Group-Wide Risk Management System

Risk Control

ORIX 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

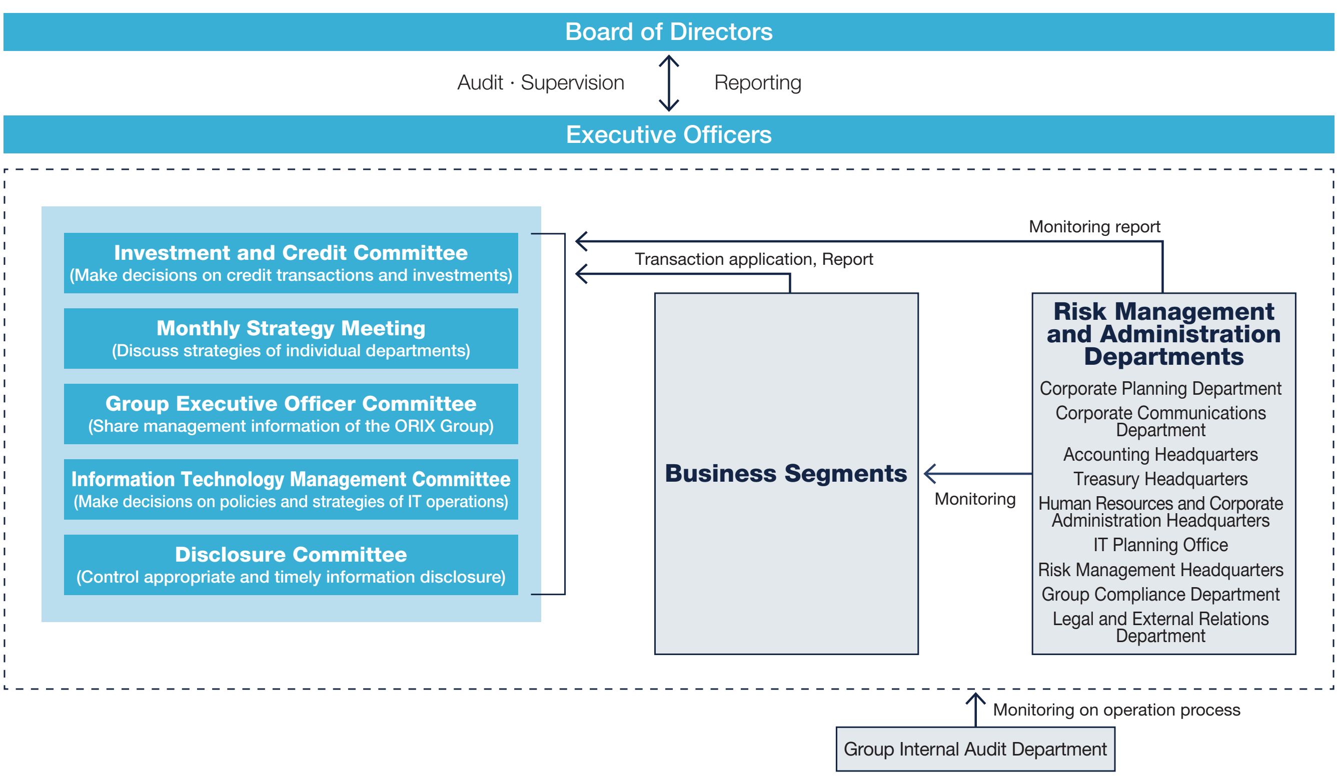
The representative executive officers make ORIX's important business administration decisions after deliberations by the Investment and Credit Committee ("ICC") in accordance with ORIX's various regulations.

