SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER
Pursuant to Rule 13a-16 or 15d-16 OF
THE SECURITIES EXCHANGE Act of 1934

For the month of August 2016.
Commission File Number: 001-14856

ORIX Corporation
(Translation of Registrant's Name into English)

World Trade Center Bldg., 2-4-1 Hamamatsu-cho, Minato-ku,
Tokyo, JAPAN
(Address of Principal Executive Offices)

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.)

Form 20-F ☒ Form 40-F ☐

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ☐

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ☐

Table of Document(s) Submitted

1. This is an English translation of ORIX Corporation's quarterly financial report (*shihanki houkokusho*) as filed with the Kanto Financial Bureau in Japan on August 10, 2016, which includes unaudited consolidated financial information prepared in accordance with generally accepted accounting principles in the United States for the three months ended June 30, 2015 and 2016.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ORIX Corporation

Date: August 10, 2016

By /s/ Kazuo Kojima

Kazuo Kojima
Director
Deputy President and Chief Financial Officer
ORIX Corporation

CONSOLIDATED FINANCIAL INFORMATION

Notes to Translation

1. The following is an English translation of ORIX Corporation's quarterly financial report (*shihanki houkokusho*) as filed with the Kanto Financial Bureau in Japan on August 10, 2016, which includes unaudited consolidated financial information prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP") for the three months ended June 30, 2015 and 2016.
2. Significant differences between U.S. GAAP and generally accepted accounting principles in Japan ("Japanese GAAP") are stated in Note 1 "Overview of Accounting Principles Utilized" of the notes to Consolidated Financial Statements.

In preparing its consolidated financial information, ORIX Corporation (the "Company") and its subsidiaries have complied with U.S. GAAP.

This document may contain forward-looking statements about expected future events and financial results that involve risks and uncertainties. Such statements are based on the Company's current expectations and are subject to uncertainties and risks that could cause actual results to differ materially from those described in the forward-looking statements. Factors that could cause such a difference include, but are not limited to, those described under "Risk Factors" in the Company's most recent annual report on Form 20-F filed with the U.S. Securities and Exchange Commission.

The Company believes that it may have been a "passive foreign investment company" for U.S. federal income tax purposes in the year to which these consolidated financial results relate by reason of the composition of its assets and the nature of its income. In addition, the Company may be a PFIC for the foreseeable future. Assuming that the Company is a PFIC, a U.S. holder of the shares or ADSs of the Company will be subject to special rules generally intended to eliminate any benefits from the deferral of U.S. federal income tax that a holder could derive from investing in a foreign corporation that does not distribute all of its earnings on a current basis. Investors should consult their tax advisors with respect to such rules, which are summarized in the Company's annual report.

1. Information on the Company and its Subsidiaries

(1) Consolidated Financial Highlights

	Millions of yen (except for per share amounts and ratios)		
	Three months ended June 30, 2015	Three months ended June 30, 2016	Fiscal year ended March 31, 2016
Total revenues	¥ 606,124	¥ 587,945	¥ 2,369,202
Income before income taxes	123,916	118,434	391,302
Net income attributable to ORIX Corporation shareholders	81,510	76,769	260,169
Comprehensive Income attributable to ORIX Corporation shareholders	81,691	47,557	223,574
ORIX Corporation shareholders' equity	2,186,679	2,326,969	2,310,431
Total assets	11,247,990	10,762,882	10,992,918
Earnings per share for net income attributable to ORIX Corporation shareholders			
Basic (yen)	62.28	58.62	198.73
Diluted (yen)	62.22	58.58	198.52
ORIX Corporation shareholders' equity ratio (%)	19.4	21.6	21.0
Cash flows from operating activities	30,573	118,119	510,562
Cash flows from investing activities	73,356	60,442	(552,529)
Cash flows from financing activities	(48,001)	(53,603)	(48,001)
Cash and cash equivalents at end of period	887,332	842,171	730,420

Notes: 1. Consumption tax is excluded from the stated amount of total revenues.

2. Prior-year amounts have been adjusted for the retrospective application of Accounting Standards Update 2015-03 ("Simplifying the Presentation of Debt Issuance Costs"—ASC 835-30 ("Interest—Imputation of Interest")) on April 1, 2016.

(2) Overview of Activities

During the three months ended June 30, 2016, no significant changes were made in the Company and its subsidiaries' operations. Additionally, there were no changes of principal related subsidiaries and affiliates.

2. Risk Factors

Investing in the Company's securities involves risks. You should carefully consider the information described herein as well as the risks described under "Risk Factors" in our Form 20-F for the fiscal year ended March 31, 2016 and the other information in that annual report, including, but not limited to, the Company's consolidated financial statements and related notes and "Item 11. Quantitative and Qualitative Disclosures about Market Risk." The Company's business activities, financial condition and results of operations and the trading prices of the Company's securities could be adversely affected by any of those factors or other factors.

3. Material Contracts

Not applicable.

4. Analysis of Financial Results and Condition

The following discussion provides management's explanation of factors and events that have significantly affected the Company's financial condition and results of operations. Also included is management's assessment of factors and trends that could have a material effect on the Company's financial condition and results of operations in the future. However, please be advised that financial conditions and results of operations in the future may also be affected by factors other than those discussed herein. These factors and trends regarding the future were assessed as of the issue date of this quarterly financial report *(shihanki houkokusho)*.

(1) Qualitative Information Regarding Consolidated Financial Results

Economic Environment

In the world economy, while the curbs on economic slowdown are seen mainly in emerging and resource rich countries, concerns over the United Kingdom's recent vote to exit the European Union have caused turbulence in political situation and financial markets and have interfered with recovery in economic growth. Against the backdrop of the monetary easing measures and capital flight in respective countries, long-term interest rates have been decreasing worldwide. In addition, there are political and geopolitical tensions in certain regions that need to be monitored carefully.

The Japanese economic outlook is becoming increasingly unclear due to the appreciation of the yen, falling stock prices and decrease in long-term interest rates which are affected by the increasing uncertainty in the overseas economy.

Financial Highlights

Financial Results for the Three Months Ended June 30, 2016

Total revenues	¥587,945 million (Down 3% year on year)
Total expenses	¥500,522 million (Up 1% year on year)
Income before income taxes	¥118,434 million (Down 4% year on year)
Net income attributable to ORIX Corporation Shareholders	¥76,769 million (Down 6% year on year)
Earnings per share for net income attributable to ORIX Corporation Shareholders	
(Basic)	¥58.62 (Down 6% year on year)
(Diluted)	¥58.58 (Down 6% year on year)
ROE (Annualized) *1	13.2% (15.0% during the same period in the previous fiscal year)
ROA (Annualized) *2	2.82% (2.87% during the same period in the previous fiscal year)

*1 ROE is the ratio of net income attributable to ORIX Corporation Shareholders for the period to average ORIX Corporation Shareholders' Equity.

*2 ROA is the ratio of net income attributable to ORIX Corporation Shareholders for the period to average Total Assets.

Total revenues for the three months ended June 30, 2016 decreased 3% to ¥587,945 million compared to ¥606,124 million during the same period of the previous fiscal year. Operating lease revenues increased due primarily to gains on sales of large-scale rental properties in Japan. In addition, sales of goods and real estate increased due primarily to revenues generated by subsidiaries in the principal investment business. Gains on investment securities and dividends decreased due to a decrease in gains on investment securities. Life insurance premiums and related investment income decreased mainly because investment income from the assets under variable annuity and variable life insurance contracts held by Hartford Life Insurance K.K. (hereinafter, "HLIKK") decreased significantly compared to the same period of the previous fiscal year during which the investment had better performed reflecting a significant improvement in the capital market conditions. HLIKK was merged into ORIX Life Insurance Corporation (hereinafter, "ORIX Life Insurance") on July 1, 2015. In addition, services income decreased due to the partial divestment of Houlihan Lokey Inc. (hereinafter, "Houlihan Lokey") shares in connection with its initial public offering in the United States and its becoming an equity method affiliate in the previous fiscal year.

Total expenses increased 1% to ¥500,522 million compared to ¥497,592 million during the same period of the previous fiscal year. Costs of goods and real estate sold increased in line with the aforementioned revenue increase. On the other hand, life insurance costs decreased due to a reversal of liability reserve in line with the aforementioned decrease in investment income from the assets under variable annuity and variable life insurance contracts.

Gains on sales of subsidiaries and affiliates and liquidation losses, net increased due primarily to the increase in a gain on sale of shares of affiliates in Investment and Operation segment.

As a result of the foregoing, income before income taxes for the three months ended June 30, 2016 decreased 4% to ¥118,434 million compared to ¥123,916 million during the same period of the previous fiscal year, and net income attributable to ORIX Corporation shareholders decreased 6% to ¥76,769 million compared to ¥81,510 million during the same period of the previous fiscal year.

Segment Information

Total revenues and profits by segment for the three months ended June 30, 2015 and 2016 are as follows:

	Millions of yen							
	Three months ended June 30, 2015		Three months ended June 30, 2016		Change (revenues)		Change (profits)	
	Segment Revenues	Segment Profits	Segment Revenues	Segment Profits	Amount	Percent (%)	Amount	Percent (%)
Corporate Financial Services	¥ 27,558	¥ 12,377	¥ 24,990	¥ 8,494	¥ (2,568)	(9)	¥(3,883)	(31)
Maintenance Leasing	67,520	11,687	67,199	9,892	(321)	(0)	(1,795)	(15)
Real Estate	50,349	14,451	57,338	23,603	6,989	14	9,152	63
Investment and Operation	229,187	26,159	258,002	30,955	28,815	13	4,796	18
Retail	83,811	21,619	54,006	12,532	(29,805)	(36)	(9,087)	(42)
Overseas Business	147,173	34,486	125,821	29,866	(21,352)	(15)	(4,620)	(13)
Total	605,598	120,779	587,356	115,342	(18,242)	(3)	(5,437)	(5)
Difference between Segment Total and Consolidated Amounts	526	3,137	589	3,092	63	12	(45)	(1)
Total Consolidated Amounts	¥606,124	¥123,916	¥587,945	¥118,434	¥(18,179)	(3)	¥(5,482)	(4)

Total assets by segment as of March 31, 2016 and June 30, 2016 are as follows:

	Millions of yen					
	March 31, 2016		June 30, 2016		Change	
	Segment Assets	Composition ratio (%)	Segment Assets	Composition ratio (%)	Amount	Percent (%)
Corporate Financial Services	¥ 1,049,867	9.6	¥ 1,033,214	9.6	¥ (16,653)	(2)
Maintenance Leasing	731,329	6.7	700,427	6.5	(30,902)	(4)
Real Estate	739,592	6.7	705,617	6.6	(33,975)	(5)
Investment and Operation	704,156	6.4	678,570	6.3	(25,586)	(4)
Retail	3,462,772	31.5	3,384,540	31.4	(78,232)	(2)
Overseas Business	2,284,733	20.7	2,067,813	19.2	(216,920)	(9)
Total	8,972,449	81.6	8,570,181	79.6	(402,268)	(4)
Difference between Segment Total and Consolidated Amounts	2,020,469	18.4	2,192,701	20.4	172,232	9
Total Consolidated Amounts	¥10,992,918	100.0	¥10,762,882	100.0	¥(230,036)	(2)

Note: Prior-year amounts have been adjusted for the retrospective application of Accounting Standards Update 2015-03 ("Simplifying the Presentation of Debt Issuance Costs"—ASC 835-30 ("Interest—Imputation of Interest")) on April 1, 2016.

Total segment profits for the three months ended June 30, 2016 decreased 5% to ¥115,342 million compared to ¥120,779 million during the same period of the previous fiscal year. While profits from Real Estate and Investment and Operation segments increased, profits from each of the other segments decreased.

Segment information for the three months ended June 30, 2016 is as follows:

<u>Corporate Financial Services Segment</u>: Lending, leasing and fee business

The Japanese economic outlook is becoming increasingly unclear due to yen appreciation, falling stock prices and decreases in long-term interest rates, which are affected by increasing uncertainty in the overseas economy. The balance of outstanding loans at financial institutions continues to increase and interest rates on loans remain at low levels.

Segment revenues decreased 9% to ¥24,990 million compared to ¥27,558 million during the same period of the previous fiscal year due to a decrease in gains on investment securities, despite an increase in services income resulting primarily from revenue generated by Yayoi Co. Ltd., and stable fee business to domestic small-and medium-sized enterprise customers.

In addition, segment expenses increased due to an increase in selling, general and administrative expenses compared to the same period of the previous fiscal year and segment profits decreased 31% to ¥8,494 million compared to ¥12,377 million during the same period of the previous fiscal year.

Segment assets decreased 2% to ¥1,033,214 million compared to the end of the previous fiscal year due primarily to decreases in investment in direct financing leases, installment loans, and investment in securities.

	Three months ended June 30, 2015	Three months ended June 30, 2016	Change	
			Amount	Percent (%)
	(Millions of yen, except percentage data)			
Segment Revenues:				
Finance revenues	¥ 8,432	¥ 8,078	¥ (354)	(4)
Operating leases	6,206	6,016	(190)	(3)
Services income	8,136	9,537	1,401	17
Sales of goods and real estate, and other	4,784	1,359	(3,425)	(72)
Total Segment Revenues	27,558	24,990	(2,568)	(9)
Segment Expenses:				
Interest expense	1,878	1,671	(207)	(11)
Provision for doubtful receivables and probable loan losses and write-downs of long-lived assets and securities	(652)	(134)	518	—
Other than the above	14,127	15,216	1,089	8
Total Segment Expenses	15,353	16,753	1,400	9
Segment Operating Income	12,205	8,237	(3,968)	(33)
Equity in Net Income of Affiliates, and others	172	257	85	49
Segment Profits	¥ 12,377	¥ 8,494	¥ (3,883)	(31)

	As of March 31, 2016	As of June 30, 2016	Change	
			Amount	Percent (%)
	(Millions of yen, except percentage data)			
Investment in direct financing leases	¥ 431,603	¥ 429,957	¥ (1,646)	(0)
Installment loans	411,824	400,266	(11,558)	(3)
Investment in operating leases	28,695	29,529	834	3
Investment in securities	36,542	32,294	(4,248)	(12)
Property under facility operations	11,294	11,444	150	1
Inventories	53	42	(11)	(21)
Advances for investment in operating leases	1,737	1,708	(29)	(2)
Investment in affiliates	22,755	23,166	411	2
Advances for property under facility operations	304	242	(62)	(20)
Goodwill and other intangible assets acquired in business combinations	105,060	104,566	(494)	(0)
Total Segment Assets	¥ 1,049,867	¥ 1,033,214	¥(16,653)	(2)

Maintenance Leasing Segment: Automobile leasing and rentals, car sharing, and test and measurement instruments and IT-related equipment rentals and leasing

While demand in corporate capital investment is gradually increasing, concerns about decreasing profitability and uncertainly in the economic outlook interfere with new investment. The volume of new auto leases in Japan decreased slightly compared to the previous fiscal year.

Segment revenues of ¥67,199 million remained at approximately the same level as the same period of the previous fiscal year due to an increase in services income derived from value-added services, offset by a decrease in operating leases revenues resulting from less gains on sale.

Segment expenses increased due to increases in the costs of operating leases in line with an increase in the average balance of operating lease assets and selling, general, and administrative expenses.

As a result, segment profits decreased 15% to ¥9,892 million compared to ¥11,687 million during the same period of the previous fiscal year.

Segment assets decreased 4% to ¥700,427 million compared to the end of the previous fiscal year primarily due to a decrease in leasing assets mainly in the automobile business in line with the securitizations.

	Three months ended June 30, 2015	Three months ended June 30, 2016	Change Amount	Change Percent (%)
	(Millions of yen, except percentage data)			
Segment Revenues:				
Finance revenues	¥ 3,041	¥ 3,104	¥ 63	2
Operating leases	46,679	45,769	(910)	(2)
Services income	16,753	17,339	586	3
Sales of goods and real estate, and other	1,047	987	(60)	(6)
Total Segment Revenues	67,520	67,199	(321)	(0)
Segment Expenses:				
Interest expense	884	891	7	1
Provision for doubtful receivables and probable loan losses and write-downs of long-lived assets and securities	54	141	87	161
Other than the above	54,934	56,316	1,382	3
Total Segment Expenses	55,872	57,348	1,476	3
Segment Operating Income	11,648	9,851	(1,797)	(15)
Equity in Net Income of Affiliates, and others	39	41	2	5
Segment Profits	¥ 11,687	¥ 9,892	¥ (1,795)	(15)

	As of March 31, 2016	As of June 30, 2016	Change Amount	Change Percent (%)
	(Millions of yen, except percentage data)			
Investment in direct financing leases	¥ 245,257	¥ 236,158	¥ (9,099)	(4)
Investment in operating leases	481,031	459,377	(21,654)	(5)
Investment in securities	1,214	1,242	28	2
Property under facility operations	718	699	(19)	(3)
Inventories	374	435	61	16
Advances for investment in operating leases	314	278	(36)	(11)
Investment in affiliates	1,996	1,813	(183)	(9)
Goodwill and other intangible assets acquired in business combinations	425	425	0	0
Total Segment Assets	¥ 731,329	¥ 700,427	¥(30,902)	(4)

Real Estate Segment: Real estate development and rental, facility operation, REIT asset management; and real estate investment advisory services

The real estate market has remained active due primarily to the quantitative easing policies of the Bank of Japan, including the adoption of negative interest rates. Land prices remain high and office rents and vacancy rates in the Japanese office building market continue to show improvements especially in the Greater Tokyo Area. Furthermore, due to an increase in the number of tourists from abroad, we are seeing increases in the occupancy rates and average daily rates of hotels and Japanese inns. Meanwhile, we are also seeing a trend where sales prices of condominiums stopped rising.

Segment revenues increased 14% to ¥57,338 million compared to ¥50,349 million during the same period of the previous fiscal year primarily due to an increase in gains on sales of rental properties, which are included in operating leases revenues, despite a decrease in rental revenues, which are also included in operating leases revenues, in line with a decrease in the balance of real estate assets.

Segment expenses decreased compared to the same period of the previous fiscal year primarily due to decreases in interest expense and costs of operating leases in line with decrease in assets.

As a result of the foregoing, segment profits increased 63% to ¥23,603 million compared to ¥14,451 million during the same period of the previous fiscal year.

Segment assets decreased 5% to ¥705,617 million compared to the end of the previous fiscal year primarily due to a decrease in investment in operating leases, which resulted from sales of rental properties.

	Three months ended June 30, 2015	Three months ended June 30, 2016	Change	
			Amount	Percent (%)
	(Millions of yen, except percentage data)			
Segment Revenues:				
Finance revenues	¥ 666	¥ 406	¥ (260)	(39)
Operating leases	18,834	28,429	9,595	51
Services income	26,999	26,601	(398)	(1)
Sales of goods and real estate, and other	3,850	1,902	(1,948)	(51)
Total Segment Revenues	50,349	57,338	6,989	14
Segment Expenses:				
Interest expense	1,345	904	(441)	(33)
Provision for doubtful receivables and probable loan losses and write-downs of long-lived assets and securities	728	551	(177)	(24)
Other than the above	34,493	32,949	(1,544)	(4)
Total Segment Expenses	36,566	34,404	(2,162)	(6)
Segment Operating Income	13,783	22,934	9,151	66
Equity in Net Income of Affiliates, and others	668	669	1	0
Segment Profits	¥ 14,451	¥ 23,603	¥ 9,152	63

	As of March 31, 2016	As of June 30, 2016	Change	
			Amount	Percent (%)
	(Millions of yen, except percentage data)			
Investment in direct financing leases	¥ 21,541	¥ 21,441	¥ (100)	(0)
Installment loans	5,821	5,633	(188)	(3)
Investment in operating leases	375,050	352,443	(22,607)	(6)
Investment in securities	5,861	5,003	(858)	(15)
Property under facility operations	177,510	175,789	(1,721)	(1)
Inventories	3,597	3,309	(288)	(8)
Advances for investment in operating leases	38,486	30,013	(8,473)	(22)
Investment in affiliates	91,010	90,851	(159)	(0)
Advances for property under facility operations	8,829	9,293	464	5
Goodwill and other intangible assets acquired in business combinations	11,887	11,842	(45)	(0)
Total Segment Assets	¥ 739,592	¥ 705,617	¥(33,975)	(5)

Investment and Operation Segment: Environment and energy-related business, principal investment, loan servicing (asset recovery), and concession business

In Japan, while the government is reassessing its renewable energy purchase program, the significance of renewable energy in the mid - to long- term is on the rise with investment targets expanding beyond solar power generation projects to include wind and geothermal power generation projects. In the capital market, the size of merger and acquisition (hereinafter, "M&A") transactions appear to have decreased despite an increase in the total number of M&A transactions closed since January 2016 compared to the year 2015 in which several large cross-border M&A transactions took place.

Segment revenues increased 13% to ¥258,002 million compared to ¥229,187 million during the same period of the previous fiscal year due to increases in sales of goods and services income generated by subsidiaries in the principal investment business and environment and energy-related business.

Segment expenses increased compared to the same period of the previous fiscal year due to an increase in expenses in line with the aforementioned revenues expansion.

As a result of the foregoing and the recognition of gains on sales of shares of affiliates and the recognition of a bargain purchase gain from the acquisition of a subsidiary, segment profits increased 18% to ¥30,955 million compared to ¥26,159 million during the same period of the previous fiscal year.

Segment assets decreased 4% to ¥678,570 million compared to the end of the previous fiscal year primarily due to a decrease in investment in affiliates, despite increases in inventories and in property under facility operations in the environment and energy-related business.

	Three months ended June 30, 2015	Three months ended June 30, 2016	Change Amount	Change Percent (%)
	(Millions of yen, except percentage data)			
Segment Revenues:				
Finance revenues	¥ 3,727	¥ 2,676	¥ (1,051)	(28)
Gains on investment securities and dividends	8,236	744	(7,492)	(91)
Sales of goods and real estate	150,287	184,930	34,643	23
Services income	64,155	67,495	3,340	5
Operating leases, and other	2,782	2,157	(625)	(22)
Total Segment Revenues	229,187	258,002	28,815	13
Segment Expenses:				
Interest expense	908	1,228	320	35
Provision for doubtful receivables and probable loan losses and write-downs of long-lived assets and securities	(558)	(134)	424	—
Other than the above	211,250	247,686	36,436	17
Total Segment Expenses	211,600	248,780	37,180	18
Segment Operating Income	17,587	9,222	(8,365)	(48)
Equity in Net Income of Affiliates, and others	8,572	21,733	13,161	154
Segment Profits	¥ 26,159	¥ 30,955	¥ 4,796	18

	As of March 31, 2016	As of June 30, 2016	Change Amount	Change Percent (%)
	(Millions of yen, except percentage data)			
Investment in direct financing leases	¥ 21,133	¥ 20,076	¥ (1,057)	(5)
Installment loans	75,996	68,743	(7,253)	(10)
Investment in operating leases	24,378	26,498	2,120	9
Investment in securities	71,705	67,683	(4,022)	(6)
Property under facility operations	130,568	153,731	23,163	18
Inventories	98,016	107,000	8,984	9
Advances for investment in operating leases	404	404	0	0
Investment in affiliates	108,237	67,468	(40,769)	(38)
Advances for property under facility operations	38,628	32,160	(6,468)	(17)
Goodwill and other intangible assets acquired in business combinations	135,091	134,807	(284)	(0)
Total Segment Assets	¥ 704,156	¥ 678,570	¥(25,586)	(4)

Retail Segment: Life insurance, banking and card loan business

Although the life insurance business in Japan is being affected by macroeconomic factors such as domestic population decline, we are seeing increasing numbers of companies developing new products in response to the rising demand for medical insurance. On the other hand, we are seeing suspensions of the sales of certain products and an increase in insurance premiums of new contracts due to the adoption of negative interest rate policy. In the consumer finance sector, banks and other lenders are expanding their assets to further secure new revenue streams, and competition in the lending business continues to intensify in the current low interest rate environment.

Segment revenues decreased 36% to ¥54,006 million compared to ¥83,811 million during the same period of the previous fiscal year due to a significant decrease in investment income from assets under variable annuity and variable life insurance contracts originally held by HLIKK, despite stable increases in insurance premiums in ORIX Life Insurance and finance revenues in the banking business.

Segment expenses decreased compared to the same period of the previous fiscal year due to a reversal of liability reserve in line with the aforementioned decrease in investment income from the assets under variable annuity and variable life insurance contracts.

As a result of the foregoing, segment profits decreased 42% to ¥12,532 million compared to ¥21,619 million during the same period of the previous fiscal year.

Segment assets decreased 2% to ¥3,384,540 million compared to the end of the previous fiscal year due to a large decrease in investment in securities held by HLIKK, offsetting an increase in installment loans in the banking business.

	Three months ended June 30, 2015	Three months ended June 30, 2016	Change	
			Amount	Percent (%)
	(Millions of yen, except percentage data)			
Segment Revenues:				
Finance revenues	¥ 13,450	¥ 14,146	¥ 696	5
Life insurance premiums and related investment income	68,605	37,099	(31,506)	(46)
Gains on investment securities and dividends, and other	1,756	2,761	1,005	57
Total Segment Revenues	83,811	54,006	(29,805)	(36)
Segment Expenses:				
Interest expense	1,239	1,084	(155)	(13)
Provision for doubtful receivables and probable loan losses and write-downs of long-lived assets and securities	1,557	2,285	728	47
Other than the above	59,925	38,107	(21,818)	(36)
Total Segment Expenses	62,721	41,476	(21,245)	(34)
Segment Operating Income	21,090	12,530	(8,560)	(41)
Equity in Net Income of Affiliates, and others	529	2	(527)	(100)
Segment Profits	¥ 21,619	¥ 12,532	¥ (9,087)	(42)

	As of March 31, 2016	As of June 30, 2016	Change	
			Amount	Percent (%)
	(Millions of yen, except percentage data)			
Investment in direct financing leases	¥ 1,198	¥ 952	¥ (246)	(21)
Installment loans	1,496,407	1,545,783	49,376	3
Investment in operating leases	52,359	52,093	(266)	(1)
Investment in securities	1,893,631	1,767,023	(126,608)	(7)
Investment in affiliates	911	832	(79)	(9)
Goodwill and other intangible assets acquired in business combinations	18,266	17,857	(409)	(2)
Total Segment Assets	¥ 3,462,772	¥ 3,384,540	¥ (78,232)	(2)

Overseas Business Segment: Leasing, lending, investment in bonds, asset management and ship- and aircraft-related operations

In the world economy, while the curbs on economic slowdown are seen mainly in emerging and resource rich countries, concerns over the United Kingdom's recent vote to exit the European Union has caused turbulence in political situation and financial markets and has interfered with the recovery in economic growth. Against the backdrop of the monetary easing measures and capital flight in respective countries, long-term interest rates have been decreasing worldwide. In addition, there are political and geopolitical tensions in certain regions that need to be monitored carefully.

Segment revenues decreased 15% to ¥125,821 million compared to ¥147,173 million during the same period of the previous fiscal year due to a decrease in gains on investment securities, the deconsolidation of Houlihan Lokey and recent appreciation of the yen, despite increases in sales of goods in the Americas and in operating lease revenues in aircraft-related operations in line with increases in gains on sales and the average balance of operating lease assets.

Segment expenses decreased compared to the same period of the previous fiscal year primarily due to the deconsolidation of Houlihan Lokey and recent appreciation of the yen.

As a result of the foregoing, segment profits decreased 13% to ¥29,866 million compared to ¥34,486 million during the same period of the previous fiscal year.

Segment assets decreased 9% to ¥2,067,813 million compared to the end of the previous fiscal year due to decreases in investment in securities in the Americas, and investment in operating leases of aircraft-related operations, and yen appreciation, despite an increase in installment loans in the Americas.

	Three months ended June 30, 2015	Three months ended June 30, 2016	Change	
			Amount	Percent (%)
	(Millions of yen, except percentage data)			
Segment Revenues:				
Finance revenues	¥ 18,952	¥ 18,838	¥ (114)	(1)
Gains on investment securities and dividends	9,634	2,258	(7,376)	(77)
Operating leases	21,650	22,722	1,072	5
Services income	75,916	55,088	(20,828)	(27)
Sales of goods and real estate, and other	21,021	26,915	5,894	28
Total Segment Revenues	147,173	125,821	(21,352)	(15)
Segment Expenses:				
Interest expense	7,867	8,838	971	12
Provision for doubtful receivables and probable loan losses and write-downs of long-lived assets and securities	2,453	580	(1,873)	(76)
Other than the above	102,834	91,226	(11,608)	(11)
Total Segment Expenses	113,154	100,644	(12,510)	(11)
Segment Operating Income	34,019	25,177	(8,842)	(26)
Equity in Net Income of Affiliates, and others	467	4,689	4,222	904
Segment Profits	¥ 34,486	¥ 29,866	¥ (4,620)	(13)

	As of March 31, 2016	As of June 30, 2016	Change	
			Amount	Percent (%)
	(Millions of yen, except percentage data)			
Investment in direct financing leases	¥ 351,010	¥ 312,964	¥ (38,046)	(11)
Installment loans	407,870	385,974	(21,896)	(5)
Investment in operating leases	375,401	329,405	(45,996)	(12)
Investment in securities	383,227	318,337	(64,890)	(17)
Property under facility operations	23,762	21,659	(2,103)	(9)
Inventories	37,782	32,770	(5,012)	(13)
Advances for investment in operating leases	5,302	6,496	1,194	23
Investment in affiliates	305,674	296,017	(9,657)	(3)
Advances for property under facility operations	39	43	4	10
Goodwill and other intangible assets acquired in business combinations	394,666	364,148	(30,518)	(8)
Total Segment Assets	¥ 2,284,733	¥ 2,067,813	¥(216,920)	(9)

(2) Financial Condition

	As of March 31, 2016	As of June 30, 2016	Change	
			Amount	Percent (%)
	(Millions of yen except per share, ratios and percentages)			
Total assets	¥10,992,918	¥10,762,882	¥(230,036)	(2)
(Segment assets)	8,972,449	8,570,181	(402,268)	(4)
Total liabilities	8,512,632	8,269,617	(243,015)	(3)
(Short- and long-term debt)	4,286,542	4,136,228	(150,314)	(4)
(Deposits)	1,398,472	1,428,232	29,760	2
ORIX Corporation shareholders’ equity	2,310,431	2,326,969	16,538	1
ORIX Corporation shareholders’ equity per share (yen) *1	1,764.34	1,776.90	12.56	1
ORIX Corporation shareholders’ equity ratio *2	21.0%	21.6%	—	—
D/E ratio (Debt-to-equity ratio) (Short-and long-term debt (excluding deposits) / ORIX Corporation shareholders’ equity)	1.9x	1.8x	—	—

Note: Prior-year amounts have been adjusted for the retrospective application of Accounting Standards Update 2015-03 (“Simplifying the Presentation of Debt Issuance Costs”—ASC 835-30 (“Interest—Imputation of Interest”)) on April 1, 2016.

*1 ORIX Corporation shareholders’ equity per share is calculated using total ORIX Corporation shareholders’ equity.

*2 ORIX Corporation shareholders’ equity ratio is the ratio as of the period end of ORIX Corporation shareholders’ equity to total assets.

