Risk Management

Risk Control

The ORIX Group allocates management resources by taking into account Group-wide risk preference based on management strategies and the strategy of individual business units. It monitors its business both on an individual transaction and total portfolio basis, as well as by business unit. Business units and risk management and administration departments confirm progress of strategies and cooperate to analyze and manage risk from various perspectives.

The monitoring results are regularly reported to the Board of Directors and the relevant executive officers. Those who received the reports evaluate the performance, profitability and risk of each business unit and total portfolio, and take the measures deemed appropriate.

Through this process, we control the balance sheet while allocating more management resources to business units having greater growth potential.

Executive Officers

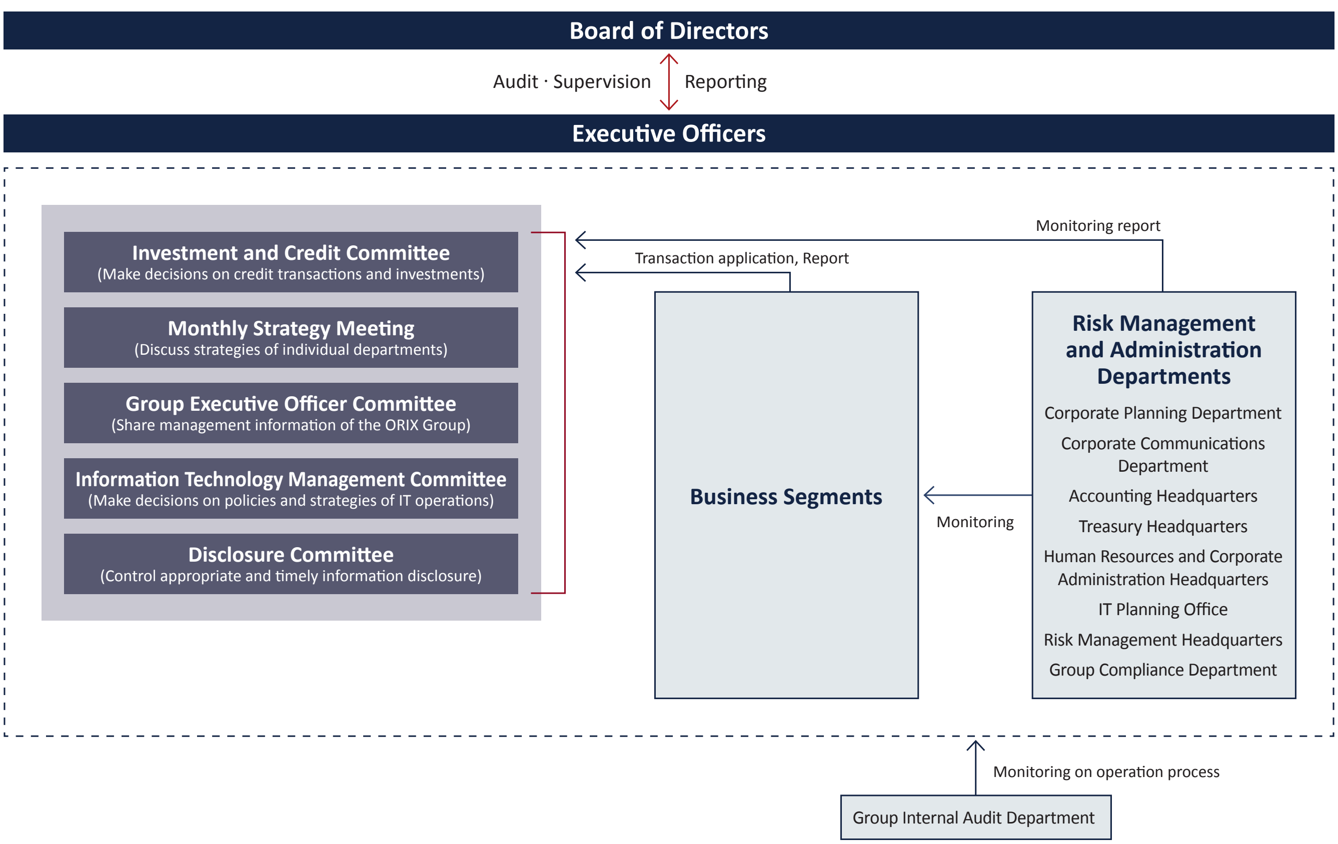
The representative executive officers make ORIX's important business administration decisions after deliberations by the Investment and Credit Committee ("ICC") in accordance with ORIX's various regulations.

