

Corporate Governance

Management Team (As of July 1, 2017)

Directors



Makoto Inoue

Director
Representative Executive Officer
President and Chief Executive Officer
Responsible for Open Innovation
Business Department, Group IoT
Business Department and New
Business Development Department



Kazuo Kojima

Director
Representative Executive Officer
Deputy President and
Chief Financial Officer



Yuichi Nishigori

Director
Corporate Executive Vice President
Head of Energy and Eco Services
Business Headquarters
Outside Director, Ubiteq, INC.



Kiyoshi Fushitani

Director
Corporate Executive Vice President
Head of Global Business Headquarters,
East Asia Business Headquarters
and Global Transportation Services
Headquarters



Stan Koyanagi

Director
Corporate Senior Vice President
Responsible for Enterprise Risk
Management
Global General Counsel



Hideaki Takahashi

Non-Executive Director
● Nominating Committee
● Compensation Committee

- Nominating Committee
- Audit Committee
- Compensation Committee

Outside Directors



Eiko Tsujiyama

Outside Director since June 2010

- Audit Committee (Chairperson)
- Compensation Committee
- Professor, Faculty of Commerce at Waseda University
- Corporate Auditor, Lawson, Inc.
- Audit & Supervisory Board Member, NTT DOCOMO, Inc.
- Audit & Supervisory Board Member, Shiseido Company, Limited

Ms. Eiko Tsujiyama serves as a professor of Waseda University, Faculty of Commerce and has served on government and institutional finance and accounting councils both in Japan and overseas. She has extensive knowledge as a professional accountant. As Chairperson of the Audit Committee, she has actively expressed her opinions and made proposals, while leading discussions on the effectiveness of the Company's internal control system.



Robert Feldman

Outside Director since June 2010

- Compensation Committee (Chairperson)

- Nominating Committee
- Senior Advisor, Morgan Stanley MUFG Securities Co., Ltd.

Mr. Robert Feldman currently serves as Senior Advisor at Morgan Stanley MUFG Securities Co., Ltd. and, as an economist, has a deep understanding of the environment and events of business management both in Japan and overseas. As Chairperson of the Compensation Committee, he has actively expressed his opinions and made proposals during deliberations on the Directors' compensation system and compensation levels in order to enhance their role as medium- and long-term incentives.



Takeshi Niinami

Outside Director since June 2010

- Nominating Committee
- Compensation Committee
- President and Chief Executive Officer, Member of the Board, Representative Director, Suntory Holdings Limited.

Mr. Takeshi Niinami formerly served as Chief Executive Officer of Lawson, Inc. and currently serves as President and Chief Executive Officer of Suntory Holdings Limited. He has actively expressed his opinions and made proposals during deliberations at meetings of the Board of Directors, Nominating Committee and Compensation Committee, pointing out important matters regarding company management using his managerial decision-making skills based on his wide-ranging experience and knowledge.



Nobuaki Usui

Outside Director since June 2012

- Nominating Committee (Chairperson)
- Audit Committee
- Corporate Auditor, KONAMI HOLDINGS CORPORATION
- Corporate Auditor, MIROKU JYOHU SERVICE CO., LTD.

Mr. Nobuaki Usui served as the Administrative Vice Minister of the Ministry of Finance and the Governor and CEO of National Life Finance Corporation (currently, Japan Finance Corporation). As Chairperson of the Nominating Committee, utilizing his wealth of knowledge and experience as a finance and tax expert, he has actively expressed his opinions and made proposals, leading discussions and deliberations on members of the Board of Directors and executive officers suitable for the Company's business operations.



Ryuji Yasuda

Outside Director since June 2013

- Nominating Committee
- Audit Committee
- Compensation Committee
- Adjunct Professor, Graduate School of International Corporate Strategy at Hitotsubashi University
- Outside Director, Yakult Honsha Co., Ltd.
- Outside Director, Benesse Holdings, Inc.

Mr. Ryuji Yasuda served as Director of McKinsey & Company and Chairman of A.T. Kearney, Asia and currently serves as an adjunct professor at the Graduate School of International Corporate Strategy, Hitotsubashi University. He has actively expressed his opinions and made proposals during deliberations at meetings of the Board of Directors, Nominating Committee, Audit Committee and Compensation Committee, pointing out important matters regarding company management, using his specialized knowledge on corporate strategy.



Heizo Takenaka

Outside Director since June 2015

- Nominating Committee
- Audit Committee
- Professor, Faculty of Regional Development Studies at Toyo University
- Chairman and Director, PASONA Group Inc.
- Director, Academyhills
- Director, Center for Global Innovation Studies at Toyo University
- Outside Director, SBI Holdings, Inc.

Mr. Heizo Takenaka served as Minister of State for Economic and Fiscal Policy, Minister of State for Financial Services, Minister of State for Communications and Privatization of Postal Services and Minister for Internal Affairs, and currently serves as professor of Toyo University, Faculty of Regional Development Studies. He has actively expressed his opinions and made proposals during deliberations at meetings of the Board of Directors, Nominating Committee and Audit Committee, pointing out important matters regarding company management, using his deep understanding of the environment and events of business management and economics and financial policies both in Japan and overseas.

Corporate Governance

Comments from the Outside Directors



Ryuji Yasuda

Functioning corporate governance serves to increase corporate value.

Diverse External Perspectives for Healthy Checks and Supervision for Management

ORIX's outside directors have diverse backgrounds, which has demonstrated its effectiveness. Outside directors add energetic discussion of pre-explained agendas to the Board. We also receive in-depth reports on projects from division managers who are not on the Board, and visit front-line operations for insights into the current status of ORIX's business. These insights allow outside directors to fully exercise their expertise in multifaceted discussions with management. This diversity is meaningful for corporate governance because it provides healthy checks and supervision for management.