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 Nominating Committees, etc." 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, 2015)



Top Management Involvement in Main Functions of Executive Officers

- Investment and Credit Committee deliberates individual transactions. Even small transactions are discussed and determined with CEO and CFO.
- Monthly Strategy Meeting is held for units smaller than six 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 Meetings is now approximately 20.
- At the 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 Corporate Planning Department, Treasury Headquarters, Accounting Headquarters, Risk Management Headquarters, Legal and External Relations Department, Group Compliance Department, Human Resources and Corporate Administration Headquarters, Group Internal Audit 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 Risk Management

Main Risk Management

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

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 pages 56-58, "Individual Business Risk Management."

Credit Risk Management

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

To analyze credit risk, we evaluate the adequacy of collateral and guarantees, the liquidation of debt and the diversification 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 of 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 certain assets that require extra monitoring, including credit extended to debtors who have petitioned for bankruptcy or civil rehabilitation, or other insolvency proceedings; whose bank transactions have been suspended, bills dishonored, or debts not collected for three months or more. The relevant business units, in cooperation with the credit department, take steps to secure collateral or other guarantees and to begin the collection process. The accumulated collection knowhow from sending an initial reminder to actively seizing collateral is consolidated in the credit department 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 related to new business areas, we monitor business plans and operations using scenario analyses and stress tests, and we also evaluate and verify the cost of withdrawal from a business.

For products and services we offer, in addition to monitoring quality, we review the content of our lineup of products and services in response to changes in the business environment and evolving customer needs 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.

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 ALM policies, and we endeavor to comprehensively verify and understand market risks.

Interest rate risk is comprehensively evaluated factoring in the expected 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 modified, as required, depending on the situation.

In order to manage exchange rate risk, we generally hedge exchange rate volatility in our business transactions in foreign currencies and overseas investments by using foreign currency-denominated loans, foreign exchange contracts and currency swaps in the same foreign currency. We monitor and manage exchange rate risk of unhedged foreign currency denominated assets using appropriate indicators such as the VaR (value at risk).

We manage counterparty credit risk and other risks involved in hedging derivative transactions appropriately in accordance with internal rules on derivative transaction management.

For assets under management of the banking business, the life insurance business and our overseas operations, we regularly monitor monetary policies, macroeconomic indicators and securities and financial market trends, and manage our asset portfolios by analyzing individual security price movements and gains and losses. Market volatility is managed appropriately according to guidelines that include fixed loss amounts and decreases in position. Our credit department monitors 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 fund procurement methods and sources and monitor liquidity on hand. To manage liquidity on hand, we project future cash flows and analyze liquidity risk using hypothetical stress scenarios. We take necessary measures so that business may continue undisturbed in the event of market changes.

The effect of liquidity risk of the ORIX Group 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 measures to manage liquidity risk, such as parent-to-subsidiary lending depending on the situation of monitoring.

ORIX Bank Corporation (“ORIX Bank”) and ORIX Life Insurance Corporation (“ORIX Life Insurance”) are engaged in retail financial activities for individual customers and are regulated by Japanese financial authorities. They are required to manage liquidity risk independently from other ORIX Group companies based on internal regulations formulated according to the relevant regulations.

ORIX Bank maintains the required liquidity levels by maintaining deposits and liquid assets such as marketable securities above a fixed percentage and setting an upper limit for capital market-based funding. In addition, it regularly monitors the status of these measures, estimates the tightness of cash flows under different scenarios and conducts stage-by-stage management of liquidity risk accordingly.

ORIX Life Insurance conducts stress tests on insured events and ensure 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.

Main 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 credit department, the legal department and the compliance department be involved in evaluating and/or executing transactions. In addition to establishing and maintaining internal rules designed to facilitate compliance with applicable laws that are currently in effect, we take steps to ensure that we will be in compliance with revisions to laws as they take effect.

For business transactional agreements, we have established an approval process involving the credit department 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 potential disputes and litigation, we require that the legal department, the compliance department and the credit department be involved in the management of such disputes and litigation, including lawsuits that are brought against us and lawsuits that we bring against third parties.