Total assets decreased 2% to ¥10,762,882 million compared to ¥10,992,918 million as of March 31, 2016. Investment in operating leases decreased due primarily to sales of aircraft in Overseas Business segment and sales of real estate for operating leases in Japan, and investment in securities decreased due primarily to the sales of assets held by HLIKK. In addition, investment in affiliates decreased due primarily to sales of shares of affiliates in Investment and Operation segment. Segment assets decreased 4% to ¥8,570,181 million compared to the end of the balance as of March 31, 2016.

We manage the balance of interest-bearing liabilities at an appropriate level taking into account the condition of assets and liquidity on-hand as well as the domestic and overseas financial environment. As a result, long- and short-term debt decreased and deposits increased compared to the end of the balance as of March 31, 2016. In addition, policy liabilities and policy account balances decreased due to the cancelation of variable annuity and variable life insurance contracts held by HLIKK.

Shareholders’ equity increased 1% to ¥2,326,969 million compared to the end of the balance as of March 31, 2016 primarily due to an increase in retained earnings, despite a decrease in foreign currency translation adjustments included in accumulated other comprehensive income in line with the appreciation of the yen.

(3) Liquidity and Capital Resources

We require capital resources for working capital, investment and lending in our businesses. We accordingly prioritize funding stability, maintaining adequate liquidity, and reducing capital costs. We formulate and execute on funding policies that are resistant to sudden negative events in financial markets, and then conduct funding activities in accordance with actual transitions in our assets and changes in financial markets. In preparing our management plan, we project funding activities to maintain a balanced capital structure in light of projected cash flows, asset liquidity and our own liquidity situation. When implementing the act of financing, we adjust our funding plan based on changes in the external environment and our needs in light of our business activities, and endeavor to maintain flexibility in our funding activities. We endeavor to diversify our funding sources, promote longer liability maturities, disperse interest and principal repayment dates, maintain sufficient liquidity, optimize the balance of liabilities and equity and reinforce our funding stability.

Our funding is comprised of borrowings from financial institutions, direct fund procurement from capital markets, and deposits. ORIX Group's total funding including that from short- and long-term debt and deposits on a consolidated basis was ¥5,564,460 million as of June 30, 2016. Borrowings are procured from a diverse range of financial institutions including major banks, regional banks, foreign banks and life and casualty insurance companies. The number of financial institutions from which we procured borrowings exceeded 200 as of June 30, 2016. Procurement from the capital markets is composed of bonds, medium-term notes, commercial paper, payables under securitized leases, loan receivables and other assets (including asset backed securities). ORIX Group accepts deposits for funding purposes, with the majority of deposits attributable to ORIX Bank Corporation.

In an effort to promote longer liability maturities and diversify our funding sources, during the three months ended June 30, 2016, we issued US$, Korean won, and Malaysian ringgit denominated straight bonds and medium-term notes outside Japan. We procured financing by subordinated syndicated loan (Hybrid Loan) which has similar characteristics to capital. We intend to continue to strengthen our financial condition, while maintaining appropriately diverse funding.

Short-term and long-term debt and deposits

(a) Short-term debt

	Millions of yen	
	March 31, 2016	June 30, 2016
Borrowings from financial institutions	¥ 247,263	¥ 206,565
Commercial paper	102,361	35,944
Total short-term debt	¥ 349,624	¥ 242,509

Short-term debt as of June 30, 2016 was ¥242,509 million, which accounted for 6% of the total amount of short and long-term debt (excluding deposits) as compared to 8% as of March 31, 2016.

While the amount of short-term debt as of June 30, 2016 was ¥242,509 million, the sum of cash and cash equivalents and the unused amount of committed credit facilities as of June 30, 2016 was ¥1,203,698 million.

(b) Long-term debt

	Millions of yen	
	March 31, 2016	June 30, 2016
Borrowings from financial institutions	¥ 2,723,320	¥2,656,735
Bonds	875,575	843,749
Medium-term notes	62,491	110,110
Payables under securitized lease, loan receivables and other assets	275,532	283,125
Total long-term debt	¥ 3,936,918	¥3,893,719

Note: Prior-year amounts have been adjusted for the retrospective application of Accounting Standards Update 2015-03 ("Simplifying the Presentation of Debt Issuance Costs"—ASC 835-30 ("Interest—Imputation of Interest")) on April 1, 2016.

The balance of long-term debt as of June 30, 2016 was ¥3,893,719 million, which accounted for 94% of the total amount of short and long-term debt (excluding deposits) as compared to 92% as of March 31, 2016.

(c) Deposits

	Millions of yen	
	March 31, 2016	June 30, 2016
Deposits	¥ 1,398,472	¥ 1,428,232

Apart from the short-term and long-term debt noted above, ORIX Bank Corporation and ORIX Asia Limited accept deposits. These deposit-taking subsidiaries are regulated institutions, and loans from these subsidiaries to ORIX Group entities are subject to maximum regulatory limits.

(4) Summary of Cash Flows

Cash and cash equivalents as of June 30, 2016 increased by ¥111,751 million to ¥842,171 million compared to March 31, 2016.

Cash flows provided by operating activities were ¥118,119 million in the three months ended June 30, 2016 up from ¥30,573 million during the same period of the previous fiscal year, primarily resulting from a decrease in a previous decrease in policy liabilities and policy account balances, but partially offset by a decrease in a previous decrease in trading securities as compared to the same period of the previous fiscal year.

Cash flows provided by investing activities were ¥60,442 million in the three months ended June 30, 2016 down from ¥73,356 million during the same period of the previous fiscal year. This change was primarily due to a decrease in proceeds from redemption and sales of available-for-sale securities, but partially offset by a decrease in purchases of available-for-sale securities.

Cash flows used in financing activities were ¥53,603 million in the three months ended June 30, 2016 up from ¥48,001 million during the same period of the previous fiscal year. This change was primarily due to an increase in previous net decrease in debt with maturities of three months or less, but partially offset by an increase in proceeds from debt with maturities longer than three months as compared to the same period of the previous fiscal year.

(5) Challenges to be addressed

There were no significant changes for the three months ended June 30, 2016.

(6) Research and Development Activity

There were no significant changes in research and development activity for the three months ended June 30, 2016.

(7) Major facilities

We have finished the construction of a solar power station in Tsu-city, Mie prefecture, Japan. The aggregate book value for the solar power station was ¥17 billion as of June 30, 2016.

Except for this, there were no significant changes in major facilities for the three months ended June 30, 2016.

5. Company Stock Information

(The following disclosure is provided for ORIX Corporation on a stand-alone basis and has been prepared based on Japanese GAAP.)

(1) Issued Shares, Common Stock and Additional Paid-in Capital

The number of issued shares, the amount of common stock and additional paid-in capital for the three months ended June 30, 2016 is as follows:

In thousands		Millions of yen			
Number of issued shares		Common stock		Capital reserve	
Increase, net	June 30, 2016	Increase, net	June 30, 2016	Increase, net	June 30, 2016
0	1,324,058	¥0	¥220,469	¥0	¥247,648

(2) List of Major Shareholders

Not applicable (this item is not subject to disclosure in quarterly reports for the three months ended June 30, 2016).

6. Directors and Executive Officers

Between the filing date of Form 20-F for the fiscal year ended March 31, 2016 and June 30, 2016, there were no changes of directors and executive officers.

7. Financial Information

(1) Condensed Consolidated Balance Sheets (Unaudited)

Assets	Millions of yen March 31, 2016	Millions of yen June 30, 2016
Cash and Cash Equivalents	¥ 730,420	¥ 842,171
Restricted Cash	80,979	81,388
Investment in Direct Financing Leases	1,190,136	1,146,198
Installment Loans	2,592,233	2,577,472
(The amounts of ¥20,673 million as of March 31, 2016 and ¥13,773 million as of June 30, 2016 are measured at fair value by electing the fair value option under ASC 825.)		
Allowance for Doubtful Receivables on Direct Financing Leases and Probable Loan Losses	(60,071)	(58,507)
Investment in Operating Leases	1,349,199	1,278,397
Investment in Securities	2,344,792	2,151,161
(The amounts of ¥27,367 million as of March 31, 2016 and ¥24,684 million as of June 30, 2016 are measured at fair value by electing the fair value option under ASC 825.)		
Property under Facility Operations	327,016	348,125
Investment in Affiliates	530,667	480,238
Trade Notes, Accounts and Other Receivable	294,638	278,810
Inventories	139,950	143,723
Office Facilities	120,173	120,785
Other Assets	1,352,786	1,372,921
(The amounts of ¥37,855 million as of March 31, 2016 and ¥45,217 million as of June 30, 2016 are measured at fair value by electing the fair value option under ASC 825.)		
Total Assets	¥10,992,918	¥10,762,882

Notes: 1. Prior-year amounts have been adjusted for the retrospective application of Accounting Standards Update 2015-03 (“Simplifying the Presentation of Debt Issuance Costs”—ASC 835-30 (“Interest—Imputation of Interest”)) on April 1, 2016.

2. The assets of consolidated variable interest entities (VIEs) that can be used only to settle obligations of those VIEs are below:

	Millions of yen March 31, 2016	Millions of yen June 30, 2016
Cash and Cash Equivalents	¥ 4,697	¥ 7,533
Investment in Direct Financing Leases (Net of Allowance for Doubtful Receivables on Direct Financing Leases and Probable Loan Losses)	134,604	138,489
Installment Loans (Net of Allowance for Doubtful Receivables on Direct Financing Leases and Probable Loan Losses)	195,702	171,394
Investment in Operating Leases	227,340	225,582
Property under Facility Operations	79,697	81,335
Investment in Affiliates	65,059	64,979
Others	93,410	101,186
	¥ 800,509	¥ 790,498

Liabilities and Equity	Millions of yen March 31, 2016	Millions of yen June 30, 2016
Liabilities:		
Short-Term Debt	¥ 349,624	¥ 242,509
Deposits	1,398,472	1,428,232
Trade Notes, Accounts and Other Payable	266,216	197,689
Policy Liabilities and Policy Account Balances	1,668,636	1,634,591
(The amounts of ¥795,001 million as of March 31, 2016 and ¥750,915 million as of June 30, 2016 are measured at fair value by electing the fair value option under ASC 825.)		
Current and Deferred Income Taxes	358,758	363,773
Long-Term Debt	3,936,918	3,893,719
Other Liabilities	534,008	509,104
Total Liabilities	8,512,632	8,269,617
Redeemable Noncontrolling Interests	7,467	6,881
Commitments and Contingent Liabilities		
Equity:		
Common Stock	220,469	220,469
Additional Paid-in Capital	257,629	257,667
Retained Earnings	1,864,241	1,909,869
Accumulated Other Comprehensive Income (Loss)	(6,222)	(35,434)
Treasury Stock, at Cost	(25,686)	(25,602)
ORIX Corporation Shareholders' Equity	2,310,431	2,326,969
Noncontrolling Interests	162,388	159,415
Total Equity	2,472,819	2,486,384
Total Liabilities and Equity	¥10,992,918	¥10,762,882

Notes: 1. Prior-year amounts have been adjusted for the retrospective application of Accounting Standards Update 2015-03 ("Simplifying the Presentation of Debt Issuance Costs"—ASC 835-30 ("Interest—Imputation of Interest")) on April 1, 2016.

2. The liabilities of consolidated VIEs for which creditors (or beneficial interest holders) do not have recourse to the general credit of the Company and its subsidiaries are below:

	Millions of yen March 31, 2016	Millions of yen June 30, 2016
Trade Notes, Accounts and Other Payable	¥ 1,576	¥ 13,517
Long-Term Debt	479,152	483,866
Others	11,778	12,414
	¥ 492,506	¥ 509,797

(2) Condensed Consolidated Statements of Income (Unaudited)

	Millions of yen	
	Three months ended June 30, 2015	Three months ended June 30, 2016
Revenues:		
Finance revenues	¥ 49,627	¥ 48,056
Gains on investment securities and dividends	22,933	4,006
Operating leases	95,429	104,890
Life insurance premiums and related investment income	68,314	36,772
Sales of goods and real estate	176,576	215,886
Services income	193,245	178,335
Total revenues	606,124	587,945
Expenses:		
Interest expense	18,023	18,062
Costs of operating leases	60,008	60,072
Life insurance costs	43,056	20,238
Costs of goods and real estate sold	154,781	192,366
Services expense	106,213	105,318
Other (income) and expense, net	(2,241)	(1,399)
Selling, general and administrative expenses	114,370	102,602
Provision for doubtful receivables and probable loan losses	611	2,694
Write-downs of long-lived assets	822	564
Write-downs of securities	1,949	5
Total expenses	497,592	500,522
Operating Income	108,532	87,423
Equity in Net Income of Affiliates	6,166	6,236
Gains on Sales of Subsidiaries and Affiliates and Liquidation Losses, net	9,218	20,488
Bargain Purchase Gain	0	4,287
Income before Income Taxes	123,916	118,434
Provision for Income Taxes	39,157	39,022
Net Income	84,759	79,412
Net Income Attributable to the Noncontrolling Interests	2,188	2,578
Net Income Attributable to the Redeemable Noncontrolling Interests	1,061	65
Net Income Attributable to ORIX Corporation Shareholders	¥ 81,510	¥ 76,769

	Yen	
	Three months ended June 30, 2015	Three months ended June 30, 2016
Amounts per Share of Common Stock for Net Income attributable to ORIX Corporation shareholders:		
Basic:	¥ 62.28	¥ 58.62
Diluted:	¥ 62.22	¥ 58.58

(3) Condensed Consolidated Statements of Comprehensive Income (Unaudited)

	Millions of yen	
	Three months ended June 30, 2015	Three months ended June 30, 2016
Net Income	¥ 84,759	¥ 79,412
Other comprehensive income (loss), net of tax:		
Net change of unrealized gains (losses) on investment in securities	(7,281)	6,772
Net change of defined benefit pension plans	(900)	1,297
Net change of foreign currency translation adjustments	10,996	(41,204)
Net change of unrealized gains (losses) on derivative instruments	117	(1,932)
Total other comprehensive income (loss)	2,932	(35,067)
Comprehensive Income	87,691	44,345
Comprehensive Income (Loss) Attributable to the Noncontrolling Interests	3,514	(2,626)
Comprehensive Income (Loss) Attributable to the Redeemable Noncontrolling Interests	2,486	(586)
Comprehensive Income Attributable to ORIX Corporation Shareholders	¥ 81,691	¥ 47,557

(4) Condensed Consolidated Statements of Changes in Equity (Unaudited)

Three months ended June 30, 2015

	Millions of yen							
	ORIX Corporation Shareholders' Equity							
	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total ORIX Corporation Shareholders' Equity	Noncontrolling Interests	Total Equity
Beginning Balance	¥220,056	¥ 255,595	¥1,672,585	¥ 30,373	¥ (26,411)	¥ 2,152,198	¥ 165,873	¥2,318,071
Contribution to subsidiaries						0	1,295	1,295
Transaction with noncontrolling interests		3				3	(2,191)	(2,188)
Comprehensive income, net of tax:								
Net income			81,510			81,510	2,188	83,698
Other comprehensive income (loss)								
Net change of unrealized gains (losses) on investment in securities				(7,309)		(7,309)	28	(7,281)
Net change of defined benefit pension plans				(845)		(845)	(55)	(900)
Net change of foreign currency translation adjustments				8,225		8,225	1,346	9,571
Net change of unrealized gains on derivative instruments				110		110	7	117
Total other comprehensive income						181	1,326	1,507
Total comprehensive income						81,691	3,514	85,205
Cash dividends			(47,188)			(47,188)	(2,781)	(49,969)
Exercise of stock options	400	398				798	0	798
Acquisition of treasury stock					(1)	(1)	0	(1)
Disposal of treasury stock						0	0	0
Other, net		(83)	(739)			(822)	0	(822)
Ending Balance	¥220,456	¥ 255,913	¥1,706,168	¥ 30,554	¥ (26,412)	¥ 2,186,679	¥ 165,710	¥2,352,389

Three months ended June 30, 2016

	Millions of yen							
	ORIX Corporation Shareholders' Equity							
	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total ORIX Corporation Shareholders' Equity	Noncontrolling Interests	Total Equity
Beginning Balance	¥220,469	¥ 257,629	¥1,864,241	¥ (6,222)	¥ (25,686)	¥ 2,310,431	¥ 162,388	¥2,472,819
Contribution to subsidiaries						0	959	959
Transaction with noncontrolling interests		(4)				(4)	235	231
Comprehensive income, net of tax:								
Net income			76,769			76,769	2,578	79,347
Other comprehensive income (loss)								
Net change of unrealized gains (losses) on investment in securities				6,828		6,828	(56)	6,772
Net change of defined benefit pension plans				1,180		1,180	117	1,297
Net change of foreign currency translation adjustments				(35,409)		(35,409)	(5,144)	(40,553)
Net change of unrealized gains (losses) on derivative instruments				(1,811)		(1,811)	(121)	(1,932)
Total other comprehensive income (loss)						(29,212)	(5,204)	(34,416)
Total comprehensive income (loss)						47,557	(2,626)	44,931
Cash dividends			(31,141)			(31,141)	(1,541)	(32,682)
Exercise of stock options						0	0	0
Acquisition of treasury stock						0	0	0
Disposal of treasury stock		(56)			84	28	0	28
Other, net		98				98	0	98
Ending Balance	¥220,469	¥ 257,667	¥1,909,869	¥ (35,434)	¥ (25,602)	¥ 2,326,969	¥ 159,415	¥2,486,384

Note: Changes in the redeemable noncontrolling interests are not included in this table. For further information, see Note 10 "Redeemable Noncontrolling Interests."

(5) Condensed Consolidated Statements of Cash Flows (Unaudited)

	Millions of yen	
	Three months ended June 30, 2015	Three months ended June 30, 2016
Cash Flows from Operating Activities:		
Net income	¥ 84,759	¥ 79,412
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	59,768	62,362
Provision for doubtful receivables and probable loan losses	611	2,694
Equity in net income of affiliates (excluding interest on loans)	(6,053)	(5,763)
Gains on sales of subsidiaries and affiliates and liquidation losses, net	(9,218)	(20,488)
Bargain purchase gain	0	(4,287)
Gains on sales of available-for-sale securities	(21,466)	(6,325)
Gains on sales of operating lease assets	(13,794)	(23,897)
Write-downs of long-lived assets	822	564
Write-downs of securities	1,949	5
Increase in restricted cash	(1,689)	(3,120)
Decrease in trading securities	147,591	69,233
Decrease (Increase) in inventories	5,012	(5,062)
Decrease in trade notes, accounts and other receivable	6,974	1,838
Decrease in trade notes, accounts and other payable	(52,752)	(32,004)
Decrease in policy liabilities and policy account balances	(137,699)	(34,045)
Other, net	(34,242)	37,002
Net cash provided by operating activities	30,573	118,119
Cash Flows from Investing Activities:		
Purchases of lease equipment	(227,195)	(185,973)
Principal payments received under direct financing leases	128,538	115,334
Installment loans made to customers	(243,473)	(285,141)
Principal collected on installment loans	246,577	230,764
Proceeds from sales of operating lease assets	62,106	91,387
Investment in affiliates, net	(6,406)	(7,307)
Proceeds from sales of investment in affiliates	1,084	58,552
Purchases of available-for-sale securities	(332,527)	(132,303)
Proceeds from sales of available-for-sale securities	272,934	153,067
Proceeds from redemption of available-for-sale securities	179,120	58,621
Purchases of held-to-maturity securities	(148)	(107)
Purchases of other securities	(7,217)	(4,169)
Proceeds from sales of other securities	18,169	13,895
Purchases of property under facility operations	(20,417)	(18,920)
Acquisitions of subsidiaries, net of cash acquired	(214)	(5,497)
Sales of subsidiaries, net of cash disposed	22,832	0
Other, net	(20,407)	(21,761)
Net cash provided by investing activities	73,356	60,442
Cash Flows from Financing Activities:		
Net decrease in debt with maturities of three months or less	(32,578)	(88,981)
Proceeds from debt with maturities longer than three months	367,821	411,015
Repayment of debt with maturities longer than three months	(372,868)	(372,738)
Net increase in deposits due to customers	24,346	29,974
Cash dividends paid to ORIX Corporation shareholders	(47,188)	(31,141)
Contribution from noncontrolling interests	1,456	1,027
Net increase (decrease) in call money	14,000	(2,500)
Other, net	(2,990)	(259)
Net cash used in financing activities	(48,001)	(53,603)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	3,886	(13,207)
Net increase in Cash and Cash Equivalents	59,814	111,751
Cash and Cash Equivalents at Beginning of Period	827,518	730,420
Cash and Cash Equivalents at End of Period	¥ 887,332	¥ 842,171

Notes to Consolidated Financial Statements

1. Overview of Accounting Principles Utilized

In preparing the accompanying consolidated financial statements, ORIX Corporation (the "Company") and its subsidiaries have complied with accounting principles generally accepted in the United States of America ("U.S. GAAP"), except for the accounting for stock splits (see Note 2 (n)).

These statements include all adjustments (consisting of normal recurring accruals) that we considered necessary to present a fair statement of our results of operations, financial position and cash flows. The results reported in these condensed consolidated financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year. These condensed consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in our March 31, 2016 consolidated financial statements on Form 20-F.

Since the Company listed on the New York Stock Exchange in September 1998, the Company has filed the annual report (Form 20-F) including the consolidated financial statements with the Securities and Exchange Commission.

Significant differences between U.S. GAAP and generally accepted accounting principles in Japan ("Japanese GAAP") are as follows:

(a) Initial direct costs

Under U.S. GAAP, certain initial direct costs to originate leases or loans are being deferred and amortized as yield adjustments over the life of related direct financing leases or loans by using interest method.

Under Japanese GAAP, those initial direct costs are recognized as expenses when they are incurred.

(b) Operating leases

Under U.S. GAAP, revenues from operating leases are recognized on a straight-line basis over the contract terms. Also operating lease assets are depreciated over their estimated useful lives mainly on a straight-line basis.

Japanese GAAP allows for operating lease assets to be depreciated using mainly either a declining-balance basis or a straight-line basis.

(c) Accounting for life insurance operations

Under U.S. GAAP, based on FASB Accounting Standards Codification ("ASC") 944 ("Financial Services—Insurance"), certain costs related directly to the successful acquisition of new (or renewal of) insurance contracts, or deferred policy acquisition costs, are being deferred and amortized over the respective policy periods in proportion to anticipated premium revenue.

Under Japanese GAAP, such costs are recorded as expenses currently in earnings in each accounting period.

In addition, under U.S. GAAP, although policy liabilities for future policy benefits are established using the net level premium method, based on actuarial estimates of the amount of future policyholder benefits, under Japanese GAAP, these are calculated by the methodology which relevant authorities accept.

(d) Accounting for goodwill and other intangible assets in business combination

Under U.S. GAAP, goodwill and intangible assets that have indefinite useful lives are not amortized, but assessed at least annually for impairment. Additionally, if events or changes in circumstances indicate that the asset might be impaired, the Company and its subsidiaries test for impairment when such events or changes occur.

Under Japanese GAAP, goodwill is amortized over an appropriate period up to 20 years.

(e) Accounting for contingent consideration in business combination

Under U.S. GAAP, contingent consideration issued in a business combination that is classified as a liability is recognized at fair value at the acquisition date and subsequently remeasured to fair value, with changes in fair value recognized in earnings until the contingency is resolved.

Under Japanese GAAP, contingent consideration is recognized as additional acquisition cost and goodwill is additionally recognized when it becomes most probable to deliver and its fair value becomes reasonably determinable.

(f) Accounting for pension plans

Under U.S. GAAP, the Company and its subsidiaries apply ASC 715 ("Compensation—Retirement Benefits") and record pension costs based on the amounts determined using actuarial methods. The net actuarial gain (loss) is amortized using a corridor test.

Under Japanese GAAP, the net actuarial gain (loss) is fully amortized over a certain term within the average remaining service period of employees.

(g) Sale of the parent's ownership interest in subsidiaries

Under U.S. GAAP, in a transaction that results in the loss of control, the gain or loss recognized in income includes the realized gain or loss related to the portion of ownership interest sold and the gain or loss on the remeasurement to fair value of the interest retained.

Under Japanese GAAP, in a transaction that results in the loss of control, only the realized gain or loss related to the portion of ownership interest sold is recognized in income and the gain or loss on the remeasurement to fair value of the interest retained is not recognized.

(h) Classification in consolidated statements of cash flows

Classification in the statements of cash flows under U.S. GAAP is based on ASC 230 ("Statement of Cash Flows"), which differs from Japanese GAAP. As significant differences, purchase of lease equipment and principal payments received under direct financing leases, proceeds from sales of operating lease assets, installment loans made to customers and principal collected on installment loans (excluding issues and collections of loans held for sale) are included in "Cash Flows from Investing Activities" under U.S. GAAP while they are classified as "Cash Flows from Operating Activities" under Japanese GAAP.

(i) Securitization of financial assets

Under U.S. GAAP, an enterprise is required to perform analysis to determine whether or not to consolidate special-purpose entities ("SPEs") for securitization under the VIE's consolidation rules. As a result of the analysis, if it is determined that the enterprise transferred financial assets in a securitization transaction to an SPE that needs to be consolidated, the transaction is not accounted for as a sale but accounted for as a secured borrowing.

Under Japanese GAAP, an SPE that meets certain conditions may be considered not to be a subsidiary of the transferor. Therefore, if an enterprise transfers financial assets to this type of SPE in a securitization transaction, the transferee SPE is not required to be consolidated, and the enterprise accounts for the transaction as a sale and recognizes a gain or loss on the sale into earnings when control over the transferred assets is surrendered.

(j) Fair value option

Under U.S. GAAP, an entity is permitted to elect at specified election dates to measure eligible financial assets and liabilities at their fair value and to report subsequent changes in the fair value in earnings.

Under Japanese GAAP, there is no accounting standard for fair value option.

2. Significant Accounting and Reporting Policies

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and all of its subsidiaries. Investments in affiliates, where the Company has the ability to exercise significant influence by way of 20% – 50% ownership or other means, are accounted for by using the equity method. Where the Company holds majority voting interests but noncontrolling shareholders have substantive participating rights to decisions that occur as part of the ordinary course of their business, the equity method is applied pursuant to ASC 810-10-25-2 to 14 ("Consolidation—The Effect of Noncontrolling Rights on Consolidation"). In addition, the consolidated financial statements also include variable interest entities to which the Company and its subsidiaries are primary beneficiaries pursuant to ASC 810 ("Consolidation").

A lag period of up to three months is used on a consistent basis for recognizing the results of certain subsidiaries and affiliates.

All significant intercompany accounts and transactions have been eliminated in consolidation.

(b) Use of estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Company has identified ten areas where it believes assumptions and estimates are particularly critical to the financial statements. The Company makes estimates and assumptions to the selection of valuation techniques and determination of assumptions used in fair value measurements (see Note 3), the determination and periodic reassessment of the unguaranteed residual value for direct financing leases and operating leases (see (d)), the determination and reassessment of insurance policy liabilities and deferred policy acquisition costs (see (e)), the determination of the allowance for doubtful receivables on direct financing leases and probable loan losses (see (f)), the recognition and measurement of impairment of long-lived assets (see (g)), the recognition and measurement of impairment of investment in securities (see (h)), the determination of the valuation allowance for deferred tax assets and the evaluation of tax positions (see (i)), the assessment and measurement of effectiveness in hedging relationship using derivative financial instruments (see (k)), the determination of benefit obligation and net periodic pension cost (see (l)) and the recognition and measurement of impairment of goodwill and intangible assets that have indefinite useful lives (see (w)).

(c) Foreign currencies translation

The Company and its subsidiaries maintain their accounting records in their functional currency. Transactions in foreign currencies are recorded in the entity's functional currency based on the prevailing exchange rates on the transaction date.

The financial statements of overseas subsidiaries and affiliates are translated into Japanese yen by applying the exchange rates in effect at the end of each fiscal period to all assets and liabilities. Income and expenses are translated at the average rates of exchange prevailing during the fiscal period. The currencies in which the operations of the overseas subsidiaries and affiliates are conducted are regarded as the functional currencies of these companies. Foreign currency translation adjustments reflected in accumulated other comprehensive income (loss) arise from the translation of foreign currency financial statements into Japanese yen.

(d) Recognition of revenues

Revenues are recognized when persuasive evidence of an arrangement exists, the service has been rendered or the goods have been delivered to the customer, the transaction price is fixed or determinable and collectability is reasonably assured.

In addition to the aforementioned general policy, the policies as specifically described hereinafter are applied for each of the major revenue items.

Finance Revenues—Finance revenues mainly include revenues for direct financing leases and installment loans. The policies applied to direct financing leases and installment loans are described hereinafter.

(1) Revenues from direct financing leases

Direct financing leases consist of full-payout leases for various equipment types, including office equipment, industrial machinery and transportation equipment. In providing leasing services, the Company and its subsidiaries execute supplemental services, such as paying insurance and handling taxes on leased assets on behalf of lessees. The excess of aggregate lease rentals plus the estimated unguaranteed residual value over the cost of the leased equipment constitutes the unearned lease income to be taken into income over the lease term by using the interest method. The estimated residual values represent estimated proceeds from the disposition of equipment at the time the lease is terminated. Estimates of unguaranteed residual values are based on market values of used equipment, estimates of when and how much equipment will become obsolete, and actual recovery being experienced for similar used equipment. Initial direct costs are being deferred and amortized as a yield adjustment over the life of the related lease by using interest method. The unamortized balance of initial direct costs is reflected as a component of investment in direct financing leases.

(2) Revenues from installment loans

Interest income on installment loans is recognized on an accrual basis. Certain direct loan origination costs, net of origination fees, are being deferred and amortized over the contractual term of the loan as an adjustment of the related loan's yield using the interest method.

Interest payments received on impaired loans other than purchased loans are recorded as interest income unless the collection of the remaining investment is doubtful at which time payments received are recorded as reductions of principal. For purchased loans, although the acquired assets may remain loans in legal form, collections on these loans often do not reflect the normal historical experience of collecting delinquent accounts, and the need to tailor individual collateral-realization strategies often makes it difficult to reliably estimate the amount, timing, or nature of collections. Accordingly, the Company and its subsidiaries use the cost recovery method of income recognition for such purchased loans regardless of whether impairment is recognized or not.

(3) Non-accrual policy

In common with all classes, past-due financing receivables are receivables for which principal or interest is past-due 30 days or more. Loans whose terms have been modified are not classified as past-due financing receivables if the principals and interests are not past-due 30 days or more in accordance with the modified terms. The Company and its subsidiaries suspend accruing revenues on past-due installment loans and direct financing leases when principal or interest is past-due 90 days or more, or earlier, if management determines that their collections are doubtful based on factors such as individual debtors' creditworthiness, historical loss experience, current delinquencies and delinquency trends. Accrued but uncollected interest is reclassified to investment in direct financing leases or installment loans in the accompanying consolidated balance sheets and becomes subject to the allowance for doubtful receivables and probable loan loss process. Cash repayments received on non-accrual loans are applied first against past due interest and then any surpluses are applied to principal in view of the conditions of the contract and obligors. The Company and its subsidiaries return non-accrual loans and lease receivables to accrual status when it becomes probable that the Company and its subsidiaries will be able to collect all amounts due according to the contractual terms of these loans and receivables, as evidenced by continual payments from the debtors. The period of such continual payments before returning to accrual status varies depending on factors that we consider are relevant in assessing the debtor's creditworthiness, such as the debtor's business characteristics and financial conditions as well as relevant economic conditions and trends.

