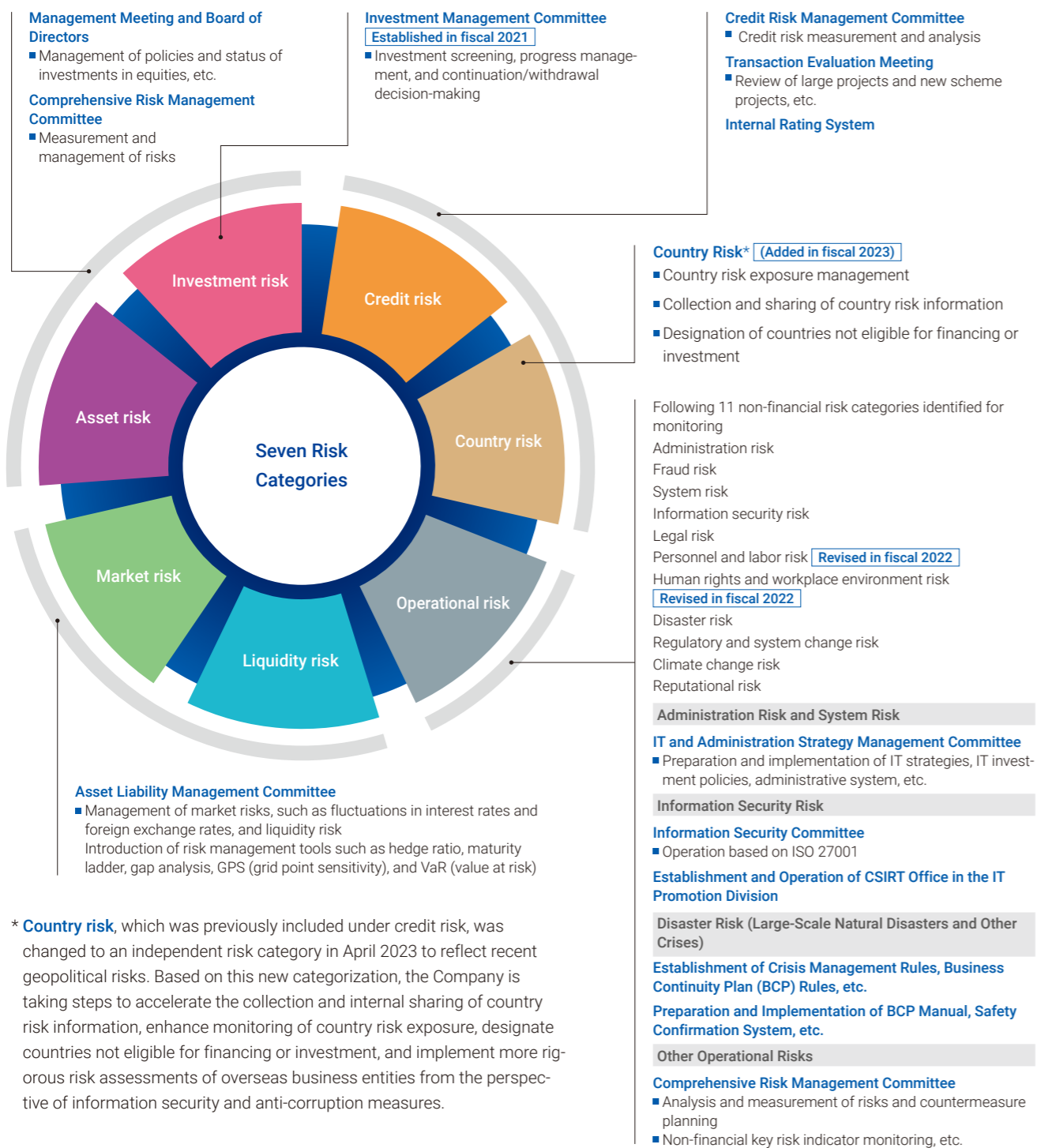


# Major Risks, Management Frameworks, and Risk Management

During the period of the previous medium-term management plan, the need to reinforce risk management was highlighted through developments such as the deterioration of macroeconomic conditions that stemmed from the impacts of the COVID-19 pandemic and the massive losses centered on the aviation business that were a result of Russia's invasion of Ukraine. Going forward, Tokyo Century will continue to develop its risk management framework while enhancing its investment management framework to facilitate the efficient allocation of management resources based on a comprehensive enterprise risk management (ERM) approach. These frameworks will be used to support the ongoing growth of the Company.