The duties of executive officers are decided by the Board of Directors and the representative executive officers and are carried out in accordance with ORIX's various regulations. Group executives are appointed by the Board of Directors from among the directors and executive officers of the Group companies.

Characteristics of Executive Officer System

- Operation and oversight are separated through a "Company with Committees" board model.
- CEO and CFO are involved in all processes of evaluating individual transactions and monitoring progress of strategies and plans of business units as well as the progress of strategies and plans of the Group as a whole.
- Executive officers and group executives regularly report and share information with CEO and CFO about progress of strategies and plans of business units they are responsible for.
- Executive officers and group executives along with CEO and CFO share information about strategies and plans of the Group as a whole.

Organization of Executive Officers (As of July 1, 2014)



Top Management Involvement in Main Functions of Executive Officers

- Investment and Credit Committee deliberates individual transactions. Even small transactions are discussed about and made decision of with CEO and CFO.
- Monthly Strategy Meeting is held for units smaller than 6 segments (business headquarters, group companies, administrative departments). CEO and CFO discuss with individuals in charge of individual units monthly and confirm plans, progress, and outlook then give instructions as necessary. The number of the units that hold Monthly Strategy Meeting is now approximately 20.
- At Group Executive Officer Committee, CEO shares information about progress of the Group strategy and CFO shares information about numerical aspects to all the executive officers and group executives.

Individual Executive Bodies

Important decision-making related to business administration, monitoring, discussions and information sharing is carried out by the following bodies:

Investment and Credit Committee

(Three Times a Month in Principle)

Top management and the executive officer in charge of investment and credit

- Meets primarily to deliberate and make decisions on credit transactions and investments that exceed certain specified investment or credit amounts and important matters related to management of the Company and matters that have been entrusted to executive officers by the Board of Directors.
- In consideration of their importance, the content of the matters and items decided by the ICC are reported to the Board of Directors as necessary.

Monthly Strategy Meeting

(Once a Month in Principle)

Top management and individuals in charge of individual departments

- Meets to discuss matters such as the state of achievement of strategic targets and changes in the business environment.
- Matters of high importance discussed at the Monthly Strategy Meeting are deliberated and decided by the ICC and reported to the Board of Directors as necessary.

Group Executive Officer Committee

(Once a Month in Principle)

Executive officers and Group executives

- Meets to share important information related to the business administration of the ORIX Group.

Information Technology Management Committee

(Once a Month in Principle)

Top management and the executive officer in charge of IT systems

- Meets to deliberate and decide important matters concerning fundamental policies for IT operations and IT systems.
- Ensures that IT decisions are consistent with its business strategies and works to realize IT investments that contribute to business growth and reduce risk.

Disclosure Committee

(As Necessary)

CFO (Chairperson) and executive officers in charge of Treasury Headquarters, Accounting Headquarters, Risk Management Headquarters, Group Compliance Department, Human Resources and Corporate Administration Headquarters, Corporate Planning Department and Corporate Communications Department

- Upon receiving warnings regarding important information from those in charge of individual departments, the Disclosure Committee meets to discuss whether any timely disclosure is required and takes steps to provide appropriate disclosure of such information, if necessary.
- The committee controls information disclosure and facilitates the appropriate and timely disclosure of information to stakeholders.

