

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F/A
(Amendment No. 1)

(Mark One)

- REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934 OR
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the fiscal year ended March 31, 2017 OR
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the transition period from \_\_\_\_ to \_\_\_\_ OR
SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 Date of event requiring this shell company report:

Commission file number: 001-14856

ORIX KABUSHIKI KAISHA

(Exact name of Registrant as specified in its charter)

ORIX CORPORATION

(Translation of Registrant's name into English)

Japan

(Jurisdiction of incorporation or organization)

World Trade Center Building, 2-4-1 Hamamatsu-cho, Minato-ku

Tokyo 105-6135, Japan

(Address of principal executive offices)

Yukio Uchimura

World Trade Center Building, 2-4-1 Hamamatsu-cho, Minato-ku

Tokyo 105-6135, Japan

Telephone: +81-3-3435-1273

Facsimile: +81-3-3435-1276

(Name, telephone, e-mail and/or facsimile number and address of company contact person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class

Name of each exchange on which registered

- (1) Common stock without par value (the "Shares") ... New York Stock Exchange\*
(2) American depository shares (the "ADSs"), each of which represents five shares ... New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

As of March 31, 2017, 1,324,107,328 Shares were outstanding, including Shares that were represented by 4,857,401 ADSs.

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

[X] Yes [ ] No

If this report is an annual or transition report, indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

[ ] Yes [X] No

Note—Checking the box above will not relieve any Registrant required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 from their obligations under those sections.

Indicate by check mark whether the Registrant:(1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

[X] Yes [ ] No

Indicate by check mark whether the Registrant submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).

[X] Yes [ ] No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See definition of "large accelerated filer", "accelerated filer", and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer [X] Accelerated filer [ ] Non-accelerated filer [ ] Emerging growth company [ ]

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]

† The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark which basis of accounting the Registrant has used to prepare the financial statements included in this filing.

[X] U.S. GAAP [ ] International Financial Reporting Standards as issued by the International Accounting Standards Board [ ] Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the Registrant has elected to follow.

[ ] Item 17 [ ] Item 18

If this is an annual report, indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

[ ] Yes [X] No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the Registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

[ ] Yes [ ] No

\* Not for trading, but only for technical purposes in connection with the registration of the ADSs.

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## EXPLANATORY NOTE

This Amendment No. 1 on Form 20-F/A (this “Amendment”) amends the Annual Report on Form 20-F for the year ended March 31, 2017 of ORIX KABUSHIKI KAISHA (the “Company”), as originally filed with the U.S. Securities and Exchange Commission on June 29, 2017 (the “Original Form 20-F”). The Company is filing this Amendment solely to:

- (i) file a corrected version of the Report of Independent Registered Public Accounting Firm of KPMG AZSA LLC dated June 29, 2017, relating to the audit of the Company’s consolidated financial statements as of March 31, 2016 and 2017 and for each of the years in three-year period ended March 31, 2017;
- (ii) resubmit the consolidated financial statements of the Company to which such corrected Report of Independent Registered Public Accounting Firm relates; and
- (iii) file a corrected version of the consent of independent registered public accounting firm.

The consolidated financial statements of the Company included in Item 18 of this Amendment have not been amended and are included in this Amendment solely in connection with the filing of the corrected Report of the Independent Registered Public Accounting Firm mentioned above.

This Amendment does not affect any other parts of, or exhibits to, the Original Form 20-F, and it does not reflect events occurring after the date of the Original Form 20-F. Accordingly, this Amendment should be read in conjunction with the Original Form 20-F and any documents filed with or furnished to the U.S. Securities and Exchange Commission by the Company subsequent to June 29, 2017.

## PART III

### Item 18. Financial Statements

See pages F-1 through F-136.

The following consolidated financial statements of ORIX listed below and the report thereon by its independent registered public accounting firm are filed as part of this Form 20-F:

- (a) Consolidated Balance Sheets as of March 31, 2016 and 2017 (page F-4 to F-5);
- (b) Consolidated Statements of Income for the years ended March 31, 2015, 2016 and 2017 (page F-6 to F-7);
- (c) Consolidated Statements of Comprehensive Income for the years ended March 31, 2015, 2016 and 2017 (page F-8);
- (d) Consolidated Statements of Changes in Equity for the years ended March 31, 2015, 2016 and 2017 (page F-9 to F-10);
- (e) Consolidated Statements of Cash Flows for the years ended March 31, 2015, 2016 and 2017 (page F-11);
- (f) Notes to Consolidated Financial Statements (page F-12 to F-135);
- (g) Schedule II.—Valuation and Qualifying Accounts and Reserves (page F-136).

## Item 19. Exhibits

We have filed the following documents as exhibits to this document.

<u>Exhibit Number</u>	<u>Description</u>
Exhibit 1.1*	Articles of Incorporation of ORIX Corporation, as amended on June 27, 2017.
Exhibit 1.2	Regulations of the Board of Directors of ORIX Corporation, as amended on June 1, 2015 (Incorporated by reference from the annual report on Form 20-F filed on June 25, 2015, commission file number 001-14856).
Exhibit 1.3	Share Handling Regulations of ORIX Corporation, as amended on October 7, 2013 (Incorporated by reference from the annual report on Form 20-F filed on June 26, 2014, commission file number 001-14856).
Exhibit 7.1*	A statement explaining in reasonable detail how ratios in the annual report were calculated.
Exhibit 8.1*	List of subsidiaries.
Exhibit 11.1	Code of Ethics, as amended on April 18, 2014 (Incorporated by reference from the annual report on Form 20-F filed on June 26, 2014, commission file number 001-14856).
Exhibit 12.1*	Certifications required by Rule 13a-14(a) (17 CFR 240.13a-14(a)) or Rule 15d-14(a) (17 CFR 240.15d 14(a)).
Exhibit 12.2	Certifications required by Rule 13a-14(a) (17 CFR 240.13a-14(a)) or Rule 15d-14(a) (17 CFR 240.15d 14(a)).
Exhibit 13.1*	Certifications required by Rule 13a-14(b) (17 CFR 240.13a-14(b)) or Rule 15d-14(b) (17 CFR 240.15d 14(b)) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350).
Exhibit 13.2	Certifications required by Rule 13a-14(b) (17 CFR 240.13a-14(b)) or Rule 15d-14(b) (17 CFR 240.15d 14(b)) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350).
Exhibit 15.1*	Consent of independent registered public accounting firm
Exhibit 15.2	Consent of independent registered public accounting firm
Exhibit 101*	Instance Document.
Exhibit 101*	Schema Document.
Exhibit 101*	Calculation Linkbase Document.
Exhibit 101*	Definition Linkbase Document.
Exhibit 101*	Labels Linkbase Document.
Exhibit 101*	Presentation Linkbase Document.

\* Filed with the Original Form 20-F and incorporated by reference therefrom

We have not included as exhibits certain instruments with relation to our long-term debt or the long-term debt of our subsidiaries. The total amount of securities of us or our subsidiaries authorized under any such instrument does not exceed 10% of our consolidated total assets. We hereby agree to furnish to the SEC, upon its request, a copy of any and all such instruments.



## INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of ORIX Corporation:

We have audited the accompanying consolidated balance sheets of ORIX Corporation (a Japanese corporation) and its subsidiaries as of March 31, 2016 and 2017, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the years in the three-year period ended March 31, 2017. In connection with our audits of the consolidated financial statements, we also have audited financial statement Schedule II. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ORIX Corporation and its subsidiaries as of March 31, 2016 and 2017, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2017, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 35 to the consolidated financial statements, the share repurchase based on the resolution at the Board of Directors meeting held on October 26, 2016 and February 16, 2017 was completed.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), ORIX Corporation's internal control over financial reporting as of March 31, 2017, based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated June 29, 2017 expressed an unqualified opinion on the effectiveness of ORIX Corporation's internal control over financial reporting.

KPMG AZSA LLC  
Tokyo, Japan  
June 29, 2017



## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of ORIX Corporation:

We have audited ORIX Corporation's (a Japanese corporation) internal control over financial reporting as of March 31, 2017, based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting, included in Item 15 "Controls and Procedures" of the accompanying Form 20-F. Our responsibility is to express an opinion on ORIX Corporation's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, ORIX Corporation maintained, in all material respects, effective internal control over financial reporting as of March 31, 2017, based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of ORIX Corporation and its subsidiaries as of March 31, 2016 and 2017, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the years in the three-year period ended March 31, 2017, and our report dated June 29, 2017 expressed an unqualified opinion on those consolidated financial statements.

KPMG AZSA LLC  
Tokyo, Japan  
June 29, 2017

**CONSOLIDATED BALANCE SHEETS  
AS OF MARCH 31, 2016 AND 2017**

**ORIX Corporation and Subsidiaries**

	Millions of yen	
	2016	2017
<b>ASSETS</b>		
Cash and Cash Equivalents .....	¥ 730,420	¥ 1,039,870
Restricted Cash .....	80,979	93,342
Investment in Direct Financing Leases .....	1,190,136	1,204,024
Installment Loans .....	2,592,233	2,815,706
The amounts which are measured at fair value by electing the fair value option are as follows:		
March 31, 2016 .....	¥20,673 million	
March 31, 2017 .....	¥19,232 million	
Allowance for Doubtful Receivables on Direct Financing Leases and Probable Loan Losses .....	(60,071)	(59,227)
Investment in Operating Leases .....	1,349,199	1,313,164
Investment in Securities .....	2,344,792	2,026,512
The amounts which are measured at fair value by electing the fair value option are as follows:		
March 31, 2016 .....	¥27,367 million	
March 31, 2017 .....	¥24,894 million	
Property under Facility Operations .....	327,016	398,936
Investment in Affiliates .....	530,667	524,234
Trade Notes, Accounts and Other Receivable .....	294,638	283,427
Inventories .....	139,950	117,863
Office Facilities .....	120,173	110,781
Other Assets .....	1,352,786	1,363,263
The amounts which are measured at fair value by electing the fair value option are as follows:		
March 31, 2016 .....	¥37,855 million	
March 31, 2017 .....	¥22,116 million	
Total Assets .....	¥10,992,918	¥11,231,895

- Notes 1: Prior-year amounts have been adjusted for the retrospective application of Accounting Standards Update 2015-03 (“Simplifying the Presentation of Debt Issuance Costs”—ASC 835-30 (“Interest—Imputation of Interest”)) on April 1, 2016.
- 2: The assets of consolidated variable interest entities (VIEs) that can be used only to settle obligations of those VIEs are below:

	Millions of yen	
	2016	2017
Cash and Cash Equivalents .....	¥ 4,697	¥ 5,674
Investment in Direct Financing Leases (Net of Allowance for Doubtful Receivables on Direct Financing Leases and Probable Loan Losses) .....	134,604	90,822
Installment Loans (Net of Allowance for Doubtful Receivables on Direct Financing Leases and Probable Loan Losses) .....	195,702	186,818
Investment in Operating Leases .....	227,340	151,686
Property under Facility Operations .....	79,697	109,656
Investment in Affiliates .....	65,059	53,046
Other .....	93,410	105,591
	¥800,509	¥703,293

**CONSOLIDATED BALANCE SHEETS—(Continued)**  
**AS OF MARCH 31, 2016 AND 2017**

**ORIX Corporation and Subsidiaries**

		Millions of yen	
		2016	2017
<b>LIABILITIES AND EQUITY</b>			
Liabilities:			
Short-term Debt		¥ 349,624	¥ 283,467
Deposits		1,398,472	1,614,608
Trade Notes, Accounts and Other Payable		266,216	251,800
Policy Liabilities and Policy Account Balances		1,668,636	1,564,758
The amounts which are measured at fair value by electing the fair value option are as follows:			
March 31, 2016	¥795,001 million		
March 31, 2017	¥605,520 million		
Income Taxes:			
Current		17,398	93,884
Deferred		341,360	351,828
Long-term Debt		3,936,918	3,854,984
Other Liabilities		534,008	562,393
Total Liabilities		8,512,632	8,577,722
Redeemable Noncontrolling Interests		7,467	6,548
Commitments and Contingent Liabilities			
Equity:			
Common stock:		220,469	220,524
Authorized:	2,590,000,000 shares		
Issued:			
March 31, 2016	1,324,058,828 shares		
March 31, 2017	1,324,107,328 shares		
Additional Paid-in Capital		257,629	268,138
Retained Earnings		1,864,241	2,077,474
Accumulated Other Comprehensive Income (Loss)		(6,222)	(21,270)
Treasury Stock, at Cost:		(25,686)	(37,168)
March 31, 2016	14,544,808 shares		
March 31, 2017	21,520,267 shares		
ORIX Corporation Shareholders' Equity		2,310,431	2,507,698
Noncontrolling Interests		162,388	139,927
Total Equity		2,472,819	2,647,625
Total Liabilities and Equity		¥10,992,918	¥11,231,895

- Notes 1: The Company's shares held through the Board Incentive Plan Trust (1,696,217 shares as of March 31, 2016 and 2,126,076 shares as of March 31, 2017) are included in the number of treasury stock shares as of March 31, 2016 and 2017.
- 2: Prior-year amounts have been adjusted for the retrospective application of Accounting Standards Update 2015-03 ("Simplifying the Presentation of Debt Issuance Costs"—ASC 835-30 ("Interest—Imputation of Interest")) on April 1, 2016.
- 3: The liabilities of consolidated VIEs for which creditors (or beneficial interest holders) do not have recourse to the general credit of the Company and its subsidiaries are below:

		Millions of yen	
		2016	2017
Trade Notes, Accounts and Other Payable		¥ 1,576	¥ 2,998
Long-Term Debt		479,152	438,473
Other		11,778	10,391
		¥492,506	¥451,862

The accompanying notes to consolidated financial statements are an integral part of these statements.

**CONSOLIDATED STATEMENTS OF INCOME  
FOR THE YEARS ENDED MARCH 31, 2015, 2016 AND 2017**

**ORIX Corporation and Subsidiaries**

	Millions of yen		
	2015	2016	2017
Revenues:			
Finance revenues . . . . .	¥ 186,883	¥ 200,889	¥ 200,584
Gains on investment securities and dividends . . . . .	56,395	35,786	30,328
Operating leases . . . . .	363,095	373,910	398,655
Life insurance premiums and related investment income . . . . .	351,493	189,421	295,940
Sales of goods and real estate . . . . .	450,869	834,010	1,015,249
Services income . . . . .	765,548	735,186	737,903
Total revenues . . . . .	<u>2,174,283</u>	<u>2,369,202</u>	<u>2,678,659</u>
Expenses:			
Interest expense . . . . .	72,647	72,821	72,910
Costs of operating leases . . . . .	238,157	245,069	243,537
Life insurance costs . . . . .	271,948	121,282	200,158
Costs of goods and real estate sold . . . . .	402,021	748,259	928,794
Services expense . . . . .	425,676	445,387	451,277
Other (income) and expense, net . . . . .	23,674	(3,729)	(4,396)
Selling, general and administrative expenses . . . . .	427,816	422,692	418,746
Provision for doubtful receivables and probable loan losses . . . . .	11,631	11,717	22,667
Write-downs of long-lived assets . . . . .	34,887	13,448	9,134
Write-downs of securities . . . . .	8,997	4,515	6,608
Total expenses . . . . .	<u>1,917,454</u>	<u>2,081,461</u>	<u>2,349,435</u>
Operating Income . . . . .	256,829	287,741	329,224
Equity in Net Income of Affiliates . . . . .	30,531	45,694	26,520
Gains on Sales of Subsidiaries and Affiliates and Liquidation Losses, net . . . . .	20,575	57,867	63,419
Bargain Purchase Gain . . . . .	36,082	0	5,802
Income before Income Taxes and Discontinued Operations . . . . .	344,017	391,302	424,965
Provision for Income Taxes . . . . .	89,057	120,312	144,039
Income from Continuing Operations . . . . .	<u>254,960</u>	<u>270,990</u>	<u>280,926</u>
Discontinued Operations:			
Income from discontinued operations, net . . . . .	463	0	0
Provision for income taxes . . . . .	(166)	(0)	(0)
Discontinued operations, net of applicable tax effect . . . . .	297	0	0
Net Income . . . . .	<u>255,257</u>	<u>270,990</u>	<u>280,926</u>
Net Income Attributable to the Noncontrolling Interests . . . . .	15,339	10,002	7,255
Net Income Attributable to the Redeemable Noncontrolling Interests . . . . .	4,970	819	432
Net Income Attributable to ORIX Corporation Shareholders . . . . .	<u>¥ 234,948</u>	<u>¥ 260,169</u>	<u>¥ 273,239</u>

Note 1: Pursuant to FASB ASC 205-20 (“Presentation of Financial Statements—Discontinued Operations”), the results of operations which meet the criteria for discontinued operations are reported as a separate component of income, and those related amounts that had been previously reported are reclassified.

**CONSOLIDATED STATEMENTS OF INCOME—(Continued)**  
**FOR THE YEARS ENDED MARCH 31, 2015, 2016 AND 2017**

**ORIX Corporation and Subsidiaries**

- 2: Pursuant to Accounting Standards Update 2014-08 (“Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity”—ASC 205 (“Presentation of Financial Statements”) and ASC 360 (“Property, Plant, and Equipment”)) which was early adopted on April 1, 2014, the results of operations for fiscal 2015 reflected the adoption of this Update. This Update does not apply to a component or a group of components which was disposed of or classified as held for sale before the adoption date. Therefore, in accordance with previous ASC 205-20, the results of these operation of subsidiaries and businesses, which were classified as held for sale in fiscal 2014 are reported as discontinued operations for fiscal 2015.

	Millions of yen		
	2015	2016	2017
Income Attributable to ORIX Corporation Shareholders:			
Income from Continuing Operations . . . . .	¥234,651	¥260,169	¥273,239
Discontinued Operations . . . . .	297	0	0
Net income Attributable to ORIX Corporation Shareholders . . . . .	¥234,948	¥260,169	¥273,239
	Yen		
	2015	2016	2017
Amounts per Share of Common Stock for Income attributable to ORIX Corporation shareholders:			
Basic:			
Income from continuing operations . . . . .	¥179.24	¥198.73	¥208.88
Discontinued operations . . . . .	0.23	0.00	0.00
Net income attributable to ORIX Corporation shareholders . . . . .	¥179.47	¥198.73	¥208.88
Diluted:			
Income from continuing operations . . . . .	¥178.99	¥198.52	¥208.68
Discontinued operations . . . . .	0.22	0.00	0.00
Net income attributable to ORIX Corporation shareholders . . . . .	¥179.21	¥198.52	¥208.68
Cash Dividends . . . . .	23.00	58.00	46.75

The accompanying notes to consolidated financial statements are an integral part of these statements.