Gains on investment securities and dividends**—**Gains on investment securities are recorded on a trade date basis. Dividends are recorded when right to receive dividends is established.

Operating leases—Revenues from operating leases are recognized on a straight-line basis over the contract terms. Investment in operating leases is recorded at cost less accumulated depreciation, which was ¥542,868 million and ¥536,225 million as of March 31, 2016 and June 30, 2016, respectively. Operating lease assets are depreciated over their estimated useful lives mainly on a straight-line basis. Depreciation expenses are included in costs of operating leases. Gains or losses arising from dispositions of operating lease assets are included in operating lease revenues.

Estimates of residual values are based on market values of used equipment, estimates of when and the extent to which equipment will become obsolete and actual recovery being experienced for similar used equipment.

Sales of goods and real estate—

(1) Sales of goods

The Company and its subsidiaries sell to their customers various types of goods, including precious metals and jewels, and aftermarket parts and accessories for vehicles. Revenues from such sales of goods are recognized when persuasive evidence of an arrangement exists, delivery has occurred, and collectability is reasonably assured. Delivery is considered to have occurred when the customer has taken title to the goods and assumed the risks and rewards of ownership. Revenues are recognized net of estimated sales returns and incentives.

(2) Real estate sales

Revenues from the sales of real estate are recognized when a contract is in place, a closing has taken place, the buyer's initial and continuing investment is adequate to demonstrate a commitment to pay for the property and the Company and its subsidiaries do not have a substantial continuing involvement in the property.

Services income—Revenues are recognized when persuasive evidence of an arrangement exists, the service has been rendered to the customer, the transaction price is fixed or determinable and collectability is reasonably assured. The policies applied to asset management, servicing and automobile maintenance services are described hereinafter.

(1) Revenues from asset management and servicing

The Company and its subsidiaries provide to our customers investment management services for investments in financial assets, and asset management as well as maintenance and administrative services for investments in real estate properties. The Company and its subsidiaries also perform servicing on behalf of our customers. The Company and its subsidiaries receive fees for those services from our customers.

Revenues from asset management and servicing primarily include management fees, servicing fees, and performance fees. Management and servicing fees are recognized when transactions occur or services are rendered and the amounts are fixed or determinable and collectability of which is reasonably assured. Management fees are calculated based on the predetermined percentages of the market value of the assets under management or net assets of the investment funds in accordance with contracts. Certain subsidiaries recognize revenues from performance fees when earned based on the performance of the asset under management while other subsidiaries recognize revenues from performance fees on an accrual basis over the period in which services are performed. Performance fees are calculated based on the predetermined percentages on the performance of the assets under management in accordance with the contracts.

(2) Revenues from automobile maintenance services

The Company and its subsidiaries provide automobile maintenance services to lessees. Where under terms of the lease or related maintenance agreements the Company and its subsidiaries bear the favorable or unfavorable variability of cost, revenues and expenses are recorded on a gross basis. For those arrangements in which the Company and its subsidiaries do not have substantial risks and rewards of ownership, but instead serve as an agent in collecting from lessees and remitting payments to third parties, the Company and its subsidiaries record revenues net of third-party services costs. Revenues from automobile maintenance services are recognized over the contract period in proportion to the estimated service costs to be incurred.

(e) Insurance and reinsurance transactions

Premium income from life insurance policies, net of premiums on reinsurance ceded, is recognized as earned premiums when due.

Life insurance benefits are recorded as expenses when they are incurred. Policy liabilities and policy account balances for future policy benefits are measured using the net level premium method, based on actuarial estimates of the amount of future policyholder benefits. The policies are characterized as long-duration policies and mainly consist of whole life, term life, endowments, medical insurance and individual annuity insurance contracts. For policies other than individual annuity insurance contracts, computation of policy liabilities necessarily includes assumptions about mortality, morbidity, lapse rates, future yields on related investments and other factors applicable at the time the policies are written. A certain subsidiary continually evaluates the potential for changes in the estimates and assumptions applied in determining policy liabilities, both positive and negative and uses the results of these evaluations both to adjust recorded liabilities and to adjust underwriting criteria and product offerings.

The insurance contracts sold by the subsidiary consist of variable annuity, variable life and fixed annuity insurance contracts. The subsidiary manages investment assets on behalf of variable annuity and variable life policyholders, which consist of equity securities and are included in investments in securities in the consolidated balance sheets. These investment assets are measured at fair value with realized and unrealized gains or losses recognized in life insurance premiums and related investment income in the consolidated statements of income. The subsidiary elected the fair value option for the entire variable annuity and variable life insurance contracts in accordance with ASC 825 ("Financial Instruments") with changes in the fair value recognized in life insurance costs.

The subsidiary provides minimum guarantees to variable annuity and variable life policyholders under which it is exposed to the risk of compensating losses incurred by the policyholders to the extent contractually required. To mitigate the risk, a portion of the minimum guarantee risk related to variable annuity and variable life insurance contracts is ceded to reinsurance companies and the remaining risk is economically hedged by entering into derivative contracts (See Note 18 "Derivative financial instruments and hedging"). The reinsurance contracts do not relieve the subsidiary from the obligation as the primary obligor to compensate certain losses incurred by the policyholders, and the default of the reinsurance companies may impose additional losses on the subsidiary. Certain subsidiaries have elected the fair value option under ASC 825 ("Financial Instruments") for certain reinsurance contracts relating to variable annuity and variable life insurance contracts, which is included in other assets in the consolidated balance sheets.

Policy liabilities and policy account balances for fixed annuity insurance contracts are measured based on the single-premiums plus interest based on expected rate and fair value adjustments relating to the acquisition of a subsidiary, less withdrawals, expenses and other charges. The credited interest is recorded in life insurance costs in the consolidated statements of income.

ASC 944 ("Financial Services—Insurance") requires insurance companies to defer certain costs related directly to the successful acquisition of new or renewal insurance contracts, or deferred policy acquisition costs, and amortize them over the respective policy periods in proportion to anticipated premium revenue. These deferred policy acquisition costs consist primarily of first-year commissions, except for recurring policy maintenance costs and certain variable costs and expenses for underwriting policies.

(f) Allowance for doubtful receivables on direct financing leases and probable loan losses

The allowance for doubtful receivables on direct financing leases and probable loan losses is maintained at a level which, in the judgment of management, is appropriate to provide for probable losses inherent in lease and loan portfolios. The allowance is increased by provision charged to income and is decreased by charge-offs, net of recoveries.

Developing the allowance for doubtful receivables on direct financing leases and probable loan losses is subject to numerous estimates and judgments. In evaluating the appropriateness of the allowance, management considers various factors, including the business characteristics and financial conditions of the obligors, current economic conditions and trends, prior charge-off experience, current delinquencies and delinquency trends, future cash flows expected to be received from the direct financing leases and loans and value of underlying collateral and guarantees. Impaired loans are individually evaluated for a valuation allowance based on the present value of expected future cash flows, the loan's observable market price or the fair value of the collateral securing the loans if the loans are collateral-dependent. For non-impaired loans, including loans that are not individually evaluated for impairment, and direct financing leases, the Company and its subsidiaries evaluate prior charge-off experience segmented by the debtors' industries and the purpose of the loans, and then develop the allowance for doubtful receivables on direct financing leases and probable loan losses considering the prior charge-off experience and current economic conditions.

The Company and its subsidiaries charge off doubtful receivables when the likelihood of any future collection is believed to be minimal considering debtors' creditworthiness and the liquidation status of collateral.

(g) Impairment of long-lived assets

The Company and its subsidiaries have followed ASC 360 ("Property, Plant, and Equipment"). Under ASC 360, long-lived assets to be held and used in operations, including tangible assets and intangible assets being amortized, consisting primarily of office buildings, condominiums, golf courses and other properties under facility operations, are tested for recoverability whenever events or changes in circumstances indicate that the assets might be impaired. The assets are considered not recoverable when the undiscounted future cash flows estimated to be generated by those assets are less than the carrying amount of those assets, and the net carrying amount of assets not recoverable is reduced to fair value if lower than the carrying amount. The Company and its subsidiaries determine the fair value using appraisals prepared by independent third party appraisers or our own staff of qualified appraisers based on recent transactions involving sales of similar assets or other valuation techniques, such as discounted cash flows methodologies using future cash flows estimated to be generated from operation of the existing assets or completion of development projects, as appropriate.

(h) Investment in securities

Trading securities are reported at fair value with unrealized gains and losses included in income.

Available-for-sale securities are reported at fair value, and unrealized gains or losses are recorded in accumulated other comprehensive income (loss), net of applicable income taxes, except investments which are recorded at fair value with unrealized gains and losses included in income by electing the fair value option under ASC 825 ("Financial Instruments").

Held-to-maturity securities are recorded at amortized cost.

Other securities are recorded at cost or carrying value that reflects equity income and loss based on the Company's share, except investments which are recorded at fair value with unrealized gains and losses included in income by electing the fair value option under ASC 825 ("Financial Instruments").

For available-for-sale securities, the Company and its subsidiaries generally recognize losses related to equity securities for which the fair value has been significantly below the acquisition cost (or current carrying value if an adjustment has been made in the past) for more than six months. Also, the Company and its subsidiaries charge against income losses related to equity securities in situations where, even though the fair value has not remained significantly below the carrying value for six months, the decline in the fair value of an equity security is based on the issuer's specific economic conditions and not just general declines in the related market and where it is considered unlikely that the fair value of the equity security will recover within six months.

For debt securities, where the fair value is less than the amortized cost, the Company and its subsidiaries consider whether those securities are other-than-temporarily impaired using all available information about their collectability. The Company and its subsidiaries do not consider a debt security to be other-than-temporarily impaired if (1) the Company and its subsidiaries do not intend to sell the debt security, (2) it is not more likely than not that the Company and its subsidiaries will be required to sell the debt security before recovery of its amortized cost basis and (3) the present value of estimated cash flows will fully cover the amortized cost of the security. On the other hand, the Company and its subsidiaries consider a debt security to be other-than-temporarily impaired if any of the above mentioned three conditions are not met. When the Company and its subsidiaries deem a debt security to be other-than-temporarily impaired, the Company and its subsidiaries recognize the entire difference between the amortized cost and the fair value of the debt securities in earnings if the Company and its subsidiaries intend to sell the debt security or it is more likely than not that the Company and its subsidiaries will be required to sell the debt security before recovery of its amortized cost basis less any current-period credit loss. However, if the Company and its subsidiaries do not intend to sell the debt security and it is not more likely than not that the Company and its subsidiaries will be required to sell the debt security before recovery of its amortized cost basis less any current-period credit loss, the Company and its subsidiaries separate the difference between the amortized cost and the fair value of the debt securities into the credit loss component and the non-credit loss component. The credit loss component is recognized in earnings, and the non-credit loss component is recognized in other comprehensive income (loss), net of applicable income taxes.

For other securities, when the Company and its subsidiaries determine the decline in value is other than temporary, the Company and its subsidiaries reduce the carrying value of the security to the fair value and charge against income losses related to these other securities.

(i) Income taxes

The Company, in general, determines its provision for income taxes for quarterly periods by applying the current estimate of the effective tax rate for the full fiscal year to the actual year-to-date income before income taxes. The estimated effective tax rate is determined by dividing the estimated provision for income taxes for the full fiscal year by the estimated income before income taxes for the full fiscal year.

At the fiscal year end, income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rate is recognized in income in the period that includes the enactment date. A valuation allowance is recognized if, based on the weight of available evidence, it is “more likely than not” that some portion or all of the deferred tax asset will not be realized.

The effective income tax rates for the three months ended June 30, 2015 and 2016 were 31.6% and 32.9%, respectively. For the three months ended June 30, 2015, the Company and its subsidiaries in Japan were subject to a National Corporate tax of approximately 25%, an Inhabitant tax of approximately 4% and a deductible Enterprise tax of approximately 6%, which in the aggregate result in a statutory income tax rate of approximately 33.5%. For the three months ended June 30, 2016, as a result of the tax reforms as discussed in the following paragraph, the Company and its subsidiaries in Japan were subject to a National Corporate tax of approximately 24%, an Inhabitant tax of approximately 4% and a deductible Enterprise tax of approximately 4%, which in the aggregate result in a statutory income tax rate of approximately 31.7%. The effective income tax rate is different from the statutory tax rate primarily because of certain nondeductible expenses for tax purposes, non-taxable income for tax purposes, changes in valuation allowance, the effect of lower income tax rates on foreign subsidiaries and a domestic life insurance subsidiary.

On March 29, 2016, the 2016 tax reform bill was passed by the National Diet of Japan. From fiscal years beginning on April 1, 2016, the national corporate tax rate and local business tax rate were reduced and the local corporate tax rate was increased. The net effect of those changes was a reduction in the combined statutory income tax rate for the fiscal year beginning on April 1, 2016 from approximately 32.9% to approximately 31.7%, and a further reduction in the combined statutory income tax rate for fiscal year beginning on April 1, 2017 to approximately 31.5%. For the fiscal years beginning on or after April 1, 2018, the combined statutory income tax rate was further reduced to approximately 31.3%. In addition, tax loss carryforward rules were amended, and the deductible amount of tax losses carried forward for the fiscal year beginning on April 1, 2016 is reduced to 60% of taxable income for the year, compared to 65% pursuant to the 2015 tax reform. From the fiscal year beginning on April 1, 2017, the deductible limit of tax losses carried forward will be increased to 55% of taxable income for the year, while the tax loss carryforward period will be reduced from ten years to nine years. From the fiscal years beginning on or after April 1, 2018, the deductible limit of tax losses carried forward will remain at 50% of taxable income for the year and the tax loss carryforward period will remain at 10 years, consistent with the 2015 tax reform.

The Company and its subsidiaries file tax returns in Japan and certain foreign tax jurisdictions and recognize the financial statement effects of a tax position taken or expected to be taken in a tax return when it is more likely than not, based on the technical merits, that the position will be sustained upon tax examination, including resolution of any related appeals or litigation processes, and measure tax positions that meet the recognition threshold at the largest amount of tax benefit that is greater than 50 percent likely to be realized upon settlement with the taxing authority. The Company and its subsidiaries present an unrecognized tax benefit as either a reduction of a deferred tax asset, a reduction of an amount refundable or a liability, based on the intended method of settlement. The Company and its subsidiaries classify penalties and interest expense related to income taxes as part of provision for income taxes in the condensed consolidated statements of income.

The Company and certain subsidiaries have elected to file a consolidated tax return for National Corporation tax purposes.

(j) Securitized assets

The Company and its subsidiaries have securitized and sold to investors various financial assets such as lease receivables and loan receivables. In the securitization process, the assets to be securitized are sold to trusts or SPEs that issue asset-backed beneficial interests and securities to the investors.

In accordance with ASC 860 ("Transfers and Servicing") and ASC 810 ("Consolidation"), trusts or SPEs used in securitization transactions are consolidated if the Company and its subsidiaries are the primary beneficiary of the trusts or SPEs, and the transfers of the financial assets to those consolidated trusts and SPEs are not accounted for as sales. Assets held by consolidated trusts or consolidated SPEs continue to be accounted for as lease receivables or loan receivables, as they were before the transfer, and asset-backed beneficial interests and securities issued to the investors are accounted for as debt. When the Company and its subsidiaries have transferred financial assets to a transferee that is not subject to consolidation, the Company and its subsidiaries account for the transfer as a sale if control over the transferred assets is surrendered.

A certain subsidiary originates and sells loans into the secondary market, while retaining the obligation to service those loans. In addition, it undertakes obligations to service loans originated by others. The subsidiary recognizes servicing assets if it expects the benefit of servicing to more than adequately compensate it for performing the servicing or recognizes servicing liabilities if it expects the benefit of servicing to less than adequately compensate it. These servicing assets and liabilities are initially recognized at fair value and subsequently accounted for using the amortization method whereby the assets and liabilities are amortized in proportion to and over the period of estimated net servicing income or net servicing loss. On a quarterly basis, servicing assets and liabilities are evaluated for impairment or increased obligations. The fair value of servicing assets and liabilities is estimated using an internal valuation model, or by obtaining an opinion of value from an independent third-party vendor. Both methods are based on calculating the present value of estimated future net servicing cash flows, taking into consideration discount rates, prepayments and servicing costs. The internal valuation model is validated at least semiannually through third-party valuations.

(k) Derivative financial instruments

The Company and its subsidiaries apply ASC 815 (“Derivatives and Hedging”), and all derivatives held by the Company and its subsidiaries are recognized on the consolidated balance sheets at fair value. The accounting treatment of subsequent changes in the fair value depends on their use, and whether they qualify as effective “hedges” for accounting purposes. Derivatives that are not hedges must be adjusted to fair value through the consolidated statements of income. If a derivative is a hedge, then depending on its nature, changes in its fair value will be either offset against change in the fair value of hedged assets or liabilities through the consolidated statements of income, or recorded in other comprehensive income (loss).

If a derivative is held as a hedge of the variability of fair value related to a recognized asset or liability or an unrecognized firm commitment (“fair value” hedge), changes in the fair value of the derivative are recorded in earnings along with the changes in the fair value of the hedged item.

If a derivative is held as a hedge of the variability of cash flows related to a forecasted transaction or a recognized asset or liability (“cash flow” hedge), changes in the fair value of the derivative are recorded in other comprehensive income (loss) to the extent that the derivative is effective as a hedge, until earnings are affected by the variability in cash flows of the designated hedged item.

If a derivative is held as a hedge of a foreign-currency fair-value or cash-flow hedge (“foreign currency” hedge), changes in the fair value of the derivative are recorded in either earnings or other comprehensive income (loss), depending on whether the hedged transaction is a fair-value hedge or a cash-flow hedge. However, if a derivative is used as a hedge of a net investment in a foreign operation, changes in its fair value, to the extent effective as a hedge, are recorded in the foreign currency translation adjustments account within other comprehensive income (loss).

Changes in the fair value of derivatives that are held for trading purposes or held for the purpose of economic hedges, and the ineffective portion of changes in fair value of derivatives that qualify as a hedge, are recorded in earnings.

For all hedging relationships that are designated and qualify as hedging, at inception the Company and its subsidiaries formally document the details of the hedging relationship and the hedged activity. The Company and its subsidiaries also formally assess, both at the hedge’s inception and on an ongoing basis, the effectiveness of the hedge relationship. The Company and its subsidiaries cease hedge accounting prospectively when the derivative no longer qualifies for hedge accounting.

(l) Pension plans

The Company and certain subsidiaries have contributory and non-contributory pension plans covering substantially all of their employees. The Company and its subsidiaries apply ASC 715 (“Compensation—Retirement Benefits”), and the costs of pension plans are accrued based on amounts determined using actuarial methods, with assumptions of discount rate, rate of increase in compensation level, expected long-term rate of return on plan assets and others.

The Company and its subsidiaries also recognize the funded status of pension plans, measured as the difference between the fair value of plan assets and the benefit obligation, on the consolidated balance sheets. Changes in that funded status are recognized in the year in which the changes occur through other comprehensive income (loss), net of applicable income taxes.

(m) Stock-based compensation

The Company and its subsidiaries apply ASC 718 (“Compensation—Stock Compensation”). ASC 718 requires, with limited exception, that the cost of employee services received in exchange for an award of equity instruments be measured based on the grant-date fair value. The costs are recognized over the requisite employee service period.

(n) Stock splits

Stock splits implemented prior to October 1, 2001 had been accounted for by transferring an amount equivalent to the par value of the shares from additional paid-in capital to common stock as required by the Japanese Commercial Code (the “Code”) before amendment. However, no such reclassification was made for stock splits when common stock already included a portion of the proceeds from shares issued at a price in excess of par value. This method of accounting was in conformity with accounting principles generally accepted in Japan.

As a result of a revision to the Code before amendment effective on October 1, 2001 and the Companies Act implemented on May 1, 2006, the above-mentioned method of accounting required by the Code became unnecessary.

In the United States, stock splits in comparable circumstances are considered to be stock dividends and are accounted for by transferring from retained earnings to common stock and additional paid-in capital amounts equal to the fair market value of the shares issued. Common stock is increased by the par value of the shares and additional paid-in capital is increased by the excess of the market value over par value of the shares issued. Had such stock splits made prior to October 1, 2001 been accounted for in this manner, additional paid-in capital as of June 30, 2016 would have increased by approximately ¥24,674 million, with a corresponding decrease in retained earnings. Total ORIX Corporation shareholders' equity would remain unchanged. Stock splits on May 19, 2000 were excluded from the above amounts because the stock splits were not considered to be stock dividends under U.S. GAAP.

(o) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits placed with banks and short-term highly liquid investments with original maturities of three months or less.

(p) Restricted cash

Restricted cash consists of trust accounts under securitization programs and real estate, deposits related to servicing agreements, deposits collected on the underlying assets and applied to non-recourse loans and others.

(q) Installment loans

Certain loans, for which the Company and its subsidiaries have the intent and ability to sell to outside parties in the foreseeable future, are considered held for sale and are carried at the lower of cost or fair value determined on an individual basis, except loans held for sale for which the fair value option under ASC 825 ("Financial Instruments") was elected. A subsidiary elected the fair value option under ASC 825 on its loans held for sale originated on or after October 1, 2011. The subsidiary enters into forward sale agreements to offset the change in the fair value of loans held for sale, and the election of the fair value option allows the subsidiary to recognize both the change in the fair value of the loans and the change in the fair value of the forward sale agreements due to changes in interest rates in the same accounting period.

Loans held for sale are included in installment loans, and the outstanding balances of these loans as of March 31, 2016 and June 30, 2016 were ¥21,867 million and ¥18,872 million, respectively. There were ¥20,673 million and ¥13,773 million of loans held for sale as of March 31, 2016 and June 30, 2016, respectively, measured at fair value by electing the fair value option.

(r) Property under facility operations

Property under facility operations consist primarily of operating facilities (including golf courses, hotels, training facilities and senior housings) and environmental assets (including mega solar), which are stated at cost less accumulated depreciation, and depreciation is calculated mainly on a straight-line basis over the estimated useful lives of the assets. Accumulated depreciation was ¥67,055 million and ¥69,191 million as of March 31, 2016 and June 30, 2016, respectively.

(s) Trade notes, accounts and other receivable

Trade notes, accounts and other receivable primarily include accounts receivables in relation to sales of assets to be leased, inventories and other assets and payment made on behalf of lessees for property tax, maintenance fees and insurance premiums in relation to direct financing lease contracts.

(t) Inventories

Inventories consist primarily of residential condominiums under development, completed residential condominiums (including those waiting to be delivered to buyers under the contract for sale), and merchandise for sale. Residential condominiums under development are carried at cost less any impairment losses, and completed residential condominiums and merchandise for sale are stated at the lower of cost or fair value less cost to sell. The cost of inventories that are unique and not interchangeable is determined on the specific identification method and the cost of other inventories is principally determined on the first-in first-out (FIFO) method. As of March 31, 2016 and June 30, 2016, residential condominiums under development were ¥81,859 million and ¥82,267 million, respectively, and completed residential condominiums and merchandise for sale were ¥58,091 million and ¥61,456 million, respectively.

The Company and its subsidiaries recorded ¥2 million and ¥49 million of write-downs principally on completed residential condominiums and merchandise for sale for the three months ended June 30, 2015 and 2016, respectively, primarily resulting from a decrease in expected sales price. These write-downs were principally recorded in costs of goods and real estate sold and included in the Investment and Operation segment.

(u) Office facilities

Office facilities are stated at cost less accumulated depreciation. Depreciation is calculated on a declining-balance basis or straight-line basis over the estimated useful lives of the assets. Accumulated depreciation was ¥45,310 million and ¥46,113 million as of March 31, 2016 and June 30, 2016, respectively.

(v) Other assets

Other assets consist primarily of the excess of purchase prices over the net assets acquired in acquisitions (goodwill) and other intangible assets (see (w)), reinsurance recoverables in relation to reinsurance contracts (see (e)), deferred insurance policy acquisition costs which are amortized over the contract periods (see (e)), leasehold deposits, advance payments made in relation to purchases of assets to be leased and construction of real estate for operating lease, prepaid benefit cost, derivative assets and deferred tax assets.

(w) Goodwill and other intangible assets

The Company and its subsidiaries have followed ASC 805 ("Business Combinations") and ASC 350 ("Intangibles").

ASC 805 requires that all business combinations be accounted for using the acquisition method. It also requires that intangible assets acquired in a business combination be recognized apart from goodwill if the intangible assets meet one of two criteria—either the contractual-legal criterion or the separability criterion. Goodwill is measured as an excess of the aggregate of consideration transferred and the fair value of noncontrolling interests over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed in the business combination measured at fair value. The Company and its subsidiaries would recognize a bargain purchase gain when the amount of recognized net assets exceeds the sum of consideration transferred and the fair value of noncontrolling interests. In a business combination achieved in stages, the Company and its subsidiaries remeasure their previously held equity interest at their acquisition-date fair value and recognize the resulting gain or loss, if any, in earnings.

ASC 350 establishes how intangible assets (other than those acquired in a business combination) should be accounted for upon acquisition. It also addresses how goodwill and other intangible assets should be accounted for subsequent to their acquisition. The Company and its subsidiaries test for impairment of goodwill and any intangible assets that have indefinite useful lives at least annually. Additionally, if events or changes in circumstances indicate that the asset might be impaired, the Company and its subsidiaries test for impairment when such events or changes occur.

The Company and its subsidiaries have the option to perform a qualitative assessment to determine whether to calculate the fair value of a reporting unit under the first step of the two-step goodwill impairment test. If, after assessing the totality of events or circumstances, the Company and/or subsidiaries determine that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then the Company and/or subsidiaries do not perform the two-step impairment test. However, if the Company and/or subsidiaries conclude otherwise, the Company and/or subsidiaries proceed to perform the first step of the two-step impairment test. The first step of goodwill impairment test, used to identify potential impairment, calculates the fair value of the reporting unit and compares the fair value with the carrying amount of the reporting unit. If the fair value of the reporting unit falls below its carrying amount, the second step of the goodwill impairment test is performed to measure the amount of impairment loss. The second step of the goodwill impairment test compares implied fair value of goodwill with its carrying amount. If the carrying amount of goodwill exceeds its implied fair value, an impairment loss is recognized in an amount equal to that excess. The Company and its subsidiaries test the goodwill either at the operating segment level or one level below the operating segments. The Company and its subsidiaries perform the qualitative assessment for some goodwill but bypass the qualitative assessment and proceed directly to the first step of the two-step impairment test for other goodwill.

The Company and its subsidiaries have the option to perform a qualitative assessment to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired. If, after assessing the totality of events and circumstances, the Company and/or subsidiaries conclude that it is not more likely than not that the indefinite-lived asset is impaired, then the Company and/or subsidiaries do not perform the quantitative impairment test. However, if the Company and/or subsidiaries conclude otherwise, the Company and/or subsidiaries calculate the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test. If the carrying amount of the indefinite-lived intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. The Company and its subsidiaries perform the qualitative assessment for some indefinite-lived intangible assets but bypass the qualitative assessment and perform the quantitative assessment for other indefinite-lived intangible assets.

Intangible assets with finite lives are amortized over their useful lives and tested for impairment in accordance with ASC 360 ("Property, Plant, and Equipment").

The amount of goodwill was ¥332,153 million and ¥314,182 million as of March 31, 2016 and June 30, 2016, respectively.

The amount of other intangible assets was ¥386,334 million and ¥363,918 million as of March 31, 2016 and June 30, 2016, respectively.

(x) Trade notes, accounts and other payable

Trade notes, accounts and other payable include primarily accounts payable in relation to purchase of assets to be leased, merchandise for sale and other assets, accounts payable in relation to construction work of residential condominiums and deposits received mainly for withholding income tax.

(y) Other Liabilities

Other liabilities include primarily interest, bonus accrued expense and accrued benefit liability, advances received from lessees in relation to lease contracts, deposit received from real estate transaction and derivative liabilities.

(z) Capitalization of interest costs

The Company and its subsidiaries capitalized interest costs related to specific long-term development projects.

(aa) Advertising

The costs of advertising are expensed as incurred.

(ab) Earnings per share

Basic earnings per share is computed by dividing net income attributable to ORIX Corporation shareholders by the weighted average number of shares of outstanding common stock in each period and diluted earnings per share, which reflects the potential dilution that could occur if securities or other contracts issuing common stock were exercised or converted into common stock.

(ac) Additional acquisition and partial sale of the parent's ownership interest in subsidiaries

Additional acquisition of the parent's ownership interest in subsidiaries and partial sale of such interest where the parent continues to retain control of the subsidiary are accounted for as equity transactions. On the other hand, in a transaction that results in the loss of control, the gain or loss recognized in income includes the realized gain or loss related to the portion of ownership interest sold and the gain or loss on the remeasurement to fair value of the interest retained.

(ad) Redeemable noncontrolling interests

Noncontrolling interests in a certain subsidiary are redeemable preferred shares which are subject to call and put rights upon certain shareholder events. As redemption of the noncontrolling interest is not solely in the control of the subsidiary, it is recorded between liabilities and equity on the consolidated balance sheets at its estimated redemption value in accordance with provisions including EITF Topic No. D-98 (ASC 480-10-s99-3A) ("Classification and Measurement of Redeemable Securities").

(ae) Issuance of stock by an affiliate

When an affiliate issues stocks to unrelated third parties, the Company and its subsidiaries' ownership interest in the affiliate decreases. In the event that the price per share is more or less than the Company and its subsidiaries' average carrying amount per share, the Company and its subsidiaries adjust the carrying amount of its investment in the affiliate and recognize gain or loss in the consolidated statements of income in the year in which the change in ownership interest occurs.

(af) New accounting pronouncements

In May 2014, Accounting Standards Update 2014-09 ("Revenue from Contracts with Customers"—ASC 606 ("Revenue from Contracts with Customers")) was issued. The core principle of this Update is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply a five-step model to determine when to recognize revenue, and in what amount. The five steps to apply the model are:

- Identify the contract(s) with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognize revenue when (or as) the entity satisfies a performance obligation

This Update requires an entity to disclose more information about contracts with customers than under the current disclosure requirements.

In April 2016, Accounting Standards Update 2016-10 ("Identifying Performance Obligations and Licensing"—ASC 606 ("Revenue from Contracts with Customers")) was issued as an amendment of the new revenue standard. This Update adds further guidance on identifying performance obligations and also improves the operability and understandability of the licensing implementation guidance. The amendments do not change the core principle of the guidance in ASC 606.

In May 2016, Accounting Standards Update 2016-12, ("Narrow-Scope Improvements and Practical Expedients"—ASC 606 ("Revenue from Contracts with Customers")) was issued as an amendment of the new revenue standard. This Update (1) clarifies the objective of the collectibility criterion for applying paragraph 606-10-25-7; (2) permits an entity to exclude amounts collected from customers for all sales (and other similar) taxes from the transaction price; (3) specifies that the measurement date for non-cash consideration is contract inception; (4) provides a practical expedient that permits an entity to reflect the aggregate effect of all modifications that occur before the beginning of the earliest period presented when identifying the satisfied and unsatisfied performance obligations, determining the transaction price, and allocating the transaction price to the satisfied and unsatisfied performance obligations; (5) clarifies that a completed contract for purposes of transition is a contract for which all (or substantially all) of the revenue was recognized under legacy GAAP before the date of initial application, and (6) clarifies that an entity that retrospectively applies ASC 606 to each prior reporting period is not required to disclose the effect of the accounting change for the period of adoption.