## Major Risks and Management Frameworks



Relationship between Major Group Companies and Main Risk Categories ● High-weight risk category

Risk Category	Tokyo Century	Nippon Car Solutions	FLCS	Nippon Rent-A-Car Service	Orico Auto Leasing*	TC Kobelco Real Estate	Shunan Power	Orico Business Leasing*	IHI Finance Support	Aviation Capital Group	CSI Leasing	Tokyo Century (USA)	TC Skyward Aviation
Credit risk	●	○	○	○	○		○	○	○	●	○	○	○
Country risk	●									●	○	○	○
Market risk	●	○	○	○	○		○	○	○	○		○	
Interest rate risk	●	○	○	○	○		○	○	○	○		○	
Foreign exchange risk	●									○			
Liquidity risk	●	○	○						○	●	○	○	
Investment risk	●	○		○									
Equity investment risk	●	○		○									
Business investment risk	●												
Asset risk	●	● Automobile	○ General residual value	○ Automobile	○ Automobile	● Real estate	● Biomass co-firing power generation	○ General residual value	○ Aircraft	● Aircraft	● General residual value	○ General residual value	○ Aircraft
Operational risk	●	○	●	●	○	●	●	○	○	●	○	○	

Note: The scope of management extends to all consolidated subsidiaries. The table above only lists Tokyo Century's significant subsidiaries subject to internal control under Japan's Financial Instruments and Exchange Act.  
 \* Effective October 1, 2023, Orico Auto Leasing and Orico Business Leasing were excluded from the scope of management following a transference of equity in these companies to a non-Group entity resulting in their conversion into equity-method affiliates.

## Risk Management

### Comprehensive Enterprise Risk Management

The Tokyo Century Group will continue to practice comprehensive ERM in accordance with its management guidelines for capital use rates based on quantitative risk control on a consolidated basis. The capital use rate is used to assess risk resilience, an important criterion for rating financial institutions. We have therefore sought to keep the risk amount within a certain level of capital buffers by adhering to the aforementioned management guidelines. As our business domain continues to expand, the relationship between the amount of capital and level of risk receives greater attention from investors and other interested parties. For this reason, the capital use rate has become a key indicator for objectively determining prospects for our sustainable growth and investment capacity.

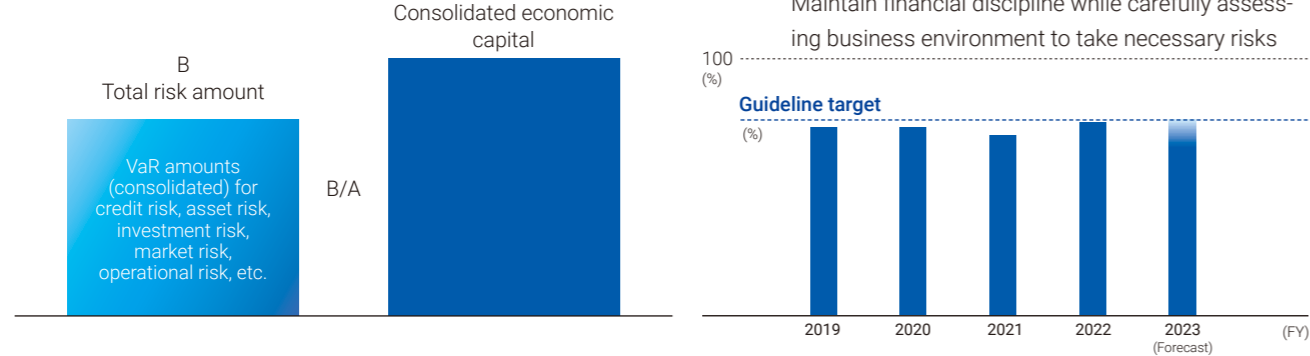
We refer to the targeted level of the capital use rate only as a guideline, since the regulations regarding capital use levels for financial institutions are not applied to us. In operating a business, seizing business opportunities, such as the opportunity to take part in M&A activities, is also an important factor considered under the risk management framework. Rather than adopting a passive approach to the soundness of corporate management, we pay due consideration to the magnitude of increase in the amount of risk over a medium-term period of about three years, the projection for organic increases in the shareholders' equity ratio from profit growth, and the level of tolerance of our capital policy.

