate risk by controlling the matching ratio (the ratio of the portion of assets not subjected to interest rate fluctuation risk by allocating liabilities and derivatives with fixed-rate interest and variable-rate interest to assets with fixed-rate and variable-rate yields).

**(5) Asset Risk**
The Mizuho Leasing Group engages in such businesses as real estate leasing, real estate investment and financing, and aircraft leasing. In undertaking these activities, we carefully assess the creditworthiness, potential income and expenditure, and asset holdings of our business partners. The possibility nevertheless remains that the group's performance could be affected by deteriorating business performance among our business partners or significant impairment of properties they own.
To contend with the potential for declines in asset value, we have established an internal management system to monitor such factors as the credit standing of our business partners, trends in asset values, and forecasted income and expenditure. This system enables flexible countermeasures to minimize the impact on our group.

**(6) Equity Risks**
The Mizuho Leasing Group invests in renewable energy projects, other business ventures, and funds.
These investments are subject to the risk that changes in business conditions, such as economic fluctuations or supply and demand factors, may impair the value of these assets. In addition, there is a risk that cash flow volatility may prevent the realization of initially expected returns, thereby reducing the possibility of recovering the invested amounts.
When undertaking individual projects, the group carefully evaluates future income and expenditures as well as asset values from a broad perspective, and makes a comprehensive assessment of whether returns commensurate with the associated risks can be secured.
Furthermore, to enable a prompt response to changing circumstances, we continue to monitor the operational status and external environment even after the commencement of each project.

**(7) Risks Arising from Business Activities**
The group faces several categories of business risk that can expose it to litigation and other trouble: (1) IT/system risk, which includes system failure and improper use, leading to clerical errors, (2) information security risk, which can result in the loss or leakage, or theft of data, and (3) compliance risk, in which the company may face reputational damage if found in noncompliance with laws, regulations, and company standards.
Should the risks manifest themselves, the company may forfeit business opportunities and become liable for restitution, thereby potentially harming the group's earnings.
The company has established a risk management system to enable the group to respond to various issues in a flexible and cross-sectional manner, and to control risks in order to minimize the impact on the group.

**(8) Force Majeure and Other Risks**
If the group suffers unexpected economic losses due to unpredictable events such as earthquakes, wind and water damage, or the spread of infectious diseases, its business performance may be affected.
To counter such situations, we have established a business continuity plan, implemented a system for maintaining business operations, and otherwise taken measures to minimize the impact on our group.

**(9) Cybersecurity Risks**
The group uses various information systems to manage its business activities and is connected to external networks for such purposes as email. These information systems are at risk of cyberattacks via computer virus infiltration, unauthorized external access, and other means.
In the event of a system shutdown or failure, an information leak, an unauthorized access incident, or the like, the group's business performance may be affected by liability for damage compensation, a loss of trust, and economic losses due to interruption of business activities.
In response to such situations, we have formulated a basic policy for cybersecurity risk management, clarifying our risk management system, including the group-wide response policy, responsible persons, management framework, and roles and responsibilities of relevant parties. We have also organized a Computer Security Incident Response Team (CSIRT) to react to security incidents. Additionally, we have strengthened our information countermeasures by establishing a 24/7 monitoring system through our Security Operation Center (SOC) and are working to strengthen our resilience by analyzing viruses, implementing multilayered protection, and taking other defensive measures. In order to adapt to the growing threats posed by the use of cloud computing and the diversification of work styles, we are also responding to the latest security threats, such as promoting the introduction of a zero-trust architecture as a security measure to prevent attackers from freely acting within the company. In addition to conducting phishing email training and companywide initial response training for employees, we are also working to raise security awareness through e-learning programs.

**(10) Risks Related to Climate Change**
The group's measures in response to the effects of climate change include scenario analysis and information disclosure. If we are unable to respond to abnormal weather such as typhoons and torrential rain, the strengthening of laws and regulations concerning climate change countermeasures, and the advancement of technological innovation and business model transformation to address these issues, the group's business performance and our customers' operations could suffer.