In addition, ORIX benefits from being a company with committees. Outside directors are in the majority on the Audit Committee, Nominating Committee and Compensation Committee, which empowers rigorous discussion and a framework for adding external perspectives to the

supervision of compliance and other issues.

ORIX's overseas business has expanded in recent years due in part to acquisitions. The head office aspires to international governance standards, and major overseas subsidiaries are also strengthening their governance in each country and region. ORIX management has the will to lead toward even more stringent oversight of overseas governance and compliance.

Indefinable Business to Succeed in an Uncertain Era

One of ORIX's advantages is that its business is not definable by orthodox industry classifications. It is a major company in insurance, banking and real estate as well as leasing and corporate finance. At the same time, it is also developing into a major player in the environment and energy business and concession business, and is also involved in multiple industries through its private equity investment business.

ORIX does not limit itself to action constrained by the framework of some standard industry moniker. It astutely identifies global trends and constantly rotates its business portfolio accordingly to capture strong profits. ORIX stands out because it balances its portfolio and manages risk while constantly entering profitable new businesses. I believe that bold, swift decision making and execution are ORIX's strong DNA which enable this outstanding profitability.

Unfortunately, it seems to be hard for investors to understand the dynamics of such indefinable business. I also think ORIX shares are undervalued because of the misperception among investors that capital gains from the core business of turning over assets are nonrecurring profits.

Although the slow growth has been observed worldwide, ORIX has excellent prospects to blossom further as new industries arise, because constantly pioneering new markets without being constrained by orthodox industry classifications is part of its DNA. ORIX is a dynamic company.



Heizo Takenaka

Accurate risk management supports corporate governance.

ORIX Draws Strength from Its Mindset of Taking Healthy Risks

Do you know ORIX?

This is the tagline of a television commercial which is currently running in Japan. I was startled by it because, even as one of the company's outside directors, I can think of no single word that can express what ORIX is.

From my perspective, ORIX benefits society primarily through financial channels. While ORIX is also involved in Operation and Investment, it contributes to society by using its broadly based expertise in risk management acquired through Finance. ORIX has frequently captured the first-mover advantage, as exemplified by its decisive entry into the airport concession business. Businesses are challenging for the first mover and easier for the second and third, but ORIX gains an advantage from being the first mover because it can effectively assess risk.

The business of both ORIX and a general trading company is becoming similar because their businesses are intimately based on information and risk management.

I therefore believe that a mindset based on a specific business category will be increasingly less meaningful. CEO Makoto Inoue has astutely pointed out that "I have no idea what we will be doing in five years. And this is ORIX's business model."

While many Japanese companies are frantically trying to avoid risk, ORIX has embraced a mindset of taking healthy risks as part of its growth process. Returns require risk, so ORIX is strong because it has embedded the will to take on challenges in its corporate DNA. ORIX may have some catching up to do in areas such as artificial intelligence and fintech, but is well positioned to demonstrate its strengths during the Fourth Industrial Revolution. I am excited to see how ORIX uses its originality in the future.

A Healthy Crisis Mentality (Creative Tension) Enhances Corporate Governance

ORIX has more than 30,000 employees worldwide, but its DNA is still lively and young, and it is still developing as it builds up its track record. ORIX is therefore in the process of constructing an autonomous and solidly effective structure for global governance.

Merely creating a system for governance does not necessarily mean it will function properly. The CEO's leadership and the efforts of each Board member are instrumental to making governance work. A key point is whether ORIX keeps a healthy crisis mentality, in other words, creative tension. And I know ORIX has such a corporate culture.

In addition to providing returns, companies must properly fulfill their accountability to shareholders. Everyone at ORIX, including outside directors, remains committed to these efforts. We also want investors to appreciate that we are watching over their interests over the long term with a healthy crisis mentality.