Medium-Term Management Plan 2027 prescribes the enhancement of our risk control framework aimed at the efficient allocation of management resources through an ERM approach. In fiscal 2023, the first year of the plan, we will introduce, on a trial basis, risk exposure guidelines (soft limits) for the categories that account for a large portion of our risk profile (aviation, investment, and real estate). These guidelines will be used to drive the diversification of the Company's business portfolio and otherwise enhance portfolio management (portfolio transformation).

The main objective of risk management at the Tokyo Century Group is to support growth and value creation by allowing for bold risk taking. We will continue to control the capital use rate to maintain it at the appropriate guideline level. At the same time, we will constantly improve on the level of our risk management framework in conjunction with the expansion of our business domain and changes in the operating environment in order to sustainably improve corporate value.

Major Risks, Management Frameworks, and Risk Management

Capital Use Rate Guidelines



Visual Risk Information Tracking at the Management Level

In addition to measuring risks on a consolidated basis and controlling the capital use rate, we implement a visual management information system (MIS). Under the system, the Credit Risk Management Committee and the Comprehensive Risk Management Committee take the lead in regularly monitoring risk information on multiple criteria and report the results to the Management Meeting and the Board of Directors.\*

In our global operations, we pay particular attention to Aviation Capital Group LLC (ACG) and CSI Leasing, Inc. (CSI), our U.S.-based subsidiaries that specialize in leasing and for which the scale of investments and assets is quite large. ACG has achieved success as a textbook example of a resilient company made so through a unique risk management approach that includes introducing a risk appetite framework to clarify the risks to be accepted, such as aircraft asset risks, and the risks to be avoided (mitigated or transferred), such as interest, liquidity, and foreign exchange rates. In light of the extraordinary losses recorded in relation to operations in Russia, ACG has implemented a new risk management framework to be used in dispersing previously concentrated risks on a country and airline bases and ensuring an appropriate risk and return balance based on the characteristics of a given project. This framework will be introduced for managing individual projects on a trial basis in fiscal 2023.

\* For information on the monitoring activities by the Company's committees, please refer to P.75 "Major Risks and Management Frameworks."

ACG's Risk Appetite Framework			
Risk Tolerance	Ability to Influence*1	Risk Category*2	Risk Management Method
High Risks to be accepted	Positive	Asset acquisition risk 1	<ul style="list-style-type: none"> <li>Focus on investments in widely applicable assets that promise reliable leasing rates and residual value</li> <li>Portfolio management based on defined risk management indicators to address potential impacts from difficult-to-control operating environment factors (hard limits on level of geographic region exposure concentration, control of average age of fleets, etc.)</li> </ul>
Medium Risks to be mitigated or transferred	Neutral	Residual value risk 2 Country/geopolitical risk Credit risk Aviation market risk	<ul style="list-style-type: none"> <li>Discussion and assessment as part of internal approval flow with regard to transactions with airlines in countries exposed to conflict and other risks</li> </ul>
	Positive	Remarketing risk 3 Model risk 4 Operational risk	<ul style="list-style-type: none"> <li>Portfolio management based on defined risk management indicators (diversification of lease maturities and new aircraft delivery timings)</li> </ul>
Low Risks to be avoided	Positive	Capital management risk Interest rate risk Liquidity risk Currency risk Reputational risk	<ul style="list-style-type: none"> <li>Hedging within a predefined range based on stringent risk management indicators (interest rate duration mismatch, debt-to-equity ratio limitation, etc.)</li> <li>Upper limits for ratio of loans with variable interest rates</li> <li>Regular stress tests in preparation for potential operating environment changes</li> </ul>

\*1 Proactive and autonomous management made possible by ACG's high level of expertise  
\*2 Examinations underway with regard to feasibility of introducing new category of ESG risk and related risk levels and risk management methodologies

1. Asset acquisition risk: Risk that appropriate portfolio management cannot be practiced in relation to aircraft acquisition methods, selected models, etc.  
2. Residual value risk: Risk that aircraft cannot be sold or disposed of at the residual value anticipated at the time of leasing  
3. Remarketing risk: Risk that lessees cannot be found for new or re-lease aircraft due to declines in aircraft demand, etc.  
4. Model risk: Risk that sufficient returns cannot be generated by projects due to inability to appropriately reflect interest rate or aircraft value trends into lease rates in pricing models