These Updates are effective for fiscal years, and interim periods within those fiscal years beginning after December 15, 2017. Early adoption is permitted only for the fiscal year beginning after December 15, 2016, and interim periods within the fiscal year. An entity should apply the amendments in these Updates using either a retrospective method or a cumulative-effect method. The entity may elect some optional practical expedients when applying these Updates. The entity using the cumulative-effect method would recognize the cumulative effect of initially applying these Updates as an adjustment to the opening balance of retained earnings or net assets at the date of initial application. The Company and its subsidiaries are currently evaluating the effect that the adoption of these Updates will have on the Company and its subsidiaries' results of operations or financial position.

In June 2014, Accounting Standards Update 2014-12 ("Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period"—ASC 718 ("Compensation—Stock Compensation")) was issued. This Update requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. The Company and its subsidiaries adopted this Update on April 1, 2016. The adoption had no effect on the Company and its subsidiaries' results of operations or financial position.

In August 2014, Accounting Standards Update 2014-13 ("Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity"—ASC 810 ("Consolidation")) was issued. This Update permits the parent of the consolidated collateralized financing entity ("CFE") within the scope of this Update to measure the CFE's financial assets and liabilities based on either the fair value of the financial assets or financial liabilities, whichever has the more observable inputs. The Company and its subsidiaries adopted this Update on April 1, 2016. The adoption had no effect on the Company and its subsidiaries' results of operations or financial position.

In August 2014, Accounting Standards Update 2014-15 ("Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern"—ASC 205-40 ("Presentation of Financial Statements—Going Concern")) was issued. This Update requires an entity to perform a going concern assessment by evaluating their ability to meet obligations for a look-forward period of one year from the financial statement issuance date (or date the financial statements are available to be issued). Disclosures are required if it is probable an entity will be unable to meet its obligations within the look-forward period. Incremental substantial doubt disclosure is required if the probability is not mitigated by management's plans. This Update is effective for the first fiscal year ending after December 15, 2016 and fiscal years and interim periods thereafter. Early adoption is permitted. The Update only relates to certain disclosure requirements and the adoption will have no effect on the Company and its subsidiaries' results of operations or financial position.

In November 2014, Accounting Standards Update 2014-16 ("Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity"—ASC 815 ("Derivatives and Hedging")) was issued. This Update requires an issuer or an investor of hybrid financial instruments issued in the form of a share to determine whether the nature of the host contract is more akin to debt or to equity by considering the economic characteristics and risks of the entire hybrid financial instrument, including the embedded derivative feature that is being evaluated for separate accounting from the host contract. The Company and its subsidiaries adopted this Update on April 1, 2016. The adoption had no effect on the Company and its subsidiaries' results of operations or financial position.

In January 2015, Accounting Standards Update 2015-01 ("Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items"—ASC 225-20 ("Income Statement—Extraordinary and Unusual Items")) was issued. This Update eliminates the concept of extraordinary items from U.S. GAAP, but does not change the current presentation and disclosure requirements for material events or transactions that are unusual in nature or infrequent in occurrence. The Company and its subsidiaries adopted this Update on April 1, 2016. The adoption had no effect on the Company and its subsidiaries' results of operations or financial position.

In February 2015, Accounting Standards Update 2015-02 ("Amendments to the Consolidation Analysis"—ASC 810 ("Consolidation")) was issued. This Update requires an entity to change the way to evaluate whether reporting entities should consolidate limited partnerships and similar legal entities, fees paid to a decision maker or service provider are variable interest in a VIE, and variable interests in a VIE held by related parties of the reporting entity require the reporting entity to consolidate the VIE. Additionally, the amendments in this Update rescind the indefinite deferral of FASB Statement No.167 ("Amendments to FASB Interpretation No.46(R)"), included in Accounting Standards Update 2010-10 (ASC 810 ("Consolidation")) for certain investment companies and similar entities. The Company and its subsidiaries adopted this Update on April 1, 2016. The adoption had no effect on the Company and its subsidiaries' results of operations or financial position. See Note 8 "Variable Interest Entities" where the required disclosure has been provided.

In April 2015, Accounting Standards Update 2015-03 ("Simplifying the Presentation of Debt Issuance Costs"—ASC 835-30 ("Interest—Imputation of Interest")) was issued. This Update requires that debt issuance costs related to a recognized debt liability are presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, similar to the presentation of debt discounts or premiums. The Company and its subsidiaries adopted this Update retrospectively to prior period financial statements on April 1, 2016. The effect of the retrospective adoption on the financial position as of March 31, 2016 was a decrease of approximately ¥3,988 million in other assets and a decrease of approximately ¥3,988 million in long-term debt in the condensed consolidated balance sheets.

In July 2015, Accounting Standards Update 2015-11 ("Simplifying the Measurement of Inventory"—ASC 330 ("Inventory")) was issued. This Update applies to all inventory except for which is measured using last-in, first-out (LIFO) or the retail inventory method, and requires an entity to measure inventory at the lower of cost and net realizable value. Additionally, this Update defines net realizable value as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. This Update is effective for fiscal years, and interim periods within those fiscal years beginning after December 15, 2016. The amendments in this Update should be applied on a prospective basis. Early adoption is permitted. The Company and its subsidiaries are currently evaluating the effect that the adoption of this Update will have on the Company and its subsidiaries' results of operations or financial position.

In September 2015, Accounting Standards Update 2015-16 ("Simplifying the Accounting for Measurement—Period Adjustments"—ASC 805 ("Business Combinations")) was issued. This Update requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The Company and its subsidiaries adopted this Update on April 1, 2016. The adoption had no effect on the Company and its subsidiaries' results of operations or financial position.

In January 2016, Accounting Standards Update 2016-01 ("Recognition and Measurement of Financial Assets and Financial Liabilities"—ASC 825-10 ("Financial Instruments—Overall")) was issued. This Update revises accounting related to the classification and measurement of equity investments. This Update also revises the presentation of certain fair value changes for financial liabilities measured at fair value. Additionally, this Update amends certain disclosure requirements associated with the fair value of financial instruments. This Update is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early application to financial statements of fiscal years or interim periods that have not yet been issued are permitted as of the beginning of the fiscal year of adoption. The amendments in this Update should be applied by means of cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. The Company and its subsidiaries are currently evaluating the effect that adoption of this Update will have on the Company and its subsidiaries' results of operations or financial position.

In February 2016, Accounting Standards Update 2016-02 (ASC 842 ("Leases")) was issued. This Update requires a lessee to recognize most leases on-balance sheet. Lessor accounting remains substantially similar to current U.S. GAAP but with some important changes. This Update is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early application is permitted. The amendments in this Update should be applied at the beginning of the earliest period presented using a modified retrospective approach. The modified retrospective approach includes a number of optional practical expedients that entities may elect to apply. The Company and its subsidiaries are currently evaluating the effect that adoption of this Update will have on the Company and its subsidiaries' results of operations or financial position.

In March 2016, Accounting Standards Update 2016-07 ("Simplifying the Transition to the Equity Method Accounting"—ASC 323 ("Investments—Equity Method and Joint Ventures")) was issued. This Update eliminates the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment had been held. This Update also requires that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and requires that an entity that has an available-for sale equity security that becomes qualified for the equity method of accounting recognize through earnings the unrealized holding gain or loss in accumulated other comprehensive income at the date the investment becomes qualified for use of the equity method. This Update is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. The amendments in this Update should be applied prospectively. Early application is permitted. Generally, the effect of adopting this Update on the Company and its subsidiaries' results of operations or financial position will depend on future transactions.

In June 2016, Accounting Standards Update 2016-13 ("Measurement of Credit Losses on Financial Instruments"—ASC 326 ("Financial Instruments—Credit Losses")) was issued. This Update significantly changes how companies measure and recognize credit impairment for many financial assets. The new current expected credit loss model requires companies to immediately recognize an estimate of credit losses expected to occur over the remaining life of the financial assets that are within the scope of this Update. This Update also makes targeted amendments to the current impairment model for available-for-sale debt securities. This Update is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. The amendments in this Update should be applied through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. Early application is permitted for fiscal year beginning after December 15, 2018, including interim periods within the fiscal year. The Company and its subsidiaries are currently evaluating the effect that adoption of this Update will have on the Company and its subsidiaries' results of operations or financial position.

3. Fair Value Measurements

The Company and its subsidiaries adopted ASC 820 ("Fair Value Measurement"). This Codification Section defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements.

This Codification Section classifies and prioritizes inputs used in valuation techniques to measure fair value into the following three levels:

Level 1: Inputs of quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly.

Level 3: Unobservable inputs for the assets or liabilities.

This Codification Section differentiates between those assets and liabilities required to be carried at fair value at every reporting period ("recurring") and those assets and liabilities that are only required to be adjusted to fair value under certain circumstances ("nonrecurring"). The Company and its subsidiaries mainly measure certain loans held for sale, trading securities, available-for-sale securities, certain investment funds, derivatives, certain reinsurance recoverables, certain contingent consideration, and variable annuity and variable life insurance contracts at fair value on a recurring basis.

The following table presents recorded amounts of major financial assets and liabilities measured at fair value on a recurring basis as of March 31, 2016 and June 30, 2016:

March 31, 2016

	Millions of yen			
	Total Carrying Value in Consolidated Balance Sheets	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Loans held for sale*1	¥ 20,673	¥ 0	¥ 20,673	¥ 0
Trading securities	725,821	37,592	688,229	0
Available-for-sale securities	1,347,890	99,347	1,149,021	99,522
Japanese and foreign government bond securities	497,355	988	496,367	0
Japanese prefectural and foreign municipal bond securities*2	169,534	0	169,534	0
Corporate debt securities	410,779	0	410,774	5
Specified bonds issued by SPEs in Japan	3,461	0	0	3,461
CMBS and RMBS in the Americas	97,186	0	58,693	38,493
Other asset- backed securities and debt securities	58,230	0	667	57,563
Equity securities*3	111,345	98,359	12,986	0
Other securities	17,751	0	0	17,751
Investment funds*4	17,751	0	0	17,751
Derivative assets	33,747	48	25,491	8,208
Interest rate swap agreements	93	0	93	0
Options held/written and other	8,789	0	581	8,208
Futures, foreign exchange contracts	18,294	48	18,246	0
Foreign currency swap agreements	6,571	0	6,571	0
Netting*5	(5,757)	0	0	0
Net derivative assets	27,990	0	0	0
Other assets	37,855	0	0	37,855
Reinsurance recoverables*6	37,855	0	0	37,855
Total	¥ 2,183,737	¥ 136,987	¥1,883,414	¥ 163,336
Liabilities:				
Derivative liabilities	¥ 19,870	¥ 533	¥ 19,337	¥ 0
Interest rate swap agreements	5,921	0	5,921	0
Options held/written and other	3,637	0	3,637	0
Futures, foreign exchange contracts	6,655	533	6,122	0
Foreign currency swap agreements	3,601	0	3,601	0
Credit derivatives held	56	0	56	0
Netting*5	(5,757)	0	0	0
Net derivative Liabilities	14,113	0	0	0
Policy Liabilities and Policy Account Balances	795,001	0	0	795,001
Variable annuity and variable life insurance contracts*7	795,001	0	0	795,001
Total	¥ 814,871	¥ 533	¥ 19,337	¥ 795,001

June 30, 2016

	Millions of yen			
	Total Carrying Value in Consolidated Balance Sheets	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Loans held for sale*1	¥ 13,773	¥ 0	¥ 13,773	¥ 0
Trading securities	655,219	36,836	618,383	0
Available-for-sale securities	1,244,899	89,468	1,058,671	96,760
Japanese and foreign government bond securities	464,469	942	463,527	0
Japanese prefectural and foreign municipal bond securities*2	149,432	0	149,432	0
Corporate debt securities	400,578	0	400,073	505
Specified bonds issued by SPEs in Japan	2,178	0	0	2,178
CMBS and RMBS in the Americas	79,479	0	37,942	41,537
Other asset- backed securities and debt securities	57,058	0	4,518	52,540
Equity securities*3	91,705	88,526	3,179	0
Other securities	16,296	0	0	16,296
Investment funds*4	16,296	0	0	16,296
Derivative assets	80,256	3,213	67,356	9,687
Interest rate swap agreements	64	0	64	0
Options held/written and other	10,125	0	438	9,687
Futures, foreign exchange contracts	62,134	3,213	58,921	0
Foreign currency swap agreements	7,933	0	7,933	0
Netting*5	(1,759)	0	0	0
Net derivative assets	78,497	0	0	0
Other assets	45,217	0	0	45,217
Reinsurance recoverables*6	45,217	0	0	45,217
Total	¥ 2,055,660	¥ 129,517	¥1,758,183	¥ 167,960
Liabilities:				
Derivative liabilities	¥ 16,536	¥ 738	¥ 15,798	¥ 0
Interest rate swap agreements	8,632	0	8,632	0
Options held/written and other	3,722	0	3,722	0
Futures, foreign exchange contracts	2,550	738	1,812	0
Foreign currency swap agreements	1,599	0	1,599	0
Credit derivatives held	33	0	33	0
Netting*5	(1,759)	0	0	0
Net derivative Liabilities	14,777	0	0	0
Policy Liabilities and Policy Account Balances	750,915	0	0	750,915
Variable annuity and variable life insurance contracts*7	750,915	0	0	750,915
Total	¥ 767,451	¥ 738	¥ 15,798	¥ 750,915

*1 A certain subsidiary elected the fair value option under ASC 825 ("Financial Instrument") on the loans held for sale originated on or after October 1, 2011. These loans are multi-family and seniors housing loans and are sold to Federal National Mortgage Association ("Fannie Mae") or institutional investors. Included in "Other (income) and expense, net" in the consolidated statements of income were losses from the change in the fair value of the loans of ¥157 million and ¥102 million for the three months ended June 30, 2015 and 2016, respectively. No gains or losses were recognized in earnings during the three months ended June 30, 2015 and 2016 attributable to changes in instrument-specific credit risk. The amounts of aggregate unpaid principal balance and aggregate fair value of the loan held for sale at March 31, 2016, were ¥19,848 million and ¥20,673 million, respectively, and the amount of aggregate fair value exceeded the amount of aggregate unpaid principal balance by ¥825 million. The amounts of aggregate unpaid principal balance and aggregate fair value as of June 30, 2016, were ¥13,116 million and ¥13,773 million, respectively, and the amount of the aggregate fair value exceeded the amount of aggregate unpaid principal balance by ¥657 million. As of March 31, 2016 and June 30, 2016, there were no loans that are 90 days or more past due, in non-accrual status, or both.

*2 A certain subsidiary elected the fair value option under ASC 825 ("Financial Instruments") for investments in foreign government bond securities included in available-for-sale securities. Included in "Gains on investment securities and dividends" in the consolidated statements of income was a loss of ¥6 million from the change in the fair value of those investments for the three months ended June 30, 2016. The amounts of aggregate fair value elected the fair value option were ¥988 million and ¥943 million as of March 31, 2016 and June 30, 2016, respectively.

*3 A certain subsidiary elected the fair value option under ASC 825 ("Financial Instruments") for investments in equity securities included in available-for-sale securities. Included in "Gains on investment securities and dividends" in the consolidated statements of income were losses of ¥14 million and ¥103 million from the change in the fair value of those investments for the three months ended June 30, 2015 and 2016, respectively. The amounts of aggregate fair value elected the fair value option were ¥16,227 million and ¥14,385 million as of March 31, 2016 and June 30, 2016, respectively.

*4 Certain subsidiaries elected the fair value option under ASC 825 ("Financial Instruments") for investments in some funds. Included in "Gains on investment securities and dividends" in the consolidated statements of income were losses of ¥9 million and gains of ¥326 million from the change in the fair value of those investments for the three months ended June 30, 2015 and 2016. The amounts of aggregate fair value were ¥10,152 million and ¥9,356 million as of March 31, 2016 and June 30, 2016, respectively.

*5 It represents the amount offset under counterparty netting of derivative assets and liabilities.

*6 Certain subsidiaries elected the fair value option under ASC 825 ("Financial Instruments") for certain reinsurance contracts held. The fair value of the reinsurance contracts elected for the fair value option in other assets were ¥37,855 million and ¥45,217 million as of March 31, 2016 and June 30, 2016, respectively. For the effect of changes in the fair value of those reinsurance contracts on earnings during the three months ended June 30, 2015 and 2016, respectively, see Note 15 "Life Insurance Operations."

*7 A certain subsidiary elected the fair value option under ASC 825 ("Financial Instruments") for the entire variable annuity and variable life insurance contracts held in order to match the earnings recognized for the changes in fair value of policy liabilities and policy account balances with earnings recognized for gains or losses from the investment assets managed on behalf of variable annuity and variable life policyholders, derivative contracts and the changes in fair value of reinsurance contracts. The fair value of the variable annuity and variable life insurance contracts elected for the fair value option in policy liabilities and policy account balances was ¥795,001 million and ¥750,915 million as of March 31, 2016 and June 30, 2016, respectively. For the effect of changes in the fair value of the variable annuity and variable life insurance contracts on earnings during the three months ended June 30, 2015 and 2016, respectively, see Note 15 "Life Insurance Operations."

Changes in economic conditions or valuation methodologies may require the transfer of assets and liabilities from one fair value level to another. In such instances, the Company and its subsidiaries recognize the transfer at the beginning of the quarter during which the transfers occur. The Company and its subsidiaries evaluate the significance of transfers between levels based upon size of the transfer relative to total assets, total liabilities or total earnings. For the three months ended June 30, 2015 and 2016, there were no transfers between Level 1 and Level 2.

The following table presents the reconciliation for financial assets and liabilities (net) measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months ended June 30, 2015 and 2016:

Three months ended June 30, 2015

	Millions of yen									
		Gains or losses (realized/unrealized)								
	Balance at April 1, 2015	Included in earnings *1	Included in other comprehensive income *2	Total	Purchases *3	Sales	Settlements *4	Transfers in and/ or out of Level 3 (net) *5	Balance at June 30, 2015	Change in unrealized gains or losses included in earnings for assets and liabilities still held at June 30, 2015 *1
Available-for-sale securities	¥ 97,051	¥ 83	¥ 1,530	¥ 1,613	¥ 12,174	¥(5,583)	¥ (8,361)	¥ (869)	¥ 96,025	¥ (15)
Specified bonds issued by SPEs in Japan	7,280	1	23	24	0	0	(1,357)	0	5,947	1
CMBS and RMBS in the Americas	22,658	68	271	339	4,887	(1,901)	(1,211)	0	24,772	(29)
Other asset- backed securities and debt securities	66,252	13	1,228	1,241	7,287	(3,681)	(5,793)	0	65,306	13
Equity securities	861	0	8	8	0	0	0	(869)	0	0
Other securities	8,723	(12)	172	160	487	(162)	0	0	9,208	(12)
Investment funds	8,723	(12)	172	160	487	(162)	0	0	9,208	(12)
Derivative assets and liabilities (net)	11,870	(3,158)	0	(3,158)	1,117	0	(2,587)	0	7,242	(3,158)
Options held/written and other	11,870	(3,158)	0	(3,158)	1,117	0	(2,587)	0	7,242	(3,158)
Other asset	36,038	(5,775)	0	(5,775)	3,053	0	(95)	0	33,221	(5,775)
Reinsurance recoverables *6	36,038	(5,775)	0	(5,775)	3,053	0	(95)	0	33,221	(5,775)
Accounts payable	5,533	2,544	0	2,544	0	0	0	0	2,989	2,544
Contingent consideration	5,533	2,544	0	2,544	0	0	0	0	2,989	2,544
Policy Liabilities and Policy Account Balances	1,254,483	(1,654)	0	(1,654)	0	0	(154,571)	0	1,101,566	(1,654)
Variable annuity and variable life insurance contracts *7	1,254,483	(1,654)	0	(1,654)	0	0	(154,571)	0	1,101,566	(1,654)

Three months ended June 30, 2016

	Millions of yen									
		Gains or losses (realized/unrealized)								
	Balance at April 1, 2016	Included in earnings *1	Included in other comprehensive income *2	Total	Purchases *3	Sales	Settlements *4	Transfers in and/ or out of Level 3 (net) *5	Balance at June 30, 2016	Change in unrealized gains or losses included in earnings for assets and liabilities still held at June 30, 2016 *1
Available-for-sale securities	¥ 99,522	¥ 187	¥ (5,838)	¥ (5,651)	¥ 9,382	¥ (1,666)	¥ (4,827)	¥ 0	¥ 96,760	¥ 16
Corporate debt securities	5	0	0	0	500	0	0	0	505	0
Specified bonds issued by SPEs in Japan	3,461	1	(7)	(6)	0	(1,200)	(77)	0	2,178	0
CMBS and RMBS in the Americas	38,493	159	(3,686)	(3,527)	7,390	(466)	(353)	0	41,537	(4)
Other asset- backed securities and debt securities	57,563	27	(2,145)	(2,118)	1,492	0	(4,397)	0	52,540	20
Other securities	17,751	328	(1,538)	(1,210)	79	(324)	0	0	16,296	328
Investment funds	17,751	328	(1,538)	(1,210)	79	(324)	0	0	16,296	328
Derivative assets and liabilities (net)	8,208	591	0	591	1,645	0	(757)	0	9,687	591
Options held/written and other	8,208	591	0	591	1,645	0	(757)	0	9,687	591
Other asset	37,855	5,363	0	5,363	2,318	0	(319)	0	45,217	5,363
Reinsurance recoverables *6	37,855	5,363	0	5,363	2,318	0	(319)	0	45,217	5,363
Policy Liabilities and Policy Account Balances	795,001	14,637	0	14,637	0	0	(29,449)	0	750,915	14,637
Variable annuity and variable life insurance contracts *7	795,001	14,637	0	14,637	0	0	(29,449)	0	750,915	14,637

*1 Principally, gains and losses from available-for-sale securities are included in "Gains on investment securities and dividends", "Write-downs of securities" or "Life insurance premiums and related investment income" other securities are included in "Gains on investment securities and dividends" and derivative assets and liabilities (net) are included in "Other (income) and expense, net" and gains and losses from accounts payable are included in "Other (income) and expense, net" respectively. Also, for available-for-sale securities, amortization of interest recognized in finance revenues is included in these columns.

*2 Unrealized gains and losses from available-for-sale securities are included in "Net change of unrealized gains (losses) on investment in securities" and "Net change of foreign currency translation adjustments."

*3 Increases resulting from insurance contracts ceded to reinsurance companies are included.

*4 Decreases resulting from the receipts of reimbursements for benefits, and decreases resulting from insurance payouts to variable annuity and variable life policyholders due to death, surrender and maturity of the investment period are included.

*5 The amount reported in "Transfers in and/or out of Level 3 (net)" is the fair value at the beginning of quarter during which the transfers occur.

*6 "Included in earnings" in the above table includes changes in the fair value of reinsurance contracts recorded in "Life insurance costs" and reinsurance premiums, net of reinsurance benefits received, recorded in "Life insurance premiums and related investment income."

*7 "Included in earnings" in the above table is recorded in "Life insurance costs" and includes changes in the fair value of policy liabilities and policy account balances resulting from gains or losses on the underlying investment assets managed on behalf of variable annuity and variable life policyholders, and the changes in the minimum guarantee risks relating to variable annuity and variable life insurance contracts as well as insurance costs recognized for insurance and annuity payouts as a result of insured events.

In the three months ended June 30, 2015, equity securities totaling ¥869 million were transferred from Level 3 to Level 2, since the inputs became observable. There were no transfers in or out of Level 3 in the three months ended June 30, 2016.

The following table presents recorded amounts of assets measured at fair value on a nonrecurring basis as of March 31, 2016 and June 30, 2016. These assets are measured at fair value on a nonrecurring basis mainly to recognize impairment:

March 31, 2016

	Millions of yen			
	Total Carrying Value in Consolidated Balance Sheets	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Real estate collateral-dependent loans (net of allowance for probable loan losses)	¥ 17,511	¥ 0	¥ 0	¥ 17,511
Investment in operating leases and property under facility operations	25,681	0	0	25,681
	¥ 43,192	¥ 0	¥ 0	¥ 43,192

June 30, 2016

	Millions of yen			
	Total Carrying Value in Consolidated Balance Sheets	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Real estate collateral-dependent loans (net of allowance for probable loan losses)	¥ 14,779	¥ 0	¥ 0	¥ 14,779
Investment in operating leases and property under facility operations	2,280	0	0	2,280
	¥ 17,059	¥ 0	¥ 0	¥ 17,059

The following is a description of the valuation process and the main valuation methodologies used for assets and liabilities measured at fair value.

Valuation process

The Company and its subsidiaries determine fair value of Level 3 assets and liabilities by using valuation techniques, such as internally developed models, or using third-party pricing information. Internally developed models include the discounted cash flow methodologies and direct capitalization methodologies. To measure the fair value of the assets and liabilities, the Company and its subsidiaries select the valuation technique which best reflects the nature, characteristics and risks of each asset and liability. The appropriateness of valuation methods and unobservable inputs is verified when measuring fair values of the assets and liabilities by using internally developed models. The Company and its subsidiaries also use third-party pricing information to measure the fair value of certain assets and liabilities. In that case, the Company and its subsidiaries verify the appropriateness of the prices by monitoring available information about the assets and liabilities, such as current conditions of the assets or liabilities, as well as surrounding market information. When these prices are determined to be able to reflect the nature, characteristics and risks of assets and liabilities reasonably, the Company and its subsidiaries use these prices as fair value of the assets and liabilities.

Loans held for sale

Certain loans, which the Company and its subsidiaries have the intent and ability to sell to outside parties in the foreseeable future, are considered held-for-sale. The loans held for sale in the Americas are classified as Level 2, because the Company and its subsidiaries measure their fair value based on a market approach using inputs other than quoted prices that are observable for the assets such as treasury rate, swap rate and market spread.

Real estate collateral-dependent loans

The valuation allowance for large balance non-homogeneous loans is individually evaluated based on the present value of expected future cash flows, the loan's observable market price or the fair value of the collateral securing the loans if the loans are collateral-dependent. According to ASC 820 ("Fair Value Measurement"), measurement for impaired loans determined using a present value technique is not considered a fair value measurement. However, measurement for impaired loans determined using the loan's observable market price or the fair value of the collateral securing the collateral-dependent loans are fair value measurements and are subject to the disclosure requirements for nonrecurring fair value measurements.

The Company and its subsidiaries determine the fair value of the real estate collateral of real estate collateral-dependent loans using appraisals prepared by independent third party appraisers or our own staff of qualified appraisers based on recent transactions involving sales of similar assets or other valuation techniques such as discounted cash flows methodologies using future cash flows estimated to be generated from operation of the existing assets or completion of development projects, as appropriate. The Company and its subsidiaries generally obtain a new appraisal once a fiscal year. In addition, the Company and its subsidiaries periodically monitor circumstances of the real estate collateral and then obtain a new appraisal in situations involving a significant change in economic and/or physical conditions, which may materially affect the fair value of the collateral. Real estate collateral-dependent loans whose fair values are estimated using appraisals of the underlying collateral based on these valuation techniques are classified as Level 3 because such appraisals involve unobservable inputs. These unobservable inputs contain discount rates and cap rates as well as future cash flows estimated to be generated from real estate collateral. An increase (decrease) in the discount rate or cap rate and a decrease (increase) in the estimated future cash flows would result in a decrease (increase) in the fair value of real estate collateral-dependent loans.

Investment in operating leases and property under facility operations and land and buildings undeveloped or under construction

Investment in operating leases measured at fair value is mostly real estate. The Company and its subsidiaries determine the fair value of investment in operating leases and property under facility operations and land and buildings undeveloped or under construction using appraisals prepared by independent third party appraisers or the Company's own staff of qualified appraisers based on recent transactions involving sales of similar assets or other valuation techniques such as discounted cash flow methodologies using future cash flows estimated to be generated from operation of the existing assets or completion of development projects, as appropriate. The Company and its subsidiaries classified the assets as Level 3 because such appraisals involve unobservable inputs. These unobservable inputs contain discount rates as well as future cash flows estimated to be generated from the assets or projects. An increase (decrease) in the discount rate and a decrease (increase) in the estimated future cash flows would result in a decrease (increase) in the fair value of investment in operating leases and property under facility operations and land and buildings undeveloped or under construction.

Trading securities, Available-for-sale securities and Investment in affiliates

If active market prices are available, fair value measurement is based on quoted active market prices and, accordingly, these securities are classified as Level 1. If active market prices are not available, fair value measurement is based on observable inputs other than quoted prices included within Level 1, such as prices for similar assets and accordingly these securities are classified as Level 2. If market prices are not available and there are no observable inputs, then fair value is estimated by using valuation models including discounted cash flow methodologies and broker quotes. Such securities are classified as Level 3, as the valuation models and broker quotes are based on inputs that are unobservable in the market. If fair value is based on broker quotes, the Company and its subsidiaries check the validity of received prices based on comparison to prices of other similar assets and market data such as relevant bench mark indices.

The Company and its subsidiaries classified CMBS and RMBS in the Americas and other asset-backed securities as level 2 if the inputs such as trading price and/or bid price are observable. The Company and its subsidiaries classified CMBS and RMBS in the Americas and other asset-backed securities as level 3 if the company and subsidiaries evaluate the fair value based on the unobservable inputs. In determining whether the inputs are observable or unobservable, the Company and its subsidiaries evaluate various factors such as the lack of recent transactions, price quotations that are not based on current information or vary substantially over time or among market makers, a significant increase in implied risk premium, a wide bid-ask spread, significant decline in new issuances, little or no public information (e.g. a principal-to-principal market) and other factors. With respect to certain CMBS and RMBS in the Americas and other asset-backed securities, the Company and its subsidiaries judged that there has been increased overall trading activity, and the Company and its subsidiaries classified these securities as level 2 for those securities that were measured at fair value based on the observable inputs such as trading price and/or bit price. But for those securities that lacked observable trades because they are older vintage or below investment grade securities, the Company and its subsidiaries limit the reliance on independent pricing service vendors and brokers. As a result, the Company and its subsidiaries established internally developed pricing models using valuation techniques such as discounted cash flow model using level 3 inputs in order to estimate fair value of these securities and classified them as Level 3. Under the models, the Company and its subsidiaries use anticipated cash flows of the security discounted at a risk-adjusted discount rate that incorporates our estimate of credit risk and liquidity risk that a market participant would consider. The cash flows are estimated based on a number of assumptions such as default rate and prepayment speed, as well as seniority of the security. An increase (decrease) in the discount rate or default rate would result in a decrease (increase) in the fair value of CMBS and RMBS in the Americas and other asset-backed securities.