Main Risks and Monitoring Matters

Main Risks

- **Credit Risk**
- **Business Risk**
- **Market Risk**
- **Liquidity Risk (Risk Relating to Funding)**
- **Legal Risk**
- **Operational Risk**

→

Monitoring

Individual Transactions

Prior to execution

Points to evaluate
- Operating environment
- Strategies
- Risks
- Profitability

After execution

- Changes in the operating environment
- Cash flow
- Trend of relevant industries

Portfolio

- Business type
- Region
- Transaction type
- Risk type
- Asset quality status
- Concentration status of major debtors, etc.

Business Segments

- Monitoring according to the characteristics of each business segment

For more details, please refer to p. 54, "Individual Business Risk Management."

Main Risk Management

The ORIX Group recognizes that credit risk, business risk, market risk, liquidity risk (risk relating to funding), legal risk and operational risk are the main risks facing us and manages each of these risks according to its own characteristics.

Credit Risk Management

We define credit risk as uncertainty regarding future recovery of investments caused by the fluctuation in the cash flow of debtors and investees.

To conduct a credit check, we focus on the adequacy of collateral and guarantees, the liquidation of debt and the concentration of debtors and their business types. We conduct a comprehensive customer credit evaluation based on the customer's financial position, cash flow, underlying security interests, profitability and other factors on individual credit transactions.

Moreover, an analysis of our portfolio, as well as measures to establish appropriate credit limits, allows us to control exposure to markets with potentially high risks.

We recognize problem assets to include credit extended to debtors who have petitioned for bankruptcy or civil rehabilitation, or other insolvency proceedings; whose bank transactions are suspended, bills are dishonored, debts are not collected for three months or more. The relevant business units, in cooperation with the Risk Management Headquarters, take steps to secure collateral or other guarantees and to begin the collection process. The accumulated collection know-how from sending an initial reminder to actively seizing collateral is consolidated at the Risk Management Headquarters and is reflected in our evaluation criteria for individual credit transactions and portfolio analysis.

Business Risk Management

We define business risk as uncertainties related to new business areas, potential obsolescence of the products or services we offer or a decline in their quality, and variability in market prices for products or services of the types we offer.
Against uncertainties of business, we monitor business plans and operations using scenario analyses and stress tests for business risk, and the cost of withdrawal from a business is also subject to evaluation and verification at those times.
For products or services we offer, in addition to monitoring the quality of our products and services, in response to changes in the business environment and evolving customer needs, we review the content of our lineup of products and services and endeavor to maintain or improve their quality.
A principal risk relating to operating leases is fluctuation in the residual value of the leased properties. To control fluctuation in residual value, we monitor our inventories of leased properties, market environments and the overall business environment. We generally limit our operating leases to leased properties with high versatility that are comparatively easy to re-lease, and evaluate the sale of such properties depending on changes in market conditions.
We endeavor to reduce the risk related to fluctuation in market prices for real estate by strengthening our cash flow position.

Market Risk Management

We define market risk as the risk of changes in the fair value of assets and liabilities caused by changes in market variables, such as interest rates, exchange rates and stock prices.
We establish Group-wide asset liability management ("ALM") policies, and we endeavor to comprehensively understand and verify the market risk.
Comprehensive evaluations are made for interest rate risk using such analyses as the impact of interest rate changes on periodic profit and loss and/or the balance sheet, the assets and liabilities positions and the funding environment. These analysis methods are reviewed, as required, depending on the situation.
We generally manage exchange rate risk by using foreign currency loans, foreign exchange contracts and currency swaps to hedge exchange rate volatility in our business transactions in foreign currencies and overseas investments. We understand and manage the exchange rate risk of unhedged foreign currency denominated assets using appropriate indicators such as the VaR (value at risk).
When we use derivative transactions as a means of hedging, we manage counterparty credit risk and other risks involved in hedging derivative transactions in accordance with internal rules on derivative transaction management.
For assets under management of the banking business, the life insurance business and our U.S. operations, while regularly monitoring monetary policies, macroeconomic indicators and securities and financial market trends, we manage our asset portfolios by analyzing on a daily basis individual security price movements and gains and losses. Market volatility is managed according to guidelines that include fixed loss amounts and decreases in position. Our risk management departments monitor our compliance with the guidelines.