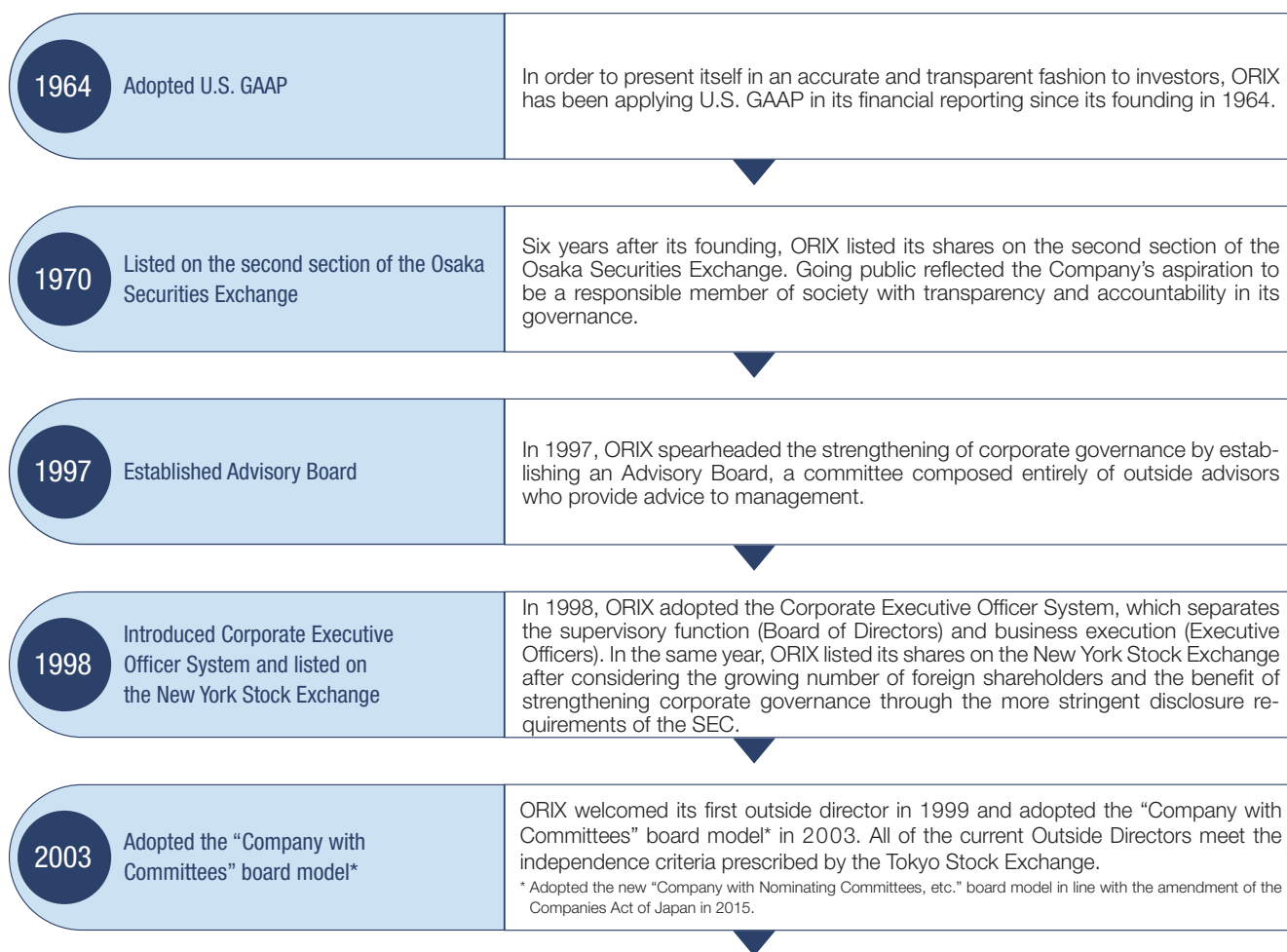
Corporate Governance

Corporate Governance at ORIX

Approach to Corporate Governance

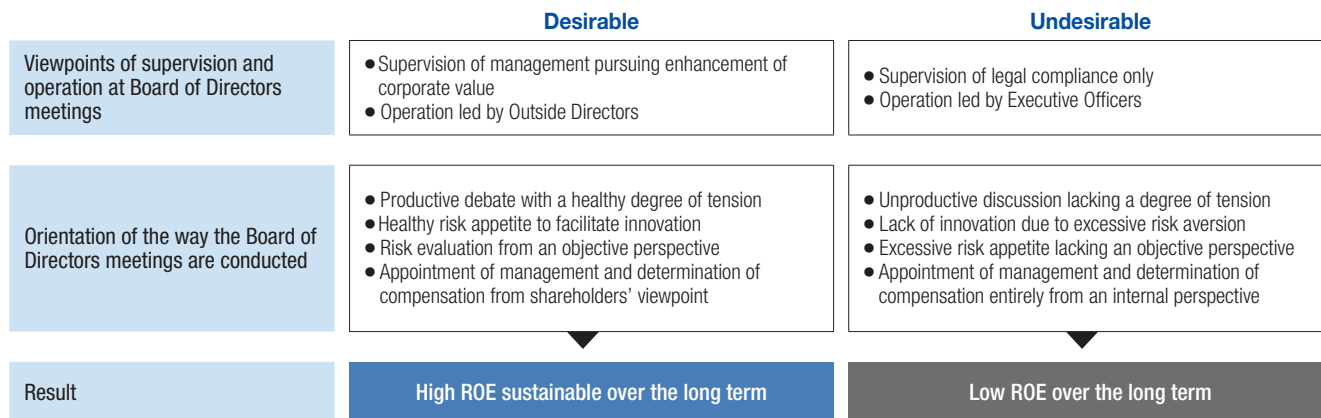
- ORIX believes that a robust corporate governance system is essential for ensuring objective management and carrying out appropriate business activities in line with its core policies. We have therefore established a sound and transparent corporate governance system.
- Corporate governance is a system for management oversight. It involves setting management objectives for managers, performance analysis and evaluation, and supervision in order to ensure that management strives to attain outstanding results. The tension inherent in corporate governance encourages management to perform to the best of its ability and facilitates innovation in pursuit of corporate objectives. Such an approach is conducive to the achievement of consistently high ROE.
- Outside Directors have a crucial role to play in corporate governance. From various perspectives reflecting their diverse professional backgrounds, Outside Directors are able to objectively evaluate management's performance in ways that transcend the industry's conventional wisdom and the company's ingrained practices. Moreover, by virtue of their external perspectives, Outside Directors are in the position to objectively evaluate the risk of management not taking adequate levels of risk.