The Company and its subsidiaries classified the specified bonds as Level 3 because the Company and its subsidiaries measure their fair value using unobservable inputs. Since the specified bonds are not traded in an open market, no relevant observable market data is available. Accordingly the Company and its subsidiaries use the discounted cash flow methodologies that incorporates significant unobservable inputs to measure their fair value. When evaluating the specified bonds issued by SPEs in Japan, the Company and its subsidiaries estimate the fair value by discounting future cash flows using a discount rate based on market interest rates and a risk premium. The future cash flows for the specified bonds issued by the SPEs in Japan are estimated based on contractual principal and interest repayment schedules on each of the specified bonds issued by the SPEs in Japan. Since the discount rate is not observable for the specified bonds, the Company and its subsidiaries use an internally developed model to estimate a risk premium considering the value of the real estate collateral (which also involves unobservable inputs in many cases when using valuation techniques such as discounted cash flow methodologies) and the seniority of the bonds. Under the model, the Company and its subsidiaries consider the loan-to-value ratio and other relevant available information to reflect both the credit risk and the liquidity risk in our own estimate of the risk premium. Generally, the higher the loan-to-value ratio, the larger the risk premium the Company and its subsidiaries estimate under the model. The fair value of the specified bonds issued by SPEs in Japan rises when the fair value of the collateral real estate rises and the discount rate declines. The fair value of the specified bonds issued by SPEs in Japan declines when the fair value of the collateral real estate declines and the discount rate rises.

Investment funds

Certain subsidiaries elected the fair value option for investments in some funds. These investment funds for which the fair value option is elected are classified as Level 3, because the subsidiaries measure their fair value using discounting to net asset value based on inputs that are unobservable in the market. A certain subsidiary measures its investment held by the investment company which is owned by the subsidiary at fair value.

Derivatives

For exchange-traded derivatives, fair value is based on quoted market prices, and accordingly, classified as Level 1. For non-exchange traded derivatives, fair value is based on commonly used models and discounted cash flow methodologies. If the inputs used for these measurements including yield curves and volatilities, are observable, the Company and its subsidiaries classify it as Level 2. If the inputs are not observable, the Company and its subsidiaries classify it as Level 3. These unobservable inputs contain discount rates. An increase (decrease) in the discount rate would result in a decrease (increase) in the fair value of derivatives.

Reinsurance recoverables

Certain subsidiaries of the Company have elected the fair value option for certain reinsurance contracts related to variable annuity and variable life insurance contracts to partially offset the changes in fair value recognized in earnings of the policy liabilities and policy account balances attributable to the changes in the minimum guarantee risks of the variable annuity and variable life insurance contracts. These reinsurance contracts for which the fair value option is elected are classified as Level 3 because the subsidiaries measure their fair value using discounted cash flow methodologies based on inputs that are unobservable in the market.

Contingent consideration

The Company will be required to pay certain contingent consideration described in Note 4 "Acquisitions and divestitures" depending on the future performance of a certain asset management business of the acquired subsidiary, and the Company recognizes a liability for the contingent consideration at its estimated fair value. The fair value of the contingent consideration is classified as Level 3 because the Company measures its fair value using a Monte Carlo model based on inputs that are unobservable in the market.

Variable annuity and variable life insurance contracts

A certain subsidiary has elected the fair value option for the entire variable annuity and variable life insurance contracts held in order to match earnings recognized for changes in fair value of policy liabilities and policy account balances with the earnings recognized for gains or losses from the investment assets managed on behalf of variable annuity and variable life policyholders, derivative contracts and changes in fair value of reinsurance contracts. The changes in fair value of the variable annuity and variable life insurance contracts are linked to the fair value of the investment in securities managed on behalf of variable annuity and variable life policyholders. These securities consist mainly of equity securities traded in the market and are categorized as trading securities. In addition, variable annuity and variable life insurance contracts are exposed to the minimum guarantee risk, and the subsidiary adjusts the fair value of the underlying investments by incorporating changes in fair value of the minimum guarantee risk in the evaluation of the fair value of the entire variable annuity and variable life insurance contracts. The variable annuity and variable life insurance contracts for which the fair value option is elected are classified as Level 3 because the subsidiary measures the fair value using discounted cash flow methodologies based on inputs that are unobservable in the market.

Information about Level 3 Fair Value Measurements

The following tables provide information about the valuation techniques and significant unobservable inputs used in the valuation of Level 3 assets and liabilities measured at fair value on a recurring basis as of March 31, 2016 and June 30, 2016.

	March 31, 2016			
	Millions of yen			
	Fair value	Valuation technique(s)	Significant unobservable inputs	Range (Weighted average)
Assets:				
Available-for-sale securities				
Corporate debt securities	¥ 5	Appraisals/Broker quotes	—	—
Specified bonds issued by SPEs in Japan	806	Discounted cash flows	Discount rate	0.9% (0.9%)
	2,655	Appraisals/Broker quotes	—	—
CMBS and RMBS in the Americas	38,493	Discounted cash flows	Discount rate	6.4% – 32.4% (18.5%)
			Probability of default	0.0% – 34.0% (8.2%)
Other asset-backed securities and debt securities	7,432	Discounted cash flows	Discount rate	1.0% – 32.4% (12.7%)
			Probability of default	0.7% – 1.1% (0.9%)
	50,131	Appraisals/Broker quotes	—	—
Other securities				
Investment funds	10,153	Internal cash flows	Discount rate	10.0% – 40.0% (13.6%)
	7,598	Appraisals/Broker quotes	—	—
Derivative assets				
Options held/written and other	4,876	Discounted cash flows	Discount rate	10.0% – 15.0% (11.7%)
	3,332	Appraisals/Broker quotes	—	—
Other assets				
Reinsurance recoverables	37,855	Discounted cash flows	Discount rate	(0.2)% – 0.5% (0.1%)
			Mortality rate	0.0% – 100.0% (0.9%)
			Lapse rate	1.5% – 54.0% (15.0%)
			Annuitization rate (guaranteed minimum annuity benefit)	0.0% – 100.0% (99.4%)
Total	¥ 163,336			
Liabilities:				
Policy liabilities and Policy Account Balances				
Valuable annuity and variable life insurance contracts	¥ 795,001	Discounted cash flows	Discount rate	(0.2)% – 0.5% (0.1%)
			Mortality rate	0.0% – 100.0% (1.0%)
			Lapse rate	1.5% – 54.0% (14.5%)
			Annuitization rate (guaranteed minimum annuity benefit)	0.0% – 100.0% (85.2%)
Total	¥ 795,001			

	June 30, 2016			
	Millions of yen			
	Fair value	Valuation technique(s)	Significant unobservable inputs	Range (Weighted average)
Assets:				
Available-for-sale securities				
Corporate debt securities	¥ 500	Discounted cash flows	Discount rate	0.6% (0.6%)
	5	Appraisals/Broker quotes	—	—
Specified bonds issued by SPEs in Japan	806	Discounted cash flows	Discount rate	0.9% (0.9%)
	1,372	Appraisals/Broker quotes	—	—
CMBS and RMBS in the Americas	41,537	Discounted cash flows	Discount rate	6.4% – 32.4% (18.2%)
			Probability of default	0.0% – 33.9% (6.5%)
Other asset-backed securities and debt securities	11,334	Discounted cash flows	Discount rate	1.0% – 51.2% (11.0%)
			Probability of default	0.6% – 11.0% (0.9%)
	41,206	Appraisals/Broker quotes	—	—
Other securities				
Investment funds	9,356	Internal cash flows	Discount rate	0.0% – 40.0% (10.0%)
	6,940	Appraisals/Broker quotes	—	—
Derivative assets				
Options held/written and other	5,015	Discounted cash flows	Discount rate	10.0% – 15.0% (12.1%)
	4,672	Appraisals/Broker quotes	—	—
Other assets				
Reinsurance recoverables	45,217	Discounted cash flows	Discount rate	(0.6%) – 0.7% (0.0%)
			Mortality rate	0.0% – 100.0% (1.0%)
			Lapse rate	1.5% – 54.0% (14.1%)
			Annuitization rate (guaranteed minimum annuity benefit)	0.0% – 100.0% (99.4%)
Total	¥ 167,960			
Liabilities:				
Policy liabilities and Policy Account Balances				
Valuable annuity and variable life insurance contracts	¥ 750,915	Discounted cash flows	Discount rate	(0.6%) – 0.7% (0.0%)
			Mortality rate	0.0% – 100.0% (1.0%)
			Lapse rate	1.5% – 54.0% (13.6%)
			Annuitization rate (guaranteed minimum annuity benefit)	0.0% – 100.0% (85.4%)
Total	¥ 750,915			

The following tables provide information about the valuation techniques and significant unobservable inputs used in the valuation of Level 3 assets measured at fair value on a nonrecurring basis as of March 31, 2016 and June 30, 2016.

	March 31, 2016				
	Millions of yen				
		Fair value	Valuation technique(s)	Significant unobservable inputs	Range (Weighted average)
Assets:					
Real estate collateral-dependent loans (net of allowance for probable loan losses)	¥	17,511	Discounted cash flows	Discount rate	5.3% – 10.9% (9.3%)
			Direct capitalization	Capitalization rate	5.9% – 17.0% (9.9%)
Investment in operating leases and property under facility operations		5,679	Discounted cash flows	Discount rate	5.3% – 10.0% (5.5%)
		20,002	Appraisals	—	—
	¥	43,192			

	June 30, 2016				
	Millions of yen				
		Fair value	Valuation technique(s)	Significant unobservable inputs	Range (Weighted average)
Assets:					
Real estate collateral-dependent loans (net of allowance for probable loan losses)	¥	14,779	Discounted cash flows	Discount rate	10.0% – 10.9% (10.6%)
			Direct capitalization	Capitalization rate	5.9% – 17.0% (9.8%)
Investment in operating leases and property under facility operations		2,280	Appraisals	—	—
	¥	17,059			

The Company and its subsidiaries generally use discounted cash flow methodologies or similar internally developed models to determine the fair value of Level 3 assets and liabilities. Use of these techniques requires determination of relevant inputs and assumptions, some of which represent significant unobservable inputs as indicated in the preceding table. Accordingly, changes in these unobservable inputs may have a significant impact on the fair value.

Certain of these unobservable inputs will have a directionally consistent impact on the fair value of the asset or liability for a given change in that input. Alternatively, the fair value of the asset or liability may move in an opposite direction for a given change in another input. Where multiple inputs are used within the valuation technique of an asset or liability, a change in one input in a certain direction may be offset by an opposite change in another input having a potentially muted impact to the overall fair value of that particular asset or liability. Additionally, a change in one unobservable input may result in a change to another unobservable input (that is, changes in certain inputs are interrelated to one another), which may counteract or magnify the fair value impact.

For more analysis of the sensitivity of each input, see the description of the valuation process and the main valuation methodologies used for assets and liabilities measured at fair value.

4. Acquisitions and divestitures

(1) Robeco Groep N.V. acquisition

On July 1, 2013, the Company acquired approximately 90.01% of the total voting equity interests of Robeco Groep N.V. (Head office: Rotterdam, the Netherlands, hereinafter, “Robeco”) from Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Head office: Utrecht, the Netherlands). As a result, Robeco has become a consolidated subsidiary of the Company. Robeco, a mid-size global asset manager, offers a mix of investment solutions in a broad range of strategies to institutional and private investors worldwide.

In accordance with the share purchase agreement, the Company agreed to pay contingent consideration depending on the future performance of a certain section of asset management business for each of Robeco’s fiscal years until the fiscal year ending in December 2015. The estimated fair value of such contingent consideration was ¥5,176 million, which is included in the total consideration transferred. Due to the elapse of the computation period of the contingent consideration, unsettled payment of ¥2,147 million was included in trade notes, accounts and other payable in the Company’s consolidated balance sheets as of June 30, 2016.

(2) Other acquisitions

There were no material acquisitions during the three months ended June 30, 2015 and 2016. The Company recognized a bargain purchase gain of ¥4,287 million associated with one of its acquisitions for the three months ended June 30, 2016. The bargain purchase gain could possibly be adjusted because the purchase price allocation has not been completed yet.

(3) Divestitures

Gains on sales of subsidiaries and affiliates and liquidation losses, net for the three months ended June 30, 2015 and 2016 amounted to ¥9,218 million and ¥20,488 million, respectively. And Gains of ¥8,739 million and ¥20,273 million were included as a result of the sales of all the shares of certain consolidated subsidiaries and affiliates to third parties.

Gains on sales of subsidiaries and affiliates and liquidation losses, net for the three months ended June 30, 2015 mainly consisted of ¥8,739 million in the Investment and Operation segment. Gains on sales of subsidiaries and affiliates and liquidation losses, net for the three months ended June 30, 2016 consisted of ¥19,375 million in the Investment and Operation segment and ¥1,113 million in the Overseas Business segment.

5. **Credit Quality of Financing Receivables and the Allowance for Credit Losses**

The Company and its subsidiaries apply ASC 310 ("Receivables"), which requires an entity to provide the following information disaggregated by portfolio segment and class of financing receivable.

Allowance for credit losses—by portfolio segment

Credit quality of financing receivables—by class

- Impaired loans
- Credit quality indicators
- Non-accrual and past-due financing receivables

Information about troubled debt restructurings—by class

A portfolio segment is defined as the level at which an entity develops and documents a systematic methodology to determine its allowance for credit losses. The Company and its subsidiaries classify our portfolio segments by instruments of loans and direct financing leases. Classes of financing receivables are determined based on the initial measurement attribute, risk characteristics of the financing receivables and the method for monitoring and assessing obligors' credit risk, and are defined as the level of detail necessary for a financial statement user to understand the risks inherent in the financing receivables. Classes of financing receivables generally are a disaggregation of a portfolio segment, and the Company and its subsidiaries disaggregate our portfolio segments into classes by regions, instruments or industries of our debtors.

The following table provides information about the allowance for credit losses as of March 31, 2016, for the three months ended June 30, 2015 and 2016:

	Three months ended June 30, 2015					
	Millions of yen					
	Loans					
		Corporate				
	Consumer	Non-recourse loans	Other	Purchased loans *1	Direct financing leases	Total
Allowance for Credit Losses :						
Beginning Balance	¥ 12,585	¥ 8,148	¥ 25,672	¥ 10,717	¥ 15,204	¥ 72,326
Provision (Reversal)	1,375	(230)	(105)	(542)	113	611
Charge-offs	(1,657)	(102)	(1,473)	(442)	(670)	(4,344)
Recoveries	347	0	133	0	12	492
Other *2	1	153	159	(13)	57	357
Ending Balance	¥ 12,651	¥ 7,969	¥ 24,386	¥ 9,720	¥ 14,716	¥ 69,442
Individually evaluated for impairment	2,638	7,598	14,287	7,633	0	32,156
Not Individually evaluated for impairment	10,013	371	10,099	2,087	14,716	37,286
Financing receivables :						
Ending Balance	¥1,354,099	¥ 110,929	¥956,311	¥ 35,544	¥1,207,545	¥3,664,428
Individually evaluated for impairment	12,240	20,310	43,581	13,840	0	89,971
Not Individually evaluated for impairment	1,341,859	90,619	912,730	21,704	1,207,545	3,574,457

	March 31, 2016					
	Millions of yen					
	Loans					
		Corporate				
	Consumer	Non-recourse loans	Other	Purchased loans *1	Direct financing leases	Total
Allowance for Credit Losses :						
Ending Balance	¥ 13,267	¥ 1,800	¥ 23,391	¥ 8,233	¥ 13,380	¥ 60,071
Individually evaluated for impairment	2,770	1,323	12,552	5,888	0	22,533
Not individually evaluated for impairment	10,497	477	10,839	2,345	13,380	37,538
Financing receivables :						
Ending Balance	¥1,461,982	¥ 81,211	¥996,649	¥ 30,524	¥1,190,136	¥3,760,502
Individually evaluated for impairment	14,101	11,057	37,422	11,013	0	73,593
Not individually evaluated for impairment	1,447,881	70,154	959,227	19,511	1,190,136	3,686,909

	Three months ended June 30, 2016					
	Millions of yen					
	Loans					
		Corporate				
	Consumer	Non-recourse loans	Other	Purchased loans *1	Direct financing leases	Total
Allowance for Credit Losses :						
Beginning Balance	¥ 13,267	¥ 1,800	¥ 23,391	¥ 8,233	¥ 13,380	¥ 60,071
Provision (Reversal)	2,636	74	(50)	(316)	350	2,694
Charge-offs	(1,440)	(1)	(660)	(324)	(503)	(2,928)
Recoveries	159	0	66	203	11	439
Other *2	68	(151)	(1,041)	(93)	(552)	(1,769)
Ending Balance	¥ 14,690	¥ 1,722	¥ 21,706	¥ 7,703	¥ 12,686	¥ 58,507
Individually evaluated for impairment	2,968	1,201	11,358	5,655	0	21,182
Not individually evaluated for impairment	11,722	521	10,348	2,048	12,686	37,325
Financing receivables :						
Ending Balance	¥1,499,050	¥ 73,340	¥959,140	¥ 27,070	¥1,146,198	¥3,704,798
Individually Evaluated for Impairment	14,554	5,811	35,020	10,578	0	65,963
Not Individually Evaluated for Impairment	1,484,496	67,529	924,120	16,492	1,146,198	3,638,835

Note: Loans held for sale are not included in the table above.

*1 Purchased loans represent loans with evidence of deterioration of credit quality since origination and for which it is probable at acquisition that collection of all contractually required payments from the debtors is unlikely in accordance with ASC 310-30 ("Receivables—Loans and Debt Securities Acquired with Deteriorated Credit Quality").

*2 Other mainly includes foreign currency translation adjustments.

In developing the allowance for credit losses, the Company and its subsidiaries consider, among other things, the following factors:

- business characteristics and financial conditions of obligors;
- current economic conditions and trends;
- prior charge-off experience;
- current delinquencies and delinquency trends; and
- value of underlying collateral and guarantees.

The Company and its subsidiaries individually develop the allowance for credit losses for impaired loans. For non-impaired loans, including loans that are not individually evaluated for impairment, and direct financing leases, the Company and its subsidiaries evaluate prior charge-off experience as segmented by debtor's industry and the purpose of the loans and develop the allowance for credit losses based on such prior charge-off experience as well as current economic conditions.

In common with all portfolio segments, a deterioration of debtors' condition may increase the risk of delay in payments of principal and interest. For loans to consumer borrowers, the amount of the allowance for credit losses is changed by the variation of individual debtors' creditworthiness and value of underlying collateral and guarantees, and the prior charge-off experience. For loans to corporate other borrowers and direct financing leases, the amount of the allowance for credit losses is changed by current economic conditions and trends, the value of underlying collateral and guarantees, and the prior charge-off experience in addition to the debtors' creditworthiness.

The decline of the value of underlying collateral and guarantees may increase the risk of inability to collect from the loans and direct financing leases. Particularly for non-recourse loans for which cash flow from real estate is the source of repayment, their collection depends on the real estate collateral value, which may decline as a result of decrease in liquidity of the real estate market, rise in vacancy rate of rental properties, fall in rents and other factors. These risks may change the amount of the allowance for credit losses. For purchased loans, their collection may decrease due to a decline in the real estate collateral value and debtors' creditworthiness. Thus, these risks may change the amount of the allowance for credit losses.

In common with all portfolio segments, the Company and its subsidiaries charge off doubtful receivables when the likelihood of any future collection is believed to be minimal, mainly based upon an evaluation of the relevant debtors' creditworthiness and the liquidation status of collateral.

The following table provides information about the impaired loans as of March 31, 2016 and June 30, 2016:

		March 31, 2016		
		Millions of yen		
Portfolio segment	Class	Loans Individually Evaluated for Impairment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded *1 :		¥ 14,601	¥14,498	¥ 0
Consumer borrowers		931	852	0
	Housing loans	931	852	0
	Card loans	0	0	0
	Other	0	0	0
Corporate borrowers		13,670	13,646	0
Non-recourse loans	Japan	4,776	4,776	0
	The Americas	0	0	0
Other	Real estate companies	0	0	0
	Entertainment companies	211	211	0
	Other	8,683	8,659	0
Purchased loans		0	0	0
With an allowance recorded *2 :		58,992	57,758	22,533
Consumer borrowers		13,170	12,628	2,770
	Housing loans	3,580	3,058	1,401
	Card loans	4,123	4,113	590
	Other	5,467	5,457	779
Corporate borrowers		34,809	34,117	13,875
Non-recourse loans	Japan	292	292	72
	The Americas	5,989	5,988	1,251
Other	Real estate companies	8,612	8,480	2,140
	Entertainment companies	2,218	2,209	840
	Other	17,698	17,148	9,572
Purchased loans		11,013	11,013	5,888
Total :		¥ 73,593	¥72,256	¥22,533
Consumer borrowers		14,101	13,480	2,770
	Housing loans	4,511	3,910	1,401
	Card loans	4,123	4,113	590
	Other	5,467	5,457	779
Corporate borrowers		48,479	47,763	13,875
Non-recourse loans	Japan	5,068	5,068	72
	The Americas	5,989	5,988	1,251
Other	Real estate companies	8,612	8,480	2,140
	Entertainment companies	2,429	2,420	840
	Other	26,381	25,807	9,572
Purchased loans		11,013	11,013	5,888

		June 30, 2016		
		Millions of yen		
Portfolio segment	Class	Loans Individually Evaluated for Impairment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded *1 :		¥ 10,038	¥10,012	0
Consumer borrowers		740	718	0
	Housing loans	740	718	0
	Card loans	0	0	0
	Other	0	0	0
Corporate borrowers		9,298	9,294	0
Non-recourse loans	Japan	0	0	0
	The Americas	0	0	0
Other	Real estate companies	0	0	0
	Entertainment companies	200	200	0
	Other	9,098	9,094	0
Purchased loans		0	0	0
With an allowance recorded *2 :		55,925	54,557	21,182
Consumer borrowers		13,814	12,773	2,968
	Housing loans	3,671	3,095	1,582
	Card loans	4,118	4,108	595
	Other	6,025	5,570	791
Corporate borrowers		31,533	31,207	12,559
Non-recourse loans	Japan	288	287	59
	The Americas	5,523	5,523	1,142
Other	Real estate companies	8,009	7,946	2,105
	Entertainment companies	2,114	2,112	767
	Other	15,599	15,339	8,486
Purchased loans		10,578	10,577	5,655
Total :		¥ 65,963	¥64,569	¥21,182
Consumer borrowers		14,554	13,491	2,968
	Housing loans	4,411	3,813	1,582
	Card loans	4,118	4,108	595
	Other	6,025	5,570	791
Corporate borrowers		40,831	40,501	12,559
Non-recourse loans	Japan	288	287	59
	The Americas	5,523	5,523	1,142
Other	Real estate companies	8,009	7,946	2,105
	Entertainment companies	2,314	2,312	767
	Other	24,697	24,433	8,486
Purchased loans		10,578	10,577	5,655

Note: Loans held for sale are not included in the table above.

*1 "With no related allowance recorded" represents impaired loans with no allowance for credit losses as all amounts are considered to be collectible.

*2 "With an allowance recorded" represents impaired loans with the allowance for credit losses as all or a part of the amounts are not considered to be collectible.

The Company and its subsidiaries recognize installment loans other than purchased loans and loans to consumer borrowers as impaired loans when principal or interest is past-due 90 days or more, or it is probable that the Company and its subsidiaries will be unable to collect all amounts due according to the contractual terms of the loan agreements due to various debtor conditions, including insolvency filings, suspension of bank transactions, dishonored bills and deterioration of businesses. For non-recourse loans, in addition to these conditions, the Company and its subsidiaries perform an impairment review using financial covenants, acceleration clauses, loan-to-value ratios, and other relevant available information.

For purchased loans, the Company and its subsidiaries recognize them as impaired loans when it is probable that the Company and its subsidiaries will be unable to collect book values of the remaining investment due to factors such as a decline in the real estate collateral value and debtors' creditworthiness since the acquisition of these loans.

The Company and its subsidiaries consider that loans to consumer borrowers, including housing loans, card loans and other, are impaired when terms of these loans are modified as troubled debt restructurings.

Interest payments received on impaired loans other than purchased loans are recorded as interest income unless the collection of the remaining investment is doubtful at which time payments received are recorded as reductions of principal. For purchased loans, although the acquired assets may remain loans in legal form, collections on these loans often do not reflect the normal historical experience of collecting delinquent accounts, and the need to tailor individual collateral-realization strategies often makes it difficult to reliably estimate the amount, timing, or nature of collections. Accordingly, the Company and its subsidiaries use the cost recovery method of income recognition for such purchased loans regardless of whether impairment is recognized or not.

In common with all classes, impaired loans are individually evaluated for a valuation allowance based on the present value of expected future cash flows, the loan's observable market price or the fair value of the collateral securing the loans if the loans are collateral-dependent. For non-recourse loans, in principle, the estimated collectible amount is determined based on the fair value of the collateral securing the loans as they are collateral-dependent. Further for certain non-recourse loans, the estimated collectible amount is determined based on the present value of expected future cash flows. The fair value of the real estate collateral securing the loans is determined using appraisals prepared by independent third-party appraisers or our own staff of qualified appraisers based on recent transactions involving sales of similar assets or other valuation techniques such as discounted cash flows methodologies using future cash flows estimated to be generated from operation of the existing assets or completion of development projects, as appropriate. We generally obtain a new appraisal once a fiscal year. In addition, we periodically monitor circumstances of the real estate collateral and then obtain a new appraisal in situations involving a significant change in economic and/or physical conditions which may materially affect its fair value. For impaired purchased loans, the Company and its subsidiaries develop the allowance for credit losses based on the difference between the book value and the estimated collectible amount of such loans.

The following table provides information about the average recorded investments in impaired loans and interest income on impaired loans for the three months ended June 30, 2015 and 2016:

		Three months ended June 30, 2015		
		Millions of yen		
Portfolio segment	Class	Average Recorded Investments in Impaired Loans *	Interest Income on Impaired Loans	Interest on Impaired Loans Collected in Cash
Consumer borrowers		¥ 12,117	¥ 60	¥ 46
	Housing loans	5,201	23	21
	Card loans	3,818	20	13
	Other	3,098	17	12
Corporate borrowers		68,860	277	273
Non-recourse loans	Japan	5,184	2	2
	The Americas	15,988	96	96
Other	Real estate companies	18,779	54	54
	Entertainment companies	4,194	27	27
	Other	24,715	98	94
Purchased loans		14,528	0	0
Total		¥ 95,505	¥ 337	¥ 319

		Three months ended June 30, 2016		
		Millions of yen		
Portfolio segment	Class	Average Recorded Investments in Impaired Loans *	Interest Income on Impaired Loans	Interest on Impaired Loans Collected in Cash
Consumer borrowers		¥ 14,328	¥ 78	¥ 54
	Housing loans	4,461	32	23
	Card loans	4,121	21	14
	Other	5,746	25	17
Corporate borrowers		44,656	159	147
Non-recourse loans	Japan	2,678	2	2
	The Americas	5,756	22	22
Other	Real estate companies	8,311	49	38
	Entertainment companies	2,372	19	19
	Other	25,539	67	66
Purchased loans		10,796	212	212
Total		¥ 69,780	¥ 449	¥ 413

Note: Loans held for sale are not included in the table above.

* Average balances are calculated on the basis of fiscal beginning and quarter-end balances.

The following table provides information about the credit quality indicators as of March 31, 2016 and June 30, 2016:

		March 31, 2016				
		Millions of yen				
			Non-performing			
Portfolio segment	Class	Performing	Loans individually evaluated for impairment	90+ days past-due loans not individually evaluated for impairment	Subtotal	Total
Consumer borrowers		¥1,439,703	¥ 14,101	¥ 8,178	¥22,279	¥1,461,982
	Housing loans	1,131,276	4,511	2,267	6,778	1,138,054
	Card loans	255,753	4,123	657	4,780	260,533
	Other	52,674	5,467	5,254	10,721	63,395
Corporate borrowers		1,029,381	48,479	0	48,479	1,077,860
Non-recourse loans	Japan	14,883	5,068	0	5,068	19,951
	The Americas	55,271	5,989	0	5,989	61,260
Other	Real estate companies	261,558	8,612	0	8,612	270,170
	Entertainment companies	98,852	2,429	0	2,429	101,281
	Other	598,817	26,381	0	26,381	625,198
Purchased loans		19,511	11,013	0	11,013	30,524
Direct financing leases		1,177,580	0	12,556	12,556	1,190,136
	Japan	831,207	0	7,918	7,918	839,125
	Overseas	346,373	0	4,638	4,638	351,011
Total		¥3,666,175	¥ 73,593	¥ 20,734	¥94,327	¥3,760,502

		June 30, 2016				
		Millions of yen				
			Non-performing			
Portfolio segment	Class	Performing	Loans individually evaluated for impairment	90+ days past-due loans not individually evaluated for impairment	Subtotal	Total
Consumer borrowers		¥1,477,149	¥ 14,554	¥ 7,347	¥21,901	¥1,499,050
	Housing loans	1,167,315	4,411	2,337	6,748	1,174,063
	Card loans	257,024	4,118	823	4,941	261,965
	Other	52,810	6,025	4,187	10,212	63,022
Corporate borrowers		991,649	40,831	0	40,831	1,032,480
Non-recourse loans	Japan	14,538	288	0	288	14,826
	The Americas	52,991	5,523	0	5,523	58,514
Other	Real estate companies	269,447	8,009	0	8,009	277,456
	Entertainment companies	95,498	2,314	0	2,314	97,812
	Other	559,175	24,697	0	24,697	583,872
Purchased loans		16,492	10,578	0	10,578	27,070
Direct financing leases		1,133,135	0	13,063	13,063	1,146,198
	Japan	825,573	0	7,660	7,660	833,233
	Overseas	307,562	0	5,403	5,403	312,965
Total		¥3,618,425	¥ 65,963	¥ 20,410	¥86,373	¥3,704,798

Note: Loans held for sale are not included in the table above.

In common with all classes, the Company and its subsidiaries monitor the credit quality indicators as performing and non-performing assets. The category of non-performing assets includes financing receivables for debtors who have filed for insolvency proceedings, whose bank transactions are suspended, whose bills are dishonored, whose businesses have deteriorated, whose repayment is past-due 90 days or more, financing receivables modified as troubled debt restructurings, and performing assets include all other financing receivables. Regarding purchased loans, they are classified as non-performing assets when considered impaired, while all the other loans are included in the category of performing assets.

Out of non-performing assets, the Company and its subsidiaries consider smaller balance homogeneous loans, including housing loans, card loans and other, which are not restructured and direct financing leases, as 90 days or more past-due financing receivables not individually evaluated for impairment, and consider the others as loans individually evaluated for impairment. After the Company and its subsidiaries have set aside provision for those non-performing assets, the Company and its subsidiaries continue to monitor at least on a quarterly basis the quality of any underlying collateral, the status of management of the debtors and other important factors in order to report to management and develop additional provision as necessary.