Non-Financial (Non-Quantitative) Risks

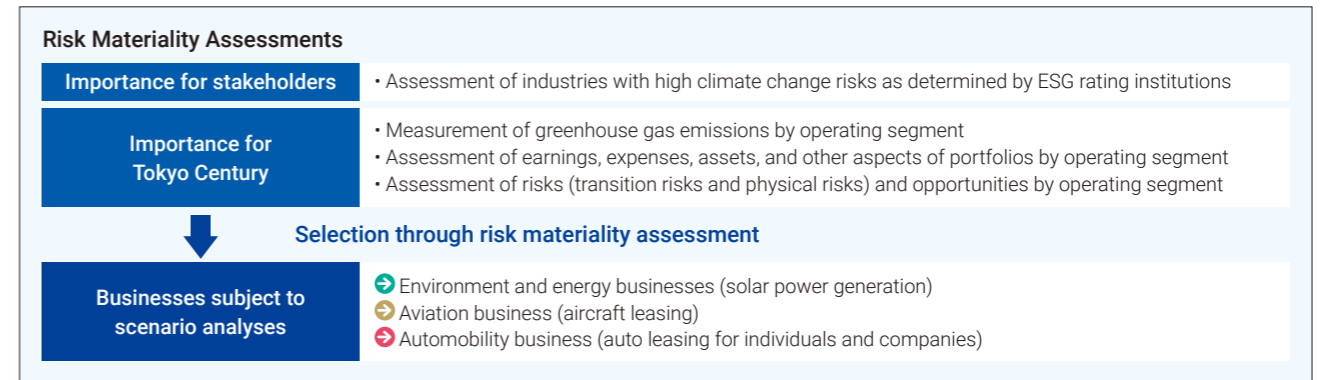
As our business domain grows and we branch out from the financial sector to provide business services, it is becoming increasingly important to account for non-financial operational risks that cannot be measured quantitatively. Based on this recognition, Tokyo Century has established key risk indicators (KRIs) for non-financial risks. Regular monitoring of these KRIs is performed, and the results are reported to the Board of Directors and other relevant bodies. KRIs have been set pertaining to human resources, information security, accidents, compliance, climate change, legal affairs, and corruption. We are also expanding our range of environmental KRIs in relation to renewable energy, CO<sub>2</sub> emissions, and the portion of our portfolio accounted for by fuel-efficient aircraft and electrified vehicles and have broadened the scope of personnel and labor risk (from non-consolidated to consolidated) amid the rising importance of tracking and managing human rights and climate change risks. Nevertheless, stakeholder concern for non-financial risks is constantly rising. From the perspective of sustainability, Tokyo Century will continue to bolster its range of effective indicators related to human rights and climate change risks as well as to other environmental, social, and governance (ESG) factors and to the United Nations Sustainable Development Goals (SDGs).

Environmental and Climate Change Risks

The Tokyo Century Group recognizes that responding to climate change is an important task. We have therefore endorsed the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and are advancing climate change response measures including scenario analyses and information disclosure based on these recommendations.

Scenario Analyses through Risk Materiality Assessments

Given that it operates in five business fields, the Tokyo Century Group has chosen an approach for selecting businesses subject to scenario analyses entailing risk materiality assessments. These assessments involve industry-specific evaluations of the impacts of climate change risks and comparative analyses of the greenhouse gas emissions and asset portfolios of different operating segments. To date, scenario analyses have been conducted targeting the environment and energy businesses (solar power generation), the aviation business (aircraft leasing), and the automobility business (auto leasing for individuals and companies). Going forward, the Company will continue to examine the appropriate risk countermeasures and related opportunities by expanding the scope of businesses subject to scenario analyses and improving the accuracy of said analyses based on risk materiality assessments.



Risks and Opportunities Based on Scenario Analyses

Environment and energy businesses (solar power generation)	Tokyo Century recognizes the potential for the emergence of physical risks requiring urgent attention related to abnormal weather events, such as typhoons and heavy rain, and transition risks including the introduction of carbon taxes and strengthening of laws and regulations. Conversely, solar power generation and other renewable energy businesses are expected to see a wider range of opportunities.
Aviation business (aircraft leasing)	The aviation business may be impacted by the emergence of physical risks associated with the increasing severity of extreme weather events and transition risks such as the implementation of carbon emissions reduction targets in various countries and regulations specific to the airline industry. At the same time, increased earnings opportunities are anticipated from the transition to low-emission aircraft with higher fuel efficiency and lighter weights and the adoption of next-generation aircraft that are powered by alternative forms of fuel, electricity, or hydrogen.
Automobility business (auto leasing for individuals and companies)	For the automobility business, physical risks could include impacts from the increasing severity of extreme weather events, such as vehicle production delays due to flooding and heavy rainfall, while potential transition risks might include the shift from gasoline and diesel vehicles to electric vehicles (EVs), which would entail a switch from fueling to charging. Meanwhile, earnings opportunities related to charging service and secondhand EV battery reuse businesses are projected to emerge amid the shift toward EVs.