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE YEARS ENDED MARCH 31, 2015, 2016 AND 2017**

**ORIX Corporation and Subsidiaries**

	Millions of yen		
	<u>2015</u>	<u>2016</u>	<u>2017</u>
Net Income .....	¥255,257	¥270,990	¥280,926
Other comprehensive income (loss), net of tax:			
Net change of unrealized gains (losses) on investment in securities .....	9,867	(3,121)	(14,926)
Net change of defined benefit pension plans .....	(14,952)	(4,123)	7,670
Net change of foreign currency translation adjustments .....	37,155	(26,957)	(5,968)
Net change of unrealized gains (losses) on derivative instruments .....	(561)	(4,063)	326
Total other comprehensive income (loss) .....	<u>31,509</u>	<u>(38,264)</u>	<u>(12,898)</u>
Comprehensive Income .....	<u>286,766</u>	<u>232,726</u>	<u>268,028</u>
Comprehensive Income Attributable to the Noncontrolling Interests .....	<u>7,314</u>	<u>7,414</u>	<u>4,276</u>
Comprehensive Income Attributable to the Redeemable Noncontrolling Interests .....	<u>14,265</u>	<u>1,738</u>	<u>374</u>
Comprehensive Income Attributable to ORIX Corporation Shareholders . . . .	<u>¥265,187</u>	<u>¥223,574</u>	<u>¥263,378</u>

The accompanying notes to consolidated financial statements are an integral part of these statements.

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEARS ENDED MARCH 31, 2015, 2016 AND 2017**

**ORIX Corporation and Subsidiaries**

Millions of yen

	ORIX Corporation Shareholders' Equity					Total ORIX Corporation Shareholders' Equity	Noncontrolling Interests	Total Equity
	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock			
<b>Balance at March 31, 2014</b>	¥219,546	¥255,449	¥1,468,172	¥ 38	¥(23,859)	¥1,919,346	¥177,019	¥2,096,365
Contribution to subsidiaries						0	26,447	26,447
Transaction with noncontrolling interests		(505)		96		(409)	(40,735)	(41,144)
Comprehensive income, net of tax:								
Net income			234,948			234,948	15,339	250,287
Other comprehensive income (loss)								
Net change of unrealized gains (losses) on investment in securities				11,679		11,679	(1,812)	9,867
Net change of defined benefit pension plans				(13,218)		(13,218)	(1,734)	(14,952)
Net change of foreign currency translation adjustments				32,284		32,284	(4,424)	27,860
Net change of unrealized losses on derivative instruments				(506)		(506)	(55)	(561)
Total other comprehensive income (loss)						30,239	(8,025)	22,214
Total comprehensive income						265,187	7,314	272,501
Cash dividends			(30,117)			(30,117)	(4,172)	(34,289)
Exercise of stock options	510	504				1,014	0	1,014
Acquisition of treasury stock					(3,423)	(3,423)	0	(3,423)
Disposal of treasury stock		(697)	(174)		871	0	0	0
Adjustment of redeemable noncontrolling interests to redemption value			(220)			(220)	0	(220)
Other, net		844	(24)			820	0	820
<b>Balance at March 31, 2015</b>	¥220,056	¥255,595	¥1,672,585	¥ 30,373	¥(26,411)	¥2,152,198	¥165,873	¥2,318,071
Contribution to subsidiaries						0	6,801	6,801
Transaction with noncontrolling interests		1,918				1,918	(10,519)	(8,601)
Comprehensive income, net of tax:								
Net income			260,169			260,169	10,002	270,171
Other comprehensive income (loss)								
Net change of unrealized gains (losses) on investment in securities				(3,145)		(3,145)	24	(3,121)
Net change of defined benefit pension plans				(4,436)		(4,436)	313	(4,123)
Net change of foreign currency translation adjustments				(25,197)		(25,197)	(2,679)	(27,876)
Net change of unrealized losses on derivative instruments				(3,817)		(3,817)	(246)	(4,063)
Total other comprehensive income (loss)						(36,595)	(2,588)	(39,183)
Total comprehensive income						223,574	7,414	230,988
Cash dividends			(76,034)			(76,034)	(7,181)	(83,215)
Exercise of stock options	413	409				822	0	822
Acquisition of treasury stock					(2)	(2)	0	(2)
Disposal of treasury stock		(426)	(53)		727	248	0	248
Adjustment of redeemable noncontrolling interests to redemption value			7,557			7,557	0	7,557
Other, net		133	17			150	0	150
<b>Balance at March 31, 2016</b>	¥220,469	¥257,629	¥1,864,241	¥ (6,222)	¥(25,686)	¥2,310,431	¥162,388	¥2,472,819

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY—(Continued)**  
**FOR THE YEARS ENDED MARCH 31, 2015, 2016 AND 2017**

**ORIX Corporation and Subsidiaries**

Millions of yen

	ORIX Corporation Shareholders' Equity					Total ORIX Corporation Shareholders' Equity	Noncontrolling Interests	Total Equity
	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock			
<b>Balance at March 31, 2016</b> .....	¥220,469	¥257,629	¥1,864,241	¥ (6,222)	¥(25,686)	¥2,310,431	¥162,388	¥2,472,819
Contribution to subsidiaries .....						0	20,811	20,811
Transaction with noncontrolling interests .....		10,516		(5,187)		5,329	(42,421)	(37,092)
Comprehensive income, net of tax:								
Net income .....			273,239			273,239	7,255	280,494
Other comprehensive income (loss)								
Net change of unrealized losses on investment in securities .....				(14,918)		(14,918)	(8)	(14,926)
Net change of defined benefit pension plans .....				7,508		7,508	162	7,670
Net change of foreign currency translation adjustments .....				(2,725)		(2,725)	(3,185)	(5,910)
Net change of unrealized gains on derivative instruments .....				274		274	52	326
Total other comprehensive income (loss) .....						(9,861)	(2,979)	(12,840)
Total comprehensive income .....						263,378	4,276	267,654
Cash dividends .....			(61,299)			(61,299)	(5,127)	(66,426)
Exercise of stock options .....	55	26				81	0	81
Acquisition of treasury stock .....					(12,128)	(12,128)	0	(12,128)
Disposal of treasury stock .....		(409)			646	237	0	237
Adjustment of redeemable noncontrolling interests to redemption value .....			1,293			1,293	0	1,293
Other, net .....		376				376	0	376
<b>Balance at March 31, 2017</b> .....	<u>¥220,524</u>	<u>¥268,138</u>	<u>¥2,077,474</u>	<u>¥(21,270)</u>	<u>¥(37,168)</u>	<u>¥2,507,698</u>	<u>¥139,927</u>	<u>¥2,647,625</u>

Note: Changes in the redeemable noncontrolling interests are not included in this table. For further information, see Note 18 "Redeemable Noncontrolling Interests."

The accompanying notes to consolidated financial statements are an integral part of these statements.



**CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED MARCH 31, 2015, 2016 AND 2017**

**ORIX Corporation and Subsidiaries**

	Millions of yen		
	2015	2016	2017
<b>Cash Flows from Operating Activities:</b>			
Net income	¥ 255,257	¥ 270,990	¥ 280,926
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	229,583	244,853	253,677
Provision for doubtful receivables and probable loan losses	11,631	11,717	22,667
Equity in net income of affiliates (excluding interest on loans)	(30,267)	(44,333)	(24,549)
Gains on sales of subsidiaries and affiliates and liquidation losses, net	(20,575)	(57,867)	(63,419)
Bargain purchase gain	(36,082)	0	(5,802)
Gains on sales of available-for-sale securities	(32,077)	(32,126)	(30,701)
Gains on sales of operating lease assets	(34,425)	(38,340)	(69,265)
Write-downs of long-lived assets	34,887	13,448	9,134
Write-downs of securities	8,997	4,515	6,608
Decrease (Increase) in restricted cash	(1,922)	9,009	155
Decrease in trading securities	441,554	461,298	159,809
Decrease (Increase) in inventories	(13,481)	20,935	(5,318)
Decrease (Increase) in trade notes, accounts and other receivable	(20,742)	(8,224)	8,362
Increase (Decrease) in trade notes, accounts and other payable	34,275	(41,004)	(6,660)
Decrease in policy liabilities and policy account balances	(506,043)	(405,014)	(103,878)
Deferred tax provision	41,338	42,528	25,318
Income taxes payable, net	(39,264)	47,065	67,904
Other, net	(65,033)	11,112	58,987
Net cash provided by operating activities	<u>257,611</u>	<u>510,562</u>	<u>583,955</u>
<b>Cash Flows from Investing Activities:</b>			
Purchases of lease equipment	(907,484)	(991,154)	(894,300)
Principal payments received under direct financing leases	488,522	515,053	483,627
Installment loans made to customers	(1,109,458)	(1,101,807)	(1,309,056)
Principal collected on installment loans	977,272	948,057	1,063,339
Proceeds from sales of operating lease assets	272,040	239,911	321,328
Investment in affiliates, net	(27,698)	(70,569)	(51,529)
Proceeds from sales of investment in affiliates	2,128	20,991	97,453
Purchases of available-for-sale securities	(982,415)	(864,874)	(466,314)
Proceeds from sales of available-for-sale securities	511,868	464,232	549,865
Proceeds from redemption of available-for-sale securities	398,280	381,099	105,255
Purchases of held-to-maturity securities	(20,522)	(538)	(306)
Purchases of other securities	(27,489)	(32,818)	(22,737)
Proceeds from sales of other securities	67,982	48,594	31,829
Purchases of property under facility operations	(81,311)	(91,492)	(95,601)
Acquisitions of subsidiaries, net of cash acquired	(73,240)	(47,324)	(79,405)
Sales of subsidiaries, net of cash disposed	47,800	39,437	55,530
Other, net	(4,076)	(9,327)	(26,586)
Net cash used in investing activities	<u>(467,801)</u>	<u>(552,529)</u>	<u>(237,608)</u>
<b>Cash Flows from Financing Activities:</b>			
Net increase (decrease) in debt with maturities of three months or less	3,819	(4,707)	793
Proceeds from debt with maturities longer than three months	1,337,870	1,376,125	1,319,523
Repayment of debt with maturities longer than three months	(1,178,401)	(1,470,325)	(1,456,366)
Net increase in deposits due to customers	80,924	111,220	216,118
Cash dividends paid to ORIX Corporation shareholders	(30,117)	(76,034)	(61,299)
Contribution from noncontrolling interests	7,919	6,117	5,599
Purchases of shares of subsidiaries from noncontrolling interests	(206)	(4,764)	(25,840)
Cash dividends paid to redeemable noncontrolling interests	(3,030)	(11,272)	0
Net increase (decrease) in call money	6,000	36,500	(14,500)
Other, net	(11,346)	(10,861)	(17,487)
Net cash provided by (used in) financing activities	<u>213,432</u>	<u>(48,001)</u>	<u>(33,459)</u>
Effect of Exchange Rate Changes on Cash and Cash Equivalents	6,237	(7,130)	(3,438)
Net increase (decrease) in Cash and Cash Equivalents	<u>9,479</u>	<u>(97,098)</u>	<u>309,450</u>
Cash and Cash Equivalents at Beginning of Year	<u>818,039</u>	<u>827,518</u>	<u>730,420</u>
Cash and Cash Equivalents at End of Year	<u>¥ 827,518</u>	<u>¥ 730,420</u>	<u>¥ 1,039,870</u>

The accompanying notes to consolidated financial statements are an integral part of these statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### ORIX Corporation and Subsidiaries

#### 1. Significant Accounting and Reporting Policies

In preparing the accompanying consolidated financial statements, ORIX Corporation (the “Company”) and its subsidiaries have complied with accounting principles generally accepted in the United States of America (“U.S. GAAP”), except for the accounting for stock splits. Significant accounting and reporting policies are summarized as follows:

##### (a) Basis of presenting financial statements

The Company and its subsidiaries in Japan maintain their books in conformity with Japanese accounting practices, which differ in certain respects from U.S. GAAP.

The accompanying consolidated financial statements have been prepared in conformity with U.S. GAAP and, therefore, reflect certain adjustments to the books and records of the Company and its subsidiaries. The principal adjustments relate to initial direct costs to originate leases and loans, use of a straight-line basis of depreciation for operating lease assets, deferral of life insurance policy acquisition costs, calculation of insurance policy liabilities, accounting for goodwill and other intangible assets in business combinations, accounting for contingent consideration in business combinations, accounting for pension plans, accounting for sales of the parent’s ownership interest in subsidiaries, accounting for securitization of financial assets, reflection of the income tax effect on such adjustments and reclassification of discontinued operations.

##### (b) Principles of consolidation

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

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

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

##### (c) Use of estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Company has identified ten areas where it believes assumptions and estimates are particularly critical to the financial statements. The Company makes estimates and assumptions to the selection of valuation techniques and determination of assumptions used in fair value measurements, the determination and periodic reassessment of the unguaranteed residual value for direct financing leases and operating leases, the determination and reassessment of insurance policy liabilities and deferred policy acquisition costs, the determination of the allowance for doubtful receivables on direct financing leases and probable loan losses, the recognition and measurement of impairment of long-lived assets, the recognition and measurement of impairment of investment in securities, the determination of the valuation

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

allowance for deferred tax assets and the evaluation of tax positions, the assessment and measurement of effectiveness in hedging relationship using derivative financial instruments, the determination of benefit obligation and net periodic pension cost and the recognition and measurement of impairment of goodwill and intangible assets that have indefinite useful lives.

#### **(d) Foreign currencies translation**

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

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

#### **(e) Revenue recognition**

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

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

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

##### **(1) Revenues from direct financing leases**

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

##### **(2) Revenues from installment loans**

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

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

#### **(3) Non-accrual policy**

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

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

***Operating leases***—Revenues from operating leases are recognized on a straight-line basis over the contract terms. Investment in operating leases is recorded at cost less accumulated depreciation and is depreciated over their estimated useful lives mainly on a straight-line basis. The estimated average useful lives of principal operating lease assets classified as transportation equipment is 9 years, measuring and information-related equipment is 4 years, real estate (other than land) is 29 years and other is 5 years. Depreciation expenses are included in costs of operating leases. Gains or losses arising from dispositions of operating lease assets are included in operating lease revenues.

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

#### ***Sales of goods and real estate***—

##### **(1) Sales of goods**

The Company and its subsidiaries sell to their customers various types of goods, including precious metals and jewels, and aftermarket parts and accessories for vehicles. Revenues from such sales of goods are recognized when persuasive evidence of an arrangement exists, delivery has occurred, and collectability is reasonably

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

assured. Delivery is considered to have occurred when the customer has taken title to the goods and assumed the risks and rewards of ownership. Revenues are recognized net of estimated sales returns and incentives.

#### **(2) Real estate sales**

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

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

#### **(1) Revenues from asset management and servicing**

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

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

#### **(2) Revenues from automobile maintenance services**

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

#### **(f) Insurance and reinsurance transactions**

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

Life insurance benefits are recorded as expenses when they are incurred. Policy liabilities and policy account balances for future policy benefits are measured using the net level premium method, based on actuarial estimates of the amount of future policyholder benefits. The policies are characterized as long-duration policies

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

and mainly consist of whole life, term life, endowments, medical insurance and individual annuity insurance contracts. For policies other than individual annuity insurance contracts, computation of policy liabilities necessarily includes assumptions about mortality, morbidity, lapse rates, future yields on related investments and other factors applicable at the time the policies are written. A certain subsidiary continually evaluates the potential for changes in the estimates and assumptions applied in determining policy liabilities, both positive and negative and uses the results of these evaluations both to adjust recorded liabilities and to adjust underwriting criteria and product offerings.

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

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

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

Certain costs related directly to the successful acquisition of new or renewal insurance contracts, or deferred policy acquisition costs are deferred and amortized over the respective policy periods in proportion to anticipated premium revenue. These deferred policy acquisition costs consist primarily of first-year commissions, except for recurring policy maintenance costs and certain variable costs and expenses for underwriting policies.

#### **(g) Allowance for doubtful receivables on direct financing leases and probable loan losses**

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

Developing the allowance for doubtful receivables on direct financing leases and probable loan losses is subject to numerous estimates and judgments. In evaluating the appropriateness of the allowance, management considers various factors, including the business characteristics and financial conditions of the obligors, current economic conditions and trends, prior charge-off experience, current delinquencies and delinquency trends, future cash flows expected to be received from the direct financing leases and loans and value of underlying collateral and guarantees. Impaired loans are individually evaluated for a valuation allowance based on the



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

present value of expected future cash flows, the loan's observable market price or the fair value of the collateral securing the loans if the loans are collateral-dependent. For non-impaired loans, including loans that are not individually evaluated for impairment, and direct financing leases, the Company and its subsidiaries evaluate prior charge-off experience segmented by the debtors' industries and the purpose of the loans, and then develop the allowance for doubtful receivables on direct financing leases and probable loan losses considering the prior charge-off experience and primarily current economic conditions.

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

#### **(h) Impairment of long-lived assets**

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

#### **(i) Investment in securities**

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

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

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

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

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

For debt securities, where the fair value is less than the amortized cost, the Company and its subsidiaries consider whether those securities are other-than-temporarily impaired using all available information about their

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

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

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

#### **(j) Income taxes**

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

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

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

#### **(k) Securitized assets**

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



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

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

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

#### (I) Derivative financial instruments

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

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

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

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

The ineffective portion of changes in fair value of derivatives that qualify as a hedge are recorded in earnings.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

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

#### **(m) Pension plans**

The Company and certain subsidiaries have contributory and non-contributory pension plans covering substantially all of their employees. The costs of pension plans are accrued based on amounts determined using actuarial methods, with assumptions of discount rate, rate of increase in compensation level, expected long-term rate of return on plan assets and others.

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

#### **(n) Stock-based compensation**

The Company and its subsidiaries measure stock-based compensation expense as consideration for services provided by employees based on the fair value of the grant date. The costs are recognized over the requisite service period.