Liquidity Risk Management (Risk Management Relating to Funding)

We define liquidity risk as the risk that we will be unable to obtain the required funds or that we will be forced to procure funds at an unusually high rate of interest due to market turmoil, deterioration in the financial condition of the ORIX Group or other reasons.
To reduce liquidity risk, we diversify funding methods and sources and monitor the liquidity on hand. To manage the liquidity on hand, we project future cash flows and analyze liquidity risk in hypothetical stress scenarios. We take necessary measures accordingly so that business may continue undisturbed in the event of environmental changes.
The effect on the business of each subsidiary is monitored by ascertaining liquidity risk in each subsidiary and in every country in which ORIX operates. We take appropriate steps such as parent-to-subsidiary lending depending on the situation.
ORIX Bank Corporation ("ORIX Bank") and ORIX Life Insurance Corporation ("ORIX Life Insurance") are engaged in retail financial activities for individuals such as accepting deposits and insurance underwriting and are regulated by Japanese financial authorities. Therefore, they are required to manage liquidity risk independently from other ORIX Group companies based on internal regulations formulated according to the relevant regulations.
Specifically, ORIX Bank ensures the necessary liquidity by setting maximum limits for its legal reserve ratio and capital market-based funding, while holding assets with high liquidity such as cash and cash equivalents and securities. Phased liquidity risk management is conducted by assuming several predicament degrees at different cash-strapped phases in addition to regularly monitoring the compliance condition.
ORIX Life Insurance conducts stress tests on insured accidents and ensures the necessary liquidity by holding assets with high liquidity such as cash and cash equivalents and securities above a certain ratio against the balance of a liability reserve and setting maximum limits for holding held-to-maturity securities.

Risk Management

Legal Risk Management

We define legal risk as the risk of legal responsibility or legal disadvantage arising due to noncompliance with applicable laws and/or regulations in any business or corporate management.
To avoid, prevent and mitigate transactional legal risk in Japan, we generally require that the Risk Management Headquarters and the Group Compliance Department be involved in transactions. In addition to establishing internal rules necessary to observe applicable laws, we implement necessary steps to ensure that we are, and continue to be, in compliance with revisions to laws as they take effect.
For business transactional agreements, we have established an approval process involving the Risk Management Headquarters, in accordance with our prescribed internal rules. In addition, depending on the size and importance of a given transaction, we might also utilize the expertise of outside lawyers. To ensure that proper legal procedures are followed in connection with legal disputes and litigation, we require that the Group Compliance Department and the Risk Management Headquarters be involved in the management of such disputes and litigation, including lawsuits that have been, or are expected to be, brought against us and lawsuits that we bring, or expect to bring, against third parties.
The Group Administration Department conducts monitoring to prevent the violation of intellectual property rights and necessary measures would be taken quickly, if and when violations are discovered.
Overseas, each Group company works to avoid, prevent and mitigate risks by utilizing in-house legal functions and, when necessary, by engaging outside lawyers and other advisers.

Operational Risk Management

We define operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.
Each department of ORIX implements a self-verification program through which material risks at the Group level are addressed. The Group Internal Audit Department conducts monitoring activities based on an annual internal audit plan that focuses on material risks. The department endeavors to prevent the occurrence of events that could have a negative impact on Group management and strengthens the risk management function through monitoring activities.
The Group Compliance Department supports the implementation of a self-verification program in each department. The department also has produced a compliance manual and distributed it to all executives and employees in the ORIX Group to increase their awareness of compliance.
ORIX Computer Systems Corporation aims to reduce operational risk through the maintenance and operational administration of internal systems.
We have established internal rules to manage risks associated with natural disasters, designed to protect management resources and minimize losses, while giving priority to the safety of our executives and employees.

Individual Business Risk Management

The ORIX Group has a broadly dispersed business portfolio, including financial service operations. We perform complete and transparent monitoring and risk management according to the characteristics of each business operation.