**Detailed Disclosure Based on TCFD Recommendations** For more information on governance, strategies, risk management, and metrics and targets pertaining to disclosure based on TCFD recommendations, please refer to the following website.  
<https://www.tokyoCentury.co.jp/en/sustainability/esg/environment/tcfd.html>

**Environmental Impact Assessments**

Tokyo Century aims to make contributions to the environment through its business activities. Thus, we believe it is important to understand the positive and negative impacts on the environment of the projects we undertake. Accordingly, environmental impact assessment worksheets are used to assess the environmental risks and opportunities of candidate projects to be submitted to the Management Meeting and Transaction Evaluation Meeting.

**Climate Change Risks**

Preliminary measurements of exposure to transition risks and physical risks are conducted and the results are reported regularly to the Comprehensive Risk Management Committee to determine the potential impact of climate change risks on Tokyo Century's credit portfolio.

Exposure to transition risks is quantified through Monte Carlo simulations targeting sectors chosen based on TCFD recommendations after accounting for the potential impact of these risks on debtor ratings and asset value.

Physical risk exposure is measured as the maximum loss projected to be incurred based on statistical simulations of specific business assets (solar power generation businesses, etc.) that have suffered damages from natural disasters.

For more information on the following topics, please refer to the Company's corporate website.

- Environmental Management System Organization
- Acquisition of ISO 14001 Certification for Environmental Management Systems

<https://www.tokyocentury.co.jp/en/sustainability/esg/environment/management.html>

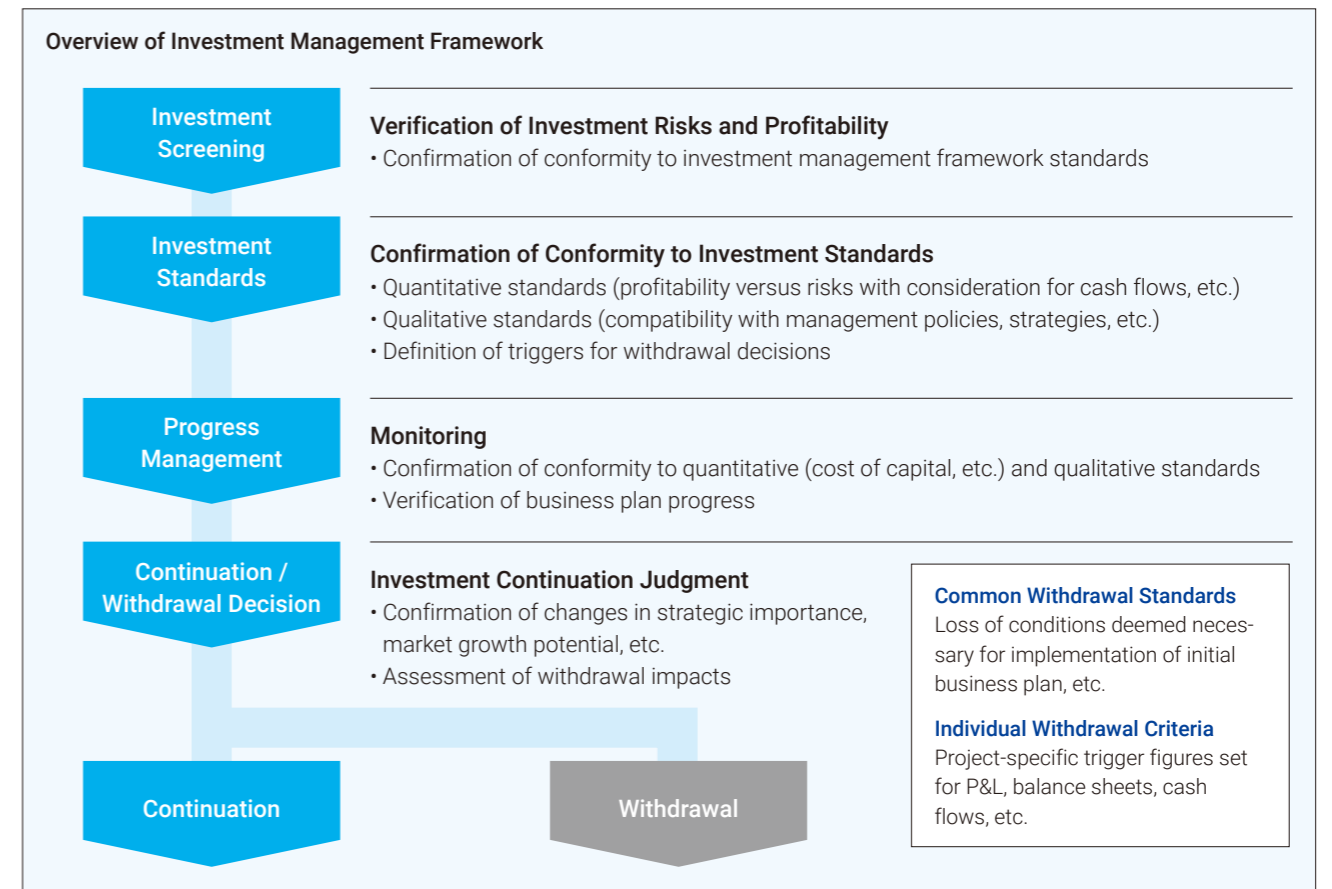
**Response to Expansion of Business Domain**