The following table provides information about the non-accrual and past-due financing receivables as of March 31, 2016 and June 30, 2016:

		March 31, 2016				
		Millions of yen				
		Past-due financing receivables				
Portfolio segment	Class	30-89 Days Past-Due	90 Days or More Past-Due	Total Past-Due	Total Financing Receivables	Non-Accrual
Consumer borrowers		¥ 5,002	¥11,348	¥16,350	¥1,461,982	¥ 11,348
	Housing loans	2,283	4,435	6,718	1,138,054	4,435
	Card loans	503	1,103	1,606	260,533	1,103
	Other	2,216	5,810	8,026	63,395	5,810
Corporate borrowers		3,018	18,944	21,962	1,077,860	31,464
Non-recourse loans	Japan	0	4,776	4,776	19,951	4,776
	The Americas	2,370	400	2,770	61,260	5,924
Other	Real estate companies	44	2,727	2,771	270,170	2,727
	Entertainment companies	0	145	145	101,281	145
	Other	604	10,896	11,500	625,198	17,892
Direct financing leases		6,457	12,556	19,013	1,190,136	12,556
	Japan	500	7,918	8,418	839,125	7,918
	Overseas	5,957	4,638	10,595	351,011	4,638
Total		¥ 14,477	¥42,848	¥57,325	¥3,729,978	¥ 55,368

		June 30, 2016				
		Millions of yen				
		Past-due financing receivables				
Portfolio segment	Class	30-89 Days Past-Due	90 Days or More Past-Due	Total Past-Due	Total Financing Receivables	Non-Accrual
Consumer borrowers		¥ 5,459	¥10,677	¥16,136	¥1,499,050	¥ 10,677
	Housing loans	2,504	4,496	7,000	1,174,063	4,496
	Card loans	438	1,250	1,688	261,965	1,250
	Other	2,517	4,931	7,448	63,022	4,931
Corporate borrowers		3,246	17,866	21,112	1,032,480	25,839
Non-recourse loans	Japan	0	0	0	14,826	0
	The Americas	1,033	4,706	5,739	58,514	5,100
Other	Real estate companies	37	2,632	2,669	277,456	2,632
	Entertainment companies	109	143	252	97,812	143
	Other	2,067	10,385	12,452	583,872	17,964
Direct financing leases		4,629	13,063	17,692	1,146,198	13,063
	Japan	623	7,660	8,283	833,233	7,660
	Overseas	4,006	5,403	9,409	312,965	5,403
Total		¥ 13,334	¥41,606	¥54,940	¥3,677,728	¥ 49,579

Note: Loans held for sale and purchased loans are not included in the table above.

In common with all classes, the Company and its subsidiaries consider financing receivables as past-due financing receivables when principal or interest is past-due 30 days or more. Loans whose terms have been modified are not classified as past-due financing receivables if the principals and interests are not past-due 30 days or more in accordance with the modified terms.

The Company and its subsidiaries suspend accruing revenues on past-due installment loans and direct financing leases when principal or interest is past-due 90 days or more, or earlier, if management determines that their collections are doubtful based on factors such as individual debtors' creditworthiness, historical loss experience, current delinquencies and delinquency trends. Cash repayments received on non-accrual loans are applied first against past due interest and then any surpluses are applied to principal in view of the conditions of the contract and obligors. The Company and its subsidiaries return to accrual status non-accrual loans and lease receivables when it becomes probable that the Company and its subsidiaries will be able to collect all amounts due according to the contractual terms of these loans and lease receivables, as evidenced by continual payments from the debtors. The period of such continual payments before returning to accrual status varies depending on factors that we consider are relevant in assessing the debtor's creditworthiness, such as the debtor's business characteristics and financial conditions as well as relevant economic conditions and trends.

The following table provides information about troubled debt restructurings of financing receivables that occurred during the three months ended June 30, 2015 and 2016:

		Three months ended June 30, 2015	
		Millions of yen	
Portfolio segment	Class	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
Consumer borrowers		¥ 1,427	¥ 1,059
	Housing loans	11	11
	Card loans	626	461
	Other	790	587
Corporate borrowers		147	147
Non-recourse loans	The Americas	147	147
Total		¥ 1,574	¥ 1,206

		Three months ended June 30, 2016	
		Millions of yen	
Portfolio segment	Class	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
Consumer borrowers		¥ 2,569	¥ 1,931
	Housing loans	11	5
	Card loans	589	490
	Other	1,969	1,436
Total		¥ 2,569	¥ 1,931

A troubled debt restructuring is defined as a restructuring of a financing receivable in which the creditor grants a concession to the debtor for economic or other reasons related to the debtor's financial difficulties.

The Company and its subsidiaries offer various types of concessions to our debtors to protect as much of our investment as possible in troubled debt restructurings. For the debtors of non-recourse loans, the Company and its subsidiaries offer concessions including an extension of the maturity date at an interest rate lower than the current market rate for a debt with similar risk characteristics. For the debtors of all financing receivables other than non-recourse loans, the Company and its subsidiaries offer concessions such as a reduction of the loan principal, a temporary reduction in the interest payments, or an extension of the maturity date at an interest rate lower than the current market rate for a debt with similar risk characteristics. In addition, the Company and its subsidiaries may acquire collateral assets from the debtors in troubled debt restructurings to satisfy fully or partially the loan principal or past due interest.

In common with all portfolio segments, financing receivables modified as troubled debt restructurings are recognized as impaired and are individually evaluated for a valuation allowance. In most cases, these financing receivables have already been considered impaired and individually evaluated for allowance for credit losses prior to the restructurings. However, as a result of the restructuring, the Company and its subsidiaries may recognize additional provision for the restructured receivables.

The following table provides information about financing receivables modified as troubled debt restructurings within the previous 12 months from June 30, 2015 for which there was a payment default during the three months ended June 30, 2015:

	Three months ended June 30, 2015	
		Millions of yen
Portfolio segment	Class	Recorded Investment
Consumer borrowers		¥ 41
	Card loans	24
	Other	17
Total		¥ 41

The following table provides information about financing receivables modified as troubled debt restructurings within the previous 12 months from June 30, 2016 for which there was a payment default during the three months ended June 30, 2016:

	Three months ended June 30, 2016	
		Millions of yen
Portfolio segment	Class	Recorded Investment
Consumer borrowers		¥ 501
	Card loans	33
	Other	468
Total		¥ 501

The Company and its subsidiaries consider financing receivables whose terms have been modified in a restructuring as defaulted receivables when principal or interest is past-due 90 days or more in accordance with the modified terms.

In common with all portfolio segments, the Company and its subsidiaries suspend accruing revenues and may recognize additional provision as necessary for the defaulted financing receivables.

As of March 31, 2016 and June 30, 2016, there were no foreclosed residential real estate properties. The carrying amounts of installment loans in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure were ¥601 million and ¥602 million as of March 31, 2016 and June 30, 2016, respectively.

6. Investment in Securities

Investment in securities as of March 31, 2016 and June 30, 2016 consists of the following:

	Millions of yen	
	March 31, 2016	June 30, 2016
Trading securities *	¥ 725,821	¥ 655,219
Available-for-sale securities	1,347,890	1,244,899
Held-to-maturity securities	114,858	114,253
Other securities	156,223	136,790
Total	¥ 2,344,792	¥2,151,161

* The amount of assets under management of variable annuity and variable life insurance contracts included in trading securities were ¥704,313 million and ¥643,759 million as of March 31, 2016 and June 30, 2016, respectively.

Other securities consist mainly of non-marketable equity securities, preferred capital shares carried at cost and investment funds carried at an amount that reflects equity income and loss based on the investor's share. The aggregate carrying amount of other securities accounted for under the cost method totaled ¥27,349 million and ¥23,387 million as of March 31, 2016 and June 30, 2016, respectively. Investments with an aggregate cost of ¥27,125 million and ¥23,386 million, respectively, were not evaluated for impairment because the Company and its subsidiaries did not identify any events or changes in circumstances that might have had a significant adverse effect on the fair value of those investments and it was not practicable to estimate the fair value of the investments.

A certain subsidiary elected the fair value option under ASC 825 ("Financial Instruments") for investments in foreign government bond securities included in available-for-sale securities, which as of March 31, 2016 and June 30, 2016, were fair valued at ¥988 million and ¥943 million, respectively.

A certain subsidiary elected the fair value option under ASC 825 ("Financial Instruments") for certain investments in equity securities included in available-for-sale securities to mitigate volatility in the consolidated statements of income caused by the differences in classification of recognized gain or loss that would otherwise exist between the equity securities and the derivatives used to manage the risk of changes in fair value of these equity securities. As of March 31, 2016 and June 30, 2016, these equity securities were fair valued at ¥16,227 million and ¥14,385 million, respectively.

Certain subsidiaries elected the fair value option under ASC 825 ("Financial Instruments") for certain investments in a trust and investment funds included in other securities whose net asset values do not represent the fair value of investments due to the illiquid nature of these investments. The subsidiaries manage these investments on a fair value basis and the election of the fair value option enables the subsidiaries to reflect more appropriate assumptions to measure the fair value of these investments. As of March 31, 2016 and June 30, 2016, the fair values of these investments were ¥10,152 million and ¥9,356 million, respectively.

The amortized cost basis amounts, gross unrealized holding gains, gross unrealized holding losses and fair values of available-for-sale securities and held-to-maturity securities in each major security type as of March 31, 2016 and June 30, 2016 are as follows:

March 31, 2016

	Millions of yen			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale:				
Japanese and foreign government bond securities	¥ 464,854	¥ 32,501	¥ 0	¥ 497,355
Japanese prefectural and foreign municipal bond securities	165,465	4,106	(37)	169,534
Corporate debt securities	403,349	7,443	(13)	410,779
Specified bonds issued by SPEs in Japan	3,422	39	0	3,461
CMBS and RMBS in the Americas	97,692	1,906	(2,412)	97,186
Other asset-backed securities and debt securities	63,079	1,744	(6,593)	58,230
Equity securities	85,452	33,492	(7,599)	111,345
	1,283,313	81,231	(16,654)	1,347,890
Held-to-maturity:				
Japanese government bond securities and other	114,858	30,662	0	145,520
	¥1,398,171	¥111,893	¥(16,654)	¥1,493,410

June 30, 2016

	Millions of yen			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale:				
Japanese and foreign government bond securities	¥ 423,071	¥ 41,398	¥ 0	¥ 464,469
Japanese prefectural and foreign municipal bond securities	144,981	4,475	(24)	149,432
Corporate debt securities	389,991	10,609	(22)	400,578
Specified bonds issued by SPEs in Japan	2,145	33	0	2,178
CMBS and RMBS in the Americas	79,114	1,665	(1,300)	79,479
Other asset-backed securities and debt securities	60,224	2,096	(5,262)	57,058
Equity securities	71,337	27,802	(7,434)	91,705
	1,170,863	88,078	(14,042)	1,244,899
Held-to-maturity:				
Japanese government bond securities and other	114,253	41,040	0	155,293
	¥1,285,116	¥129,118	¥(14,042)	¥1,400,192

The following table provides information about available-for-sale securities with gross unrealized losses and the length of time that individual securities have been in a continuous unrealized loss position as of March 31, 2016 and June 30, 2016, respectively:

March 31, 2016

	Millions of yen					
	Less than 12 months		12 months or more		Total	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
Available-for-sale:						
Japanese prefectural and foreign municipal bond securities	¥ 14,821	¥ (30)	¥ 554	¥ (7)	¥ 15,375	¥ (37)
Corporate debt securities	32,969	(13)	1,802	0	34,771	(13)
CMBS and RMBS in the Americas	55,226	(2,234)	5,002	(178)	60,228	(2,412)
Other asset-backed securities and debt securities	14,220	(1,857)	18,846	(4,736)	33,066	(6,593)
Equity securities	17,040	(7,550)	594	(49)	17,634	(7,599)
	¥134,276	¥(11,684)	¥26,798	¥ (4,970)	¥161,074	¥(16,654)

June 30, 2016

	Millions of yen					
	Less than 12 months		12 months or more		Total	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
Available-for-sale:						
Japanese prefectural and foreign municipal bond securities	¥ 10,335	¥ (17)	¥ 231	¥ (7)	¥ 10,566	¥ (24)
Corporate debt securities	1,979	(22)	0	0	1,979	(22)
CMBS and RMBS in the Americas	33,569	(869)	10,931	(431)	44,500	(1,300)
Other asset-backed securities and debt securities	9,249	(808)	20,712	(4,454)	29,961	(5,262)
Equity securities	18,261	(7,379)	730	(55)	18,991	(7,434)
	¥ 73,393	¥ (9,095)	¥32,604	¥ (4,947)	¥105,997	¥(14,042)

The number of investment securities that were in an unrealized loss position as of March 31, 2016 and June 30, 2016 were 259 and 204, respectively. The gross unrealized losses on these securities are attributable to a number of factors including changes in interest rates, credit spreads and market trends.

For debt securities, in the case of the fair value being below the amortized cost, the Company and its subsidiaries consider whether those securities are other-than-temporarily impaired using all available information about their collectability. The Company and its subsidiaries do not consider a debt security to be other-than-temporarily impaired if (1) the Company and its subsidiaries do not intend to sell the debt security, (2) it is not more likely than not that the Company and its subsidiaries will be required to sell the debt security before recovery of its amortized cost basis and (3) the present value of estimated cash flows will fully cover the amortized cost of the security. On the other hand, the Company and its subsidiaries consider a debt security to be other-than-temporarily impaired if any of the above mentioned three conditions are not met.

Debt securities with unrealized loss position mainly include CMBS and RMBS in the Americas and other asset-backed securities.

The unrealized loss associated with CMBS and RMBS in the Americas and other asset-backed securities is primarily caused by changes in credit spreads and interest rates. In order to determine whether a credit loss exists, the Company and its subsidiaries estimate the present value of anticipated cash flows, discounted at the current yield to accrete the security. The cash flows are estimated based on a number of assumptions such as default rate and prepayment speed, as well as seniority of the security. Then, a credit loss is assessed by comparing the present value of the expected cash flows to the security's amortized cost basis. Based on that assessment, the Company and its subsidiaries expect to recover the entire amortized cost basis and no credit impairment was identified. Because the Company and its subsidiaries do not intend to sell the investments and it is not more likely than not that the Company and its subsidiaries will be required to sell the investments before recovery of their amortized cost basis, the Company and its subsidiaries do not consider these investments to be other-than-temporarily impaired as of June 30, 2016.

For equity securities with unrealized losses, the Company and its subsidiaries consider various factors to determine whether the decline is other-than-temporary, including the length of time and the extent to which the fair value has been less than the carrying value and the issuer's specific economic conditions as well as the ability and intent to hold these securities for a period of time sufficient to recover the securities' carrying amounts. Based on our ongoing monitoring process, the Company and its subsidiaries do not consider these investments to be other-than-temporarily impaired as of June 30, 2016.

The total other-than-temporary impairment with an offset for the amount of the total other-than-temporary impairment recognized in other comprehensive income (loss) for three months ended June 30, 2015 and 2016 are as follows:

	Millions of yen	
	Three months ended June 30, 2015	Three months ended June 30, 2016
Total other-than-temporary impairment losses	¥ 1,949	¥ 5
Portion of loss recognized in other comprehensive income (before taxes)	0	0
Net impairment losses recognized in earnings	¥ 1,949	¥ 5

Total other-than-temporary impairment losses for three months ended June 30, 2015 and 2016 related to equity securities and other securities.

Roll-forwards of the amount related to credit losses on other-than-temporarily impaired debt securities recognized in earnings according to ASC 320-10-35-34 ("Investments—Debt and Equity Securities—Recognition of Other-Than-Temporary Impairments") for three months ended June 30, 2015 and 2016 are as follows:

	Millions of yen	
	Three months ended June 30, 2015	Three months ended June 30, 2016
Beginning	¥ 2,633	¥ 1,413
Reduction during the period:		
For securities sold or redeemed	0	(22)
Ending	¥ 2,633	¥ 1,391

The Company and its subsidiaries recorded other-than-temporary impairments related to the non-credit losses arising from foregoing debt securities for CMBS and RMBS in the Americas. These impairments included the amount of unrealized gains or losses for the changes in fair value of the debt securities after recognition of other-than-temporary impairments in earnings. As of March 31, 2016, an unrealized gain of ¥61 million and an unrealized loss of ¥6 million, before taxes, were included and an unrealized gain of ¥39 million and an unrealized loss of ¥4 million, net of taxes, were included in unrealized gains or losses of accumulated other comprehensive income. As of June 30, 2016, an unrealized gain of ¥35 million, before taxes, was included and an unrealized gain of ¥22 million, net of taxes, was included in unrealized gains or losses of accumulated other comprehensive income. As of June 30, 2016, no unrealized loss was included in unrealized gains or losses of accumulated other comprehensive income.

7. Securitization Transactions

The Company and its subsidiaries have securitized various financial assets such as lease receivables and installment loans (commercial mortgage loans, housing loans and other).

In the securitization process, these financial assets are transferred to SPEs, such as trusts and special-purpose companies that issue beneficial interests of the securitization trusts and securities backed by the financial assets to investors. The cash flows collected from these assets transferred to the SPEs are then used to repay these asset-backed beneficial interests and securities. As the transferred assets are isolated from the Company and its subsidiaries, the investors and the SPEs have no recourse to other assets of the Company and its subsidiaries in cases where the debtors or the issuers of the transferred financial assets fail to perform under the original terms of those financial assets.

The Company and its subsidiaries often retain interests in the SPEs in the form of the beneficial interest of the securitization trusts. Those interests that continue to be held include interests in the transferred assets and are often subordinate to other tranche(s) of the securitization. Those beneficial interests that continue to be held by the Company and its subsidiaries are subject to credit risk, interest rate risk and prepayment risk on the securitized financial assets. With regards to these subordinated interests that the Company and its subsidiaries retain, they are subordinated to the senior investments and are exposed to different credit and prepayment risks, since they first absorb the risk of the decline in the cash flows from the financial assets transferred to the SPEs for defaults and prepayment of the transferred assets. If there is any excess cash remaining in the SPEs after payment to investors in the securitization of the contractual rate of returns, most of such excess cash is distributed to the Company and its subsidiaries for payments of the subordinated interests.

In accordance with ASC 860 ("Transfers and Servicing") and ASC 810 ("Consolidation"), trusts or SPEs used in securitization transactions have been consolidated if the Company and its subsidiaries are the primary beneficiary of the trusts or SPEs.

During the three months ended June 30, 2015 and 2016, there was no securitization transaction accounted for as a sale.

Quantitative information about delinquencies, impaired loans and components of financial assets sold on securitization and other assets managed together as of March 31, 2016 and June 30, 2016, and quantitative information about net credit loss for the three months ended June 30, 2015 and 2016 are as follows:

	Millions of yen			
	Total principal amount of receivables		Principal amount of receivables that are 90 days or more past-due and impaired loans	
	March 31, 2016	June 30, 2016	March 31, 2016	June 30, 2016
Direct financing leases	¥ 1,190,136	¥1,146,198	¥ 12,556	¥ 13,063
Installment loans	2,592,233	2,577,472	81,771	77,883
	3,782,369	3,723,670	94,327	90,946
Direct financing leases sold on securitization	706	0	0	0
Total	¥ 3,783,075	¥3,723,670	¥ 94,327	¥ 90,946

	Millions of yen	
	Credit loss	
	Three months ended June 30, 2015	Three months ended June 30, 2016
Direct financing lease	¥ 658	¥ 492
Installment loans	3,194	1,997
	3,852	2,489
Direct financing lease sold on securitization	0	0
Total	¥ 3,852	¥ 2,489

A certain subsidiary originates and sells loans into the secondary market while retaining the obligation to service those loans. In addition, it undertakes obligations to service loans originated by others. The servicing assets related to those servicing activities are included in other assets and roll-forwards of the amount of the servicing assets for the three months ended June 30, 2015 and 2016 are as follows:

	Millions of yen	
	Three months ended June 30, 2015	Three months ended June 30, 2016
Beginning balance	¥ 18,376	¥ 16,852
Increase mainly from loans sold with servicing retained	1,128	686
Decrease mainly from amortization	(1,245)	(876)
Increase (Decrease) from the effects of changes in foreign exchange rates	347	(1,450)
Ending balance	¥ 18,606	¥ 15,212

The fair value of the servicing assets as of March 31, 2016 and June 30, 2016 are as follows:

	Millions of yen	
	March 31, 2016	June 30, 2016
The fair value of the servicing assets	¥ 24,229	¥ 22,220

8. Variable Interest Entities

The Company and its subsidiaries use special purpose companies, partnerships and trusts (hereinafter referred to as SPEs) in the ordinary course of business.

These SPEs are not always controlled by voting rights, and there are cases where voting rights do not exist for those SPEs. ASC 810 ("Consolidation") addresses consolidation by business enterprises of SPEs within the scope of ASC 810 ("Consolidation"). Generally these SPEs are entities where (a) the total equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support provided by any parties, including the equity holders or (b) as a group, the holders of the equity investment at risk do not have (1) the ability to make decisions about an entity's activities that most significantly impact the entity's economic performance through voting rights or similar rights, (2) the obligation to absorb the expected losses of the entity or (3) the right to receive the expected residual returns of the entity. Entities within the scope of ASC 810 ("Consolidation") are called VIEs.

According to ASC 810 ("Consolidation"), the Company and its subsidiaries are required to perform a qualitative analysis to identify the primary beneficiary of VIEs. An enterprise that has both of the following characteristics is considered to be the primary beneficiary and therefore results in the consolidation of the VIE:

- The power to direct the activities of a VIE that most significantly impact the entity's economic performance
- The obligation to absorb losses of the entity that could potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE

All facts and circumstances are taken into consideration when determining whether the Company and its subsidiaries have variable interests that would deem it the primary beneficiary and therefore require consolidation of the VIE. The Company and its subsidiaries make ongoing reassessment of whether they are the primary beneficiaries of a VIE.

The following are the items that the Company and its subsidiaries are considering in a qualitative assessment:

- Which activities most significantly impact the economic performance of the VIE and who has the power to direct such activities
- Characteristics of the Company and its subsidiaries' variable interest or interests and other involvements (including involvement of related parties and de facto agents)
- Involvement of other variable interest holders
- The entity's purpose and design, including the risks that the entity was designed to create and pass through to its variable interest holders

The Company and its subsidiaries generally consider the following types of involvement to be significant when determining the primary beneficiary:

- Designing the structuring of a transaction
- Providing an equity investment and debt financing
- Being the investment manager, asset manager or servicer and receiving variable fees
- Providing liquidity and other financial support

The Company and its subsidiaries do not have the power to direct activities of the VIEs that most significantly impact the VIEs' economic performance if that power is shared among multiple unrelated parties, and accordingly do not consolidate such VIEs.

Information about VIEs (consolidated and non-consolidated) for the Company and its subsidiaries are as follows:

1. Consolidated VIEs

March 31, 2016 *4

	Millions of yen			
Types of VIEs	**Total assets *1**	**Total liabilities *1**	**Assets which are pledged as collateral *2**	**Commitments *3**
(a) VIEs for liquidating customer assets	¥ 0	¥ 0	¥ 0	¥ 0
(b) VIEs for acquisition of real estate and real estate development projects for customers	953	0	0	0
(c) VIEs for acquisition of real estate for the Company and its subsidiaries' real estate-related business	174,854	56,325	113,869	7,000
(d) VIEs for corporate rehabilitation support business	2,055	40	0	0
(e) VIEs for investment in securities	24,882	9,657	17,336	2,422
(f) VIEs for securitizing financial assets such as direct financing lease receivable and loan receivable	381,313	256,620	346,169	0
(g) VIEs for securitization of loan receivable originated by third parties	21,550	20,548	21,550	0
(h) VIEs for power generation projects	159,593	82,535	88,119	121,390
(i) Other VIEs	216,632	97,979	213,466	0
Total	¥981,832	¥523,704	¥ 800,509	¥ 130,812

June 30, 2016

	Millions of yen			
Types of VIEs	**Total assets *1**	**Total liabilities *1**	**Assets which are pledged as collateral *2**	**Commitments *3**
(a) VIEs for liquidating customer assets	¥ 0	¥ 0	¥ 0	¥ 0
(b) VIEs for acquisition of real estate and real estate development projects for customers	866	307	0	0
(c) VIEs for acquisition of real estate for the Company and its subsidiaries' real estate-related business	169,437	65,178	109,683	7,000
(d) VIEs for corporate rehabilitation support business	1,870	14	0	0
(e) VIEs for investment in securities	22,794	9,028	16,811	2,022
(f) VIEs for securitizing financial assets such as direct financing lease receivable and loan receivable	359,916	266,369	326,122	0
(g) VIEs for securitization of loan receivable originated by third parties	19,155	18,125	19,155	0
(h) VIEs for power generation projects	170,413	82,703	93,840	106,452
(i) Other VIEs	229,844	96,167	224,887	0
Total	¥974,295	¥537,891	¥ 790,498	¥ 115,474

*1 The assets of most VIEs are used only to repay the liabilities of the VIEs, and the creditors of the liabilities of most VIEs have no recourse to other assets of the Company and its subsidiaries.

*2 The assets are pledged as collateral by VIE for financing of the VIE.

*3 This item represents remaining balance of commitments that could require the Company and its subsidiaries to provide investments or loans to the VIE.

*4 Until March 31, 2016, the Company and its subsidiaries had made disclosures according to ASC810 ("Consolidation") before amendment.

2. Non-consolidated VIEs

March 31, 2016 *2

Types of VIEs	Total assets	Carrying amount of the variable interests in the VIEs held by the Company and its subsidiaries: Specified bonds and non-recourse loans	Carrying amount of the variable interests in the VIEs held by the Company and its subsidiaries: Investments	Maximum exposure to loss *1
	Millions of yen			
(a) VIEs for liquidating customer assets	¥ 33,406	¥ 0	¥ 2,091	¥ 9,551
(b) VIEs for acquisition of real estate and real estate development projects for customers	170,001	4,776	13,039	24,964
(c) VIEs for acquisition of real estate for the Company and its subsidiaries' real estate-related business	0	0	0	0
(d) VIEs for corporate rehabilitation support business	0	0	0	0
(e) VIEs for investment in securities	2,964,616	0	26,174	47,636
(f) VIEs for securitizing financial assets such as direct financing lease receivable and loan receivable	0	0	0	0
(g) VIEs for securitization of loan receivable originated by third parties	1,070,683	0	10,671	10,721
(h) VIEs for power generation projects	20,007	0	1,182	1,182
(i) Other VIEs	104,284	0	4,868	4,868
Total	¥ 4,362,997	¥ 4,776	¥ 58,025	¥ 98,922

June 30, 2016

Types of VIEs	Total assets	Carrying amount of the variable interests in the VIEs held by the Company and its subsidiaries: Specified bonds and non-recourse loans	Carrying amount of the variable interests in the VIEs held by the Company and its subsidiaries: Investments	Maximum exposure to loss *1
	Millions of yen			
(a) VIEs for liquidating customer assets	¥ 33,406	¥ 0	¥ 2,091	¥ 9,551
(b) VIEs for acquisition of real estate and real estate development projects for customers	156,854	4,573	14,078	25,648
(c) VIEs for acquisition of real estate for the Company and its subsidiaries' real estate-related business	0	0	0	0
(d) VIEs for corporate rehabilitation support business	0	0	0	0
(e) VIEs for investment in securities	20,985,662	0	71,418	103,540
(f) VIEs for securitizing financial assets such as direct financing lease receivable and loan receivable	0	0	0	0
(g) VIEs for securitization of loan receivable originated by third parties	1,197,788	0	11,413	11,463
(h) VIEs for power generation projects	3,682	0	1,173	1,173
(i) Other VIEs	173,484	0	17,698	17,698
Total	¥22,550,876	¥ 4,573	¥ 117,871	¥169,073

*1 Maximum exposure to loss includes remaining balance of commitments that could require the Company and its subsidiaries to provide investments or loans to the VIE.

*2 Until March 31, 2016, the Company and its subsidiaries had made disclosures according to ASC810 ("Consolidation") before amendment.

(a) VIEs for liquidating customer assets

The Company and its subsidiaries may use VIEs in structuring financing for customers to liquidate specific customer assets. The VIEs are typically used to provide a structure that is bankruptcy remote with respect to the customer and the use of VIE structure is requested by such customer. Such VIEs typically acquire assets to be liquidated from the customer, borrow non-recourse loans from financial institutions and have an equity investment made by the customer. By using cash flows from the liquidated assets, these VIEs repay the loan and pay dividends to equity investors if sufficient funds exist.

Variable interests of non-consolidated VIEs, which the Company and its subsidiaries have, are mainly included in other assets in the Company's condensed consolidated balance sheets. The Company has a commitment agreement by which the Company may be required to make additional investment in certain such non-consolidated VIEs.

(b) VIEs for acquisition of real estate and real estate development projects for customers

Customers and the Company and its subsidiaries are involved with VIEs formed to acquire real estate and/or develop real estate projects. In each case, a customer establishes and makes an equity investment in a VIE that is designed to be bankruptcy remote from the customer. The VIEs acquire real estate and/or develop real estate projects.

The Company and its subsidiaries provide non-recourse loans to such VIEs and hold specified bonds issued by them and/or make investments in them. The Company and its subsidiaries have consolidated certain VIEs because the Company or its subsidiary effectively controls the VIEs by acting as the asset manager of the VIEs.

In the Company's condensed consolidated balance sheets, assets of consolidated VIEs are mainly included in investment in affiliates, and liabilities of those consolidated VIEs are mainly included in other liabilities.

With respect to the variable interests of non-consolidated VIEs, which the Company and its subsidiaries have, specified bonds are included in investment in securities, non-recourse loans are included in installment loans, and investments are mainly included in investment in securities, investment in affiliates and other assets in the Company's condensed consolidated balance sheets. The Company and its subsidiaries have commitment agreements by which the Company and its subsidiaries may be required to provide additional investment in certain non-consolidated VIEs as long as the agreed-upon terms are met. Under these agreements, the Company and its subsidiaries are committed to invest in these VIEs with the other investors based on their respective ownership percentages. The Company and its subsidiaries concluded that the VIEs are not consolidated because the power to direct these VIEs is held by unrelated parties. In some cases, the Company and its subsidiaries concluded that the VIEs are not consolidated because the power to direct these VIEs is shared among multiple unrelated parties.

(c) VIEs for acquisition of real estate for the Company and its subsidiaries' real estate-related business

The Company and its subsidiaries establish VIEs and acquire real estate to borrow non-recourse loans from financial institutions and simplify the administration activities necessary for the real estate. The Company and its subsidiaries consolidate such VIEs even though the Company and its subsidiaries may not have voting rights if substantially all of such VIEs' subordinated interests are issued to the Company and its subsidiaries, and therefore the VIEs are controlled by and for the benefit of the Company and its subsidiaries.

The Company and its subsidiaries contributed additional funding to certain consolidated VIEs, since those VIEs had difficulty repaying debt and accounts payable. There was no additional funding or acquisition of subordinated interests during fiscal 2016 and the three months ended June 30, 2016.

In the Company's condensed consolidated balance sheets, assets of the consolidated VIEs are mainly included in cash and cash equivalents, restricted cash, investment in operating leases, property under facility operations and other assets, and liabilities of those consolidated VIEs are mainly included in long-term debt. The Company has a commitment agreement by which the Company may be required to make additional investment in certain such consolidated VIEs.

(d) VIEs for corporate rehabilitation support business

Financial institutions, the Company and its subsidiary are involved with VIEs established for the corporate rehabilitation support business. VIEs receive the funds from investors including the financial institutions, the Company and the subsidiary, and purchase loan receivables due from borrowers which have financial problems, but are deemed to have the potential to recover in the future. The servicing operations for the VIEs are conducted by the subsidiary.

The Company and its subsidiary consolidated such VIEs since the Company and the subsidiary have the majority of the investment share of such VIEs, and have the power to direct the activities of the VIEs that most significantly impact the entities' economic performance through the servicing operations.

In the Company's condensed consolidated balance sheets, assets of the consolidated VIEs are mainly included in installment loans, and liabilities of those consolidated VIEs are mainly included in other liabilities.

(e) VIEs for investment in securities

The Company and its subsidiaries have interests in VIEs that are investment funds and mainly invest in equity and debt securities. Such VIEs are managed by certain subsidiaries or fund management companies that are independent of the Company and its subsidiaries.