Corporate Financial Services Segment

Credit risk is the main risk of the Corporate Financial Services segment. After individual transactions have been executed, the Corporate Financial Services segment regularly monitors performance and collateral, as well as collection from customers whose balances exceed specified levels. The Risk Management Headquarters regularly evaluates customers with large credit balances.

We analyze the current condition and outlook for specific business types and industries and analyze the potential impact on customers while making decisions about future transactions in that specific business type or industry.

For problem assets, particularly in transactions collateralized by real estate, we take various measures such as capitalizing on our network of real estate–related departments to sell properties or introduce tenants.

Maintenance Leasing Segment

Business risk and credit risk are the main risks of the Maintenance Leasing segment.

To manage the risk of changes in market values of property under operating leases, we continuously monitor market environments and fluctuation in the resale value of leased property and adjust residual value estimates of new transaction accordingly.

Cost fluctuation (prime cost) is the main risk of providing various services such as outsourcing. In response to this, we analyze initial preconditions and performance, monitor future forecasts and control costs at an appropriate level.

In addition, to manage the risk that the quality of our services might fall short of customer expectations due to changes in the operating environment or changes and diversification of client needs, we monitor our service quality quantitatively and qualitatively and continuously strive to improve our services and make improvements in line with the operating environment.

We also conduct credit examinations against individual transactions before and after execution to manage credit risk.

Real Estate Segment

In the Real Estate segment, the main risk for business involving real estate development, possession and operation is business risk, and the main risks for business involving real estate finance are market risk and credit risk.

With respect to real estate investment, we conduct comparative verification of cash flows of precondition, performance and forecast prior to execution, and monitor investment strategies and schedules after execution. In the case of a major divergence from the initial forecast, we reevaluate our strategy. We invest mainly in small properties and diversify risk by investing in large properties through joint ventures with partners.

For condominiums, we monitor development and sales schedules, unit sales progress and rates of return. For development and leasing properties, we monitor development and retention schedules and NOI yield. We capitalize on the Group's network in order to improve occupancy rates and promote sales.

Our operation business monitors occupancy rates and rates of return and concentrates on creating manuals and educating employees.

In our real estate finance business, regarding nonrecourse loans, we carefully examine the loan-to-value ratio ("LTV"), the debt service coverage ratio ("DSCR") and other contractual terms and conditions such as the equity provided by other companies, the interest reserve and guarantees to control the relevant risks. Under such environment as extremely reduced liquidity in market, we monitor cash flows from transactions more precisely to implement measures such as revision of financing terms. In addition, depending on the circumstances, we may foreclose on collateral and hold and operate it ourselves, thereby taking on business risk.

Risk Management

Investment and Operation Segment

Credit risk, market risk and business risk are the main risks of the Investment and Operation segment.

When making investment decisions in the principal investment business, we do a credit evaluation, analyzing the investee's credit risk and assessing its cash flow, as is done for credit examinations. In addition, we perform a multi-faceted evaluation on the characteristics of the operation and investment scheme, in which administrative departments such as the accounting and legal departments are also involved. After the origination of an investment, individual transactions are monitored to check whether they diverge from the initial scenario. Credit risk is emphasized for the companies for which we are raising corporate value due to the focus on cash flow. We also monitor market risk as the time for collection nears, measuring corporate value by referencing the corporate value of similar business types. The frequency of monitoring could increase based on changes in the business environment, and we simultaneously verify the adequacy of investment scenarios and take any necessary action. Furthermore, for investments that have a significant impact on the profitability of the ORIX Group, we work to strengthen management through such measures as the dispatch of management personnel.

In the loan servicing business, we seek to reduce credit and operational risks by conducting periodic internal auditing and monitoring and by implementing business operations based on work procedures in accordance with the applicable supervision and guidance from regulatory authorities. In addition, we designate an outside lawyer as a Director and have streamlined our organizational system with legal and compliance-related affairs under the control of the Legal and Compliance Department of ORIX Asset Management and Loan Services Corporation to cope with diversified legal issues, which could occur with any stakeholders, from a professional and multi-faceted viewpoint.