#### **(o) Stock splits**

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

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

In the United States, stock splits in comparable circumstances are considered to be stock dividends and are accounted for by transferring from retained earnings to common stock and additional paid-in capital amounts equal to the fair market value of the shares issued. Common stock is increased by the par value of the shares and additional paid-in capital is increased by the excess of the market value over par value of the shares issued. Had such stock splits made prior to October 1, 2001 been accounted for in this manner, additional paid-in capital as of March 31, 2017 would have increased by approximately ¥24,674 million, with a corresponding decrease in retained earnings. Total ORIX Corporation shareholders' equity would remain unchanged. Stock splits on May 19, 2000 were excluded from the above amounts because the stock splits were not considered to be stock dividends under U.S. GAAP.

#### **(p) Cash and cash equivalents**

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

#### **(q) Restricted cash**

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

#### **(r) Property under facility operations**

Property under facility operations consist primarily of operating facilities (including golf courses, hotels and training facilities and senior housings) and environmental assets (including mega solar), which are stated at cost less accumulated depreciation, and depreciation is calculated mainly on a straight-line basis over the estimated useful lives of the assets. Depreciation expenses in fiscal 2015, 2016 and 2017 were ¥13,239 million, ¥16,321 million and ¥20,976 million, respectively. Accumulated depreciation was ¥67,055 million and ¥85,255 million as of March 31, 2016 and 2017, respectively. Estimated useful lives range up to 50 years for buildings, up to 60 years for land improvement and up to 30 years for others.

#### **(s) Trade notes, accounts and other receivable**

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

#### **(t) Inventories**

Inventories consist primarily of residential condominiums under development, completed residential condominiums (including those waiting to be delivered to buyers under the contract for sale), and merchandise for sale. Residential condominiums under development are carried at cost less any impairment losses, and completed residential condominiums and merchandises for sale are stated at the lower of cost or fair value less cost to sell. The cost of inventories that are unique and not interchangeable is determined on the specific identification method and the cost of other inventories is principally determined on the average cost method. As of March 31, 2016 and 2017, residential condominiums under development were ¥81,859 million and ¥60,920 million, respectively, and completed residential condominiums and merchandises for sale were ¥58,091 million and ¥56,943 million, respectively.

The Company and its subsidiaries recorded ¥5,241 million of write-downs principally on residential condominiums under development for fiscal 2015, resulting from an increase in development costs. These write-downs were principally recorded in cost of goods and real estate sold and included in the Real Estate segment. The Company and its subsidiaries recorded ¥168 million and ¥916 million of write-downs principally on completed residential condominiums and merchandise for sale for fiscal 2016 and 2017, respectively, primarily resulting from a decrease in expected sales price. These write-downs were principally recorded in costs of goods and real estate sold and included in the Investment and Operation segment.

#### **(u) Office facilities**

Office facilities are stated at cost less accumulated depreciation. Depreciation is calculated on a declining-balance basis or straight-line basis over the estimated useful lives of the assets. Depreciation expenses in fiscal 2015, 2016 and 2017 were ¥4,711 million, ¥5,110 million and ¥5,380 million, respectively. Accumulated depreciation was ¥45,310 million and ¥47,534 million as of March 31, 2016 and 2017, respectively. Estimated useful lives range up to 65 years for buildings and fixtures and up to 20 years for machinery and equipment.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

#### (v) Other assets

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

#### (w) Goodwill and other intangible assets

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

The Company and its subsidiaries perform an impairment test for goodwill and any intangible assets that have indefinite useful lives at least annually. Additionally, if events or changes in circumstances indicate that the asset might be impaired, the Company and its subsidiaries test for impairment when such events or changes occur.

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

The Company and its subsidiaries have the option to perform a qualitative assessment to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired. The Company and its subsidiaries perform the qualitative assessment for some indefinite-lived intangible assets but bypass the qualitative assessment and perform the quantitative assessment for other indefinite-lived intangible assets. For those indefinite-lived assets for which the qualitative assessment is performed, if, after assessing the totality of events and circumstances, the Company and/or subsidiaries conclude that it is not more likely than not that the

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

indefinite-lived asset is impaired, then the Company and/or subsidiaries do not perform the quantitative impairment test. However, if the Company and/or subsidiaries conclude otherwise or determine to bypass the qualitative assessment, the Company and/or subsidiaries calculate the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test. If the carrying amount of the indefinite-lived intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess.

Intangible assets with finite lives are amortized over their useful lives and tested for impairment. The Company and its subsidiaries perform a recoverability test for the intangible assets whenever events or changes in circumstances indicate that the assets might be impaired. The intangible assets are considered not recoverable when the undiscounted future cash flows estimated to be generated by those assets are less than the carrying amount of those assets, and the net carrying amount of assets not recoverable is reduced to fair value if lower than the carrying amount.

#### **(x) Trade notes, accounts and other payable**

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

#### **(y) Other Liabilities**

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

#### **(z) Capitalization of interest costs**

The Company and its subsidiaries capitalized interest costs of ¥1,369 million, ¥1,639 million and ¥1,066 million in fiscal 2015, 2016 and 2017, respectively, related to specific long-term development projects.

#### **(aa) Advertising**

The costs of advertising are expensed as incurred. The total amounts charged to advertising expense in fiscal 2015, 2016 and 2017 were ¥20,329 million, ¥21,276 million and ¥25,309 million, respectively.

#### **(ab) Discontinued operations**

In April 2014, Accounting Standards Update 2014-08 (“Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity”—ASC 205 (“Presentation of Financial Statements”) and ASC 360 (“Property, Plant, and Equipment”)) was issued. This Update requires an entity to report a disposal or a classification as held for sale of a component of an entity or a group of components of an entity in discontinued operations if it represents a strategic shift that has (or will have) a major effect on an entity’s operations and financial results. The Company and its subsidiaries early adopted this Update on April 1, 2014. The Company and its subsidiaries report a disposal of a component or a group of components of the Company and its subsidiaries in discontinued operations if the disposal represents a strategic shift which has (or will have) a major effect on the Company and its subsidiaries’ operations and financial results when the component or group of components is disposed by sale or classified as held for sale on or after April 1, 2014.

Accounting Standards Update 2014-08 does not apply retrospectively to a disposal or a classification as held for sale of a component or a group of components of the Company and its subsidiaries which have previously

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

been reported in the financial statements. Accordingly, during fiscal 2015, the Company and its subsidiaries continue to report gains on sales and the results of operations of subsidiaries and business units, which were classified as held for sale at March 31 2014, as income from discontinued operations in the accompanying consolidated statements of income.

#### **(ac) Earnings per share**

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

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

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

#### **(ae) Redeemable noncontrolling interests**

Noncontrolling interests in a certain subsidiary are redeemable preferred shares which are subject to call and put rights upon certain shareholder events. As redemption of the noncontrolling interest is not solely in the control of the subsidiary, it is recorded between liabilities and equity on the consolidated balance sheets at its estimated redemption value.

#### **(af) Issuance of stock by an affiliate**

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

#### **(ag) New accounting pronouncements**

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

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



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

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

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

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

These Updates are effective for fiscal years, and interim periods within those fiscal years beginning after December 15, 2017. Early adoption is permitted only for the fiscal year beginning after December 15, 2016, and interim periods within the fiscal year. An entity should apply the amendments in these Updates using either a retrospective method or a cumulative-effect method. The entity may elect some optional practical expedients when applying these Updates. The entity using the cumulative-effect method would recognize the cumulative effect of initially applying these Updates as an adjustment to the opening balance of retained earnings or net assets at the date of initial application. Currently, the Company and its subsidiaries plan to adopt these Updates on April 1, 2018, using the cumulative-effect method. And these Updates require a number of new disclosures to enable users of the financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The scope of these Updates excludes lease contracts, financial instruments and other contractual rights and obligations within the scope of other ASC Topics including loans, investments in securities and derivatives and also excludes contracts within the scope of ASC Topic 944 (“Financial Services—Insurance”). Therefore, the Company and its subsidiaries’ such revenues will not be affected by these Updates. However, the Company and its subsidiaries have been in process of evaluating the impact of these Updates on our consolidated financial statements around other revenue streams. Based on the Company and its subsidiaries’ initial assessment and best estimates to date, the impact of the application of these Updates will likely result in a change in the timing of revenue recognition and accounting policy for performance fees received from customers regarding asset management business. Currently, certain subsidiaries recognize such fees when earned based on the performance of the asset under management, while other subsidiaries recognize the fees on accrual basis over the period in which services are performed. New guidance requires recognizing such fees as revenue to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Other than the impact that have been currently identified, the Company and its subsidiaries continue to evaluate the effect that the adoption of these Updates will have on the Company and its subsidiaries’ results of operations or financial position, as well as changes in disclosures required by these Updates.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

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

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

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

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

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

In February 2015, Accounting Standards Update 2015-02 (“Amendments to the Consolidation Analysis”—ASC 810 (“Consolidation”)) was issued. This Update requires an entity to change the way to evaluate whether reporting entities should consolidate limited partnerships and similar legal entities, fees paid to a decision maker or service provider are variable interest in a VIE, and variable interests in a VIE held by related parties of the reporting entity require the reporting entity to consolidate the VIE. Additionally, the amendments in this Update rescind the indefinite deferral of FASB Statement No.167 (“Amendments to FASB Interpretation No.46(R)”), included in Accounting Standards Update 2010-10 (ASC 810 (“Consolidation”)) for certain investment



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

companies and similar entities. The Company and its subsidiaries adopted this Update on April 1, 2016. The adoption had no effect on the Company and its subsidiaries' results of operations or financial position. See Note 11 "Variable Interest Entities" where the required disclosure has been provided.

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

In July 2015, Accounting Standards Update 2015-11 ("Simplifying the Measurement of Inventory"—ASC 330 ("Inventory")) was issued. This Update applies to all inventory except for which is measured using last-in, first-out (LIFO) or the retail inventory method, and requires an entity to measure inventory at the lower of cost and net realizable value. Additionally, this Update defines net realizable value as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. This Update is effective for fiscal years, and interim periods within those fiscal years beginning after December 15, 2016. The amendments in this Update should be applied on a prospective basis. Early adoption is permitted. The adoption of this Update is not expected to have a material effect on the Company and its subsidiaries' results of operations or financial position.

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

In January 2016, Accounting Standards Update 2016-01 ("Recognition and Measurement of Financial Assets and Financial Liabilities"—ASC 825-10 ("Financial Instruments—Overall")) was issued. This Update revises accounting related to the classification and measurement of equity investments. This Update also revises the presentation of certain fair value changes for financial liabilities measured at fair value. Additionally, this Update amends certain disclosure requirements associated with the fair value of financial instruments. This Update is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early application to financial statements of fiscal years or interim periods that have not yet been issued is permitted as of the beginning of the fiscal year of adoption. The amendments in this Update should be applied by means of cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. And the amendments relate to equity investments without readily determinable fair value are to be applied prospectively. The Company and its subsidiaries will adopt this Update on April 1, 2018. The Company and its subsidiaries continue to evaluate the effect that the adoption of this Update will have on the Company and its subsidiaries' results of operations or financial position, as well as changes in disclosures required by this Update.

In February 2016, Accounting Standards Update 2016-02 (ASC 842 ("Leases")) was issued. This Update requires a lessee to recognize most leases on the balance sheet. Lessor accounting remains substantially similar to current U.S. GAAP but with some important changes. This Update is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early application is permitted. The amendments in this Update should be applied at the beginning of the earliest period presented using a modified

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

retrospective approach. The modified retrospective approach includes a number of optional practical expedients that entities may elect to apply. The Company and its subsidiaries will adopt this Update on April 1, 2019. The Company and its subsidiaries continue to evaluate the effect that the adoption of this Update will have on the Company and its subsidiaries' results of operations or financial position, as well as changes in disclosures required by this Update.

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

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

In August 2016, Accounting Standards Update 2016-15 ("Classification of Certain Cash Receipts and Cash Payments"—ASC 230 ("Statement of Cash Flows")) was issued. This Update amends ASC 230 to add or clarify guidance on the classification of certain cash receipts and cash payments in the statement of cash flows. This Update is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. This Update should be applied using a retrospective transition method to each period presented. If it is impracticable to apply the amendments retrospectively for some of the issues, the amendments for those issues would be applied prospectively as of the earliest date practicable. The Company and its subsidiaries are currently evaluating the effect that the adoption of this Update will have on the Company and its subsidiaries' statement of cash flows.

In October 2016, Accounting Standards Update 2016-16 ("Intra-Entity Transfers of Assets Other Than Inventory"—ASC 740 ("Income Taxes")) was issued. This Update eliminates the exception to defer the income tax consequences of intra-entity transfers of assets other than inventory until the assets are ultimately sold to an outside party and requires the recognition of the current and deferred tax consequences when those transfers

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

occur. This Update is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. This Update should be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The Company and its subsidiaries are currently evaluating the effect that the adoption of this Update will have on the Company and its subsidiaries' results of operations or financial position.

In October 2016, Accounting Standards Update 2016-17 ("Interests Held through Related Parties That Are under Common Control"—ASC 810 ("Consolidation")) was issued. This Update amends the consolidation guidance on how a reporting entity that is the single decision maker of a VIE should treat indirect interests in the entity held through related parties that are under common control with the reporting entity when determining whether it is the primary beneficiary of that VIE. This Update is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The Company and its subsidiaries have already adopted the amendments in Accounting Standards Update 2015-02 and accordingly would be required to apply the amendments in this Update retrospectively to all relevant prior periods beginning with the fiscal year in which the amendments in that Update 2015-02 initially were applied. The adoption of this Update is not expected to have a material effect on the Company and its subsidiaries' results of operations or financial position.

In November 2016, Accounting Standards Update 2016-18 ("Restricted Cash"—ASC230 ("Statement of Cash Flows")) was issued. This Update requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. This Update is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The Company and its subsidiaries are currently evaluating the effect that the adoption of this Update will have on the Company and its subsidiaries' statement of cash flows.

In January 2017, Accounting Standards Update 2017-04 ("Simplifying the Test for Goodwill Impairment"—ASC350 ("Intangible—Goodwill and Other")) was issued. This Update eliminates Step 2 from the current goodwill impairment test. Instead, goodwill impairments would be measured by the amount by which the carrying amount exceeds the reporting unit's fair value. This Update also eliminates the requirement for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it is more likely than not that the goodwill is impaired, to perform Step 2 of the goodwill impairment test. This Update is effective for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019 and should be applied on a prospective basis. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. Generally, the effect of adopting this Update on the Company and its subsidiaries' results of operation or financial position will depend on the outcomes of future goodwill impairment tests.

#### **(ah) Elimination of a lag period**

Since its acquisition on February 27, 2014, the Company had been consolidating DAIKYO INCORPORATED (hereinafter, "DAIKYO") on a lag basis. In order to reflect DAIKYO's financial position and results of operations and cash flows in the Company's consolidated financial statements in a concurrent manner, the Company eliminated the lag period and has aligned the fiscal year end of DAIKYO with the Company's fiscal year end of March 31 during fiscal 2015.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**ORIX Corporation and Subsidiaries**

Because the elimination of a lag period represents a change in accounting principle, the Company retrospectively adjusted the prior year's consolidated financial statements for the effects of the lag accounting.

Below are the effects of this change in accounting principle on major line items and earnings per share amounts in the consolidated financial statements for fiscal 2015. The segment information in the Note 34 "Segment Information" has been restated giving effect to these changes to conform to DAIKYO's current fiscal year end.

	<u>Millions of yen</u>
	<u>2015</u>
	<u>Adjustments Increase (decrease)</u>
Revenues:	
Sales of goods and real estate .....	¥10,548
Services income .....	27,960
Other .....	<u>1,377</u>
Total revenues .....	<u>39,885</u>
Expenses:	
Costs of goods and real estate sold .....	6,125
Services expense .....	23,760
Selling, general and administrative expenses .....	3,804
Other .....	<u>999</u>
Total expenses .....	<u>34,688</u>
Operating Income .....	<u>5,197</u>
Income before Income Taxes and Discontinued Operations .....	<u>¥ 8,068</u>

	<u>Millions of yen, except for per share amounts</u>
	<u>2015</u>
	<u>Adjustments Increase (decrease)</u>
Income from Continuing Operations .....	¥ 2,184
Net Income .....	2,184
Net Income Attributable to the Noncontrolling Interests .....	1,070
Net Income Attributable to ORIX Corporation Shareholders .....	1,114
Basic EPS .....	0.84
Diluted EPS .....	0.86

	<u>Millions of yen</u>
	<u>2015</u>
	<u>Adjustments Increase (decrease)</u>
Net cash provided by operating activities .....	¥30,919
Net cash provided by (used in) investing activities .....	3,743
Net cash provided by (used in) financing activities .....	3,832
Cash and Cash Equivalents at Beginning of Year .....	(9,260)
Cash and Cash Equivalents at End of Year .....	29,234

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**ORIX Corporation and Subsidiaries**

**2. Fair Value Measurements**

The Company and its subsidiaries classify and prioritize inputs used in valuation techniques to measure fair value into the following three levels:

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

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

Level 3—Unobservable inputs for the assets or liabilities.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**ORIX Corporation and Subsidiaries**

The following tables present recorded amounts of major financial assets and liabilities measured at fair value on a recurring basis as of March 31, 2016 and 2017:

	March 31, 2016			
	Millions of yen			
	Total Carrying Value in Consolidated Balance Sheets	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets:</b>				
Loans held for sale*1	¥ 20,673	¥ 0	¥ 20,673	¥ 0
Trading securities	725,821	37,592	688,229	0
Available-for-sale securities	1,347,890	99,347	1,149,021	99,522
Japanese and foreign government bond securities	497,355	988	496,367	0
Japanese prefectural and foreign municipal bond securities*2	169,534	0	169,534	0
Corporate debt securities	410,779	0	410,774	5
Specified bonds issued by SPEs in Japan	3,461	0	0	3,461
CMBS and RMBS in the Americas	97,186	0	58,693	38,493
Other asset-backed securities and debt securities	58,230	0	667	57,563
Equity securities*4	111,345	98,359	12,986	0
Other securities	17,751	0	0	17,751
Investment funds*5	17,751	0	0	17,751
Derivative assets	33,747	48	25,491	8,208
Interest rate swap agreements	93	0	93	0
Options held/written and other	8,789	0	581	8,208
Futures, foreign exchange contracts	18,294	48	18,246	0
Foreign currency swap agreements	6,571	0	6,571	0
Netting*6	(5,757)	0	0	0
Net derivative assets	27,990	0	0	0
Other assets	37,855	0	0	37,855
Reinsurance recoverables*7	37,855	0	0	37,855
Total	<u>¥2,183,737</u>	<u>¥136,987</u>	<u>¥1,883,414</u>	<u>¥163,336</u>
<b>Liabilities:</b>				
Derivative liabilities	¥ 19,870	¥ 533	¥ 19,337	¥ 0
Interest rate swap agreements	5,921	0	5,921	0
Options held/written and other	3,637	0	3,637	0
Futures, foreign exchange contracts	6,655	533	6,122	0
Foreign currency swap agreements	3,601	0	3,601	0
Credit derivatives held	56	0	56	0
Netting*6	(5,757)	0	0	0
Net derivative Liabilities	14,113	0	0	0
Policy Liabilities and Policy Account Balances	795,001	0	0	795,001
Variable annuity and variable life insurance contracts*8	795,001	0	0	795,001
Total	<u>¥ 814,871</u>	<u>¥ 533</u>	<u>¥ 19,337</u>	<u>¥795,001</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

ORIX Corporation and Subsidiaries

	March 31, 2017			
	Millions of yen			
	Total Carrying Value in Consolidated Balance Sheets	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Loans held for sale*1	¥ 19,232	¥ 0	¥ 19,232	¥ 0
Trading securities	569,074	37,500	531,574	0
Available-for-sale securities	1,165,417	93,995	946,906	124,516
Japanese and foreign government bond securities	345,612	2,748	342,864	0
Japanese prefectural and foreign municipal bond securities*2	168,822	0	168,822	0
Corporate debt securities*3	393,644	11,464	380,562	1,618
Specified bonds issued by SPEs in Japan	1,087	0	0	1,087
CMBS and RMBS in the Americas	98,501	0	40,643	57,858
Other asset-backed securities and debt securities	64,717	0	764	63,953
Equity securities*4	93,034	79,783	13,251	0
Other securities	27,801	0	0	27,801
Investment funds*5	27,801	0	0	27,801
Derivative assets	22,999	734	17,032	5,233
Interest rate swap agreements	304	0	304	0
Options held/written and other	5,804	0	571	5,233
Futures, foreign exchange contracts	12,346	734	11,612	0
Foreign currency swap agreements	4,545	0	4,545	0
Netting*6	(4,019)	0	0	0
Net derivative assets	18,980	0	0	0
Other assets	22,116	0	0	22,116
Reinsurance recoverables*7	22,116	0	0	22,116
Total	<u>¥1,826,639</u>	<u>¥132,229</u>	<u>¥1,514,744</u>	<u>¥179,666</u>
Liabilities:				
Derivative liabilities	¥ 16,295	¥ 165	¥ 16,130	¥ 0
Interest rate swap agreements	4,567	0	4,567	0
Options held/written and other	1,071	0	1,071	0
Futures, foreign exchange contracts	8,821	165	8,656	0
Foreign currency swap agreements	1,677	0	1,677	0
Credit derivatives held	159	0	159	0
Netting*6	(4,019)	0	0	0
Net derivative Liabilities	12,276	0	0	0
Policy Liabilities and Policy Account Balances	605,520	0	0	605,520
Variable annuity and variable life insurance contracts*8	605,520	0	0	605,520
Total	<u>¥ 621,815</u>	<u>¥ 165</u>	<u>¥ 16,130</u>	<u>¥605,520</u>

\*1 A certain subsidiary elected the fair value option on the loans held for sale originated on or after October 1, 2011. These loans are multi-family and seniors housing loans and are sold to Federal National Mortgage Association (“Fannie Mae”) or institutional investors. Included in “Other (income) and expense, net” in the



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

consolidated statements of income were a gain from the change in the fair value of the loans of ¥246 million for the fiscal 2015, a loss from the change in the fair value of the loans of ¥71 million for fiscal 2016 and a gain from the change in the fair value of the loans of ¥31 million for fiscal 2017. No gains or losses were recognized in earnings for fiscal 2015, 2016 and 2017 attributable to changes in instrument-specific credit risk. The amounts of aggregate unpaid principal balance and aggregate fair value of the loan held for sale as of March 31, 2016, were ¥19,848 million and ¥20,673 million, respectively, and the amount of the aggregate fair value exceeded the amount of aggregate unpaid principal balance by ¥825 million. The amounts of aggregate unpaid principal balance and aggregate fair value as of March 31, 2017, were ¥18,362 million and ¥19,232 million, respectively, and the amount of the aggregate fair value exceeded the amount of aggregate unpaid principal balance by ¥870 million. As of March 31, 2016 and 2017, there were no loans that were 90 days or more past due, in non-accrual status, or both.

- \*2 A certain subsidiary elected the fair value option for investments in foreign government bond securities included in available-for-sale securities. Included in “Gains on investment securities and dividends” in the consolidated statements of income were losses of ¥9 million and ¥12 million from the change in the fair value of those investments for fiscal 2016 and 2017. The amounts of aggregate fair value elected the fair value option were ¥988 million and ¥1,015 million as of March 31, 2016 and 2017.
- \*3 A certain subsidiary elected the fair value option for investments in foreign corporate debt securities included in available-for-sale securities. Included in “Gains on investment securities and dividends” in the consolidated statements of income was a loss of ¥31 million from the change in the fair value of those investments for fiscal 2017. The amounts of aggregate fair value elected the fair value option was ¥1,026 million as of March 31, 2017.
- \*4 A certain subsidiary elected the fair value option for investments in equity securities included in available-for-sale securities. Included in “Gains on investment securities and dividends” in the consolidated statements of income were a gain of ¥1,070 million, a loss of ¥202 million and a gain of ¥1,277 million from the change in the fair value of those investments for fiscal 2015, 2016 and 2017. The amount of aggregate fair value elected the fair value option were ¥16,227 million and ¥15,400 million as of March 31, 2016 and 2017, respectively.
- \*5 Certain subsidiaries elected the fair value option for investments in some funds. Included in “Gains on investment securities and dividends” in the consolidated statements of income were a gain of ¥1,301 million and a loss of ¥4 million and a gain of ¥699 million from the change in the fair value of those investments for fiscal 2015, 2016 and 2017. The amounts of aggregate fair value were ¥10,152 million and ¥7,453 million as of March 31, 2016 and 2017, respectively.
- \*6 It represents the amount offset under counterparty netting of derivative assets and liabilities.
- \*7 Certain subsidiaries elected the fair value option for certain reinsurance contracts held. The fair value of the reinsurance contracts elected for the fair value option in other assets were ¥37,855 million and ¥22,116 million as of March 31, 2016 and 2017, respectively. For the effect of changes in the fair value of those reinsurance contracts on earnings for fiscal 2016 and 2017, see Note 23 “Life Insurance Operations.”
- \*8 Certain subsidiaries elected the fair value option for the entire variable annuity and variable life insurance contracts held in order to match the earnings recognized for the changes in the fair value of policy liabilities and policy account balances with earnings recognized for gains or losses from the investment assets managed on behalf of variable annuity and variable life policyholders, derivative contracts and the changes in the fair value of reinsurance contracts. The fair value of the variable annuity and variable life insurance contracts elected for the fair value option in policy liabilities and policy account balances were ¥795,001 million and ¥605,520 million as of March 31, 2016 and 2017, respectively. For the effect of changes in the fair value of the variable annuity and variable life insurance contracts on earnings for fiscal 2016 and 2017, see Note 23 “Life Insurance Operations.”



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

ORIX Corporation and Subsidiaries

Changes in economic conditions or valuation methodologies may require the transfer of assets and liabilities from one fair value level to another. In such instances, the Company and its subsidiaries recognize the transfer at the beginning of the quarter during which the transfers occur. The Company and its subsidiaries evaluate the significance of transfers between levels based upon size of the transfer relative to total assets, total liabilities or total earnings. For fiscal 2016 and 2017, there were no transfers between Level 1 and Level 2.

The following tables present the reconciliation of financial assets and liabilities (net) measured at fair value on a recurring basis using significant unobservable inputs (Level 3) in fiscal 2015, 2016 and 2017:

2015											
Millions of yen											
	Balance at April 1, 2014	Gains or losses (realized/unrealized)			Total	Purchases*3	Sales	Settlements*4	Transfers in and/or out of Level 3 (net)*5	Balance at March 31, 2015	Change in unrealized gains or losses included in earnings for assets and liabilities still held at March 31, 2015*1
		Included in earnings*1	Included in other comprehensive income*2								
Available-for-sale securities	¥ 84,001	¥ 2,101	¥ 6,653	¥ 8,754	¥ 65,964	¥(18,222)	¥ (23,796)	¥(19,650)	¥ 97,051	¥ (1,745)	
Corporate debt securities	661	73	(24)	49	0	(210)	(500)	0	0	0	
Specified bonds issued by SPEs in											
Japan	6,772	5	101	106	1,700	0	(1,298)	0	7,280	5	
CMBS and RMBS in the Americas	17,833	60	3,724	3,784	29,372	(3,446)	(4,447)	(20,438)	22,658	(395)	
Other asset-backed securities and											
debt securities	58,735	1,963	2,779	4,742	34,892	(14,566)	(17,551)	0	66,252	(1,355)	
Equity securities	0	0	73	73	0	0	0	788	861	0	
Other securities	6,317	1,290	1,142	2,432	6,180	(4,870)	(1,336)	0	8,723	1,290	
Investment funds	6,317	1,290	1,142	2,432	6,180	(4,870)	(1,336)	0	8,723	1,290	
Derivative assets and liabilities (net)	2,486	(13,838)	0	(13,838)	28,536	0	(5,314)	0	11,870	(13,838)	
Options held/written and other	2,486	(13,838)	0	(13,838)	28,536	0	(5,314)	0	11,870	(13,838)	
Other asset	0	(36,072)	0	(36,072)	72,654	0	(544)	0	36,038	(36,072)	
Reinsurance recoverables*6	0	(36,072)	0	(36,072)	72,654	0	(544)	0	36,038	(36,072)	
Accounts payable	2,833	(12,203)	0	(12,203)	0	0	(9,503)	0	5,533	(12,203)	
Contingent consideration	2,833	(12,203)	0	(12,203)	0	0	(9,503)	0	5,533	(12,203)	
Policy Liabilities and Policy Account											
Balances	0	(100,702)	0	(100,702)	1,765,444	0	(611,663)	0	1,254,483	(100,702)	
Variable annuity and variable life insurance contracts*7	0	(100,702)	0	(100,702)	1,765,444	0	(611,663)	0	1,254,483	(100,702)	

  

2016											
Millions of yen											
	Balance at April 1, 2015	Gains or losses (realized/unrealized)			Total	Purchases*3	Sales	Settlements*4	Transfers in and/or out of Level 3 (net)*5	Balance at March 31, 2016	Change in unrealized gains or losses included in earnings for assets and liabilities still held at March 31, 2016*1
		Included in earnings*1	Included in other comprehensive income*2								
Available-for-sale securities	¥ 97,051	¥ 922	¥(10,458)	¥ (9,536)	¥ 47,886	¥(15,632)	¥ (19,378)	¥ (869)	¥ 99,522	¥ (679)	
Corporate debt securities	0	1	0	1	5	(1)	0	0	5	0	
Specified bonds issued by SPEs in											
Japan	7,280	5	16	21	0	(1,885)	(1,955)	0	3,461	2	
CMBS and RMBS in the Americas	22,658	424	(3,831)	(3,407)	26,431	(2,401)	(4,788)	0	38,493	(763)	
Other asset-backed securities and											
debt securities	66,252	492	(6,651)	(6,159)	21,450	(11,345)	(12,635)	0	57,563	82	
Equity securities	861	0	8	8	0	0	0	(869)	0	0	
Other securities	8,723	1,146	(2,194)	(1,048)	10,933	(857)	0	0	17,751	849	
Investment funds	8,723	1,146	(2,194)	(1,048)	10,933	(857)	0	0	17,751	849	
Derivative assets and liabilities (net)	11,870	(4,596)	0	(4,596)	5,857	0	(4,923)	0	8,208	(4,596)	
Options held/written and other	11,870	(4,596)	0	(4,596)	5,857	0	(4,923)	0	8,208	(4,596)	
Other asset	36,038	(8,482)	0	(8,482)	10,669	0	(370)	0	37,855	(8,482)	
Reinsurance recoverables*6	36,038	(8,482)	0	(8,482)	10,669	0	(370)	0	37,855	(8,482)	
Accounts payable	5,533	3,059	0	3,059	0	0	(2,474)	0	0	0	
Contingent consideration	5,533	3,059	0	3,059	0	0	(2,474)	0	0	0	
Policy Liabilities and Policy Account											
Balances	1,254,483	40,751	0	40,751	0	0	(418,731)	0	795,001	40,751	
Variable annuity and variable life insurance contracts*7	1,254,483	40,751	0	40,751	0	0	(418,731)	0	795,001	40,751	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

ORIX Corporation and Subsidiaries

2017

Millions of yen

	Balance at April 1, 2016	Gains or losses (realized/unrealized)				Sales	Settlements*4	Transfers in and/or out of Level 3 (net)*5	Balance at March 31, 2017	Change in unrealized gains or losses included in earnings for assets and liabilities still held at March 31, 2017*1
		Included in earnings*1	Included in other comprehensive income*2	Total	Purchases*3					
Available-for-sale securities	¥ 99,522	¥ 287	¥10,106	¥ 10,393	¥37,212	¥(6,545)	¥ (16,066)	¥0	¥124,516	¥ 98
Corporate debt securities	5	0	(3)	(3)	1,800	0	(184)	0	1,618	0
Specified bonds issued by SPEs in										
Japan	3,461	1	(29)	(28)	0	(1,200)	(1,146)	0	1,087	0
CMBS and RMBS in the Americas	38,493	202	2,674	2,876	21,871	(466)	(4,916)	0	57,858	23
Other asset-backed securities and debt securities	57,563	84	7,464	7,548	13,541	(4,879)	(9,820)	0	63,953	75
Other securities	17,751	639	475	1,114	14,521	(5,585)	0	0	27,801	581
Investment funds	17,751	639	475	1,114	14,521	(5,585)	0	0	27,801	581
Derivative assets and liabilities (net)	8,208	(4,141)	0	(4,141)	2,480	0	(1,314)	0	5,233	(4,141)
Options held/written and other	8,208	(4,141)	0	(4,141)	2,480	0	(1,314)	0	5,233	(4,141)
Other asset	37,855	(22,398)	0	(22,398)	8,309	0	(1,650)	0	22,116	(22,398)
Reinsurance recoverables*6	37,855	(22,398)	0	(22,398)	8,309	0	(1,650)	0	22,116	(22,398)
Policy Liabilities and Policy Account Balances	795,001	3,651	0	3,651	0	0	(185,830)	0	605,520	3,651
Variable annuity and variable life insurance contracts*7	795,001	3,651	0	3,651	0	0	(185,830)	0	605,520	3,651

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

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

\*3 Increases resulting from an acquisition of a subsidiary and insurance contracts ceded to reinsurance companies are included.

\*4 Decreases resulting from the receipts of reimbursements for benefits, and decreases resulting from insurance payouts to variable annuity and variable life policyholders due to death, surrender and maturity of the investment period are included. Due to the elapse of the computation period of the contingent consideration during fiscal 2016, the unsettled payment is included in a decrease of Accounts payable.

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

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

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

In fiscal 2015, CMBS in the Americas totaling ¥20,438 million were transferred from Level 3 to Level 2, since the inputs such as trading price and/or bid price became observable due to the market returning to active and the bonds invested being more liquid with actual observable trades of the similar financial instruments and/or active dealer bids. In addition equity securities totaling ¥788 million were transferred from Level 2 to Level 3, since the inputs became unobservable.

In fiscal 2016, equity securities totaling ¥869 million were transferred from Level 3 to Level 2, since the inputs became observable.

In fiscal 2017, there were no transfers in or out of Level 3.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

reflect the nature, characteristics and risks of assets and liabilities reasonably, the Company and its subsidiaries use these prices as fair value of the assets and liabilities.

#### *Loans held for sale*

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

#### *Real estate collateral-dependent loans*

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

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

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

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

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

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

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

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

in Japan rises when the fair value of the collateral real estate rises and the discount rate declines. The fair value of the specified bonds issued by SPEs in Japan declines when the fair value of the collateral real estate declines and the discount rate rises.

#### *Investment funds*

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

#### *Derivatives*

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

#### *Reinsurance recoverables*

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

#### *Contingent consideration*

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

#### *Variable annuity and variable life insurance contracts*

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**ORIX Corporation and Subsidiaries**

in fair value of the minimum guarantee risk in the evaluation of the fair value of the entire variable annuity and variable life insurance contracts. The variable annuity and variable life insurance contracts for which the fair value option is elected are classified as Level 3 because the subsidiary measures the fair value using discounted cash flow methodologies based on inputs that are unobservable in the market.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**ORIX Corporation and Subsidiaries**

**Information about Level 3 Fair Value Measurements**

The following tables provide information about the valuation techniques and significant unobservable inputs used in the valuation of Level 3 assets and liabilities measured at fair value on a recurring basis as of March 31, 2016 and 2017.