**Investment Management Framework**

For the purposes of effectively controlling diversifying investment risks and optimizing its business portfolio, the Tokyo Century Group has instituted an investment management framework. Primary focuses of this framework include clarifying investment screening, continuation, and withdrawal standards and developing standardized monitoring processes.

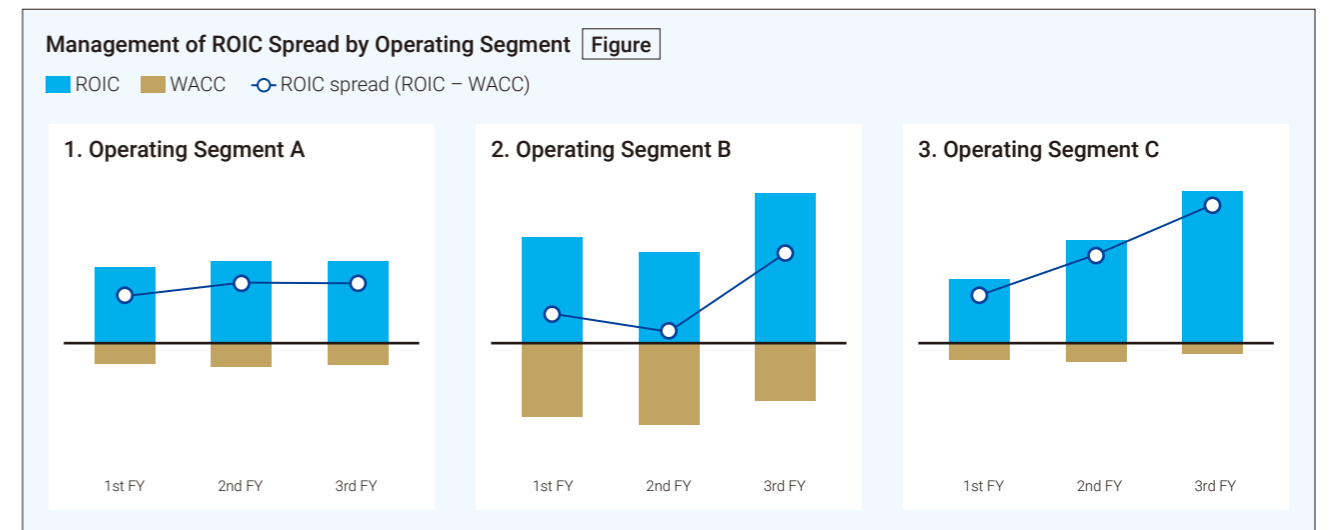
Under this framework, meetings of the Investment Management Committee are held prior to discussions by the Management Meeting as part of the process for screening investments of a predetermined scale, in order to confirm the anticipated level of profitability after considering capital costs based on the inherent risks (quantitative standards) and the compatibility with Tokyo Century's strategies (qualitative standards). In addition, multifaceted evaluations are conducted by business divisions with regard to business plans, investment structures, and projected risk exposure and environmental impacts. Shared standards for determining when withdrawal from an investment should be discussed (withdrawal standards) are applied to all projects, and clear numerical values for financial indicators are defined on an individual project basis to serve as the trigger for commencing the withdrawal process. By clarifying the standards for withdrawal in this manner, the Company is practicing effective portfolio management.