The administration department conducts monitoring to prevent the violation of intellectual property rights of others and takes necessary measures promptly, if and when potential 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 ORIX department conducts a compliance assessment to address material risks at the Group level. The 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 negatively affect Group management and seeks to strengthen the risk management function through monitoring activities.

The compliance department supports the implementation of compliance assessments in each division and also aims to increase awareness of corporate compliance within the ORIX Group through the implementation of compliance rules designed to ensure that all executives and employees act in conformity with applicable laws and regulations.

IT planning department and ORIX Computer Systems Corporation endeavor 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, which are designed to protect management resources and minimize business losses, while giving priority to the physical safety of our executives and employees.

Individual Business Risk Management

Individual Business Risk Management

ORIX engages in a broad spectrum of businesses, including financial service operations. We perform exhaustive and transparent monitoring and risk management according to the characteristics of each business segment.

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 credit department regularly evaluates customers with large credit balances.
We analyze current conditions and outlook for specific business types and industries, including the potential impact on customers while making decisions about future transactions in that specific business type or industry.
For those assets requiring extra monitoring, particularly in transactions secured 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 leased property in new transactions accordingly.
Cost fluctuation is the main risk of providing various services such as outsourcing. In response to this, we analyze initial cost planning 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 to and diversification of client needs, we monitor our service quality quantitatively and qualitatively and continuously strive to improve our services in line with the operating environment.
We also conduct credit examinations of individual transactions to manage credit risk.

Real Estate Segment

In the Real Estate segment, the main risk for business involving real estate development, rental and operation is business risk.
With respect to real estate investment, before making an investment decision we evaluate the actual cash flow performance as against the initial plan and forecasts, and monitor investment strategies and schedules after execution. Upon 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 development and leasing properties, we monitor development and retention schedules and NOI yield. We capitalize on the Group’s network to improve occupancy rates and promote sales.
In our facility operation business, we monitor performance indicators such as occupancy, utilization rates and profitability. We conduct market analysis and take initiatives to improve the desirability of our facilities, such as renovation investments. To improve quality of our services and facilities, we strive to take into consideration customers’ feedback and also implement training programs for our employees.

Individual Business Risk Management

Investment and Operation Segment

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

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 adapting our business structure to changes in the business environment and the business content.

When making investment decisions in the principal investment business, we conduct 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 business 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 for divergence 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 may 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 measures such as the secondment 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, ORIX Asset Management & Loan Services Corporation has designated an outside lawyer as a company director and has streamlined its organization to place legal and compliance-related affairs under the control of its legal and compliance department to cope with diversified legal issues, which could occur with any stakeholder, from a professional and multi-faceted viewpoint.

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 documents such as statements of health condition and medical examination reports, ORIX Life Insurance cultivates employees with expert knowledge and hires sufficient staff, 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 checks whether these measures are carried out.

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

Regarding each housing loan we extend 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.
Decision making for corporate loans is based on an investigation of the client's performance, business plan, the purpose of the loan, the expected source of repayment and industry trends. We also reduce risks by diversifying the business types and products in our portfolio.
The card loan business uses a proprietary scoring system incorporating a credit model. We set interest rates and credit limits in line with each customer's credit risk profile, after evaluating their 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 credit department 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 those assets requiring extra monitoring and the clients of particular concern is shared internally.

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

In addition, in the ship and aircraft-related business, we monitor market conditions 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 continuously monitor the credit status. For any investments and/or loans of which the rating has reached or exceeded the caution level, our policy requires management to determine 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 and the Federal Housing Administration. 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.

Business risk and operational risk are the main risks for the asset management business and the advisory business.
Regarding business risk, in addition to monitoring to maintain and ensure satisfactory quality levels, we review the content of our products and services to constantly maintain and improve quality in response to changes in the business environment and evolving customer needs.
In the asset management business, we have established an internal compliance system to manage operational risk and manage our operations to abide by the compliance standards established by the supervisory authority. Regarding operational risk 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.