March 31, 2016				
	Millions of yen			
	Fair value	Valuation technique(s)	Significant unobservable inputs	Range (Weighted average)
<b>Assets:</b>				
Available-for-sale securities				
Corporate debt securities . . . . .	¥ 5	Appraisals/Broker quotes	—	—
Specified bonds issued by SPEs in Japan . . . . .	806	Discounted cash flows	Discount rate	0.9% (0.9%)
	2,655	Appraisals/Broker quotes	—	—
CMBS and RMBS in the Americas . . . . .	38,493	Discounted cash flows	Discount rate	6.4% – 32.4% (18.5%)
			Probability of default	0.0% – 34.0% (8.2%)
Other asset-backed securities and debt securities . . . . .	7,432	Discounted cash flows	Discount rate	1.0% – 32.4% (12.7%)
			Probability of default	0.7% – 1.1% (0.9%)
	50,131	Appraisals/Broker quotes	—	—
Other securities				
Investment funds . . . . .	10,152	Internal cash flows	Discount rate	10.0% – 40.0% (13.6%)
	7,599	Appraisals/Broker quotes	—	—
Derivative assets				
Options held/written and other . . . . .	4,876	Discounted cash flows	Discount rate	10.0% – 15.0% (11.7%)
	3,332	Appraisals/Broker quotes	—	—
Other assets				
Reinsurance recoverables . . . . .	37,855	Discounted cash flows	Discount rate	(0.2)% – 0.5% (0.1%)
			Mortality rate	0.0% – 100.0% (0.9%)
			Lapse rate	1.5% – 54.0% (15%)
			Annuitization rate (guaranteed minimum annuity benefit)	0.0% – 100.0% (99.4%)
Total . . . . .	<u>¥163,336</u>			
<b>Liabilities:</b>				
Policy liabilities and Policy Account Balances				
Valuable annuity and variable life insurance contracts . . . . .	¥795,001	Discounted cash flows	Discount rate	(0.2)% – 0.5% (0.1%)
			Mortality rate	0.0% – 100.0% (1.0%)
			Lapse rate	1.5% – 54.0% (14.5%)
			Annuitization rate (guaranteed minimum annuity benefit)	0.0% – 100.0% (85.2%)
Total . . . . .	<u>¥795,001</u>			

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

ORIX Corporation and Subsidiaries

March 31, 2017

	Millions of yen		Valuation technique(s)	Significant unobservable inputs	Range (Weighted average)
	Fair value				
Assets:					
Available-for-sale securities					
Corporate debt securities . . . . .	¥ 1,613		Discounted cash flows	Discount rate	0.5% – 1.6% (1.1%)
	5		Appraisals/Broker quotes	—	—
Specified bonds issued by SPEs in					
Japan . . . . .	1,087		Appraisals/Broker quotes	—	—
CMBS and RMBS in the					
Americas . . . . .	57,858		Discounted cash flows	Discount rate	6.4% – 22.6% (18.0%)
				Probability of default	0.0% – 26.4% (3.6%)
Other asset-backed securities and					
debt securities . . . . .	13,890		Discounted cash flows	Discount rate	1.0% – 51.2% (8.9%)
				Probability of default	0.6% – 11.0% (0.8%)
	50,063		Appraisals/Broker quotes	—	—
Other securities					
Investment funds . . . . .	11,202		Internal cash flows	Discount rate	0.0% – 40.0% (10.0%)
	894		Discounted cash flows	Discount rate	5.4% – 10.0% (8.6%)
	15,705		Appraisals/Broker quotes	—	—
Derivative assets					
Options held/written and other . . . . .	3,525		Discounted cash flows	Discount rate	10.0% – 15.0% (11.7%)
	1,708		Appraisals/Broker quotes	—	—
Other assets					
Reinsurance recoverables . . . . .	22,116		Discounted cash flows	Discount rate	(0.1)% – 0.5% (0.1%)
				Mortality rate	0.0% – 100.0% (1.0%)
				Lapse rate	1.5% – 54.0% (14.9%)
				Annuity rate (guaranteed minimum annuity benefit)	0.0% – 100.0% (99.2%)
Total . . . . .	<u>¥179,666</u>				
Liabilities:					
Policy liabilities and Policy Account Balances					
Valuable annuity and variable life insurance contracts . . . . .	¥605,520		Discounted cash flows	Discount rate	(0.1)% – 0.5% (0.1%)
				Mortality rate	0.0% – 100.0% (1.0%)
				Lapse rate	1.5% – 54.0% (14.7%)
				Annuity rate (guaranteed minimum annuity benefit)	0.0% – 100.0% (82.7%)
Total . . . . .	<u>¥605,520</u>				

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**ORIX Corporation and Subsidiaries**

The following tables provide information about the valuation techniques and significant unobservable inputs used in the valuation of Level 3 assets measured at fair value on a nonrecurring basis as of March 31, 2016 and 2017.

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

<b>March 31, 2017</b>				
<u>Millions of yen</u>			<u>Significant unobservable inputs</u>	<u>Range (Weighted average)</u>
<u>Fair value</u>	<u>Valuation technique(s)</u>			
Assets:				
Real estate collateral-dependent loans (net of allowance for probable loan losses) . . . . .	¥12,472	Discounted cash flows	Discount rate	10.0% – 10.7% (10.5%)
		Direct capitalization	Capitalization rate	10.3% – 11.2% (10.9%)
Investment in operating leases and property under facility operations . . . . .	204	Direct capitalization	Capitalization rate	8.5% – 10.0% (8.7%)
	1,381	Discounted cash flows	Discount rate	6.8% – 10.2% (9.0%)
	20,940	Appraisals	—	—
Certain investment in affiliates . . . . .	<u>15,726</u>	Market price method	—	—
	<u>¥ 50,723</u>	Business enterprise value multiples	—	—

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

Certain of these unobservable inputs will have a directionally consistent impact on the fair value of the asset or liability for a given change in that input. Alternatively, the fair value of the asset or liability may move in

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

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

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

### 3. Acquisitions and divestitures

#### (1) Robeco Groep N.V. acquisition

On July 1, 2013, the Company acquired approximately 90.01% of the total voting equity interests of Robeco Groep N.V. (Head office: Rotterdam, the Netherlands, hereinafter, “Robeco”) from Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Head office: Utrecht, the Netherlands). As a result, Robeco has become a consolidated subsidiary of the Company. Furthermore, the Company acquired additional voting equity interests of Robeco during fiscal 2017. Therefore, Robeco has become the Company’s wholly owned subsidiary. Robeco, a mid-size global asset manager, offers a mix of investment solutions in a broad range of strategies to institutional and private investors worldwide.

In accordance with the share purchase agreement, the Company agreed to pay contingent consideration depending on the future performance of a certain section of asset management business for each of Robeco’s fiscal years until the fiscal year ending in December 2015. The estimated fair value of such contingent consideration was ¥5,176 million, which is included in the total consideration transferred. During fiscal 2017, the Company settled ¥2,398 million which had been included in trade notes, accounts and other payable in the Company’s consolidated balance sheets as of March 31, 2016.

#### (2) Hartford Life Insurance K.K. acquisition

On July 1, 2014, the Company’s wholly owned subsidiary, ORIX Life Insurance Corporation (hereinafter, “ORIX Life Insurance”), acquired the entire outstanding shares of Hartford Life Insurance K.K. (Head office: Minato-ku, Tokyo, Japan, Business description: Life insurance business and reinsurance business, hereinafter, “HLIKK”), a subsidiary of The Hartford Financial Services Group, Inc. in accordance with the share purchase agreement executed between the Company and Hartford Life, Inc. (Head office: Simsbury, Connecticut, U.S.A.), a subsidiary of The Hartford Financial Services Group, Inc. as of April 28, 2014 in order to enhance its capital strength and improve the soundness of its management, in view of accelerating its growth. As a result, HLIKK has become a consolidated subsidiary of the Company. HLIKK has discontinued selling insurance products since June 2009.

In addition, on July 1, 2015, HLIKK was merged into ORIX Life Insurance.

The total cost of acquisition consideration was ¥98,355 million, of which cost, ¥97,676 million was paid in cash on July 1, 2014. In addition, an additional consideration of ¥679 million was paid in cash on December 3, 2014, as a result of the acquisition price adjustment calculated based on HLIKK’s net assets as of June 30, 2014 pursuant to the share purchase agreement.

Transaction costs were ¥224 million and ¥1,217 million for fiscal 2014 and 2015, respectively, and are included in selling, general and administrative expenses in the Company’s consolidated statements of income.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**ORIX Corporation and Subsidiaries**

The Company allocated the acquisition consideration to HLIKK's respective assets acquired and liabilities assumed, and recorded the identified assets and liabilities based on their fair values at the acquisition date by the acquisition method of accounting.

The company finalized the purchase price allocation during fiscal 2016. As a result, the following table provides fair value amounts allocated to assets acquired and liabilities assumed of HLIKK.

	<b>Millions of yen</b>
	<b>Fair value amounts of assets, liabilities</b>
Cash and Cash Equivalents . . . . .	¥ 69,244
Installment Loans . . . . .	282
Investment in Securities . . . . .	1,847,536
Trade Notes, Accounts and Other Receivable . . . . .	66,340
Office Facilities . . . . .	351
Other Assets . . . . .	319,244
Total Assets . . . . .	2,302,997
Short-Term Debt . . . . .	25,000
Trade Notes, Accounts and Other Payable . . . . .	3,979
Policy Liabilities and Policy Account Balances . . . . .	2,125,257
Current and Deferred Income Taxes . . . . .	8,413
Other Liabilities . . . . .	5,911
Total Liabilities . . . . .	2,168,560
Net . . . . .	134,437
Fair value of Consideration transferred . . . . .	98,355
Bargain purchase gain . . . . .	¥ 36,082

In connection with this acquisition, the Company recognized the identifiable assets acquired and the liabilities assumed at their fair value, and recognized an excess of the fair value of the net assets acquired over the fair value of the consideration transferred as a bargain purchase gain of ¥36,082 million for fiscal 2015, which is separately reported in the consolidated statements of income.

The following unaudited supplemental pro forma financial information presents the combined results of operations of the Company and its subsidiaries as though the acquisition had occurred as of April 1, 2013, the beginning of fiscal 2014:

	<b>Millions of yen</b>
	<b>2015</b>
Total revenues . . . . .	¥2,220,805
Income from Continuing Operations . . . . .	259,239

Total revenues and income from continuing operations of HLIKK included in the Company's consolidated statements of income for fiscal 2015 are ¥196,883 million and ¥4,597 million, respectively.

The unaudited supplemental pro forma financial information is based on estimates and assumptions, that the Company believes are reasonable and should not be taken as indicative of what the Company's consolidated financial results would have been had the acquisition been completed on that date. The Company elected the fair value option to account for variable annuity insurance contracts at the acquisition date; however, it cannot

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**ORIX Corporation and Subsidiaries**

reasonably calculate their fair values prior to the acquisition date as if the fair value option were retrospectively applied. Thus, the unaudited supplemental pro forma financial information is prepared without applying the fair value option accounting.

**(3) Other acquisitions**

During fiscal 2015, the Company and its subsidiaries acquired entities other than HLIKK which were individually immaterial business combinations but were considered collectively material. The total cost of the acquisitions consideration was ¥102,621 million which was paid mainly in cash.

The Company allocated the acquisition consideration to the entities' respective assets acquired and liabilities assumed, and records the identified assets, liabilities and noncontrolling interest based on their fair values at the acquisition date by the acquisition method of accounting. The fair value of noncontrolling interest is estimated based on the acquisition consideration taking into account an appraisal value using a binominal option pricing model.

The Company finalized the purchase price allocation during fiscal 2016. As a result, the following table provides fair value amounts allocated to assets acquired and liabilities assumed of the acquired entities.

	<b>Millions of yen</b>
	<b>Fair value amounts of assets, liabilities and noncontrolling interests</b>
Cash and Cash Equivalents . . . . .	¥ 32,234
Property under Facility Operations . . . . .	9,289
Trade Notes, Accounts and Other Receivable . . . . .	37,359
Inventories . . . . .	21,249
Office Facilities . . . . .	3,250
Other Assets . . . . .	158,370
Other . . . . .	1,359
Total Assets . . . . .	263,110
Short-Term Debt . . . . .	4,140
Trade Notes, Accounts and Other Payable . . . . .	33,963
Current and Deferred Income Taxes . . . . .	24,457
Long-Term Debt . . . . .	45,739
Other Liabilities . . . . .	26,165
Total Liabilities . . . . .	134,464
Noncontrolling interests . . . . .	26,025
Aggregate fair value of considerations transferred . . . . .	¥102,621

Goodwill with a value of ¥79,872 million and other intangible assets of ¥60,839 million that were identified in connection with the acquisitions are included in other assets in the Company's consolidated balance sheet as of March 31, 2016. The goodwill is calculated as the excess of considerations transferred and the fair value of noncontrolling interest over the net assets recognized at fair value. The Company calculated the amount of goodwill based on estimates of fair value of assets acquired, liabilities assumed and noncontrolling interest. The goodwill represents the future growth of the ORIX Group from new revenue streams arising from the consolidation of the entities and synergies with the existing Company's assets and businesses. The goodwill is not deductible for tax purposes. The goodwill and other intangible assets recorded in connection with the acquisitions are included in the Corporate Financial Services segment, the Investment and Operation segment and the Overseas Business segment.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

The following unaudited supplemental pro forma financial information presents the combined results of operations of the Company and its subsidiaries as though the acquisitions had occurred as of April 1, 2013, the beginning of fiscal 2014:

	<u>Millions of yen</u> <u>2015</u>
Total revenues . . . . .	¥2,345,327
Income from Continuing Operations . . . . .	255,219

Total revenues and income from continuing operations of newly consolidated subsidiaries included in the Company's consolidated statements of income for fiscal 2015 are ¥234,030 million and ¥5,033 million, respectively.

The unaudited supplemental pro forma financial information is based on estimates and assumptions, that the Company believes are reasonable and should not be taken as indicative of what the Company's consolidated financial results would have been had the acquisition been completed on that date.

During fiscal 2016, the Company and its subsidiaries acquired entities for a total cost of the acquisition consideration of ¥51,786 million, which was paid mainly in cash. In accordance with the finalization of purchase price allocation during fiscal 2017, the amount of goodwill was ¥34,319 million and the goodwill is not deductible for tax purposes. The amount of acquired intangible assets other than goodwill was ¥11,238 million. The acquisitions were mainly included in the Investment and Operation segment and the Overseas Business segment.

During fiscal 2017, the Company and its subsidiaries acquired entities for a total cost of the acquisition consideration of ¥97,090 million, which was paid mainly in cash. Goodwill initially recognized in these transactions amounted to ¥33,370 million and the goodwill is not deductible for tax purposes. The amount of acquired intangible assets other than goodwill recognized in these transactions was ¥35,559 million. The Company reflected certain preliminary estimates with respect to the fair value of the underlying net assets of these entities in determining amounts of the goodwill. The amount of the goodwill and intangible assets other than goodwill could possibly be adjusted because certain of these acquisitions were made near the fiscal year-end and the purchase price allocations have not been completed yet. The acquisitions were mainly included in the Investment and Operation segment and the Overseas Business segment.

The Company recognized a bargain purchase gain of ¥5,802 million associated with one of its acquisitions in the Investment and Operation segment for fiscal 2017. The bargain purchase gain could possibly be adjusted because the purchase price allocation has not been completed yet.

The segment in which goodwill is allocated is disclosed in Note 13 "Goodwill and Other Intangible Assets."

#### (4) Divestitures

Gains on sales of subsidiaries and affiliates and liquidation losses, net for fiscal 2015, 2016 and 2017 amounted to ¥20,575 million, ¥57,867 million and ¥63,419 million, respectively. Gains on sales of subsidiaries and affiliates and liquidation losses, net for fiscal 2015 mainly consisted of ¥18,510 million in the Overseas Business segment. Gains on sales of subsidiaries and affiliates and liquidation losses, net for fiscal 2016 mainly consisted of ¥47,994 million in the Overseas Business segment and ¥9,145 million in the Investment and Operation segment. Gains on sales of subsidiaries and affiliates and liquidation losses, net for fiscal 2017 mainly



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**ORIX Corporation and Subsidiaries**

consisted of ¥30,583 million in the Overseas Business segment, ¥29,378 million in the Investment and Operation segment, and ¥2,234 million in the Corporate Financial Services segment. The details of significant divestitures are as follows.

During fiscal 2015, the Company sold 71.9% of the common shares of a consolidated subsidiary, STX Energy Co., Ltd. (presently GS E&R Corp., hereinafter, “STX Energy”) to a third-party. The Company retains a 25% interest in STX Energy, which became an equity method affiliate from fiscal 2015. The sale of the controlling interest resulted in a gain of ¥14,883 million, and the remeasurement of the retained interest to its fair value resulted in a gain of ¥1,329 million, both of which were included in earnings as gains on sales of subsidiaries and affiliates and liquidation losses, net during fiscal 2015. The fair value of the retained interest was remeasured based on the sale proceed adjusted for a control premium.

During fiscal 2016, ORIX USA Corporation (hereinafter, “ORIX USA”), a wholly owned subsidiary of the Company, sold 14.7% of its shares of Class A common stock of Houlihan Lokey, Inc. (hereinafter, “Houlihan Lokey”), a subsidiary of ORIX USA, through the initial public offering (hereinafter, “IPO”), concurrently allotting its shares to Houlihan Lokey’s management and other employees. ORIX USA retained a 33.0% interest in Houlihan Lokey’s Class B common stock and thus Houlihan Lokey became an equity method investee during fiscal 2016. The partial sale of the ownership interest resulted in a gain of ¥10,498 million, and the remeasurement of the retained interest to its fair value due to a loss of control resulted in a gain of ¥29,087 million, both of which were included in earnings as gains on sales of subsidiaries and affiliates and liquidation losses, net for fiscal 2016. The fair value of the retained interest was remeasured based on the sale price in the IPO.

During fiscal 2017, gains on the sale of a subsidiary that runs the automotive supply wholesale business of ORIX USA were included in the amount of ¥30,583 million of gains on sales of subsidiaries and affiliates and liquidation losses, net in the Overseas Business segment.

**4. Cash Flow Information**

Cash payments during fiscal 2015, 2016 and 2017 are as follows:

	Millions of yen		
	2015	2016	2017
Cash payments:			
Interest .....	¥76,755	¥77,321	¥71,280
Income taxes, net .....	83,462	31,046	50,813

Non-cash activities in fiscal 2015, 2016 and 2017 are as follows.

In fiscal 2015, 2016 and 2017, real estate under operating leases of ¥4,042 million, ¥15,963 million and ¥1,273 million, respectively, were recognized with the corresponding amounts of installment loans and investment in securities being derecognized as a result of acquiring real estate collateral.