After investment, projects will continue to be monitored through standardized processes, and the status of projects and their conformity to the scenarios formulated at the time of their selection will be confirmed regularly. Should a project become applicable under withdrawal standards, the Investment Management Committee will provide opinions and assess the appropriateness of continuation, and the Management Meeting will determine whether or not investment should be continued based on a comprehensive evaluation of such factors.



**ROIC Monitoring in Operating Segments**

Tokyo Century regularly monitors the return on invested capital (ROIC) spread (ROIC less weighted average cost of capital [WACC]) as a cost-of-capital-based indicator of the risk-and-return balance of specific business areas. Business and risk characteristics are accounted for in this monitoring. Moreover, this timing-based monitoring approach is used to promote management that emphasizes cost of capital along with sound financial discipline. Factors examined through this monitoring include whether an appropriate balance is being maintained between risks and returns in different operating segments and whether the necessary risks are being taken to generate value and stimulate growth. Under Medium-Term Management Plan 2027, the Company will continue its approach toward managing risks and returns with an emphasis on cost of capital. At the same time, enhancements to this approach will be pursued by reviewing methods for managing the ROIC spread by operating segment and incorporating this indicator into performance evaluations and portfolio allocation.



## Compliance

### Compliance Structure

At the Tokyo Century Group, the Compliance Office promotes compliance measures under the supervision of the chief compliance officer (CCO) appointed by the president & CEO, who is also the chief compliance executive.

The heads of each business division and branch office of the Company, along with the presidents of Group companies, act as compliance officers (COs) with the responsibility of coordinating with the Compliance Office to guarantee compliance with all relevant laws and regulations and ensure that business activities are kept in line with social norms.

### Compliance Activities

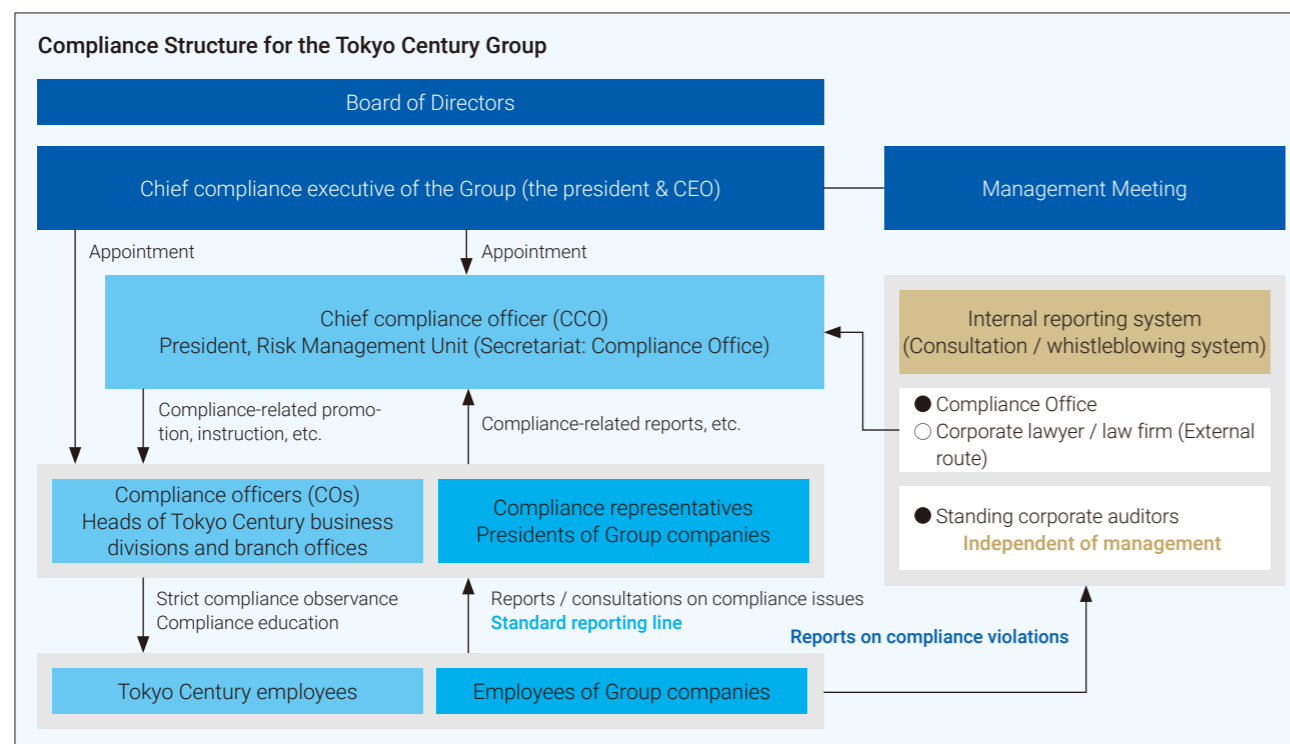
Compliance activity plans are formulated through discussions by the Management Meeting at the beginning of each fiscal year, and these plans are reported to the Board of Directors. The adequacy of the progress of these plans is reviewed every six months by the Management Meeting and the Board of Directors.