The Company consolidated certain such VIEs since the Company has the majority of the investment share of them, and has the power to direct the activities of those VIEs that most significantly impact the entities' economic performance through involvement with the design of the VIEs or other means.

In the Company's condensed consolidated balance sheets, assets of the consolidated VIEs are mainly included in investment in securities and investment in affiliates, and liabilities of those consolidated VIEs are mainly included in long-term debt. A subsidiary has a commitment agreement by which the subsidiary may be required to make additional investment in certain such consolidated VIEs.

Variable interests of non-consolidated VIEs, which the Company and its subsidiaries have, are included in investment in securities in the Company's condensed consolidated balance sheets. The Company and its subsidiaries have a commitment agreement by which the Company and its subsidiaries may be required to make additional investment in certain such non-consolidated VIEs. The total assets as of June 30, 2016 increased due primarily to the increase of new investments in securities as a result of the adoption of the Accounting Standards Update 2015-02 ("Amendments to the Consolidation Analysis"—ASC 810 ("Consolidation") issued in February 2015.

(f) VIEs for securitizing financial assets such as direct financing lease receivable and loan receivable

The Company and its subsidiaries use VIEs to securitize financial assets such as direct financing leases receivables and loans receivables. In the securitization process, these financial assets are transferred to SPEs, and the SPEs issue beneficial interests or securities backed by the transferred financial assets to investors. After the securitization, the Company and its subsidiaries continue to hold a subordinated part of the securities and act as a servicer.

The Company and its subsidiaries consolidated such VIEs since the Company and its subsidiaries have the power to direct the activities that most significantly impact the entity's economic performance by designing the securitization scheme and conducting servicing activities, and have a responsibility to absorb losses of the VIEs that could potentially be significant to the entities by retaining the subordinated part of the securities.

In the Company's condensed consolidated balance sheets, assets of the consolidated VIEs are mainly included in restricted cash, investment in direct financing leases and installment loans, and liabilities of those consolidated VIEs are mainly included in long-term debt.

(g) VIEs for securitization of loan receivable originated by third parties

The Company and its subsidiaries invest in CMBS, RMBS and other asset-backed securities originated by third parties. In some cases of such securitization, certain subsidiaries hold the subordinated portion and the subsidiaries act as a special-servicer of the securitization transaction. As the special servicer, the subsidiaries have rights to dispose of real estate collateral related to the securitized commercial mortgage loans.

The subsidiaries consolidate certain of these VIEs when the subsidiaries have the power to direct the activities of the VIEs that most significantly impact the entities' economic performance through its role as special-servicer, including the right to dispose of the collateral, and have a responsibility to absorb losses of the VIEs that could potentially be significant to the entities by holding the subordinated part of the securities.

In the Company's condensed consolidated balance sheets, assets of the consolidated VIEs are mainly included in installment loans, and liabilities of those consolidated VIEs are mainly included in long-term debt.

Variable interests of non-consolidated VIEs, which the Company and its subsidiaries have, are included in investment in securities in the Company's condensed consolidated balance sheets. The Company has a commitment agreement by which the Company may be required to make additional investment in certain such non-consolidated VIEs.

(h) VIEs for power generation projects

The Company and its subsidiaries may use VIEs in power generation projects. VIEs receive the funds from the Company and its subsidiaries, install solar panels on acquired or leased lands, and sell the generated power to electric power companies. The Company and its subsidiaries have consolidated certain VIEs because the Company and its subsidiaries have the majority of the investment shares of such VIEs and effectively control the VIEs by acting as the asset manager of the VIEs.

In the Company's condensed consolidated balance sheets, assets of the consolidated VIEs are mainly included in property under facility operations and other assets, and liabilities of those consolidated VIEs are mainly included in long-term debt. The Company has commitment agreements by which the Company may be required to make additional investment or execute loans in certain such consolidated VIEs.

Variable interests of non-consolidated VIEs, which the Company has, is included in investment in securities in the Company's condensed consolidated balance sheets.

(i) Other VIEs

The Company and its subsidiaries are involved with other types of VIEs for various purposes. Consolidated and non-consolidated VIEs of this category are mainly kumiai structures. In addition, certain subsidiaries has consolidated VIEs that are not included in the categories (a) through (h) above, because the subsidiaries hold the subordinated portion of the VIEs and the VIEs are effectively controlled by the subsidiaries.

In Japan, certain subsidiaries provide investment products to their customers that employ a contractual mechanism known as a kumiai, which in part result in the subsidiaries forming a type of SPE. As a means to finance the purchase of aircraft or other large-ticket items to be leased to third parties, the Company and its subsidiaries arrange and market kumiai products to investors, who invest a portion of the funds necessary into the kumiai structure. The remainder of the purchase funds is borrowed by the kumiai structure in the form of a nonrecourse loan from one or more financial institutions. The kumiai investors (and any lenders to the kumiai structure) retain all of the economic risks and rewards in connection with purchasing and leasing activities of the kumiai structure, and all related gains or losses are recorded on the financial statements of the investors in the kumiai. The Company and its subsidiaries are responsible for the arrangement and marketing of these products and may act as servicer or administrator in kumiai transactions. The fee income for the arrangement and administration of these transactions is recognized in the Company's condensed consolidated statements of income. In some cases, the Company and its subsidiaries make investments in the kumiai or its related SPE, and these VIEs are consolidated because the Company and its subsidiaries have a responsibility to absorb any significant potential loss through the investments and have the power to direct the activities that most significantly impact their economic performance. In other cases, the Company and its subsidiaries are not considered to be the primary beneficiary of the VIEs or kumiais because the Company and its subsidiaries did not make significant investments or guarantee or otherwise undertake any significant financial commitments or exposure with respect to the kumiai or its related SPE.

The Company may use VIEs to finance. The Company transfers its own held assets to SPEs, which borrow non-recourse loan from financial institutions and effectively pledge such assets as collateral. The Company continually holds subordinated interests in the SPEs and perform administrative work of such assets. The Company consolidates such SPEs because the Company has a right to direct the activities of them that most significantly impact their economic performance by setting up the scheme and performing administrative work of the assets and has the obligation to absorb expected losses of them by holding the subordinated interests.

In the Company's condensed consolidated balance sheets, assets of the consolidated VIEs are mainly included in investment in operating leases, investment in affiliates and office facilities, and liabilities of those consolidated VIEs are mainly included in long-term debt.

Variable interests in non-consolidated VIEs, which the Company and its subsidiaries hold, are mainly included in installment loans in the Company's condensed consolidated balance sheets.

9. Investment in Affiliates

Investment in affiliates at March 31, 2016 and June 30, 2016 consists of the following:

	Millions of yen	
	March 31, 2016	June 30, 2016
Shares	¥ 499,922	¥ 446,907
Loans	30,745	33,331
	¥ 530,667	¥ 480,238

10. Redeemable Noncontrolling Interests

Changes in redeemable noncontrolling interests for the three months ended June 30, 2015 and 2016 are as follows:

	Millions of yen	
	Three months ended June 30, 2015	Three months ended June 30, 2016
Beginning balance	¥ 66,901	¥ 7,467
Adjustment of redeemable noncontrolling interests to redemption value	738	0
Transaction with noncontrolling interests	371	0
Comprehensive income		
Net income	1,061	65
Other comprehensive income (loss)		
Net change of foreign currency translation adjustments	1,425	(651)
Total other comprehensive income (loss)	1,425	(651)
Comprehensive income	2,486	(586)
Ending balance	¥ 70,496	¥ 6,881

11. Accumulated Other Comprehensive Income (Loss)

Changes in each component of accumulated other comprehensive income (loss) attributable to ORIX Corporation Shareholders for the three months ended June 30, 2015 and 2016, are as follows:

	Three months ended June 30, 2015				
	Millions of yen				
	Net unrealized gains (losses) on investment in securities	Defined benefit pension plans	Foreign currency translation adjustments	Net unrealized gains (losses) on derivative instruments	Accumulated other comprehensive income (loss)
Balance at March 31, 2015	¥ 50,330	¥ (19,448)	¥ 431	¥ (940)	¥ 30,373
Net unrealized gains on investment in securities, net of tax of ¥(1,645) million	4,950				4,950
Reclassification adjustment included in net income, net of tax of ¥6,898 million	(12,231)				(12,231)
Defined benefit pension plans, net of tax of ¥366 million		(982)			(982)
Reclassification adjustment included in net income, net of tax of ¥(5) million		82			82
Foreign currency translation adjustments, net of tax of ¥(487) million			10,996		10,996
Reclassification adjustment included in net income, net of tax of ¥0 million			0		0
Net unrealized losses on derivative instruments, net of tax of ¥568 million				(1,539)	(1,539)
Reclassification adjustment included in net income, net of tax of ¥(615) million				1,656	1,656
Total other comprehensive income (loss)	(7,281)	(900)	10,996	117	2,932
Less: Other Comprehensive Income (Loss) Attributable to the Noncontrolling Interest	28	(55)	1,346	7	1,326
Less: Other Comprehensive Income Attributable to the Redeemable Noncontrolling Interests	0	0	1,425	0	1,425
Balance at June 30, 2015	¥ 43,021	¥ (20,293)	¥ 8,656	¥ (830)	¥ 30,554

	Three months ended June 30, 2016				
	Millions of yen				
	Net unrealized gains (losses) on investment in securities	Defined benefit pension plans	Foreign currency translation adjustments	Net unrealized gains (losses) on derivative instruments	Accumulated other comprehensive income (loss)
Balance at March 31, 2016	¥ 47,185	¥ (23,884)	¥ (24,766)	¥ (4,757)	¥ (6,222)
Net unrealized gains on investment in securities, net of tax of ¥(3,804) million	10,747				10,747
Reclassification adjustment included in net income, net of tax of ¥1,866 million	(3,975)				(3,975)
Defined benefit pension plans, net of tax of ¥(442) million		1,206			1,206
Reclassification adjustment included in net income, net of tax of ¥(39) million		91			91
Foreign currency translation adjustments, net of tax of ¥5,149 million			(40,537)		(40,537)
Reclassification adjustment included in net income, net of tax of ¥143 million			(667)		(667)
Net unrealized losses on derivative instruments, net of tax of ¥876 million				(1,840)	(1,840)
Reclassification adjustment included in net income, net of tax of ¥19 million				(92)	(92)
Total other comprehensive income (loss)	6,772	1,297	(41,204)	(1,932)	(35,067)
Less: Other Comprehensive Income (Loss) Attributable to the Noncontrolling Interest	(56)	117	(5,144)	(121)	(5,204)
Less: Other Comprehensive Income (Loss) Attributable to the Redeemable Noncontrolling Interests	0	0	(651)	0	(651)
Balance at June 30, 2016	¥ 54,013	¥ (22,704)	¥ (60,175)	¥ (6,568)	¥ (35,434)

Amounts reclassified to net income from accumulated other comprehensive income (loss) in the three months ended June 30, 2015 and 2016 are as follows:

	Three months ended June 30, 2015	
Details about accumulated other comprehensive income components	**Reclassification adjustment included in net income** **Millions of yen**	**Consolidated statements of income caption**
Net unrealized gains (losses) on investment in securities		
Sales of investment securities	¥ 15,502	Gains on investment securities and dividends
Sales of investment securities	5,965	Life insurance premiums and related investment income
Amortization of investment securities	(49)	Finance revenues
Amortization of investment securities	(391)	Life insurance premiums and related investment income
Others	(1,898)	Write-downs of securities and other
	19,129	Total before tax
	(6,898)	Tax expenses or benefits
	¥ 12,231	Net of tax
Defined benefit pension plans		
Amortization of prior service credit	¥ 258	See Note 14 “Pension Plans”
Amortization of net actuarial loss	(332)	See Note 14 “Pension Plans”
Amortization of transition obligation	(13)	See Note 14 “Pension Plans”
	(87)	Total before tax
	5	Tax expenses or benefits
	¥ (82)	Net of tax
Net unrealized gains (losses) on derivative instruments		
Interest rate swap agreements	¥ 2	Finance revenues/Interest expense
Foreign exchange contracts	2,082	Other (income) and expense, net
Foreign currency swap agreements	(4,355)	Finance revenues/Interest expense/ Other (income) and expense, net
	(2,271)	Total before tax
	615	Tax expenses or benefits
	¥ (1,656)	Net of tax

Details about accumulated other comprehensive income components	Three months ended June 30, 2016		
	Reclassification adjustment included in net income		
	Millions of yen		Consolidated statements of income caption
Net unrealized gains (losses) on investment in securities			
Sales of investment securities	¥	3,186	Gains on investment securities and dividends
Sales of investment securities		3,139	Life insurance premiums and related investment income
Amortization of investment securities		(101)	Finance revenues
Amortization of investment securities		(381)	Life insurance premiums and related investment income
Others		(2)	Write-downs of securities and other
		5,841	Total before tax
		(1,866)	Tax expenses or benefits
	¥	3,975	Net of tax
Defined benefit pension plans			
Amortization of prior service credit	¥	256	See Note 14 "Pension Plans"
Amortization of net actuarial loss		(374)	See Note 14 "Pension Plans"
Amortization of transition obligation		(12)	See Note 14 "Pension Plans"
		(130)	Total before tax
		39	Tax expenses or benefits
	¥	(91)	Net of tax
Foreign currency translation adjustments			
Sales or liquidation	¥	810	Gains on sales of subsidiaries and affiliates and liquidation losses, net
		810	Total before tax
		(143)	Tax expenses or benefits
	¥	667	Net of tax
Net unrealized gains (losses) on derivative instruments			
Interest rate swap agreements	¥	1	Finance revenues/Interest expense
Foreign exchange contracts		(13)	Other (income) and expense, net
Foreign currency swap agreements		123	Finance revenues/Interest expense/ Other (income) and expense, net
		111	Total before tax
		(19)	Tax expenses or benefits
	¥	92	Net of tax

12. ORIX Corporation Shareholders' Equity

Information about ORIX Corporation Shareholders' Equity for the three months ended June 30, 2015 and 2016 are as follows:

(1) Dividend payments

	Three months ended June 30, 2015	Three months ended June 30, 2016
Resolution	The board of directors on May 20, 2015	The board of directors on May 23, 2016
Type of shares	Common stock	Common stock
Total dividends paid	¥47,188 million	¥31,141 million
Dividend per share	¥36.00	¥23.75
Date of record for dividend	March 31, 2015	March 31, 2016
Effective date for dividend	June 3, 2015	June 1, 2016
Dividend resource	Retained earnings	Retained earnings

Total dividends paid includes ¥77 million of dividends paid to the Board Incentive Plan Trust for the three months ended June 30, 2015. Total dividends paid includes ¥40 million of dividends paid to the Board Incentive Plan Trust for the three months ended June 30, 2016.

(2) There were no applicable dividends for which the date of record was in the three months ended June 30, 2015, and for which the effective date was after June 30, 2015.

There were no applicable dividends for which the date of record was in the three months ended June 30, 2016, and for which the effective date was after June 30, 2016.

13. Selling, General and Administrative Expenses

Selling, general and administrative expenses for the three months ended June 30, 2015 and 2016 are as follows:

	Millions of yen	
	Three months ended June 30, 2015	Three months ended June 30, 2016
Personnel expenses	¥ 69,866	¥ 60,095
Selling expenses	17,819	16,772
Administrative expenses	25,407	24,508
Depreciation of office facilities	1,278	1,227
Total	¥ 114,370	¥ 102,602

14. Pension Plans

The Company and certain subsidiaries have contributory and non-contributory pension plans covering substantially all of their employees. Those contributory funded pension plans include defined benefit pension plans and defined contribution pension plans. Under the plans, employees are entitled to lump-sum payments at the time of termination of their employment or pension payments. Defined benefit pension plans consist of a plan of which the amounts of such payments are determined on the basis of length of service and remuneration at the time of termination and a cash balance plan.

The Company and its subsidiaries' funding policy is to contribute annually the amounts actuarially determined. Assets of the plans are invested primarily in interest-bearing securities and marketable equity securities.

Net pension cost of the plans for the three months ended June 30, 2015 and 2016 consists of the following:

	Millions of yen	
	Three months ended June 30, 2015	Three months ended June 30, 2016
Japanese plans:		
Service cost	¥ 1,143	¥ 1,277
Interest cost	263	169
Expected return on plan assets	(649)	(634)
Amortization of prior service credit	(232)	(231)
Amortization of net actuarial loss (gain)	(5)	236
Amortization of transition obligation	12	11
Net periodic pension cost	¥ 532	¥ 828

	Millions of yen	
	Three months ended June 30, 2015	Three months ended June 30, 2016
Overseas plans:		
Service cost	¥ 969	¥ 832
Interest cost	440	456
Expected return on plan assets	(1,158)	(919)
Amortization of prior service credit	(26)	(25)
Amortization of net actuarial loss	337	138
Amortization of transition obligation	1	1
Net periodic pension cost	¥ 563	¥ 483

15. Life Insurance Operations

Life insurance premiums and related investment income for three months ended June 30, 2015 and 2016 consist of the following:

	Millions of yen	
	Three months ended June 30, 2015	Three months ended June 30, 2016
Life insurance premiums	¥ 49,284	¥ 55,258
Life insurance related investment income (loss)	19,030	(18,486)
	¥ 68,314	¥ 36,772

Life insurance premiums include reinsurance benefits, net of reinsurance premiums. For the three months ended June 30, 2015 and 2016, reinsurance benefits and reinsurance premiums included in life insurance premiums are as follows:

	Millions of yen	
	Three months ended June 30, 2015	Three months ended June 30, 2016
Reinsurance benefits	¥ 573	¥ 635
Reinsurance premiums	(3,195)	(2,564)

The benefits and expenses of life insurance operations included in life insurance costs in the consolidated statements of income are recognized so as to associate with earned premiums over the life of contracts. This association is accomplished by means of the provision for future policy benefits and the deferral and subsequent amortization of policy acquisition costs (principally commissions and certain other expenses relating to policy issuance and underwriting). Amortization charged to income for the three months ended June 30, 2015 and 2016 amounted to ¥2,931 million and ¥3,209 million, respectively.

Life insurance premiums and related investment income include net realized and unrealized gains or losses from investment assets under management on behalf of variable annuity and variable life policyholders and, net gains or losses from derivative contracts, which consist of gains or losses from futures, foreign exchange contracts and options held, entered to economically hedge a portion of the minimum guarantee risk relating to variable annuity and variable life insurance contracts. In addition, life insurance costs include the net amount of the changes in fair value of the variable annuity and variable life insurance contracts elected for the fair value option and insurance costs recognized for insurance and annuity payouts as a result of insured events. Certain subsidiaries have elected the fair value option for certain reinsurance contracts to partially offset the changes in fair value recognized in earnings of the policy liabilities and policy account balances attributable to the changes in the minimum guarantee risks of the variable annuity and variable life insurance contracts, and the changes in the fair value of the reinsurance contracts were recorded in life insurance costs.

The above mentioned gains or losses relating to variable annuity and variable life insurance contracts for the three months ended June 30, 2015 and 2016 are as follows:

	Millions of yen	
	Three months ended June 30, 2015	Three months ended June 30, 2016
Life insurance premiums and related investment income :		
Net realized and unrealized gains or losses from investment assets	¥ 16,821	¥ (28,229)
Net gains or losses from derivative contracts :	(3,146)	5,133
Futures	(1,752)	2,117
Foreign exchange contracts	(456)	1,671
Options held	(938)	1,345
Life insurance costs :		
Changes in the fair value of the policy liabilities and policy account balances	¥ (152,917)	¥ (44,086)
Insurance costs recognized for insurance and annuity payouts as a result of insured events	154,571	29,449
Changes in the fair value of the reinsurance contracts	2,817	(7,362)

16. Write-Downs of Long-Lived Assets

In accordance with ASC 360 ("Property, Plant, and Equipment"), the Company and its subsidiaries perform tests for recoverability on long-lived assets classified as held and used for which events or changes in circumstances indicated that the assets might be impaired. The Company and its subsidiaries consider an asset's carrying amount as not recoverable when such carrying amount exceeds the undiscounted future cash flows estimated to result from the use and eventual disposition of the asset. The net carrying amount of assets not recoverable is reduced to fair value if lower than the carrying amount.

As of March 31, 2016 and June 30, 2016, the long-lived assets classified as held for sale in the accompanying consolidated balance sheets are as follows.

	Millions of yen	
	As of March 31, 2016	As of June 30, 2016
Investment in operating leases	¥ 70,300	¥ 40,187
Property under facility operations	2,811	0
Other assets	9,959	0

The long-lived assets classified as held for sale as of March 31, 2016 are included in Real Estate segment, Investment and Operation segment and Overseas Business segment. The long-lived assets classified as held for sale as of June 30, 2016 are also included in Real Estate segment, Investment and Operation segment and Overseas Business segment.

The Company and its subsidiaries determine the fair value using appraisals prepared by independent third party appraisers or our own staff of qualified appraisers, based on recent transactions involving sales of similar assets or other valuation techniques such as discounted cash flows methodologies using future cash flows estimated to be generated from operation of the existing assets or completion of development projects, as appropriate.

For the three months ended June 30, 2015 and 2016, the Company and its subsidiaries recognized impairment losses for the difference between carrying amounts and fair values in the amount of ¥822 million and ¥564 million, respectively, which are reflected as write-downs of long-lived assets. Breakdowns of these amounts are as follows.

	Three months ended June 30, 2015		Three months ended June 30, 2016	
	Amount (Millions of yen)	The number of properties	Amount (Millions of yen)	The number of properties
Write-downs of the assets held for sale:				
Office buildings	¥ 47	1	¥ 0	0
Condominiums	0	0	236	1
Commercial facilities other than office buildings	0	0	317	1
Land undeveloped or under construction	22	1	0	0
Others *	0	—	0	—
Total	¥ 69	—	¥ 553	—

* For the "Others", the number of properties are omitted.

	Three months ended June 30, 2015		Three months ended June 30, 2016	
	Amount (Millions of yen)	The number of properties	Amount (Millions of yen)	The number of properties
Write-downs due to decline in estimated future cash flows:				
Office buildings	¥ 12	1	¥ 0	0
Condominiums	741	2	0	0
Commercial facilities other than office buildings	0	0	0	0
Land undeveloped or under construction	0	0	0	0
Others *	0	—	11	—
Total	¥ 753	—	¥ 11	—

* For the "Others", the number of properties are omitted.

Losses of ¥788 million in Real Estate segment, ¥22 million in Investment and Operation segment and ¥12 million in Overseas Business segment were recorded for the three months ended June 30, 2015. Losses of ¥553 million in Real Estate segment and ¥11 million in Investment and Operation segment were recorded for the three months ended June 30, 2016.

17. Per Share Data

Reconciliation of the differences between basic and diluted earnings per share (EPS) in the three months ended June 30, 2015 and 2016 are as follows:

During the three months ended June 30, 2015 and 2016, the diluted EPS calculation excludes stock option for 4,457 thousand shares and 2,759 thousand shares, respectively, as they were antidilutive.

	Millions of yen	
	Three months ended June 30, 2015	Three months ended June 30, 2016
Net Income attributable to ORIX Corporation Shareholders	¥ 81,510	¥ 76,769

	Thousands of Shares	
	Three months ended June 30, 2015	Three months ended June 30, 2016
Weighted-average shares	1,308,774	1,309,527
Effect of dilutive securities—		
Exercise of stock options	1,243	1,084
Weighted-average shares for diluted EPS computation	1,310,017	1,310,611

	Yen	
	Three months ended June 30, 2015	Three months ended June 30, 2016
Earnings per share for net income attributable to ORIX Corporation shareholders:		
Basic	¥ 62.28	¥ 58.62
Diluted	62.22	58.58

Note: The Company's shares held through the Board Incentive Plan Trust (2,153,800 and 1,683,051 shares for the three months ended June 30, 2015 and 2016) are included in the number of treasury stock shares to be deducted in calculation of the weighted-average shares for EPS computation.

18. Derivative Financial Instruments and Hedging

Risk management policy

The Company and its subsidiaries manage interest rate risk through asset and liability management systems. The Company and its subsidiaries use derivative financial instruments to hedge interest rate risk and avoid changes in interest rates that could have a significant adverse effect on the Company's results of operations. As a result of interest rate changes, the fair value and/or cash flow of interest sensitive assets and liabilities will fluctuate. However, such fluctuation will generally be offset by using derivative financial instruments as hedging instruments. Derivative financial instruments that the Company and its subsidiaries use as part of the interest risk management include interest rate swaps.

The Company and its subsidiaries utilize foreign currency borrowings, foreign exchange contracts and foreign currency swap agreements to hedge exchange rate risk that are associated with certain transactions and investments denominated in foreign currencies. Similarly, overseas subsidiaries generally structure their liabilities to match the currency-denomination of assets in each region. A certain subsidiary holds option agreements, futures and foreign exchange contracts for the purpose of economic hedges against minimum guarantee risk of variable annuity and variable life insurance contracts.

By using derivative instruments, the Company and its subsidiaries are exposed to credit risk in the event of nonperformance by counterparties. The Company and its subsidiaries attempt to manage the credit risk by carefully evaluating the content of transactions and the quality of counterparties in advance and regularly monitoring the amount of notional principal, fair value, type of transaction and other factors pertaining to each counterparty.

(a) Cash flow hedges

The Company and its subsidiaries designate interest rate swap agreements, foreign currency swap agreements and foreign exchange contracts as cash flow hedges for variability of cash flows originating from floating rate borrowings and forecasted transactions and for exchange fluctuations.

(b) Fair value hedges

The Company and its subsidiaries use financial instruments designated as fair value hedges to hedge their exposure to interest rate risk and foreign currency exchange risk. The Company and its subsidiaries designate foreign currency swap agreements and foreign exchange contracts to minimize foreign currency exposures on lease receivables, loan receivables, borrowings and others denominated in foreign currency. The Company and its subsidiaries designate interest rate swap to hedge interest rate exposure of the fair values of loan receivables. The Company and certain overseas subsidiaries, which issued medium-term notes or bonds with fixed interest rates, use interest rate swap agreements to hedge interest rate exposure of the fair values of these medium-term notes or bonds. In cases where the medium-term notes were denominated in other than the subsidiaries' local currencies, foreign currency swap agreements are used to hedge foreign exchange rate exposure. A certain overseas subsidiary uses foreign currency long-term-debt to hedge foreign exchange rate exposure from unrecognized firm commitment.

(c) Hedges of net investment in foreign operations

The Company uses foreign exchange contracts and borrowings and bonds denominated in the subsidiaries' local currencies to hedge the foreign currency exposure of the net investment in overseas subsidiaries.

(d) Trading derivatives or derivatives not designated as hedging instruments

Certain subsidiaries engage in trading activities involving various future contracts. Therefore the Company and the subsidiaries are at various risks such as share price fluctuation risk, interest rate risk and foreign currency exchange risk. The Company and the subsidiaries check that these risks are below a certain level by using internal indicators and determine whether such contracts should be continued or not. The Company and the subsidiaries entered into interest rate swap agreements, foreign currency swap agreements and foreign exchange contracts for risk management purposes which are not qualified for hedge accounting under ASC 815 ("Derivatives and Hedging"). A certain subsidiary holds option agreements, futures and foreign exchange contracts for the purpose of economic hedges against minimum guarantee risk of variable annuity and variable life insurance contracts.

ASC 815-10-50 ("Derivatives and Hedging—Disclosures") requires companies to disclose the fair value of derivative instruments and their gains (losses) in tabular format, as well as information about credit-risk-related contingent features in derivative agreements.

The effect of derivative instruments on the consolidated statements of income, pre-tax, for the three months ended June 30, 2015 is as follows.

(1) Cash flow hedges

	Gains (losses) recognized in other comprehensive income on derivative (effective portion)	Gains (losses) reclassified from accumulated other comprehensive income (loss) into income (effective portion)		Gains (losses) recognized in income on derivative (ineffective portion and amount excluded from effectiveness testing)	
	Millions of yen	Consolidated statements of income location	Millions of yen	Consolidated statements of income location	Millions of yen
Interest rate swap agreements	¥ 97	Finance revenues/Interest expense	¥ 2	—	¥ 0
Foreign exchange contracts	(331)	Other (income) and expense, net	2,082	—	0
Foreign currency swap agreements	(1,873)	Finance revenues/Interest expense/ Other (income) and expense, net	(4,355)	Other (income) and expense, net	66

(2) Fair value hedges

	Gains (losses) recognized in income on derivative and other		Gains (losses) recognized in income on hedged item	
	Millions of yen	Consolidated statements of income location	Millions of yen	Consolidated statements of income location
Interest rate swap agreements	¥ (187)	Finance revenues/Interest expense	¥ 187	Finance revenues/Interest expense
Foreign exchange contracts	(1,969)	Other (income) and expense, net	1,969	Other (income) and expense, net
Foreign currency swap agreements	(227)	Other (income) and expense, net	227	Other (income) and expense, net
Foreign currency long-term debt	(12)	Other (income) and expense, net	12	Other (income) and expense, net

(3) Hedges of net investment in foreign operations

	Gains (losses) recognized in other comprehensive income on derivative and others (effective portion)	Gains (losses) reclassified from accumulated other comprehensive income (loss) into income (effective portion)		Gains (losses) recognized in income on derivative and others (ineffective portion and amount excluded from effectiveness testing)	
	Millions of yen	Consolidated statements of income location	Millions of yen	Consolidated statements of income location	Millions of yen
Foreign exchange contracts	¥ (16,423)	—	¥ 0	—	¥ 0
Borrowings and bonds in local currency	(6,859)	—	0	—	0

(4) Trading derivatives or derivatives not designated as hedging instruments

	Gains (losses) recognized in income on derivative	
	Millions of yen	Consolidated statements of income location
Interest rate swap agreements	¥ 5	Other (income) and expense, net
Futures	(1,674)	Gains on investment securities and dividends Life insurance premiums and related investment income *
Foreign exchange contracts	(382)	Gains on investment securities and dividends Life insurance premiums and related investment income *
Credit derivatives held	122	Other (income) and expense, net
Options held/written and other	(1,091)	Other (income) and expense, net Life insurance premiums and related investment income *

* Futures, foreign exchange contracts and options held/written and other in the above table include losses arising from futures, foreign exchange contracts and options held to economically hedge the minimum guarantee risk of variable annuity and variable life insurance contracts for the three months ended June 30, 2015 (see Note 15 "Life Insurance Operations").

The effect of derivative instruments on the consolidated statements of income, pre-tax, for the three months ended June 30, 2016 is as follows.