Evolution of Corporate Governance

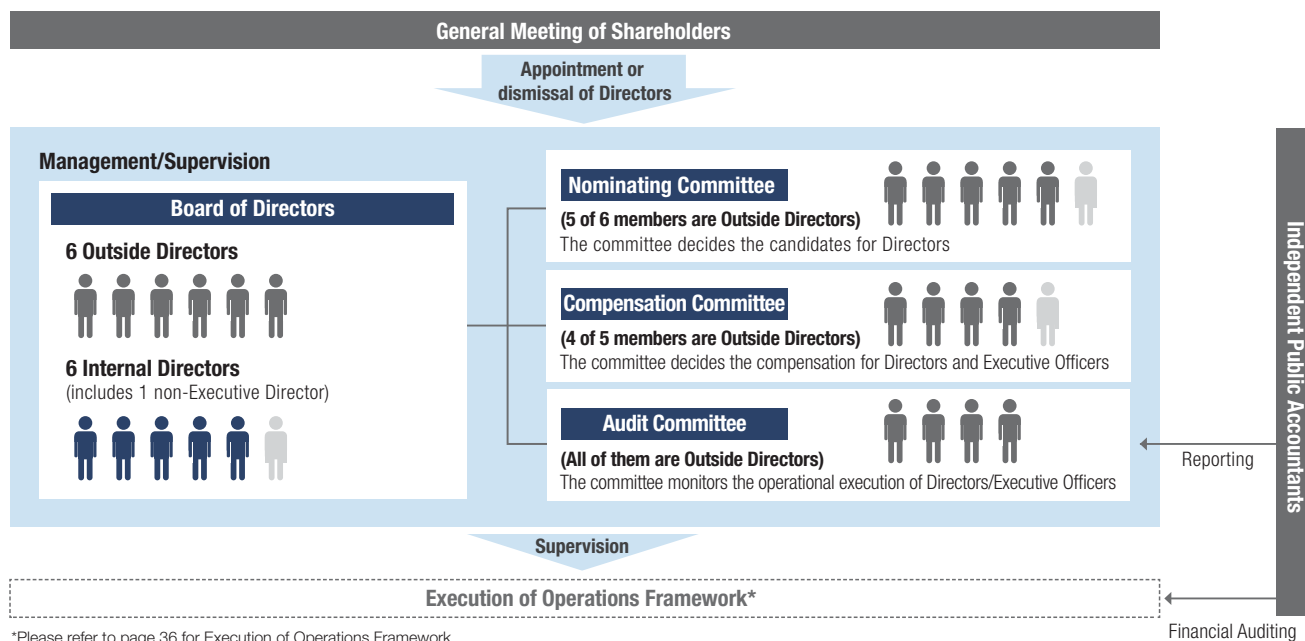


This is how ORIX has been strengthening its management oversight since its founding. The current corporate governance framework requires a high level of discipline from the managers but we believe this is how corporate governance is supposed to be.

ORIX's Vision of Corporate Governance



Corporate Governance Framework (As of July 1, 2017)



*Please refer to page 36 for Execution of Operations Framework.

Differences with Respect to the New York Stock Exchange Corporate Governance Standards

ORIX's American Depositary Shares have been listed on the New York Stock Exchange (NYSE) since 1998. As an NYSE-listed company, ORIX is required to comply with certain corporate governance standards under Section 303A of the NYSE Listed Company Manual. However, as a foreign private issuer, ORIX is permitted to follow home country practice. Our corporate governance practices differ in certain respects from those that U.S. listed companies must adopt. A summary of these differences is as follows:

- ORIX is not required to meet the NYSE's independence requirements for individuals on its Board of Directors or its Nominating, Audit and Compensation committees. ORIX's Nominating Committee has determined its own "Conditions for Director Independence."
- ORIX is not required to have the majority of its Board of Directors comprised of Outside Directors nor is ORIX required to compose its committees exclusively of Outside Directors. Of ORIX's twelve directors, six are Outside Directors. In addition, the Audit Committee consists solely of Outside Directors and five of the six members of the Nominating Committee and four of the five members of the Compensation Committee, respectively, are Outside Directors.

Board of Directors

The Board of Directors carries out decisions related to items that, either as a matter of law or pursuant to our Articles of Incorporation, cannot be delegated to executive officers, and important items as determined by the regulations of the Board of Directors. The Board of Directors is responsible for deciding and monitoring ORIX's policies on a regular basis, which include corporate planning such as capital management, fund procurement, hiring and recruitment strategies and internal controls. Aside from such items, the Board of Directors delegates decision-making regarding operations to representative executive officers to facilitate better efficiency and swiftness of such process. The Board of Directors also receives reports from executive officers and committees regarding the status of business operations and finances.

The Board of Directors is composed of directors, including Outside Directors, that possess broad knowledge and experience. The number of directors on the board is also maintained at the level we consider to be appropriate for effective and efficient board discussion.

Board of Directors Evaluation

The Board of Directors conducts a survey questionnaire to all directors. The effectiveness of the Board of Directors is evaluated and analyzed and actions to improve the administration of the Board of Directors are implemented.

Overview of Board of Directors Evaluation Results for FY2017.3

- The responsibilities of supervision of company operations are sufficiently fulfilled by the directors using their various know-how and experience, and by effective directives at the meetings of the Board of Directors and respective committees, as well as through discussions of a sufficiently advanced quality.
- Since FY2010.3, ORIX has ensured effective and appropriate management oversight functions while maintaining diversity on the Board of Directors by continuously having six Outside Directors.
- Proceedings to contribute to authentic discussions are presented at meetings of the Board of Directors, so that each director can supervise and monitor operations from mid- to long-term perspectives.
- Discussions are sufficiently conducted using materials coordinated to facilitate further discussion at all subsequent meetings of the Board of Directors with regards to the content of comments, questions and proposals.

Training of Directors

Appropriate briefings by lawyers and others, including those on legal duties and responsibilities which must be observed by directors, are implemented at the time of appointment of new directors. External training bodies are also employed as the need arises. Orientations are also conducted when Outside Directors are invited. These include provision of opportunities for individual briefings from the CFO with regards to management strategy, business activities, and company financial conditions. In addition, compliance training for executives is also implemented on a regular basis during the period of an executive's appointment.