In fiscal 2015, assets and liabilities decreased by ¥7,450 million and ¥9,279 million, respectively, in the Company’s consolidated balance sheet due to deconsolidation of certain VIEs which had been consolidated by a subsidiary. In fiscal 2016, assets and liabilities decreased by ¥7,234 million and ¥12,181 million, respectively, in the Company’s consolidated balance sheet due to deconsolidation of certain VIEs which had been consolidated by a subsidiary. The derecognized assets mainly consist of installment loans, and the derecognized liabilities

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**ORIX Corporation and Subsidiaries**

mainly consist of long-term debt. Derecognition of these assets and liabilities were not included in cash flows from investing activities or financing activities in the consolidated statements of cash flows because they did not involve cash transactions.

In addition, the Company and its subsidiaries recognized identifiable assets acquired and liabilities assumed at their fair values in connection with the acquisitions, details of which are provided in Note 3 “Acquisitions and divestitures.”

**5. Investment in Direct Financing Leases**

Investment in direct financing leases at March 31, 2016 and 2017 consists of the following:

	Millions of yen	
	2016	2017
Total Minimum lease payments to be received . . . . .	¥1,366,454	¥1,369,120
Less : Estimated executory costs . . . . .	(57,600)	(56,470)
Minimum lease payments receivable . . . . .	1,308,854	1,312,650
Estimated residual value . . . . .	31,338	35,413
Initial direct costs . . . . .	5,557	5,893
Unearned lease income . . . . .	(155,613)	(149,932)
	¥1,190,136	¥1,204,024

Minimum lease payments receivable are due in periodic installments through fiscal 2037. At March 31, 2017, the amounts due in each of the next five years and thereafter are as follows:

Years ending March 31,	Millions of yen
2018 . . . . .	¥ 439,670
2019 . . . . .	314,700
2020 . . . . .	236,278
2021 . . . . .	136,813
2022 . . . . .	77,115
Thereafter . . . . .	108,074
Total . . . . .	¥1,312,650

Included in finance revenues in the consolidated statements of income are direct financing leases revenues of ¥61,116 million, ¥65,365 million and ¥56,349 million for fiscal 2015, 2016 and 2017, respectively.

Gains and losses from the disposition of direct financing lease assets, which were included in finance revenues, were not material for fiscal 2015, 2016 and 2017.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**ORIX Corporation and Subsidiaries**

**6. Investment in Operating Leases**

Investment in operating leases at March 31, 2016 and 2017 consists of the following:

	Millions of yen	
	2016	2017
Transportation equipment .....	¥1,076,697	¥1,144,511
Measuring and information-related equipment .....	239,262	237,597
Real estate .....	531,155	451,367
Other .....	21,343	23,414
	1,868,457	1,856,889
Accumulated depreciation .....	(542,868)	(566,946)
Net .....	1,325,589	1,289,943
Accrued rental receivables .....	23,610	23,221
	¥1,349,199	¥1,313,164

For fiscal 2015, 2016 and 2017, gains from the disposition of real estate under operating leases included in operating lease revenues are ¥16,338 million, ¥18,768 million and ¥53,004 million, respectively, and gains from the disposition of operating lease assets other than real estate included in operating lease revenues are ¥18,087 million, ¥19,572 million and ¥16,261 million, respectively.

Costs of operating leases include depreciation and various expenses (insurance, property tax and other). Depreciation and various expenses for fiscal 2015, 2016 and 2017 are as follows:

	Millions of yen		
	2015	2016	2017
Depreciation expenses .....	¥177,038	¥184,768	¥185,277
Various expenses .....	61,119	60,301	58,260
	¥238,157	¥245,069	¥243,537

The operating lease contracts include non-cancelable lease terms that range up to 20 years at March 31, 2017. The minimum future rentals on non-cancelable operating leases due in each of the next five years and thereafter are as follows:

Years ending March 31,	Millions of yen
2018 .....	¥206,777
2019 .....	141,293
2020 .....	99,764
2021 .....	64,767
2022 .....	39,853
Thereafter .....	55,866
Total .....	¥608,320

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**ORIX Corporation and Subsidiaries**

**7. Installment Loans**

The composition of installment loans by domicile and type of borrower at March 31, 2016 and 2017 is as follows:

	Millions of yen	
	2016	2017
Borrowers in Japan:		
Consumer—		
Housing loans . . . . .	¥1,122,088	¥1,261,571
Card loans . . . . .	260,533	270,007
Other . . . . .	23,466	28,668
	1,406,087	1,560,246
Corporate—		
Real estate companies . . . . .	230,001	270,965
Non-recourse loans . . . . .	19,951	12,758
Commercial, industrial and other companies . . . . .	365,371	340,050
	615,323	623,773
Overseas:		
Non-recourse loans . . . . .	61,260	75,968
Commercial, industrial companies and other . . . . .	479,039	530,924
	540,299	606,892
Purchased loans* . . . . .	30,524	24,795
	¥2,592,233	¥2,815,706

\* Purchased loans represent loans with evidence of deterioration of credit quality since origination and for which it is probable at acquisition that collection of all contractually required payments from the debtors is unlikely.

Generally, installment loans are made under agreements that require the borrower to provide collateral or guarantors.

At March 31, 2017, the contractual maturities of installment loans (except purchased loans) for each of the next five years and thereafter are as follows:

Years ending March 31,	Millions of yen
2018 . . . . .	¥ 473,690
2019 . . . . .	308,873
2020 . . . . .	256,967
2021 . . . . .	223,030
2022 . . . . .	189,921
Thereafter . . . . .	1,338,430
Total . . . . .	¥2,790,911

Included in finance revenues in the consolidated statements of income is interest income on loans of ¥110,390 million, ¥118,982 million and ¥127,128 million fiscal 2015, 2016 and 2017, respectively.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**ORIX Corporation and Subsidiaries**

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

Loans held for sale are included in installment loans, and the outstanding balances of these loans as of March 31, 2016 and 2017 were ¥21,867 million and ¥22,548 million, respectively. There were ¥20,673 million and ¥19,232 million of loans held for sale as of March 31, 2016 and 2017, respectively, measured at fair value by electing the fair value option.

Purchased loans acquired by the Company and its subsidiaries are generally loans with evidence of deterioration of credit quality since origination and for which it is probable at acquisition that collection of all contractually required payments from the debtors is unlikely and characterized by extended period of non-performance by the borrower, and it is difficult to reliably estimate the amount, timing, or nature of collections. Because such loans are commonly collateralized by real estate, the Company and its subsidiaries may pursue various approaches to maximizing the return from the collateral, including arrangement of borrower's negotiated transaction of such collateral before foreclosure, the renovation, refurbishment or the sale of such loans to third parties. Accordingly, although the acquired assets may remain loans in legal form, collections on these loans often do not reflect the normal historical experience of collecting delinquent accounts, and the need to tailor individual collateral-realization strategies often makes it difficult to reliably estimate the amount, timing, or nature of collections. Accordingly, the Company and its subsidiaries use the cost recovery method of income recognition for such purchased loans. The total carrying amounts of these purchased loans were ¥30,524 million and ¥24,795 million as of March 31, 2016 and 2017, respectively, and the fair value at the acquisition date of purchased loans acquired during fiscal 2016 and 2017 were ¥7,799 million and ¥6,326 million, respectively.

When it is probable that the Company and its subsidiaries will be unable to collect all book value, the Company and its subsidiaries consider purchased loans impaired, and a valuation allowance for the excess amount of the book value over the estimated recoverable amount of the loans is provided. For most cases, the recoverable amount is estimated based on the collateral value. Purchased loans for which valuation allowances were provided amounted to ¥11,013 million and ¥7,443 million as of March 31, 2016 and 2017, respectively.

Changes in the allowance for uncollectible accounts relating to the purchased loans for fiscal 2015, 2016 and 2017 are as follows:

	Millions of yen		
	2015	2016	2017
Beginning balance . . . . .	¥14,148	¥10,717	¥ 8,233
Provision (Reversal) . . . . .	(690)	(1,308)	(1,247)
Charge-offs . . . . .	(3,390)	(1,236)	(841)
Recoveries . . . . .	432	232	232
Other* . . . . .	217	(172)	(316)
Ending balance . . . . .	<u>¥10,717</u>	<u>¥ 8,233</u>	<u>¥ 6,061</u>

\* Other includes foreign currency translation adjustments.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**ORIX Corporation and Subsidiaries**

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

ASC 310 (“Receivables”) requires an entity to provide the following information disaggregated by portfolio segment and class of financing receivable.

Allowance for credit losses—by portfolio segment

Credit quality of financing receivables—by class

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

Information about troubled debt restructurings—by class

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

The following table provides information about the allowance for credit losses for fiscal 2015, 2016 and 2017:

	<b>March 31, 2015</b>					
	<b>Millions of yen</b>					
	<b>Loans</b>					
	<b>Corporate</b>			<b>Purchased loans*1</b>	<b>Direct financing leases</b>	<b>Total</b>
	<b>Consumer</b>	<b>Non-recourse loans</b>	<b>Other</b>			
<b>Allowance for credit losses:</b>						
Beginning balance . . . . .	¥ 13,473	¥ 9,047	¥ 32,744	¥14,148	¥ 15,384	¥ 84,796
Provision (Reversal) . . . . .	5,456	(1,080)	4,800	(690)	3,145	11,631
Charge-offs . . . . .	(7,189)	(53)	(13,247)	(3,390)	(3,832)	(27,711)
Recoveries . . . . .	835	0	593	432	58	1,918
Other*2 . . . . .	10	234	782	217	449	1,692
Ending balance . . . . .	<u>¥ 12,585</u>	<u>¥ 8,148</u>	<u>¥ 25,672</u>	<u>¥10,717</u>	<u>¥ 15,204</u>	<u>¥ 72,326</u>
Individually evaluated for impairment . . . . .	2,606	7,751	15,541	8,481	0	34,379
Not individually evaluated for impairment . . . . .	9,979	397	10,131	2,236	15,204	37,947
<b>Financing receivables:</b>						
Ending balance . . . . .	<u>¥1,330,353</u>	<u>¥124,768</u>	<u>¥965,028</u>	<u>¥42,292</u>	<u>¥1,216,454</u>	<u>¥3,678,895</u>
Individually evaluated for impairment . . . . .	11,993	22,032	51,793	15,216	0	101,034
Not individually evaluated for impairment . . . . .	1,318,360	102,736	913,235	27,076	1,216,454	3,577,861

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

ORIX Corporation and Subsidiaries

	March 31, 2016					
	Millions of yen					
	Loans					
	Corporate			Purchased loans*1	Direct financing leases	Total
	Consumer	Non-recourse loans	Other			
<b>Allowance for credit losses:</b>						
Beginning balance	¥ 12,585	¥ 8,148	¥ 25,672	¥10,717	¥ 15,204	¥ 72,326
Provision (Reversal)	7,367	(491)	3,362	(1,308)	2,787	11,717
Charge-offs	(7,572)	(504)	(5,298)	(1,236)	(4,075)	(18,685)
Recoveries	543	0	393	232	13	1,181
Other*3	344	(5,353)	(738)	(172)	(549)	(6,468)
Ending balance	¥ 13,267	¥ 1,800	¥ 23,391	¥ 8,233	¥ 13,380	¥ 60,071
Individually evaluated for impairment	2,770	1,323	12,552	5,888	0	22,533
Not individually evaluated for impairment	10,497	477	10,839	2,345	13,380	37,538
<b>Financing receivables:</b>						
Ending balance	¥1,461,982	¥81,211	¥ 996,649	¥30,524	¥1,190,136	¥3,760,502
Individually evaluated for impairment	14,101	11,057	37,422	11,013	0	73,593
Not individually evaluated for impairment	1,447,881	70,154	959,227	19,511	1,190,136	3,686,909
	March 31, 2017					
	Millions of yen					
	Loans					
	Corporate			Purchased loans*1	Direct financing leases	Total
	Consumer	Non-recourse loans	Other			
<b>Allowance for credit losses:</b>						
Beginning balance	¥ 13,267	¥ 1,800	¥ 23,391	¥ 8,233	¥ 13,380	¥ 60,071
Provision (Reversal)	17,844	1,134	3,564	(1,247)	1,372	22,667
Charge-offs	(13,363)	0	(4,485)	(841)	(4,067)	(22,756)
Recoveries	469	0	222	232	11	934
Other*4	382	17	(1,613)	(316)	(159)	(1,689)
Ending balance	¥ 18,599	¥ 2,951	¥ 21,079	¥ 6,061	¥ 10,537	¥ 59,227
Individually evaluated for impairment	2,927	2,114	10,565	4,462	0	20,068
Not individually evaluated for impairment	15,672	837	10,514	1,599	10,537	39,159
<b>Financing receivables:</b>						
Ending balance	¥1,616,009	¥88,726	¥1,063,628	¥24,795	¥1,204,024	¥3,997,182
Individually evaluated for impairment	16,667	6,032	28,883	7,443	0	59,025
Not individually evaluated for impairment	1,599,342	82,694	1,034,745	17,352	1,204,024	3,938,157

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

\*1 Purchased loans represent loans with evidence of deterioration of credit quality since origination and for which it is probable at acquisition that collection of all contractually required payments from the debtors is unlikely.

\*2 Other mainly includes foreign currency translation adjustments and decrease in allowance related to newly consolidated subsidiaries.

\*3 Other mainly includes foreign currency translation adjustments and decrease in allowance related to deconsolidated subsidiaries. Additionally, other in non-recourse loans includes a decrease of ¥5,265 million due to the sale of controlling class interests of a certain VIE, which was formerly consolidated, to a third party and resulting in deconsolidation of that VIE.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

\*4 Other mainly includes foreign currency translation adjustments and decrease in allowance related to deconsolidated subsidiaries.

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

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

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

ORIX Corporation and Subsidiaries

The following table provides information about the impaired loans as of March 31, 2016 and 2017:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

ORIX Corporation and Subsidiaries

March 31, 2017

Portfolio segment	Class	Millions of yen		
		Loans individually evaluated for impairment	Unpaid principal balance	Related allowance
<b>With no related allowance recorded*1:</b> . . . . .		¥ 6,524	¥ 6,499	¥ 0
<b>Consumer borrowers</b> . . . . .		973	956	0
	Housing loans	973	956	0
	Card loans	0	0	0
	Other	0	0	0
<b>Corporate borrowers</b> . . . . .		5,439	5,431	0
Non-recourse loans . . . . .	Japan	0	0	0
	The Americas	0	0	0
Other . . . . .	Real estate companies	0	0	0
	Entertainment companies	8	2	0
	Other	5,431	5,429	0
<b>Purchased loans</b> . . . . .		112	112	0
<b>With an allowance recorded*2:</b> . . . . .		52,501	51,153	20,068
<b>Consumer borrowers</b> . . . . .		15,694	14,775	2,927
	Housing loans	3,271	2,796	1,202
	Card loans	4,102	4,091	616
	Other	8,321	7,888	1,109
<b>Corporate borrowers</b> . . . . .		29,476	29,047	12,679
Non-recourse loans . . . . .	Japan	203	202	35
	The Americas	5,829	5,829	2,079
Other . . . . .	Real estate companies	7,212	7,154	1,638
	Entertainment companies	1,728	1,720	637
	Other	14,504	14,142	8,290
<b>Purchased loans</b> . . . . .		7,331	7,331	4,462
<b>Total:</b> . . . . .		¥59,025	¥57,652	¥20,068
<b>Consumer borrowers</b> . . . . .		16,667	15,731	2,927
	Housing loans	4,244	3,752	1,202
	Card loans	4,102	4,091	616
	Other	8,321	7,888	1,109
<b>Corporate borrowers</b> . . . . .		34,915	34,478	12,679
Non-recourse loans . . . . .	Japan	203	202	35
	The Americas	5,829	5,829	2,079
Other . . . . .	Real estate companies	7,212	7,154	1,638
	Entertainment companies	1,736	1,722	637
	Other	19,935	19,571	8,290
<b>Purchased loans</b> . . . . .		7,443	7,443	4,462

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

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

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

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

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

ORIX Corporation and Subsidiaries

The following table provides information about the average recorded investments in impaired loans and interest income on impaired loans for fiscal 2015, 2016 and 2017:

		March 31, 2015		
		Millions of yen		
Portfolio segment	Class	Average Recorded Investments in Impaired Loans*	Interest Income on Impaired Loans	Interest on Impaired Loans Collected in Cash
<b>Consumer borrowers</b> . . . . .		¥ 11,822	¥ 376	¥ 273
	Housing loans	6,286	268	180
	Card loans	3,368	60	51
	Other	2,168	48	42
<b>Corporate borrowers</b> . . . . .		82,986	2,005	1,648
Non-recourse loans . . . . .	Japan	5,975	10	10
	The Americas	15,657	502	502
Other . . . . .	Real estate companies	22,009	417	355
	Entertainment companies	5,951	202	149
	Other	33,394	874	632
<b>Purchased loans</b> . . . . .		18,736	0	0
<b>Total</b> . . . . .		<u>¥113,544</u>	<u>¥2,381</u>	<u>¥1,921</u>

		March 31, 2016		
		Millions of yen		
Portfolio segment	Class	Average Recorded Investments in Impaired Loans*	Interest Income on Impaired Loans	Interest on Impaired Loans Collected in Cash
<b>Consumer borrowers</b> . . . . .		¥ 13,215	¥ 317	¥ 269
	Housing loans	5,090	176	148
	Card loans	3,970	69	59
	Other	4,155	72	62
<b>Corporate borrowers</b> . . . . .		58,138	974	947
Non-recourse loans . . . . .	Japan	5,117	7	7
	The Americas	11,759	275	275
Other . . . . .	Real estate companies	13,843	210	198
	Entertainment companies	3,505	102	99
	Other	23,914	380	368
<b>Purchased loans</b> . . . . .		12,864	0	0
<b>Total</b> . . . . .		<u>¥ 84,217</u>	<u>¥1,291</u>	<u>¥1,216</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

ORIX Corporation and Subsidiaries

		March 31, 2017		
		Millions of yen		
Portfolio segment	Class	Average Recorded Investments in Impaired Loans*	Interest Income on Impaired Loans	Interest on Impaired Loans Collected in Cash
<b>Consumer borrowers</b> . . . . .		¥ 15,166	¥ 316	¥ 277
	Housing loans	4,261	146	130
	Card loans	4,113	67	58
	Other	6,792	103	89
<b>Corporate borrowers</b> . . . . .		39,667	626	576
Non-recourse loans . . . . .	Japan	1,224	6	6
	The Americas	5,679	66	66
Other . . . . .	Real estate companies	7,720	189	177
	Entertainment companies	2,134	76	76
	Other	22,910	289	251
<b>Purchased loans</b> . . . . .		9,348	591	591
<b>Total</b> . . . . .		<u>¥ 64,181</u>	<u>¥1,533</u>	<u>¥1,444</u>

