Business Risk

The following are the main risk factors related to the Group's business, etc. Regarding future risk factors listed in this text, the Group made at the end of this consolidated accounting year.

1) Internal Control-Related Risk

The Group established and improved an internal control system based on a resolution made by the Board on internal control. Nevertheless, if the system fails to function effectively or unexpected problems arise, there may be an adverse impact on the Group's business results.

2) Interest Rate Risk

The Group procures a large amount of funds in order to provide financial services, including leasing and installment sales. Consequently, although we are constantly monitoring trends in financial markets and managing interest rate risk through thorough asset and liability management (ALM), significant fluctuations in market interest rates may cause a rise in fundraising costs, which could have an adverse impact on the Group's business results.

3) Liquidity Risk

The Group works to manage its cash position appropriately. However, if the creditworthiness of the Group declines, or if there is turmoil in financial markets or changes in the market environment, it may have a tough time securing the necessary funds or be forced to procure funds at rates significantly higher than usual. These factors could have an adverse impact on the Group's business results.

4) Credit Risk

The Group works to quantitatively assess the situation of credit risks and carries out credit checks as well as sets credit limits for each individual transaction based on credit ratings. Also, in the case of debtors assessed as "needs attention," "in danger of bankruptcy," or "bankrupt," the Group estimates the individual amount of expected bad debt in respect of each such debtor and posts this to the allowance for doubtful accounts or the like. However, future deterioration in economic conditions or market trends may require the Group to make additional allowances for doubtful accounts or the like due to increased credit risk, and this could have

5) Residual Value Risk

One of the Group's strategies is to provide financial services that focus on physical assets. To achieve this, while the Group seeks to further improve its expertise in terms of its ability to evaluate the residual value of lease properties and resell its leased assets as its core skill, there is a possibility that the actual disposal value will be lower than the initial estimated residual value of leased assets due to such factors as unexpected changes in the market environment and technological innovations.

In addition, while the Group conducts regular monitoring of business assets in areas such as renewable energy that it is engaged in and endeavors to make appropriate estimates of repair and removal costs, fluctuations in actual repair and removal costs could have an adverse impact on the Group’s business results.

6) Risk Associated with Business Structure Reforming

The Group aims to change its business structure to achieve sustainable growth. However, if this structural reform is delayed or cannot be implemented for any reason, the Group’s business may be affected.

7) System and Administrative Risk

While the Group seeks to further improve its expertise in terms of its ability to evaluate physical assets and the residual value of lease properties and resell its leased assets as its core skill, there is a possibility that the actual disposal value will be lower than the initial estimated residual value of leased assets due to such factors as unexpected changes in the market environment and technological innovations.

In addition, if an employee of the Company fails to conduct administrative work in an appropriate manner or causes an accident or incident, it could cause an inconvenience to our customers, and this could have an adverse impact on the Group’s business results.

8) Compliance Risk

Given that the Group offers a variety of financial services, it must comply with applicable laws and regulations, such as the Installment Sales Act, the Financial Instruments and Exchange Act and the Money Lending Business Act, as well as a number of laws and regulations relating to consumer protection and waste disposal.

In addition to these laws and regulations, the Group must also comply with a wide range of social rules ranging from internal regulations and voluntary industry rules to social norms. With the Compliance Department established at its headquarters, it seeks to develop and maintain its compliance structure. However, failure to comply with applicable laws, regulations, and social norms could result in the Group being subject to penalties and losing its social credibility. This in turn could have an adverse impact on the Group’s business results.

9) Risk Related to Business Partners

The Group conducts operations in cooperation with many business partners due to the characteristics of each business. Although the Group strives to carefully screen its business partners when beginning to collaborate, the Group may have to shoulder responsibility in case of bankruptcy of or misconduct by a business partner. This could have an adverse impact on the Group’s business results.

10) Institution and System Change Risk

The Group conducts operations based on the current systems and standards for areas such as laws, taxes, and accounting. If there are major changes in these various systems in the future, it could have an adverse impact on the Group’s business activities and business results.

11) Human Resources Risk

The Group considers employees’ abilities as its substantial assets and intends to step up its efforts for recruitment and well-planned education and training activities. However, if existing employees are not able to deal with new businesses, if employees are not placed properly or if additional human resources are not acquired, there is a risk that the Group will not be able to secure sufficient human resources required for business operations.

12) Risk of Large-Scale Natural Disaster and Pandemics

The occurrence of a natural disaster such as an earthquake, typhoon, or wind and flood damage or the spread of an infectious disease could interfere with the Group's operations including its business activities. While the Group has created a business continuity plan (BCP) in preparation for the occurrence of such events so that business operations can be continued, if the scale of the damage is large, it could have an adverse impact on the Group's business results and financial position.

13) Overseas Business Risk

One of the growth strategies of the Group is business expansion in overseas markets, particularly in Europe, the Americas, China and ASEAN region. Under this policy, it provides a wide range of financial services to Japanese and foreign companies, as well as local companies and individuals. Accordingly, in addition to the impact of the risks described above, any changes in laws, regulations and tax systems peculiar to each country and region as well as changes in the business environment due to economic fluctuations or the foreign exchange calculations for the figures in the financial statements could have an adverse impact on the Group's business results.