Nominating Committee, Audit Committee and Compensation Committee

Nominating Committee

- The Nominating Committee decides and produces proposals to appoint or dismiss directors, which are then submitted at the general meeting of shareholders (appointment and dismissal of directors are subject to resolution at the general meeting of shareholders).
- The Nominating Committee also deliberates on the appointment or dismissal of executive officers, although this is not required under the Companies Act of Japan.
- The Nominating Committee has determined the "Conditions for Director Independence."
- The Nominating Committee ensures that the Board of Directors possesses the appropriate levels of and diversity in knowledge, experience, and expertise, through "Nomination Criteria for Director Candidates" for directors' appointments.

"Conditions for Director Independence" and "Nomination Criteria for Director Candidates" determined by the Nominating Committee ▶▶▶ Form 20-F filed with the U.S. Securities and Exchange Commission <http://www.orix.co.jp/grp/en/ir/library/20f/>

Audit Committee

- The Audit Committee monitors the execution of the duties of the directors and executive officers and creates audit reports. The Audit Committee decides the content of proposals to appoint, dismiss or refuse the reappointment of the Company's independent Certified Public Accountants, which are submitted to the general meeting of shareholders.

Compensation Committee

- The Compensation Committee formulates the policy for determining compensation of each director and executive officer ("Policy for Determining Compensation of Directors and Executive Officers") and also decides the specific compensation for each individual director and executive officer.

Corporate Governance at ORIX

Members of Each Committee

Name	Position	Nominating Committee	Audit Committee	Compensation Committee
Makoto Inoue	Director			
Kazuo Kojima	Director			
Yuichi Nishigori	Director			
Kiyoshi Fushitani	Director			
Stan Koyanagi	Director			
Hideaki Takahashi	Non-Executive Director	○		○
Eiko Tsujiyama	Outside Director		○ (Chairperson)	○
Robert Feldman	Outside Director	○		○ (Chairperson)
Takeshi Niinami	Outside Director	○		○
Nobuaki Usui	Outside Director	○ (Chairperson)	○	
Ryuji Yasuda	Outside Director	○	○	○
Heizo Takenaka	Outside Director	○	○	

Board of Directors and Committee Meetings in FY2017.3

	Number of Meetings	Attendance Rate
Board of Directors	8	98%
Nominating Committee	3	94%
Audit Committee	8	100%
Compensation Committee	3	93%

Compensation for Directors and Executive Officers

The Compensation Committee believes that in order to accomplish ORIX's business objectives, directors and executive officers should place importance on not only performance during the current fiscal year, but also on medium- and long-term results. The fundamental policy is to ensure that compensation is designed in a way that provides effective incentives to directors and executive officers. Based on this principle, the Committee then establishes specific policies for each director and executive officer in accordance with his/her respective role.

Compensation Policy for Directors

- The compensation consists of fixed compensation and share-based compensation.*
- Fixed compensation is, in principle, a certain amount that is added to the compensation of the chairperson and member of each committee.
- Share-based compensation is calculated based on the number of points earned and accumulated by the individual while in office until retirement. It is eventually granted to the individual in the form of ORIX shares upon retirement. This compensation is intended to align medium- to long-term results of the Company with the individual's performance.

Compensation Policy for Executive Officers (including those who concurrently serve as Directors)

- The compensation consists of fixed compensation, performance-linked compensation and share-based compensation.*
- Fixed compensation is decided based on the standardized base amount for each position followed by an adjustment in accordance with each position's respective role and responsibility.
- Performance-linked compensation consists of two components of equal weighting. The first component is derived from the standardized base amount for each position that starts from 50% followed by adjustment within the range of 0% to 200% based on the attainment level of the consolidated net income target for the current fiscal year as a performance indicator. The second component is derived the same way as the first component, except with the subsequent adjustment within the range of 0% to 200% based on the attainment level of his/her division(s)' performance target for the current fiscal year. Furthermore, in the case of representative executive officers, his/her performance-linked compensation is entirely based on a standardized base amount that is adjusted within the range of 0% to 200% based on the attainment level of the consolidated net income target for the current fiscal year as a performance indicator.
- Share-based compensation is calculated based on the number of points earned and accumulated by the individual while in office until retirement. It is eventually granted to the individual in the form of ORIX shares upon retirement. The points granted each year are derived from the standardized number of points where 50% of which is adjusted within the range of 0% to 200% based on the attainment level of the consolidated net income target for the current fiscal year as a performance indicator, and the other 50% of which is adjusted within the range of 0% to 200% based on the attainment level of his/her division(s)' performance target for the current fiscal year. Furthermore, in the case of representative executive officers, his/her share-based compensation is entirely based on a standardized number of points that is adjusted within the range of 0% to 200% based on the attainment level of the consolidated net income target for the current fiscal year as a performance indicator. This compensation aims to align with medium- to long-term result of the company to the individual's performance.

* "Share-based compensation" is a program in which points are annually allocated to directors and executive officers based upon prescribed standards while in office, and the actual number of ORIX' shares calculated based on the number of accumulated points is provided at the time of retirement. Points granted to the members of each position are determined based on the guidelines set by the Compensation Committee.