(1) Cash flow hedges

	Gains (losses) recognized in other comprehensive income on derivative (effective portion)	Gains (losses) reclassified from accumulated other comprehensive income (loss) into income (effective portion)		Gains (losses) recognized in income on derivative (ineffective portion and amount excluded from effectiveness testing)	
	Millions of yen	Consolidated statements of income location	Millions of yen	Consolidated statements of income location	Millions of yen
Interest rate swap agreements	¥ (2,211)	Finance revenues/Interest expense	¥ 1	—	¥ 0
Foreign exchange contracts	764	Other (income) and expense, net	(13)	—	0
Foreign currency swap agreements	(1,269)	Finance revenues/Interest expense/ Other (income) and expense, net	123	Other (income) and expense, net	(17)

(2) Fair value hedges

	Gains (losses) recognized in income on derivative and other		Gains (losses) recognized in income on hedged item	
	Millions of yen	Consolidated statements of income location	Millions of yen	Consolidated statements of income location
Interest rate swap agreements	¥ (13)	Finance revenues/Interest expense	¥ 13	Finance revenues/Interest expense
Foreign exchange contracts	36,917	Other (income) and expense, net	(36,917)	Other (income) and expense, net
Foreign currency swap agreements	3,032	Other (income) and expense, net	(3,031)	Other (income) and expense, net
Foreign currency long-term debt	78	Other (income) and expense, net	(78)	Other (income) and expense, net

(3) Hedges of net investment in foreign operations

	Gains (losses) recognized in other comprehensive income on derivative and others (effective portion)	Gains (losses) reclassified from accumulated other comprehensive income (loss) into income (effective portion)		Gains (losses) recognized in income on derivative and others (ineffective portion and amount excluded from effectiveness testing)	
	Millions of yen	Consolidated statements of income location	Millions of yen	Consolidated statements of income location	Millions of yen
Foreign exchange contracts	¥ 40,879	Gains on sales of subsidiaries and affiliates and liquidation losses, net	¥ 451	—	¥ 0
Borrowings and bonds in local currency	20,819	—	0	—	0

(4) Trading derivatives or derivatives not designated as hedging instruments

	Gains (losses) recognized in income on derivative	
	Millions of yen	Consolidated statements of income location
Interest rate swap agreements	¥ (94)	Other (income) and expense, net
Futures	2,028	Gains on investment securities and dividends Life insurance premiums and related investment income *
Foreign exchange contracts	1,925	Gains on investment securities and dividends Life insurance premiums and related investment income *
Credit derivatives held	23	Other (income) and expense, net
Options held/written and other	1,325	Other (income) and expense, net Life insurance premiums and related investment income *

* Futures, foreign exchange contracts and options held/written and other in the above table include losses arising from futures, foreign exchange contracts and options held to economically hedge the minimum guarantee risk of variable annuity and variable life insurance contracts for the three months ended June 30, 2016 (see Note 15 "Life Insurance Operations").

Notional amounts of derivative instruments and other, fair values of derivative instruments and other before offsetting at March 31, 2016 and June 30, 2016 are as follows.

March 31, 2016

	Notional amount	Asset derivatives		Liability derivatives	
		Fair value	Consolidated balance sheets location	Fair value	Consolidated balance sheets location
	Millions of yen	Millions of yen		Millions of yen	
Derivatives designated as hedging instruments and other:					
Interest rate swap agreements	¥ 257,700	¥ 80	Other Assets	¥ 5,686	Other Liabilities
Futures, Foreign exchange contracts	1,035,342	17,636	Other Assets	5,966	Other Liabilities
Foreign currency swap agreements	96,539	6,571	Other Assets	3,601	Other Liabilities
Foreign currency long- term-debt	225,711	0	—	0	—
Trading derivatives or derivatives not designated as hedging instruments:					
Interest rate swap agreements	¥ 4,856	¥ 13	Other Assets	¥ 235	Other Liabilities
Options held/written and other *	246,068	8,789	Other Assets	3,637	Other Liabilities
Futures, Foreign exchange contracts *	1,047,878	658	Other Assets	689	Other Liabilities
Credit derivatives held	3,380	0	—	56	Other Liabilities

* The notional amounts of options held/written and other and futures, foreign exchange contracts in the above table include options held of ¥46,926 million, futures contracts of ¥51,021 million and foreign exchange contracts of ¥20,884 million to economically hedge the minimum guarantee risk of variable annuity and variable life insurance contracts at March 31, 2016, respectively. Asset derivatives in the above table include fair value of the options held, futures contracts and foreign exchange contracts before offsetting of ¥3,332 million, ¥25 million and ¥568 million and liability derivatives include fair value of the futures and foreign exchange contracts before offsetting of ¥417 million and ¥98 million at March 31, 2016, respectively.

June 30, 2016

	Notional amount	Asset derivatives		Liability derivatives	
		Fair value	Consolidated balance sheets location	Fair value	Consolidated balance sheets location
	Millions of yen	Millions of yen		Millions of yen	
Derivatives designated as hedging instruments and other:					
Interest rate swap agreements	¥ 256,476	¥ 64	Other Assets	¥ 8,316	Other Liabilities
Futures, foreign exchange contracts	1,046,441	57,408	Other Assets	1,279	Other Liabilities
Foreign currency swap agreements	87,903	7,933	Other Assets	1,599	Other Liabilities
Foreign currency long-term debt	196,849	0	—	0	—
Trading derivatives or derivatives not designated as hedging instruments:					
Interest rate swap agreements	¥ 4,735	¥ 0	—	¥ 316	Other Liabilities
Options held/written and other *	222,032	10,125	Other Assets	3,722	Other Liabilities
Futures, foreign exchange contracts *	781,098	4,726	Other Assets	1,271	Other Liabilities
Credit derivatives held	1,029	—	—	33	Other Liabilities

* The notional amounts of options held/written and other and futures, foreign exchange contracts in the above table include options held of ¥45,971 million, futures contracts of ¥74,142 million and foreign exchange contracts of ¥28,347 million to economically hedge the minimum guarantee risk of variable annuity and variable life insurance contracts at June 30, 2016, respectively. Asset derivatives in the above table includes fair value of the options held, futures and foreign exchange contracts before offsetting of ¥4,672 million, ¥3,182 million and ¥1,414 million and liability derivatives includes fair value of the futures and foreign exchange contracts before offsetting of ¥524 million and ¥206 million at June 30, 2016, respectively.

Certain of the Company's derivative instruments contain provisions that require the Company to maintain an investment grade credit rating from each of the major credit rating agencies. If the Company's credit rating were to fall below investment grade, it would be in violation of these provisions, and the counterparties to the derivative instruments could request immediate payment on derivative instruments that are in net liability positions. There are no derivative instruments with credit-risk-related contingent features that are in a liability position on March 31, 2016 and June 30, 2016.

19. Offsetting Assets and Liabilities

The gross amounts recognized, gross amounts offset, and net amounts presented in the consolidated balance sheets regarding to derivative assets and liabilities and other assets and liabilities as of March 31, 2016 and June 30, 2016 are as follows.

March 31, 2016

	Millions of yen					
				Gross amounts not offset in the consolidated balance sheets *1		
	Gross amounts recognized	Gross amounts offset in the consolidated balance sheets	Net amounts presented in the consolidated balance sheets	Financial instruments	Collateral	Net amount
Derivative assets	¥ 33,747	¥ (5,757)	¥ 27,990	¥ 0	¥ (3,332)	¥ 24,658
Reverse repurchase, securities borrowing, and similar arrangements *2	5,186	(5,186)	0	0	0	0
Total assets	¥ 38,933	¥ (10,943)	¥ 27,990	¥ 0	¥ (3,332)	¥ 24,658
Derivative liabilities	¥ 19,870	¥ (5,757)	¥ 14,113	¥ 0	¥ (225)	¥ 13,888
Repurchase, securities lending, and similar arrangements *2	5,203	(5,186)	17	0	0	17
Total liabilities	¥ 25,073	¥ (10,943)	¥ 14,130	¥ 0	¥ (225)	¥ 13,905

June 30, 2016

	Millions of yen					
				Gross amounts not offset in the consolidated balance sheets *1		
	Gross amounts recognized	Gross amounts offset in the consolidated balance sheets	Net amounts presented in the consolidated balance sheets	Financial instruments	Collateral	Net amount
Derivative assets	¥ 80,256	¥ (1,759)	¥ 78,497	¥ 0	¥ (4,672)	¥ 73,825
Reverse repurchase, securities borrowing, and similar arrangements *2	1,884	(1,884)	0	0	0	0
Total assets	¥ 82,140	¥ (3,643)	¥ 78,497	¥ 0	¥ (4,672)	¥ 73,825
Derivative liabilities	¥ 16,536	¥ (1,759)	¥ 14,777	¥ 0	¥ (223)	¥ 14,554
Repurchase, securities lending, and similar arrangements *2	1,986	(1,884)	102	0	0	102
Total liabilities	¥ 18,522	¥ (3,643)	¥ 14,879	¥ 0	¥ (223)	¥ 14,656

*1 The balances related to enforceable master netting agreements or similar agreements which were not offset in the consolidated balance sheets.

*2 Reverse repurchase agreements and securities borrowing, and similar transactions are reported within other assets in the consolidated balance sheets. Repurchase agreements and securities lending, and similar transactions are reported within other liabilities in the consolidated balance sheets.

20. Estimated Fair Value of Financial Instruments

The following information is provided to help readers gain an understanding of the relationship between carrying amount of financial instruments reported the Company's consolidated balance sheets and the related market or fair value. For derivative financial instruments, see Note 3 "Fair Value Measurements."

The disclosures do not include investment in direct financing leases, investment in affiliates, pension obligations and insurance contracts and reinsurance contracts except for those classified as investment contracts.

March 31, 2016

	Millions of yen				
	Carrying amount	Estimated fair value	Level 1	Level 2	Level 3
Assets:					
Trading securities	¥ 725,821	¥ 725,821	¥ 37,592	¥ 688,229	¥ 0
Cash and cash equivalents	730,420	730,420	730,420	0	0
Restricted cash	80,979	80,979	80,979	0	0
Installment loans (net of allowance for probable loan losses)	2,545,542	2,553,006	0	264,452	2,288,554
Investment in securities:					
Practicable to estimate fair value	1,480,499	1,511,161	99,347	1,271,506	140,308
Not practicable to estimate fair value *1	138,472	138,472	0	0	0
Other Assets:					
Time deposits	9,843	9,843	0	9,843	0
Derivative assets *2	27,990	27,990	0	0	0
Reinsurance recoverables (Investment contracts)	93,838	94,656	0	0	94,656
Liabilities:					
Short-term debt	¥ 349,624	¥ 349,624	¥ 0	¥ 349,624	¥ 0
Deposits	1,398,472	1,400,528	0	1,400,528	0
Policy liabilities and Policy account balances (Investment contracts)	306,058	308,064	0	0	308,064
Long-term debt *3	3,936,918	3,955,178	0	1,102,332	2,852,846
Other Liabilities:					
Derivative liabilities *2	14,113	14,113	0	0	0

*1 The fair value of investment securities of ¥138,472 million was not estimated, as it was not practical.

*2 It represents the amount after offset under counterparty netting of derivative assets and liabilities. For the information of input level before netting, see Note 3 "Fair Value Measurements."

*3 Prior-year amounts have been adjusted for the retrospective application of Accounting Standards Update 2015-03 ("Simplifying the Presentation of Debt Issuance Costs"—ASC 835-30 ("Interest—Imputation of Interest")) on April 1, 2016.

June 30, 2016

	Millions of yen				
	Carrying amount	Estimated fair value	Level 1	Level 2	Level 3
Assets:					
Trading securities	¥ 655,219	¥ 655,219	¥ 36,836	¥ 618,383	¥ 0
Cash and cash equivalents	842,171	842,171	842,171	0	0
Restricted cash	81,388	81,388	81,388	0	0
Installment loans (net of allowance for probable loan losses)	2,531,651	2,548,269	0	232,817	2,315,452
Investment in securities:					
Practicable to estimate fair value	1,375,448	1,416,488	89,468	1,188,377	138,643
Not practicable to estimate fair value *1	120,494	120,494	0	0	0
Other Assets:					
Time deposits	4,148	4,148	0	4,148	0
Derivative assets *2	78,497	78,497	0	0	0
Reinsurance recoverables (Investment contracts)	93,484	95,006	0	0	95,006
Liabilities:					
Short-term debt	¥ 242,509	¥ 242,509	¥ 0	¥ 242,509	¥ 0
Deposits	1,428,232	1,430,381	0	1,430,381	0
Policy liabilities and Policy account balances (Investment contracts)	300,683	302,328	0	0	302,328
Long-term debt	3,893,719	3,901,059	0	1,225,353	2,675,706
Other Liabilities:					
Derivative liabilities *2	14,777	14,777	0	0	0

*1 The fair value of investment securities of ¥120,494 million was not estimated, as it was not practical.

*2 It represents the amount after offset under counterparty netting of derivative assets and liabilities. For the information of input level before netting, see Note 3 “Fair Value Measurements.”

Input level of fair value measurement

If active market prices are available, fair value measurement is based on quoted active market prices and classified as Level 1. If active market prices are not available, fair value measurement is based on observable inputs other than quoted prices included within Level 1 such as quoted market prices of similar assets and classified as Level 2. If market prices are not available and there are no observable inputs, then fair value is estimated by using valuation models including discounted cash flow methodologies, commonly used option-pricing models and broker quotes and classified as Level 3, as the valuation models and broker quotes are based on inputs that are unobservable in the market.

Estimation of fair value

The following methods and significant assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate a value:

Cash and cash equivalents, restricted cash, time deposits and short-term debt—The carrying amounts recognized in the balance sheets were determined to be reasonable estimates of their fair values due to their short maturity.

Installment loans—The carrying amounts of floating-rate installment loans with no significant changes in credit risk and which could be repriced within a short-term period were determined to be reasonable estimates of their fair values. The carrying amounts of purchased loans were determined to be reasonable estimates of their fair values because the carrying amounts (net of allowance) are considered to properly reflect the recoverability and value of these loans. For certain homogeneous categories of medium- and long-term fixed-rate loans, such as housing loans, the estimated fair values were calculated by discounting the future cash flows using the current interest rates charged by the Company and its subsidiaries for new loans made to borrowers with similar credit ratings and remaining maturities. Concerning above, if available, estimated fair values were based on quoted market prices or quotations provided by dealers.

Investment in securities—For trading securities and available-for-sale securities other than specified bonds issued by SPEs and certain other mortgage-backed and asset-backed securities, the estimated fair values, which are also the carrying amounts recorded in the balance sheets, were generally based on quoted market prices or quotations provided by dealers. As for the specified bonds issued by the SPEs and certain other mortgage-backed and asset-backed securities included in available-for-sale securities, the Company and its subsidiaries estimated the fair value by using valuation models including discounted cash flow methodologies and broker quotes (see Note 3 "Fair Value Measurement"). For held-to-maturity securities, the estimated fair values were mainly based on quoted market prices. For certain investment funds included in other securities, the fair values were estimated based on net asset value per share or discounted cash flow methodologies. With regard to other securities other than the investment funds described above, the Company and its subsidiaries have not estimated the fair value, as it is not practicable to do so. Those other securities mainly consist of non-marketable equity securities and preferred capital shares. Because there were no quoted market prices for such other securities and each security has a different nature and characteristics, reasonable estimates of fair values could not be made without incurring excessive costs.

Deposits—The carrying amounts of demand deposits recognized in the consolidated balance sheets were determined to be reasonable estimates of their fair values. The estimated fair values of time deposits were calculated by discounting the future cash flows. The current interest rates offered for the deposits with similar terms and remaining average maturities were used as the discount rates.

Long-term debt—The carrying amounts of long-term debt with floating rates which could be repriced within short-term periods were determined to be reasonable estimates of their fair values. For medium-and long-term fixed-rate debt, the estimated fair values were calculated by discounting the future cash flows. The borrowing interest rates that were currently available to the Company and its subsidiaries offered by financial institutions for debt with similar terms and remaining average maturities were used as the discount rates. Concerning above, if available, estimated fair values were based on quoted market prices or quotations provided by dealers.

Derivatives—For exchange-traded derivatives, fair value is based on quoted market prices. Fair value estimates for other derivatives generally reflect the estimated amounts that the Company and its subsidiaries would receive or pay to terminate the contracts at the reporting date, thereby taking into account the current unrealized gains or losses of open contracts. In estimating the fair value of most of the Company's and its subsidiaries' derivatives, estimated future cash flows are discounted using the current interest rate.

Reinsurance recoverables and Policy liabilities and Policy account balances—A certain subsidiary has fixed annuity contracts, variable annuity and variable life insurance contracts, and reinsurance contracts which are classified as investment contracts because they do not expose the subsidiary to mortality or morbidity risks. In estimating the fair value of those contracts, estimated future cash flows are discounted using the current interest rate.

21. Commitments, Guarantees, and Contingent Liabilities

Commitments—The Company and certain subsidiaries have commitments for the purchase of equipment to be leased, having a cost of ¥1,033 million and ¥1,325 million as of March 31, 2016 and June 30, 2016, respectively.

The minimum future rentals on non-cancelable operating leases are as follows:

	Millions of yen	
	March 31, 2016	June 30, 2016
Within one year	¥ 7,959	¥ 7,433
More than one year	59,282	57,887
Total	¥ 67,241	¥ 65,320

The Company and certain subsidiaries lease office space under operating lease agreements, which are primarily cancelable, and made rental payments totaling ¥4,208 million and ¥3,388 million for the three months ended June 30, 2015 and 2016, respectively.

Certain computer systems of the Company and certain subsidiaries have been operated and maintained under non-cancelable contracts with third-party service providers. For such services, the Company and certain subsidiaries made payments totaling ¥1,105 million and ¥1,109 million for the three months ended June 30, 2015 and 2016, respectively. As of March 31, 2016 and June 30, 2016, the amounts due are as follows:

	Millions of yen	
	March 31, 2016	June 30, 2016
Within one year	¥ 3,385	¥ 3,696
More than one year	7,289	8,073
Total	¥ 10,674	¥ 11,769

The Company and certain subsidiaries have commitments to fund estimated construction costs to complete ongoing real estate development projects and other commitments, totaling ¥88,728 million and ¥84,805 million as of March 31, 2016 and June 30, 2016, respectively.

The Company and certain subsidiaries have agreements to commit to execute loans for customers, and to invest in funds, as long as the agreed-upon terms are met. The total unused credit and capital amount available are ¥347,603 million and ¥348,700 million as of March 31, 2016 and June 30, 2016, respectively.

Guarantees—The Company and its subsidiaries apply ASC 460 (“Guarantees”), and at the inception of a guarantee, recognize a liability in the consolidated balance sheets at fair value for the guarantee within the scope of ASC 460. The following table represents the summary of potential future payments, book value recorded as guarantee liabilities of the guarantee contracts outstanding and maturity of the longest guarantee contracts as of March 31, 2016 and June 30, 2016:

	March 31, 2016			June 30, 2016		
	Millions of yen		Fiscal year	Millions of yen		Fiscal year
Guarantees	Potential future payment	Book value of guarantee liabilities	Maturity of the longest contract	Potential future payment	Book value of guarantee liabilities	Maturity of the longest contract
Corporate loans	¥396,340	¥ 5,875	2023	¥403,049	¥ 5,952	2024
Transferred loans	174,322	1,587	2046	154,514	1,402	2047
Consumer loans	179,225	21,748	2018	196,656	24,729	2018
Housing loans	28,919	5,853	2051	22,551	5,696	2051
Other	482	179	2024	731	115	2024
Total	¥779,288	¥35,242	—	¥777,501	¥37,894	—

Guarantee of corporate loans: The Company and certain subsidiaries mainly guarantee corporate loans issued by financial institutions for customers. The Company and the subsidiaries are obliged to pay the outstanding loans when the guaranteed customers fail to pay principal and/or interest in accordance with the contract terms. In some cases, the corporate loans are secured by the guaranteed customers’ assets. Once the Company and the subsidiaries assume the guaranteed customers’ obligation, the Company and the subsidiaries obtain a right to claim the collateral assets. In other cases, certain contracts that guarantee corporate loans issued by financial institutions for customers include contracts that the amounts of performance guarantee are limited to a certain range of guarantee commissions. As of March 31, 2016 and June 30, 2016, total notional amount of the loans subject to such guarantees are ¥1,278,000 million and ¥1,152,000 million, respectively, and book value of guarantee liabilities are ¥1,080 million and ¥973 million, respectively. The potential future payment amounts for these guarantees are limited to a certain range of the guarantee commissions, which are less than the total notional amounts of the loans subject to these guarantees. The potential future payment amounts for the contract period are calculated from the guarantee limit which is arranged by financial institutions in advance as to contracts that the amounts of performance guarantee are unlimited to a certain range of guarantee commissions. For this reason, the potential future payment amounts for these guarantees include the amount of the guarantee which may occur in the future, which is larger than the balance of guarantee executed as of the end of fiscal year or the end of interim period. The executed guarantee balance includes defrayment by financial institutions which we bear temporarily at the time of execution, and credit risk for financial institutions until liquidation of this guarantee. Our substantial amounts of performance guarantee except credit risk for financial institutions are limited to our defrayment which is arranged by financial institutions in advance.

Payment or performance risk of the guarantees is considered based on the historical experience of credit events.

There have been no significant changes in the payment or performance risk of the guarantees for the three months ended June 30, 2016.

Guarantee of transferred loans: A subsidiary in the United States is authorized to underwrite, originate, fund, and service multi-family and seniors housing loans without prior approval from Fannie Mae under Fannie Mae’s Delegated Underwriting and Servicing program. As part of this program, Fannie Mae provides a commitment to purchase the loans.

In return for the delegated authority, the subsidiary guarantees the performance of certain housing loans transferred to Fannie Mae and has the payment or performance risk of the guarantees to absorb some of the losses when losses arise from the transferred loans.

There were no significant changes in the payment or performance risk of these guarantees for the three months ended June 30, 2016.

Guarantee of consumer loans: A certain subsidiary guarantees consumer loans, typically card loans, issued by Japanese financial institutions. The subsidiary is obliged to pay the outstanding obligations when these loans become delinquent generally a month or more.

Payment or performance risk of the guarantees is considered based on the historical experience of credit events.

There were no significant changes in the payment or performance risk of the guarantees for the three months ended June 30, 2016.

Guarantee of housing loans: The Company and certain subsidiaries guarantee housing loans issued by Japanese financial institutions to third party individuals. The Company and the subsidiaries are typically obliged to pay the outstanding loans when these loans become delinquent three months or more. The housing loans are usually secured by the real properties. Once the Company and the subsidiaries assume the guaranteed parties' obligation, the Company and the subsidiaries obtain a right to claim the collateral assets.

Payment or performance risk of the guarantees is considered based on the historical experience of credit events.

There were no significant changes in the payment or performance risk of the guarantees for the three months ended June 30, 2016.

Other guarantees: Other guarantees include the guarantees to financial institutions and the guarantees derived from collection agency agreements. Pursuant to the contracts of the guarantees to financial institutions, a certain subsidiary pays to the financial institutions when customers of the financial institutions become debtors and default on the debts. Pursuant to the agreements of the guarantees derived from collection agency agreements, the Company and certain subsidiaries collect third parties' debt and pay the uncovered amounts.

Litigation—The Company and certain subsidiaries are involved in legal proceedings and claims in the ordinary course of business. In the opinion of management, none of such proceedings and claims will have a significant impact on the Company's financial position or results of operations.

Collateral—Other than the assets of the consolidated VIEs pledged as collateral for financing described in Note 8 "Variable Interest Entities", the Company and certain subsidiaries provide the following assets as collateral for the short-term and long-term debt payables to financial institutions as of March 31, 2016 and June 30, 2016:

	Millions of yen	
	March 31, 2016	June 30, 2016
Minimum lease payments, loans and investment in operating leases	¥ 106,118	¥ 94,819
Investment in securities	177,266	174,060
Property under facility operations	8,781	4,974
Other assets	17,079	15,604
Total	¥ 309,244	¥ 289,457

As of March 31, 2016 and June 30, 2016, investment in securities of ¥25,808 million and ¥27,160 million, respectively, were pledged for primarily collateral deposits. In addition, debt liabilities of affiliates amounted to ¥184,950 million and ¥184,950 million, respectively, were secured by investment in affiliates of ¥32,097 million and ¥31,029 million, respectively, as of March 31, 2016 and June 30, 2016.

Under loan agreements relating to short-term and long-term debt from commercial banks and certain insurance companies, the Company and certain subsidiaries are required to provide collateral against these debts at anytime if requested by the lenders. The Company and the subsidiaries did not receive any such requests from the lenders as of June 30, 2016.

22. Segment Information

Financial information about the operating segments reported below is that which is available by segment and evaluated regularly by the management in deciding how to allocate resources and in assessing performance.

An overview of operations for each of the six segments follows below.

Corporate Financial Services	:	Lending, leasing and fee business.
Maintenance Leasing	:	Automobile leasing and rentals, car sharing, and test and measurement instruments and IT-related equipment rentals and leasing
Real Estate	:	Real estate development and rental, facility operation, REIT asset management, and real estate investment advisory services
Investment and Operation	:	Environment and energy-related business, principal investment, loan servicing (asset recovery), and concession business
Retail	:	Life insurance, banking and card loan business
Overseas Business	:	Leasing, lending, investment in bonds, asset management and ship- and aircraft-related operations

Financial information of the segments for the three months ended June 30, 2015 is as follows:

	Millions of yen						
	Corporate Financial Services	Maintenance Leasing	Real Estate	Investment and Operation	Retail	Overseas Business	Total
Segment revenues	¥ 27,558	¥ 67,520	¥ 50,349	¥229,187	¥ 83,811	¥ 147,173	¥ 605,598
Segment profits	12,377	11,687	14,451	26,159	21,619	34,486	120,779

Financial information of the segments for the three months ended June 30, 2016 is as follows:

	Millions of yen						
	Corporate Financial Services	Maintenance Leasing	Real Estate	Investment and Operation	Retail	Overseas Business	Total
Segment revenues	¥ 24,990	¥ 67,199	¥ 57,338	¥258,002	¥ 54,006	¥ 125,821	¥ 587,356
Segment profits	8,494	9,892	23,603	30,955	12,532	29,866	115,342

Segment assets information as of March 31, 2016 and June 30, 2016 is as follows:

	Millions of yen						
	Corporate Financial Services	Maintenance Leasing	Real Estate	Investment and Operation	Retail	Overseas Business	Total
March 31, 2016	¥1,049,867	¥ 731,329	¥739,592	¥704,156	¥3,462,772	¥2,284,733	¥8,972,449
June 30, 2016	1,033,214	700,427	705,617	678,570	3,384,540	2,067,813	8,570,181

The accounting policies of the segments are almost the same as those described in Note 2 “Significant Accounting and Reporting Policies” except for the treatment of income tax expenses, net income attributable to the noncontrolling interests, net income attributable to the redeemable noncontrolling interests, and the consolidation of certain variable interest entities (VIEs). Income taxes are not included in segment profits or losses because the management evaluates segments’ performance on a pre-tax basis. Also, net income attributable to noncontrolling interests and redeemable noncontrolling interests are not included in segment profits or losses because the management evaluates segments’ performance based on profits or losses (per-tax) attributable to ORIX Corporation Shareholders. Since the Company and its subsidiaries evaluate performance for the segments based on profit or loss before income taxes, tax expenses are not included in segment profits or losses. Net income attributable to the noncontrolling interests, net income attributable to the redeemable noncontrolling interests, which are recognized net of tax in the accompanying consolidated statements of income, are adjusted to profit or loss before income tax, when calculating segment profits or losses. Most of selling, general and administrative expenses, including compensation costs that are directly related to the revenue generating activities of each segment, have been accumulated by and charged to each segment. Gains and losses that management does not consider for evaluating the performance of the segments, such as write-downs of certain securities, write-downs of certain long-lived assets and certain foreign exchange gains or losses (included in other (income) and expense, net) are excluded from the segment profits or losses, and are regarded as corporate items.

Assets attributed to each segment are investment in direct financing leases, installment loans, investment in operating leases, investment in securities, property under facility operations, investment in affiliates, inventories, advances for investment in operating leases (included in other assets), advances for investment in property under facility operations (included in other assets) and goodwill and other intangible assets recognized as a result of business combination (included in other assets). This has resulted in the depreciation of office facilities being included in each segment’s profit or loss while the carrying amounts of corresponding assets are not allocated to each segment’s assets. However, the effect resulting from this allocation is not significant.

For those VIEs that are used for securitization and are consolidated in accordance with ASC 810 (“Consolidations”), for which the VIE’s assets can be used only to settle related obligations of those VIEs and the creditors (or beneficial interest holders) do not have recourse to other assets of the Company or its subsidiaries, segment assets are measured based on the amount of the Company and its subsidiaries’ net investments in the VIEs, which is different from the amount of total assets of the VIEs, and accordingly, segment revenues are also measured at a net amount representing the revenues earned on the net investments in the VIEs.

Certain gains or losses related to assets and liabilities of consolidated VIEs, which are not ultimately attributable to the Company and its subsidiaries, are excluded from segment profits.

Prior-year amounts have been adjusted for the retrospective application of Accounting Standards Update 2015-03 (“Simplifying the Presentation of Debt Issuance Costs”—ASC 835-30 (“Interest—Imputation of Interest”)) on April 1, 2016.

The reconciliation of segment totals to consolidated financial statement amounts is as follows:

	Millions of yen			
	Three months ended June 30, 2015		Three months ended June 30, 2016	
Segment revenues:				
Total revenues for segments	¥	605,598	¥	587,356
Revenues related to corporate assets		4,391		4,301
Revenues related to assets of certain VIEs		1,381		1,070
Revenues from inter-segment transactions		(5,246)		(4,782)
Total consolidated revenues	¥	606,124	¥	587,945
Segment profits:				
Total profits for segments	¥	120,779	¥	115,342
Corporate gains (losses)		(234)		499
Gains (losses) related to assets or liabilities of certain VIEs		122		(50)
Net income attributable to the noncontrolling interests and net income attributable to the redeemable noncontrolling interests, net of applicable tax effect		3,249		2,643
Total consolidated income before income taxes	¥	123,916	¥	118,434

	Millions of yen			
	March 31, 2016		June 30, 2016	
Segment assets:				
Total assets for segments	¥	8,972,449	¥	8,570,181
Cash and cash equivalents, restricted cash		811,399		923,559
Allowance for doubtful receivables on direct financing leases and probable loan losses		(60,071)		(58,507)
Trade notes, accounts and other receivable		294,638		278,810
Other corporate assets		700,612		767,410
Assets of certain VIEs		273,891		281,429
Total consolidated assets	¥	10,992,918	¥	10,762,882

The following information represents geographical revenues and income before income taxes, which are attributed to geographic areas, based on the country location of the Company and its subsidiaries.

For the three months ended June 30, 2015

	Millions of yen			
	Japan	The Americas *1	Other *2 *3	Total
Total Revenues	¥454,742	¥ 61,015	¥ 90,367	¥606,124
Income before Income Taxes	89,142	10,744	24,030	123,916

For the three months ended June 30, 2016

	Millions of yen			
	Japan	The Americas *1	Other *2 *3	Total
Total Revenues	¥455,689	¥ 45,381	¥ 86,875	¥587,945
Income before Income Taxes	87,685	9,663	21,086	118,434

*1 Mainly the United States

*2 Mainly Asia, Europe, Australasia and Middle East

*3 Robeco, one of the Company's subsidiaries domiciled in the Netherlands, conducts principally an asset management business. Due to the integrated nature of such business with its customer base spread across the world, "Other" locations include the total revenues and the income before income taxes of Robeco, respectively, for the three months ended June 30, 2015 and 2016. The revenues of Robeco aggregated on a legal entity basis were ¥29,015 million in the Americas and ¥19,759 million in other for the three months ended June 30, 2015, and ¥24,397 million in the Americas and ¥19,772 million in other for the three months ended June 30, 2016.

No single customer accounted for 10% or more of the total revenues for the three months ended June 30, 2015 and 2016.

23. Subsequent Events

There are no material subsequent events.