In the environment and energy-related businesses, for renewable energy, energy conservation and resource and waste processing operations, we endeavor to minimize business risk by deploying appropriate equipment and technology, forming alliances with expert operators and arranging our business structure to allow for changes in the business environment and the business content.

Retail Segment

The main risk in the life insurance business is business risk, in particular, the risk associated with underwriting insurance contracts.

When underwriting insurance contracts, while implementing strict assessment standards based on such documents as statement of health conditions and medical examination report, cultivating employees with expert knowledge and hiring sufficient staff, ORIX Life Insurance also checks the status of insurance solicitation and takes rigorous measures to prevent the underwriting of fraudulent contracts. In addition, ORIX Life Insurance educates and instructs representative branch staff and agents to enhance compliance with applicable laws and regulations regarding the privacy of personal information, as well as insurance sales practices, and regularly conducts checks related to these measures.

Credit risk is the main risk of the housing loan business, the corporate lending business and the card loan business.

Regarding housing loans (for the purchase of condominiums and apartments for investment purposes), we conduct screenings, which consist of a comprehensive evaluation including not only the client's ability to repay but also the cash flows that can be derived from the property and its collateral value. Regarding corporate lending, we make a decision based on an investigation of the client's performance, business plan, the purpose of the loan, the source of repayment and industry trends. We also reduce risks by diversifying the business types and products of our portfolio. The card loan business uses our own scoring system incorporating a credit model. We set interest rates and credit limits in line with each customer's credit risk profile, after evaluating customer creditworthiness based on an analysis of customer attributes or payment history, as well as other factors that might affect the ability of the borrower to repay. Also, we undertake subsequent credit evaluations at regular intervals to monitor changes in the customer's financial condition.

Overseas Business Segment

In the Overseas Business segment, credit risk is the main risk of the leasing and loan businesses operated by local subsidiaries mainly in Asia.

Individual transactions in this segment are conducted in a manner similar to those in the domestic business segments. The Risk Management Headquarters monitors the portfolio according to country risk. Information regarding the portfolio of the respective local subsidiaries, the business condition of major clients, the condition of problem assets and the clients of particular concern is shared internally.

Risk management in the principal investment business and the automobile business, which are mainly in Asia, is conducted in a similar manner to that in the domestic business segments.

In addition, in the ship- and aircraft-related business, we monitor market environments and the overall business environment for business risk. We generally limit our operating leases to ships and aircraft with high versatility that are comparatively easy to re-lease and evaluate sales depending on changes in market conditions.

Credit risk and market risk are the main risks for the investment and finance business such as corporate loans and securities investment in the United States.

Regarding credit risk, at the time of origination, we assign an internal credit rating to each investment or loan taking into consideration the credit status and the collateral status and continually monitor the credit status. For any investments and/or loans of which the rating has reached or exceeded the caution level, a management policy shall be determined on the necessity of a provision for doubtful receivables and probable loan losses or an impairment.

Regarding market risk, we monitor market values while referring to credit risk information and manage risk by pursuing early sales as appropriate to secure profits or minimize losses.

Operational risk is the main risk for the loan servicing business in the United States. We arrange loans and conduct servicing operations thereof under public financing schemes such as the Federal National Mortgage Association (“Fannie Mae”) and the Federal Housing Administration (“FHA”). We conduct our operations based on the designated operating procedures set forth by these public financial institutions, and monitor and manage service quality through internal auditing.

Operational risk and business risk are the main risks for the advisory business and the asset management business in the United States.

In the advisory business, we maintain and ensure quality and operational procedures that meet the operating standards set forth by authorities through an internal quality control committee and other oversight so that high-quality advice and/or evaluation services can be supplied to customers according to proper operating procedures.

In the asset management business, to manage operational risk we have established an internal compliance system and manage our operations to abide by established compliance standards as an SEC-registered company.

Regarding business risk in the advisory business and the asset management business, in addition to monitoring to maintain and ensure satisfactory quality levels, in response to changes in the business environment and evolving customer needs, we review the content of our products and services to constantly maintain and improve quality.