Compensation of Directors, Executive Officers and Group Executives (FY2017.3)

	Fixed Compensation		Performance-linked Compensation		Share-based Compensation		Total
	Number of Recipients	Amount Paid (Millions of yen)	Number of Recipients	Amount Paid (Millions of yen)	Number of Recipients	Amount Paid (Millions of yen)	Amount Paid (Millions of yen)
Directors (Outside Directors)	8 (6)	106 (67)	— —	— —	8 (6)	16 (13)	122 (81)
Executive Officers and Group Executives	28	765	28	368	28	499	1,632
Total	36	871	28	368	36	515	1,755

Notes:

- There was a total of 13 directors (including six Outside Directors), 20 executive officers (including those serving concurrently as directors) and four group executives as of March 31, 2017. Figures for the number of directors and executive officers who received compensation and the compensation amount include those of five persons who have resigned from their previous positions as either director or executive officer or group executive in FY2017.3.
- At ORIX, no directors serving concurrently as executive officers received compensation as directors. Total compensation for five people serving concurrently as directors and executive officers is shown in the Executive Officers and Group Executives line.
- Under ORIX's share-based compensation system, directors and executive officers are granted a prescribed number of points during their tenure and receive shares of ORIX stock from a trust in accordance with their accumulated point totals when they retire. Share-based compensation indicated above is the number of points confirmed to be provided as the portion for FY2017.3 multiplied by the market price of ¥1,544 per share at the time the trust acquired ORIX shares.
- Share-based compensation indicated above doesn't include the amount of the share component of compensation actually paid. 643 million yen was paid to three executive officers resigned during FY2017.3 and one executive officer and one group executive resigned before the end of FY2016.3.
- ORIX did not provide stock options in the form of stock acquisition rights in FY2017.3.
- Figures shown are rounded down by discarding figures of less than 1 million yen.

Executive Officers

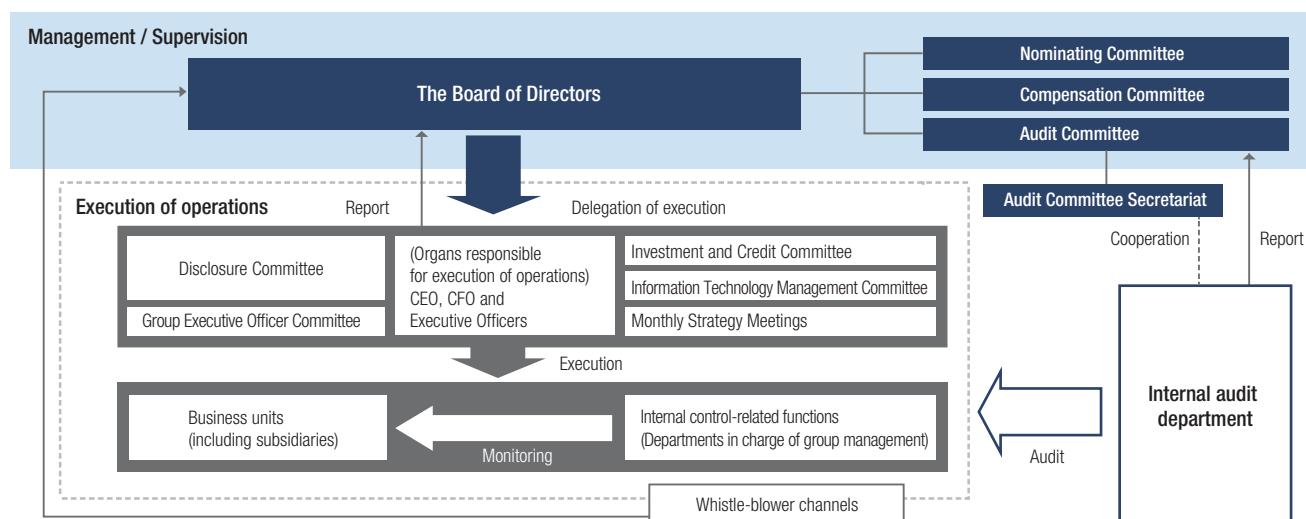
The representative executive officers of ORIX make important business execution decisions after deliberations by the Investment and Credit Committee in accordance with ORIX's various rules.

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 rules. Group executives are appointed by the Board of Directors from among the directors and executive officers of the Group companies.

Characteristics of the 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 for evaluating individual transactions and monitoring the 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.

Execution of Operations Framework (As of July 1, 2017)



Individual Executive Bodies

Important decision-making, monitoring and discussions regarding the execution of business and sharing of information are conducted by the following bodies.

Investment and Credit Committee (“ICC”)

(Three times a month in principle)

Attendees: Top management and executive officers involved in projects

- 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 representative 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)

Attendees: Top management and each divisional head

- 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

(Every two months in principle)

Attendees: 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)

Attendees: 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)

Attendees: CFO (Chairperson) and executive officers in charge of Treasury and Accounting Headquarters, Credit and Investment Management Headquarters, Enterprise Risk Management Headquarters, Group Human Resources and Corporate Administration Headquarters and Group Internal Audit 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.

Control by Business Unit

Each business unit evaluates the material risks in light of the business strategies and plans, and exercises its own risk management.

Control by the Internal Control-related Functions (Departments in Charge of Group Management)

Each department of internal control-related functions assesses not only the material risks but the risks which it controls and manages on an across-the-board basis, and assists in the risk management by each business unit.

Risk Control

ORIX allocates management resources by taking into account Group-wide risk preferences based on management strategies as well as the strategy of individual business units. Our board of directors and executive officers evaluate the performance and profitability of each business unit, and the executive officers take responsive measures they deem necessary to control risk. This process enables us to control our balance sheet and allocate more management resources to business units viewed as having greater growth potential.

Main Risk Management

ORIX recognizes that credit risk, business risk, market risk, liquidity risk (risk relating to funding), compliance risk, legal risk, information asset risk and operational risk are the main risks we face, and we manage each of these risks according to its characteristics.