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

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

The following table provides information about the credit quality indicators as of March 31, 2016 and 2017:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

ORIX Corporation and Subsidiaries

March 31, 2017

Portfolio segment	Class	Millions of yen				Subtotal	Total
		Performing	Non-performing				
			Loans individually evaluated for impairment	90+ days past-due loans not individually evaluated for impairment			
<b>Consumer borrowers</b> .....		¥1,589,620	¥16,667	¥ 9,722	¥26,389	¥1,616,009	
	Housing loans	1,273,603	4,244	1,685	5,929	1,279,532	
	Card loans	264,559	4,102	1,346	5,448	270,007	
	Other	51,458	8,321	6,691	15,012	66,470	
<b>Corporate borrowers</b> .....		1,117,439	34,915	0	34,915	1,152,354	
	Non-recourse loans .....						
	Japan	12,555	203	0	203	12,758	
	The Americas	70,139	5,829	0	5,829	75,968	
	Other .....						
	Real estate companies	313,947	7,212	0	7,212	321,159	
	Entertainment companies	94,190	1,736	0	1,736	95,926	
	Other	626,608	19,935	0	19,935	646,543	
<b>Purchased loans</b> .....		17,352	7,443	0	7,443	24,795	
<b>Direct financing leases</b> .....		1,192,424	0	11,600	11,600	1,204,024	
	Japan	839,848	0	6,442	6,442	846,290	
	Overseas	352,576	0	5,158	5,158	357,734	
<b>Total</b> .....		<u>¥3,916,835</u>	<u>¥59,025</u>	<u>¥21,322</u>	<u>¥80,347</u>	<u>¥3,997,182</u>	

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

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

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



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

ORIX Corporation and Subsidiaries

The following table provides information about the non-accrual and past-due financing receivables as of March 31, 2016 and 2017:

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

  

		March 31, 2017				
		Millions of yen				
Portfolio segment	Class	Past-due financing receivables			Total financing receivables	Non-accrual
		30-89 days past-due	90 days or more past-due	Total past-due		
<b>Consumer borrowers</b>		¥ 6,433	¥ 12,971	¥19,404	¥ 1,616,009	¥12,971
	Housing loans	2,314	3,420	5,734	1,279,532	3,420
	Card loans	518	1,825	2,343	270,007	1,825
	Other	3,601	7,726	11,327	66,470	7,726
<b>Corporate borrowers</b>		4,902	15,224	20,126	1,152,354	24,474
	Non-recourse loans					
	Japan	0	0	0	12,758	0
	The Americas	4,028	4,940	8,968	75,968	5,768
	Other					
	Real estate companies	37	1,867	1,904	321,159	1,867
	Entertainment companies	0	140	140	95,926	140
	Other	837	8,277	9,114	646,543	16,699
<b>Direct financing leases</b>		4,834	11,600	16,434	1,204,024	11,600
	Japan	535	6,442	6,977	846,290	6,442
	Overseas	4,299	5,158	9,457	357,734	5,158
<b>Total</b>		<u>¥16,169</u>	<u>¥ 39,795</u>	<u>¥55,964</u>	<u>¥ 3,972,387</u>	<u>¥49,045</u>

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**ORIX Corporation and Subsidiaries**

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

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

The following table provides information about troubled debt restructurings of financing receivables that occurred during fiscal 2015, 2016 and 2017:

		March 31, 2015	
		Millions of yen	
Portfolio segment	Class	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
<b>Consumer borrowers</b>		¥ 5,504	¥4,061
	Housing loans	483	263
	Card loans	2,566	2,018
	Other	2,455	1,780
<b>Corporate borrowers</b>		946	891
	Non-recourse loans	145	145
	Other	801	746
<b>Total</b>		<u>¥ 6,450</u>	<u>¥4,952</u>

		March 31, 2016	
		Millions of yen	
Portfolio segment	Class	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
<b>Consumer borrowers</b>		¥ 6,436	¥4,890
	Housing loans	71	23
	Card loans	2,405	1,910
	Other	3,960	2,957
<b>Corporate borrowers</b>		584	582
	Non-recourse loans	575	575
	Other	9	7
<b>Total</b>		<u>¥ 7,020</u>	<u>¥5,472</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

ORIX Corporation and Subsidiaries

Portfolio segment	Class	March 31, 2017	
		Millions of yen	
		Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
<b>Consumer borrowers</b> .....		¥10,721	¥8,253
	Housing loans	640	587
	Card loans	2,120	1,687
	Other	7,961	5,979
<b>Corporate borrowers</b> .....		729	693
Other .....	Other	729	693
<b>Total</b> .....		<u>¥11,450</u>	<u>¥8,946</u>

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

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

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

The following table provides information about financing receivables modified as troubled debt restructurings within the previous 12 months from March 31, 2015 and for which there was a payment default during fiscal 2015:

Portfolio segment	Class	March 31, 2015
		Millions of yen
		Recorded Investment
<b>Consumer borrowers</b> .....		¥122
	Housing loans	27
	Card loans	62
	Other	33
<b>Corporate borrowers</b> .....		330
Other .....	Other	330
<b>Total</b> .....		<u>¥452</u>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**ORIX Corporation and Subsidiaries**

The following table provides information about financing receivables modified as troubled debt restructurings within the previous 12 months from March 31, 2016 and for which there was a payment default during fiscal 2016:

<u>Portfolio segment</u>	<u>March 31, 2016</u>	
	<u>Class</u>	<u>Millions of yen Recorded Investment</u>
<b>Consumer borrowers</b> .....		¥68
	Card loans	45
	Other	23
<b>Total</b> .....		<u>¥68</u>

The following table provides information about financing receivables modified as troubled debt restructurings within the previous 12 months from March 31, 2017 and for which there was a payment default during fiscal 2017:

<u>Portfolio segment</u>	<u>March 31, 2017</u>	
	<u>Class</u>	<u>Millions of yen Recorded Investment</u>
<b>Consumer borrowers</b> .....		¥1,526
	Card loans	47
	Other	1,479
<b>Total</b> .....		<u>¥1,526</u>

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

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

As of March 31, 2016 and 2017, there were no foreclosed residential real estate properties. The carrying amounts of installment loans in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure were ¥601 million and ¥324 million as of March 31, 2016 and 2017, respectively.

**9. Investment in Securities**

Investment in securities as of March 31, 2016 and 2017 consists of the following:

	<u>Millions of yen</u>	
	<u>2016</u>	<u>2017</u>
Trading securities* .....	¥ 725,821	¥ 569,074
Available-for-sale securities .....	1,347,890	1,165,417
Held-to-maturity securities .....	114,858	114,400
Other securities .....	156,223	177,621
<b>Total</b> .....	<u>¥2,344,792</u>	<u>¥2,026,512</u>

\* The amount of assets under management of variable annuity and variable life insurance contracts included in trading securities were ¥704,313 million and ¥547,850 million as of March 31, 2016 and 2017, respectively.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

Gains and losses realized from the sale of trading securities and net unrealized holding gains (losses) on trading securities are included in net gains on investment securities and life insurance related investment income. For further information, see Note 22 “Gains on investment securities and dividends” and Note 23 “Life Insurance Operations.” For fiscal 2015, 2016 and 2017, net unrealized holding gains (losses) on trading securities were gains of ¥137,704 million, losses of ¥84,678 million and gains of ¥19,049 million, respectively.

During fiscal 2015, 2016 and 2017, the Company and its subsidiaries sold available-for-sale securities for aggregate proceeds of ¥511,868 million, ¥464,232 million and ¥549,865 million, respectively, resulting in gross realized gains of ¥32,206 million, ¥32,593 million and ¥33,804 million, respectively, and gross realized losses of ¥129 million, ¥467 million and ¥3,103 million, respectively. The cost of the securities sold was based on the average cost of each such security held at the time of the sale.

During fiscal 2015, 2016 and 2017, the Company and its subsidiaries charged losses on securities of ¥8,997 million, ¥4,515 million and ¥6,608 million, respectively, to the accompanying consolidated statements of income for declines in market value of securities where the decline was considered as other than temporary.

Other securities consist mainly of non-marketable equity securities, preferred capital shares carried at cost and investment funds carried at an amount that reflects equity income and loss based on the investor’s share. The aggregate carrying amount of other securities accounted for under the cost method totaled ¥27,349 million and ¥25,597 million as of March 31, 2016 and 2017, respectively. Investments with an aggregate cost of ¥27,125 million and ¥25,396 million respectively, were not evaluated for impairment because the Company and its subsidiaries did not identify any events or changes in circumstances that might have had a significant adverse effect on the fair value of those investments and it was not practicable to estimate the fair value of the investments.

A certain subsidiary elected the fair value option for investments in foreign government bond securities included in available-for-sale securities, which as of March 31, 2016 and 2017, were fair valued at ¥988 million and ¥1,015 million, respectively.

A certain subsidiary elected the fair value option for investments in foreign corporate debt securities included in available-for-sale securities, which as of March 31, 2017, were fair valued at ¥1,026 million.

A certain subsidiary elected the fair value option for certain investments in equity securities included in available-for-sale securities to mitigate volatility in the consolidated statements of income caused by the differences in classification of recognized gain or loss that would otherwise exist between the equity securities and the derivatives used to manage the risk of changes in fair value of these equity securities. As of March 31, 2016 and 2017, these equity securities were fair valued at ¥16,227 million and ¥15,400 million, respectively.

Certain subsidiaries elected the fair value option for certain investments in a trust and investment funds included in other securities whose net asset values do not represent the fair value of investments due to the illiquid nature of these investments. The subsidiaries manage these investments on a fair value basis and the election of the fair value option enables the subsidiaries to reflect more appropriate assumptions to measure the fair value of these investments. As of March 31, 2016 and 2017, the fair values of these investments were ¥10,152 million and ¥7,453 million, respectively.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**ORIX Corporation and Subsidiaries**

The amortized cost basis amounts, gross unrealized holding gains, gross unrealized holding losses and fair values of available-for-sale securities and held-to-maturity securities in each major security type as of March 31, 2016 and 2017 are as follows:

**March 31, 2016**

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

**March 31, 2017**

	Millions of yen			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale:				
Japanese and foreign government bond securities . . . . .	¥ 334,117	¥12,321	¥ (826)	¥ 345,612
Japanese prefectural and foreign municipal bond securities . . . . .	166,789	3,034	(1,001)	168,822
Corporate debt securities . . . . .	393,021	3,606	(2,983)	393,644
Specified bonds issued by SPEs in Japan . . . . .	1,077	10	0	1,087
CMBS and RMBS in the Americas . . . . .	95,700	3,359	(558)	98,501
Other asset-backed securities and debt securities . . . . .	61,138	3,957	(378)	64,717
Equity securities . . . . .	67,914	25,618	(498)	93,034
	<u>1,119,756</u>	<u>51,905</u>	<u>(6,244)</u>	<u>1,165,417</u>
Held-to-maturity:				
Japanese government bond securities and other . . . . .	114,400	25,323	0	139,723
	<u>¥1,234,156</u>	<u>¥77,228</u>	<u>¥(6,244)</u>	<u>¥1,305,140</u>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**ORIX Corporation and Subsidiaries**

The following table provides information about available-for-sale securities and held-to-maturity securities with gross unrealized losses and the length of time that individual securities have been in a continuous unrealized loss position as of March 31, 2016 and 2017, respectively:

**March 31, 2016**

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

**March 31, 2017**

	Millions of yen					
	Less than 12 months		12 months or more		Total	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
Available-for-sale:						
Japanese and foreign government bond securities	¥ 33,991	¥ (826)	¥ 0	¥ 0	¥ 33,991	¥ (826)
Japanese prefectural and foreign municipal bond securities	36,873	(696)	6,202	(305)	43,075	(1,001)
Corporate debt securities	152,812	(2,983)	0	0	152,812	(2,983)
CMBS and RMBS in the Americas	20,238	(485)	9,428	(73)	29,666	(558)
Other asset-backed securities and debt securities	3,308	(1)	3,991	(377)	7,299	(378)
Equity securities	7,645	(480)	787	(18)	8,432	(498)
	<u>¥254,867</u>	<u>¥ (5,471)</u>	<u>¥20,408</u>	<u>¥ (773)</u>	<u>¥275,275</u>	<u>¥ (6,244)</u>

The number of investment securities that were in an unrealized loss position as of March 31, 2016 and 2017 were 259 and 325, respectively. The gross unrealized losses on these securities are attributable to a number of factors including changes in interest rates, credit spreads and market trends.

For debt securities, in the case of the fair value being below the amortized cost, the Company and its subsidiaries consider whether those securities are other-than-temporarily impaired using all available information about their collectability. The Company and its subsidiaries do not consider a debt security to be other-than-

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**ORIX Corporation and Subsidiaries**

temporarily impaired if (1) the Company and its subsidiaries do not intend to sell the debt security, (2) it is not more likely than not that the Company and its subsidiaries will be required to sell the debt security before recovery of its amortized cost basis and (3) the present value of estimated cash flows will fully cover the amortized cost of the security. On the other hand, the Company and its subsidiaries consider a debt security to be other-than-temporarily impaired if any of the above mentioned three conditions are not met.

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

The unrealized loss associated with corporate debt securities is primarily due to changes in the market interest rate and risk premium. Considering all available information to assess the collectability of those investments (such as the financial condition of and business prospects for the issuers), the Company and its subsidiaries believe that the Company and its subsidiaries are able to recover the entire amortized cost basis of those investments. Because the Company and its subsidiaries do not intend to sell the investments and it is not more likely than not that the Company and its subsidiaries will be required to sell the investments before recovery of their amortized cost basis, the Company and its subsidiaries do not consider these investments to be other-than-temporarily impaired at March 31, 2017.

The unrealized loss associated with CMBS and RMBS in the Americas and other asset-backed securities is primarily caused by changes in credit spreads and interest rates. In order to determine whether a credit loss exists, the Company and its subsidiaries estimate the present value of anticipated cash flows, discounted at the current yield to accrete the security. The cash flows are estimated based on a number of assumptions such as default rate and prepayment speed, as well as seniority of the security. Then, a credit loss is assessed by comparing the present value of the expected cash flows to the security's amortized cost basis. Based on that assessment, the Company and its subsidiaries expect to recover the entire amortized cost basis and no credit impairment was identified. Because the Company and its subsidiaries do not intend to sell the investments and it is not more likely than not that the Company and its subsidiaries will be required to sell the investments before recovery of their amortized cost basis, the Company and its subsidiaries do not consider these investments to be other-than-temporarily impaired as of March 31, 2017.

For equity securities with unrealized losses, the Company and its subsidiaries consider various factors to determine whether the decline is other-than-temporary, including the length of time and the extent to which the fair value has been less than the carrying value and the issuer's specific economic conditions as well as the ability and intent to hold these securities for a period of time sufficient to recover the securities' carrying amounts. Based on our ongoing monitoring process, the Company and its subsidiaries do not consider these investments to be other-than-temporarily impaired as of March 31, 2017.

The total other-than-temporary impairment with an offset for the amount of the total other-than-temporary impairment recognized in other comprehensive income (loss) for fiscal 2015, 2016 and 2017 are as follows:

	Millions of yen		
	2015	2016	2017
Total other-than-temporary impairment losses . . . . .	¥9,077	¥4,517	¥6,608
Portion of loss recognized in other comprehensive income (before taxes) . . . . .	(80)	(2)	0
Net impairment losses recognized in earnings . . . . .	¥8,997	¥4,515	¥6,608

Total other-than-temporary impairment losses for fiscal 2015 and 2016 related to equity securities, debt securities and other securities. Total other-than-temporary impairment losses for fiscal 2017 related to equity securities and other securities.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**ORIX Corporation and Subsidiaries**

During fiscal 2015 and 2016, other-than-temporary impairment losses related to debt securities are recognized mainly on certain other asset-backed securities. Other asset-backed securities have experienced credit losses due to a decline in value of the underlying assets. Because the Company and its subsidiaries do not intend to sell the investments and it is not more likely than not that the Company and its subsidiaries will be required to sell the investments before recovery of their amortized cost basis, the credit loss component is recognized in earnings, and the non-credit loss component is recognized in other comprehensive income (loss), net of applicable income taxes. The credit loss assessment is made by comparing the securities' amortized cost basis with the portion of the estimated fair value of the underlying assets available to repay the specified bonds, or with the present value of the expected cash flows from the mortgage-backed securities, that were estimated based on a number of assumptions such as seniority of the security.

Roll-forwards of the amount related to credit losses on other-than-temporarily impaired debt securities recognized in earnings for fiscal 2015, 2016 and 2017 are as follows:

	Millions of yen		
	2015	2016	2017
Beginning .....	¥1,991	¥2,633	¥1,413
Addition during the period:			
Credit loss for which an other-than-temporary impairment was not previously recognized .....	456	0	0
Credit loss for which an other-than-temporary impairment was previously recognized .....	282	49	0
Reduction during the period:			
For securities sold or redeemed .....	(44)	(604)	(171)
Due to change in intent to sell or requirement to sell .....	(52)	(665)	(22)
Ending .....	¥2,633	¥1,413	¥1,220

The Company and its subsidiaries recorded other-than-temporary impairments related to the non-credit losses arising from foregoing debt securities for CMBS and RMBS in the Americas. These impairments included the amount of unrealized gains or losses for the changes in fair value of the debt securities after recognition of other-than-temporary impairments in earnings. As of March 31, 2015, an unrealized gain of ¥234 million and an unrealized loss of ¥58 million, before taxes, were included and an unrealized gain of ¥149 million and an unrealized loss of ¥37 million, net of taxes, were included in unrealized gains or losses of accumulated other comprehensive income. As of March 31, 2016, an unrealized gain of ¥61 million and an unrealized loss of ¥6 million, before taxes, were included and an unrealized gain of ¥39 million and an unrealized loss of ¥4 million, net of taxes, were included in unrealized gains or losses of accumulated other comprehensive income. As of March 31, 2017, an unrealized gain of ¥57 million, before taxes, were included and an unrealized gain of ¥36 million, net of taxes, were included in unrealized gains or losses of accumulated other comprehensive income. As of March 31, 2017, no unrealized loss was included in unrealized gains or losses of accumulated other comprehensive income.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**ORIX Corporation and Subsidiaries**

The following is a summary of the contractual maturities of debt securities classified as available-for-sale securities and held-to-maturity securities held as of March 31, 2017:

**Available-for-sale securities held as of March 31, 2017:**

	Millions of yen	
	Amortized cost	Fair value
Due within one year . . . . .	¥ 55,086	¥ 56,943
Due after one to five years . . . . .	287,573	289,773
Due after five to ten years . . . . .	393,476	394,894
Due after ten years . . . . .	315,707	330,773
	¥1,051,842	¥1,072,383

**Held-to-maturity securities held as of March 31, 2017:**

	Millions of yen	
	Amortized cost	Fair value
Due after ten years . . . . .	¥ 114,400	¥ 139,723
	¥ 114,400	¥ 139,723

Securities not due at a single maturity date, such as mortgage-backed securities, are included in the above table based on their final maturities.