Specific compliance activities include e-learning programs, face-to-face and online training sessions, distribution of compliance-related information, and compliance awareness surveys. We also arrange Groupwide forums for sharing compliance information.

### Internal Reporting System

In response to the revision of Japan's law regarding the protection of whistleblowers that went into effect in June 2022, the Tokyo Century Group has taken steps to reinforce and clarify the already stringent whistleblower protection measures of its internal reporting system. We will continue to adhere to the highest standards in operating our internal reporting system based on the belief that it is an important tool for exercising compliance management.

In addition, we are working to expand use of our internal reporting system by broadening the scope of compliance-related consultations that can be processed through all internal and external consultation venues, conducting regular awareness surveys regarding the system, and disclosing information pertaining to its implementation status. The ratios of reports and reports from domestic and overseas Group companies indicate that this system is well entrenched and functioning appropriately.



### Human Rights Consultation Contact Points

As part of its efforts to promote respect for human rights in its business activities, the Tokyo Century Group has established contact points for human rights consultations. These contact points can be used by business partners and external stakeholders to receive consultation regarding human rights violations by Group officers or employees. Remedies are instituted to rectify the damages caused to the victims of any verified violations.

Provisions are in place to protect people submitting reports and other involved parties using these contact points.

For more information on the following topics, please refer to the Company's corporate website.

- **Compliance Structure of the Tokyo Century Group** • **Internal Reporting System** • **Compliance Handbooks**
- **Compliance Education** • **Initiatives for Preventing Corruption**

<https://www.tokyocentury.co.jp/en/sustainability/esg/governance/compliance.html>

- **Human Rights Initiatives**

[https://www.tokyocentury.co.jp/en/sustainability/esg/social/humanrights.html#anc\\_humanrights-efforts](https://www.tokyocentury.co.jp/en/sustainability/esg/social/humanrights.html#anc_humanrights-efforts)

## Information Security

The Tokyo Century Group views information security as a crucial issue affecting corporate management. The Company has accordingly obtained certification under ISO 27001, the international standard for information security management systems. Under the leadership of the Information Security Committee, we periodically revise regulations and rules regarding information management, conduct regular risk assessments to address information security risks, and carry out security training for employees and officers.

The TC-CSIRT (computer security incident response team) has been set up within the IT Unit as a dedicated cybersecurity organization. Under normal circumstances, the TC-CSIRT will take steps to prevent the recurrence of past incidents and the occurrence of new incidents by monitoring security systems, assessing the security of cloud services, and educating officers and employees. As cyberattacks grow more sophisticated and complex, we endeavor to enhance our response capabilities by periodically having our cybersecurity measures assessed by third-party institutions, sharing information with external partners through membership in the Nippon CSIRT Association, and participating in drills for exercising the knowledge acquired in this manner.

Developing a global business means that actions must be taken to protect personal information and strengthen information security measures considering various cultures and regulatory environments. In 2022, the services of external experts were enlisted to revise the security guidelines that act as the minimum standard for security at Group companies with the aim of reinforcing global security governance. Based on the revised guidelines, assessments of overseas subsidiaries are performed to identify issues and implement response measures. In addition, we encourage closer collaboration with Group companies by strengthening management of outside subcontractors, providing information on information security, and holding regular liaison meetings.

In addition to these efforts, we conduct email drills targeting the Company and domestic and overseas Group companies with emails in Japanese, English, and Chinese several times a year. These drills have proved to be an effective training method for improving the information security awareness of officers and employees.

For more information on the following topics, please refer to the Company's corporate website.

- **ISO 27001 Certification** • **Basic Information Security Policy**

<https://www.tokyocentury.co.jp/en/csr/governance/security.html>