Credit Risk Management

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

To analyze credit risk, we evaluate the adequacy of collateral and guarantees, the securitization of receivables 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 and measures to establish appropriate credit limits allow 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, civil rehabilitation or other insolvency proceedings, or whose bank transactions have been suspended, bills have been dishonored, or debts have not been 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 the types of products or services we offer.

To address 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 leased properties. To control this risk, we monitor our leased properties inventory, 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 through careful management of our rental income, vacancy rates and expenses related to capital expenditures.

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 endeavor to comprehensively verify and understand market risks and have established and maintain Group-wide ALM rules to address such 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.

We generally manage exchange rate risk by using foreign currency-denominated loans, foreign exchange contracts and currency swaps to hedge exchange rate volatility in our business transactions in foreign currencies and overseas investments. We monitor and manage exchange rate risk of unhedged foreign currency-denominated assets and retained earnings of foreign subsidiaries using indicators such as VaR (value at risk) and adjusting hedge positions as needed based on changes in the market environment at any given time.

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 in our banking business, our life insurance business and our overseas operations, we regularly monitor monetary policies, macroeconomic indicators and securities and financial market trends and country risk, and we manage our asset portfolios by analyzing individual security price movements (both gains and losses). Market volatility is managed 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 required funds or that we will be forced to procure funds at an unusually high rate of interest due to market turmoil, a sharp decline in the financial condition of the ORIX Group or other reasons.

To reduce liquidity risk, we diversify fund procurement methods and sources and constantly monitor liquidity on hand. To manage liquidity on hand, we project future cash flows and

Corporate Governance at ORIX

analyze liquidity risk using hypothetical stress scenarios. We take necessary measures so that our businesses may withstand adverse market 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 measures to mitigate liquidity risk, including through such action as parent-to-subsidiary lending.

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 their internal regulations formulated according to the relevant regulations.

ORIX Bank maintains liquidity levels required by Japanese financial regulations by holding highly liquid assets such as cash and government and corporate bonds and by setting an upper limit for capital markets-based funding. In addition, ORIX Bank regularly monitors the status of its liquidity, 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 manages its liquidity requirements by holding highly liquid assets such as cash and cash equivalents and securities above a certain ratio against the balance of a liability reserve and by setting maximum limits for holding held-to-maturity securities.

Compliance Risk Management

We define *compliance risk* as the risk of financial loss, regulatory sanction or damage to our reputation resulting from a failure by ORIX Group to comply with applicable laws and regulations regarding ORIX Group’s business activities and ORIX Group’s corporate philosophy, internal policies, social norms rules and procedures which may also encompass legal risk when applicable laws and regulations are violated.

It is the policy of the ORIX Group to promote a culture of compliance, emphasizing high standards of ethical behavior at all levels of the organization, and to comply fully with applicable laws and regulations as well as corporate policies through robust and comprehensive compliance programs developed and maintained across all business units, corporate departments and support areas of the organization.

In order to lower the levels of risks that we deem significant at the Group level, the compliance department requires each department of the ORIX Group to formulate an annual compliance plan, detects compliance risks within the ORIX Group thereby eliminating, reducing or taking preventive measures against such risks. By implementing programs that sustain a culture of compliance, the compliance department seeks to mitigate compliance risk and prevent the occurrence of serious incidents, and thereby realize to the sound business and management of the ORIX Group.

In addition, ORIX Group strives to raise awareness for compliance matters among its executives and employees by establishing and disseminating various regulation in accordance with the ORIX Group’s Principles of Conduct, which sets forth the ORIX Group’s principles of compliance.

Legal Risk Management

We define *legal risk* as legal restrictions on business activities and legal liability as well as disadvantages that may arise due to laws and regulations applicable to ORIX Group’s business and corporate management, the establishment and amendment of such laws and regulations and regulatory oversight.

To avoid, reduce and prevent 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 are in compliance with revisions to laws as they take effect.

For transactional agreements relating to business transactions, we have established an approval process involving the legal department in accordance with our prescribed internal rules. In addition, depending on the size and importance of a given transaction, we may also seek advice from outside counsel. To ensure that proper legal procedures are followed in connection with actual or 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 have been, or are expected to be, brought against us and lawsuits that we bring, or expect to bring, against third parties.

The Group corporate administration department manages intellectual property rights and takes necessary measures if and immediately when an actual or potential infringement of ORIX Group’s intellectual property rights is discovered.

Overseas, each Group company works to avoid, reduce and prevent legal risks by utilizing in-house legal functions and, when necessary, by engaging outside lawyers and other advisers.

Information Asset Risk Management

We define *information asset risk* as the risk of loss caused by loss, damage or leakage of information or failure of our information systems. The ORIX Group has established policies regarding the use of information systems and information management systems for the proper handling of information assets and information about officers and employees.

The IT planning department and ORIX Computer Systems Corporation endeavor to reduce the risk of system failure within the ORIX Group, including from cyber-attack and damage to information security, through the maintenance and management of internal systems. We have also established internal regulations concerning our information security management system, basic policy, management standards, education and audits.

Operational Risk Management

We define *operational risk* as the risk of loss resulting from damages, losses, adverse effects or damage to our reputation caused by inadequate or failed internal processes for business execution or prevention of human error or by a failure in operations due to external events such as natural disasters.

We also include risk that we fail in our fiduciary responsibility

by not properly exercising discretionary rights for those customers and clients for whom we are acting as a fiduciary, which may lead to reputational and other damage.

We have established internal rules to manage risks associated with natural disasters, which are designed to protect management resources and minimize losses while giving priority to the safety of our executives and employees.

The internal audit department conducts monitoring activities based on an annual internal audit plan that also focuses on material operational 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.

Individual Business Risk Management

ORIX engages in a broad spectrum of businesses, including financial service operations. We perform complete 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 the transaction's performance and related collateral, as well as collection from customers whose balances exceed specified levels. The credit department regularly evaluates customers with large credit balances.

Within this segment, we analyze current conditions and the 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 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 the market value 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 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, the services might fall short of customer expectations due to changes in the operating environment or changes in 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

Business risk is the main risk of the Real Estate segment, which includes real estate development, rental, management, asset management and operation of real estate investment trust and real estate investment advisory business.

With respect to our real estate investment, before making an investment decision we evaluate the actual cash flow performance of the target as against the initial plan and forecasts, and monitor investment strategies and schedules after execution. Upon a major divergence from the initial forecast, we reevaluate our strategy. In addition, when we invest in large scale or long term projects, we consider diversifying risk by making joint investments with our partners.

For development and leasing properties, we monitor development and retention schedules and net operating income 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 and utilization rates and profitability. We conduct market analysis and take initiatives to improve the desirability of our facilities, such as through renovations. To improve the quality of our services and facilities, we take into consideration customers' feedback and also implement training programs for our employees.

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 arranging our business structure to allow for 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 of the characteristics of the business operation and investment scheme, in which administrative departments such as the accounting and legal are also involved. After the initial investment, individual transactions are monitored for divergence from the initial scenario. We emphasize credit risk when increasing the corporate value of a company since cash flow is a key-factor during such period. 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.

We conduct our concession business together with business partners in public facilities such as airports. The main risks of such business are business and operational risks. The long-term nature of this business adds uncertainty and, therefore, we conduct stress tests on the effect of disaster recovery and business withdrawal costs on operating revenue and cash flow based on demand forecasts and regularly monitor business planning and operations.

In the loan servicing business, we seek to reduce credit and operational risk 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 ("OAMLS") has appointed a lawyer as a director, has streamlined its organization to place legal and compliance-related affairs under the legal and compliance department. This approach allows OAMLS to employ expert advice and other perspectives in addressing stakeholder related legal issues.

Retail Segment

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

While ORIX Life Insurance implements strict assessment standards based on documents such as statements of health condition and medical examination reports, when underwriting insurance contracts, it also 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 through individual interviews, 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. Throughout this process, we utilize the real estate market information, industry know-how and network we have built over many years.

Decision making for corporate loans is based on an investigation of the client's performance, business plan, purpose of the loan, expected source of repayment and industry trends. We also reduce risk by avoiding overconcentration in any particular 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 certain 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 which are located 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 auto-related business is conducted in a similar manner to that in the domestic business segments.

In addition, in the aircraft and ship-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 an investment is made, 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 cautionary 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, in particular, the risk associated with fiduciary responsibility 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.

Regarding operational risk in the asset management business, regarding risk arising from acting as a trustee for customer and client property, we promote the standardization of business processes and regulations

and manuals related to, and seek to prevent, omissions and mistakes in conducting business operations and to improve efficiency generally. In addition, we ensure proper risk management by clarifying operating procedures and the authority and the responsibilities of administrators and

supervisor in business operations. To ensure high-quality advice and evaluation services in the advisory business, we, through an internal quality control committee and other forms of oversight, maintain operating procedures that meet the standards set forth by authorities.

Policies on Auditing / Auditing System

Policies on Auditing

The Audit Committee has established the following five items as its fundamental policies:

- The Committee shall always emphasize a consolidated management standpoint in auditing.
- The Committee shall monitor and verify the formulation and status of operations of the Group's internal control systems. In particular, it shall consider the validity and effectiveness of compliance systems, systems to ensure the credibility of financial reporting, and risk management systems.
- The Committee shall monitor and verify whether directors, executive officers, and employees under the supervision of executive officers are complying with laws, ordinances, and the provisions of the Articles of Incorporation in fulfilling their obligations of loyalty and due diligence, as well as any other legal obligations to the Group.
- The Committee shall monitor and verify whether executive officers are determining the execution of their duties and carrying out said duties appropriately and efficiently in accordance with basic management policies, medium-term management plans, and other plans and policies established by the Board of Directors.
- To ensure the fairness and credibility of audits, the Committee shall monitor and verify whether the accounting auditor is maintaining its independent position and conducting appropriate audits as a professional expert.

Auditing System

- The Audit Committee consists of four outside directors. Based on the policies on auditing, the Audit Committee verifies the status of the performance of duties and the formulation and status of operations of internal control systems with the representative executive officer and the heads of internal control-related and accounting departments. The Audit Committee may appoint outside experts to conduct its duties if necessary.
- Audit Committee Secretariat which includes three staff members, supports the work of the Audit Committee under the Audit Committee's instructions. The appointment and evaluation of, changes to, and disciplinary action toward the staff of the Audit Committee Secretariat are carried out with the approval of the Audit Committee.
- Group Internal Audit Department, which includes 31 staff (as of the end of May 2017), performs internal audits on the effectiveness of internal control systems, and the efficiency and effectiveness of operations, compliance, and other factors pertaining to the management of the ORIX Group through a risk-based approach.
- Group Internal Audit Department also jointly monitors critical risk through cooperation with 16 full-time corporate auditors (as of the end of May 2017) and internal audit functions at group companies and works to maintain and enhance the ORIX Group's internal auditing system.

For more details, please refer to the following:

- Form 20-F filed with the U.S. Securities and Exchange Commission ▶▶▶ <http://www.orix.co.jp/grp/en/ir/library/20f/>
- Corporate Governance ▶▶▶ <http://www.orix.co.jp/grp/en/company/governance>