Certain borrowers may have the right to call or prepay obligations. This right may cause actual maturities to differ from the contractual maturities summarized above.

Included in finance revenues in the consolidated statements of income is interest income on investment securities of ¥12,391 million, ¥12,712 million and ¥14,031 million for fiscal 2015, 2016 and 2017 respectively.

The Company and a certain foreign subsidiary acquired debt securities with evidence of deterioration of credit quality at the time of acquisition, and it was not probable the Company and a certain foreign subsidiary were able to recover all contractual amounts of those debt securities. The Company and the subsidiary determined the expected future cash flows taking into account historical cash collections for debt securities with similar characteristics as well as expected prepayments and the amount and the timing of undiscounted expected principal, interest and other cash flows for each pool of debt securities. Accretable yield represents the excess of expected future cash flows over carrying value of the debt securities, which is recognized as interest income over the remaining life of the debt securities. For a debt security for which the fair value is less than the amortized cost basis, the Company and a certain foreign subsidiary estimates the present value of cash flows expected to be collected from the security and compares it with the amortized cost basis of the security to determine whether a credit loss exists. If, based on current information and events, the Company and the subsidiary determine a credit loss exists for that security, an other-than-temporary impairment is considered to have occurred. For a debt security for which an other-than-temporary impairment is considered to have occurred, the Company and the subsidiary recognize the entire difference between the amortized cost and the fair value in earnings if the Company and the subsidiary intend to sell the debt security or it is more likely than not that the Company and the subsidiary will be required to sell the debt security before recovery of its amortized cost basis less any current-period credit loss. On the other hand, if the Company and the subsidiary do not intend to sell the debt security

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

and it is not more likely than not that the Company and the subsidiary will be required to sell the debt security before recovery of its amortized cost basis less any current-period credit loss, the Company and the subsidiary separate the difference between the amortized cost and the fair value of the debt securities into the credit loss component and the non-credit loss component. The credit loss component is recognized in earnings, and the non-credit loss component is recognized in other comprehensive income (loss), net of applicable income taxes. The carrying amounts and the nominal value of debt securities acquired with evidence of deterioration of credit quality were ¥319 million and ¥1,057 million as of March 31, 2016, and ¥18 million and ¥355 million as of March 31, 2017. The outstanding balance of accretible yield was ¥743 million and ¥402 million as of March 31, 2016 and 2017, respectively.

#### 10. Securitization Transactions

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

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

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

Trusts or SPEs used in securitization transactions have been consolidated if the Company and its subsidiaries are the primary beneficiary of the trusts or SPEs.

During fiscal 2015, 2016 and 2017, there was no securitization transaction accounted for as a sale.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**ORIX Corporation and Subsidiaries**

Quantitative information about delinquencies, impaired loans and components of financial assets sold on securitization and other assets managed together as of March 31, 2016 and 2017, and quantitative information about net credit loss for fiscal 2015, 2016 and 2017 are as follows:

	Millions of yen			
	Total principal amount of receivables		Principal amount of receivables that are 90 days or more past-due and impaired loans	
	March 31, 2016	March 31, 2017	March 31, 2016	March 31, 2017
Direct financing leases . . . . .	¥1,190,136	¥1,204,024	¥12,556	¥11,600
Installment loans . . . . .	2,592,233	2,815,706	81,771	68,747
	3,782,369	4,019,730	94,327	80,347
Direct financing leases sold on securitization . . . . .	706	0	0	0
Total . . . . .	<u>¥3,783,075</u>	<u>¥4,019,730</u>	<u>¥94,327</u>	<u>¥80,347</u>

	Millions of yen		
	Credit loss		
	2015	2016	2017
Direct financing leases . . . . .	¥ 3,774	¥ 4,062	¥ 4,056
Installment loans . . . . .	22,019	13,442	17,766
	25,793	17,504	21,822
Direct financing leases sold on securitization . . . . .	0	0	0
Total . . . . .	<u>¥25,793</u>	<u>¥17,504</u>	<u>¥21,822</u>

A certain subsidiary originates and sells loans into the secondary market while retaining the obligation to service those loans. In addition, it undertakes obligations to service loans originated by others. The servicing assets related to those servicing activities are included in other assets and roll-forwards of the amount of the servicing assets during fiscal 2016 and 2017 are as follows:

	Millions of yen	
	2016	2017
Beginning balance . . . . .	¥18,376	¥16,852
Increase mainly from loans sold with servicing retained . . . . .	4,077	4,118
Decrease mainly from amortization . . . . .	(4,467)	(3,625)
Increase (Decrease) from the effects of changes in foreign exchange rates . . . . .	(1,134)	(42)
Ending balance . . . . .	<u>¥16,852</u>	<u>¥17,303</u>

The fair value of the servicing assets as of March 31, 2016 and 2017 are as follows:

	Millions of yen	
	March 31, 2016	March 31, 2017
Beginning balance . . . . .	¥27,676	¥24,229
Ending balance . . . . .	¥24,229	¥24,907

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

#### 11. Variable Interest Entities

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

These SPEs are not always controlled by voting rights, and there are cases where voting rights do not exist for these SPEs. The Company and its subsidiaries determine a variable interest entity (hereinafter referred to as VIE) among those SPEs when (a) the total equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support provided by any parties, including the equity holders or (b) as a group, the holders of the equity investment at risk do not have (1) the ability to make decisions about an entity's activities that most significantly impact the entity's economic performance through voting rights or similar rights, (2) the obligation to absorb the expected losses of the entity or (3) the right to receive the expected residual returns of the entity.

The Company and its subsidiaries perform a qualitative analysis to identify the primary beneficiary of VIEs. An enterprise that has both of the following characteristics is considered to be the primary beneficiary and therefore results in the consolidation of the VIE:

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

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

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

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

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

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

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**ORIX Corporation and Subsidiaries**

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

1. Consolidated VIEs

**March 31, 2016 \*4**

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

**March 31, 2017**

Types of VIEs	Millions of yen			
	Total assets*1	Total liabilities*1	Assets which are pledged as collateral*2	Commitments*3
(a) VIEs for liquidating customer assets	¥ 0	¥ 0	¥ 0	¥ 0
(b) VIEs for acquisition of real estate and real estate development projects for customers	663	0	0	0
(c) VIEs for acquisition of real estate for the Company and its subsidiaries' real estate-related business	127,425	39,877	75,382	7,000
(d) VIEs for corporate rehabilitation support business	1,544	16	0	0
(e) VIEs for investment in securities	50,411	2,027	5,567	1,995
(f) VIEs for securitizing financial assets such as direct financing lease receivable and loan receivable	338,138	228,935	307,315	0
(g) VIEs for securitization of loan receivable originated by third parties	18,683	17,202	18,683	0
(h) VIEs for power generation projects	212,153	111,404	127,993	84,227
(i) Other VIEs	202,386	72,447	168,353	0
<b>Total</b>	<b>¥951,403</b>	<b>¥471,908</b>	<b>¥703,293</b>	<b>¥ 93,222</b>

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

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

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

\*4 The amounts as of March 31, 2016 were disclosed according to ASC 810 ("Consolidation") before amendment, and were not adjusted to reflect the Accounting Standards Update 2015-02 ("Amendments to the Consolidation Analysis"—ASC 810 ("Consolidation")).

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**ORIX Corporation and Subsidiaries**

2. Non-consolidated VIEs

**March 31, 2016 \*2**

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

**March 31, 2017 \*3**

Types of VIEs	Millions of yen			
	Carrying amount of the variable interests in the VIEs held by the Company and its subsidiaries			
	Total assets	Specified bonds and non-recourse loans	Investments	Maximum exposure to loss*1
(a) VIEs for liquidating customer assets	¥ 8,671	¥ 0	¥ 991	¥ 991
(b) VIEs for acquisition of real estate and real estate development projects for customers	96,187	0	11,130	11,194
(c) VIEs for acquisition of real estate for the Company and its subsidiaries' real estate-related business	0	0	0	0
(d) VIEs for corporate rehabilitation support business	0	0	0	0
(e) VIEs for investment in securities	30,299,519	0	80,211	109,310
(f) VIEs for securitizing financial assets such as direct financing lease receivable and loan receivable	0	0	0	0
(g) VIEs for securitization of loan receivable originated by third parties	1,744,471	0	18,448	18,483
(h) VIEs for power generation projects	12,414	0	1,719	3,729
(i) Other VIEs	319,520	4,864	17,963	25,260
Total	<u>¥32,480,782</u>	<u>¥4,864</u>	<u>¥130,462</u>	<u>¥168,967</u>

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



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

- \*2 The amounts as of March 31, 2016 were disclosed according to ASC 810 (“Consolidation”) before amendment, and were not adjusted to reflect the Accounting Standards Update 2015-02 (“Amendments to the Consolidation Analysis”—ASC 810 (“Consolidation”)).
- \*3 On April 1, 2016, the Company and its subsidiaries adopted the Accounting Standards Update 2015-02 (“Amendments to the Consolidation Analysis”—ASC 810 (“Consolidation”)), issued in February 2015. As a result of the adoption, the effect on the non-consolidated VIEs as of April 1, 2016 was an increase of ¥2,401,930 million in total assets, an increase of ¥56,931 million in investments and an increase of ¥69,660 million in maximum exposure to loss. This was due primarily to the increases of ¥2,021,460 million in total assets, ¥49,275 million in investments and ¥62,003 million in maximum exposure to loss, included in “(e) VIEs for investment in securities.”

#### **(a) VIEs for liquidating customer assets**

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

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

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

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

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

In the Company’s consolidated balance sheets, assets of consolidated VIEs are mainly included in cash and cash equivalents and liabilities of those consolidated VIEs are mainly included in other liabilities.

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



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

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

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

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

#### **(d) VIEs for corporate rehabilitation support business**

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

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

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

#### **(e) VIEs for investment in securities**

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

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

In the Company's consolidated balance sheets, assets of the consolidated VIEs are mainly included in investment in securities and investment in affiliates, and liabilities of those consolidated VIEs are mainly included in trade notes, accounts and other payable. A subsidiary has a commitment agreement by which the subsidiary may be required to make additional investment in certain such consolidated VIEs.

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

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

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

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

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

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

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

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

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

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

#### **(h) VIEs for power generation projects**

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

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

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

#### (i) Other VIEs

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

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

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

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

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**ORIX Corporation and Subsidiaries**

**12. Investment in Affiliates**

Investment in affiliates at March 31, 2016 and 2017 consists of the following:

	Millions of yen	
	2016	2017
Shares .....	¥499,922	¥485,386
Loans and others .....	30,745	38,848
	¥530,667	¥524,234

Certain affiliates are listed on stock exchanges. The aggregate investment in and quoted market value of those affiliates amounted to ¥110,121 million and ¥110,568 million, respectively, as of March 31, 2016 and ¥127,121 million and ¥159,867 million, respectively, as of March 31, 2017.

In fiscal 2015, 2016 and 2017, the Company and its subsidiaries received dividends from affiliates of ¥18,186 million, ¥30,063 million and ¥14,913 million, respectively.

The balance of excess of cost over the underlying equity at acquisition dates of investment in affiliates amounted to ¥101,289 million and ¥96,649 million as of March 31, 2016 and 2017, respectively.

From fiscal 2016, the Company no longer has the ability to exercise significant influence on ORIX JREIT Inc., and therefore has excluded ORIX JREIT Inc. from investment in affiliates accounted for by using the equity method. The transactions during the period accounted for by the equity method are described below.

ORIX JREIT Inc., formerly an equity method affiliate, entered into an asset management agreement and the like with one of the Company's subsidiaries and paid fees of ¥2,433 million, ¥1,937 million for fiscal 2015 and 2016, respectively.

In fiscal 2015 and 2016, the Company and certain subsidiaries sold to ORIX JREIT Inc., office buildings, commercial facilities other than office buildings, and condominiums mainly under operating leases. In fiscal 2015 and 2016, the Company and the subsidiaries recognized gains of ¥10,473 million, ¥1,744 million, respectively in earnings as operating leases. The related intercompany profits have been eliminated based on the Company's proportionate share.

Combined and condensed information relating to the affiliates for fiscal 2015, 2016 and 2017 are as follows (some operation data for entities reflect only the period since the Company and its subsidiaries made the investment and on a lag basis):

	Millions of yen		
	2015	2016	2017
<b>Operations:</b>			
Total revenues .....	¥1,094,317	¥1,333,838	¥1,394,872
Income before income taxes .....	130,799	177,535	154,162
Net income .....	109,865	141,964	109,183
<b>Financial position:</b>			
Total assets .....	¥6,897,921	¥8,350,901	¥8,452,544
Total liabilities .....	5,131,402	6,206,321	6,075,513
Total equity .....	1,766,519	2,144,580	2,377,031

The Company and its subsidiaries had no significant transactions with these companies except as described above.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

ORIX Corporation and Subsidiaries

13. Goodwill and Other Intangible Assets

Changes in goodwill by reportable segment for fiscal 2015, 2016 and 2017 are as follows:

	Millions of yen						
	Corporate Financial Services	Maintenance Leasing	Real Estate	Investment and Operation	Retail	Overseas Business	Total
Balance at March 31, 2014							
Goodwill	¥ 1,304	¥282	¥19,300	¥ 26,250	¥15,424	¥273,643	¥336,203
Accumulated impairment losses	(257)	0	0	(39)	0	0	(296)
	1,047	282	19,300	26,211	15,424	273,643	335,907
Acquired	53,741	0	0	17,967	0	12,043	83,751
Impairment	(550)	0	(8,708)	0	0	(587)	(9,845)
Other (net)*	0	0	(97)	(376)	0	(36,725)	(37,198)
Balance at March 31, 2015							
Goodwill	55,045	282	19,203	43,841	15,424	248,961	382,756
Accumulated impairment losses	(807)	0	(8,708)	(39)	0	(587)	(10,141)
	54,238	282	10,495	43,802	15,424	248,374	372,615
Acquired	1,158	0	0	29,365	0	3,796	34,319
Impairment	(30)	0	0	0	0	0	(30)
Other (net)*	0	0	0	(6,260)	0	(68,491)	(74,751)
Balance at March 31, 2016							
Goodwill	56,203	282	19,203	66,946	15,424	184,266	342,324
Accumulated impairment losses	(837)	0	(8,708)	(39)	0	(587)	(10,171)
	55,366	282	10,495	66,907	15,424	183,679	332,153
Acquired	0	0	0	26,316	0	7,054	33,370
Impairment	0	0	0	0	0	(2,785)	(2,785)
Other (net)*	0	0	(31)	(11,342)	0	(10,187)	(21,560)
Balance at March 31, 2017							
Goodwill	56,203	282	19,172	81,920	15,424	181,133	354,134
Accumulated impairment losses	(837)	0	(8,708)	(39)	0	(3,372)	(12,956)
	¥55,366	¥282	¥10,464	¥ 81,881	¥15,424	¥177,761	¥341,178

\* Other includes foreign currency translation adjustments, decreases due to sale of ownership interest in subsidiaries and certain other reclassifications. In the Overseas Business segment, there was a decrease of ¥39,694 million during fiscal 2015 due to the partial sale of shares of STX Energy, which as a result of the sale changed from a consolidated subsidiary to an equity method affiliate. In the Overseas Business segment, there was a decrease of ¥57,153 million during fiscal 2016 due to the partial sale of shares of Houlihan Lokey, which as a result of the sale changed from a consolidated subsidiary to an equity method affiliate.

As a result of the impairment test, the Company and its subsidiaries recognized impairment losses on goodwill of ¥550 million in Corporate Financial Services segment, ¥8,708 million on golf business included in Real Estate segment, ¥587 million in Overseas Business segment during fiscal 2015. These impairment losses are included in other (income) and expense, net in the consolidated statements of income. The impairment loss on golf business was recognized as a result of reduction in estimated future cash flow due to our additional capital investment in the slower market growth, which brought the fair value of the reporting unit below its carrying amount. The Company and its subsidiaries recognized an impairment loss on goodwill of ¥30 million in

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**ORIX Corporation and Subsidiaries**

Corporate Financial Services segment during fiscal 2016. This impairment loss is included in other (income) and expense, net in the consolidated statements of income. The fair values of the reporting units were measured using mainly the discounted cash flow methodologies and the business enterprise value multiples methodologies. The Company and its subsidiaries recognized an impairment loss on goodwill of ¥2,785 million in Overseas Business segment during fiscal 2017. This impairment loss is included in other (income) and expense, net in the consolidated statements of income. This impairment loss was recognized as a result of reduction in the fair value of an overseas subsidiary due to increases in the credit losses from installment loans, which brought the fair value of the reporting unit below its carrying amount.

Other intangible assets at March 31, 2016 and 2017 consist of the following:

	Millions of yen	
	2016	2017
Intangible assets that have indefinite useful lives:		
Trade names .....	¥ 75,860	¥ 74,489
Asset management contracts .....	150,686	141,352
Others .....	3,906	6,395
	230,452	222,236
Intangible assets subject to amortization:		
Software .....	94,898	89,714
Customer relationships .....	125,081	117,716
Others .....	32,388	73,866
	252,367	281,296
Accumulated amortization .....	(96,485)	(107,481)
Net .....	155,882	173,815
	¥386,334	¥ 396,051

The aggregate amortization expenses for intangible assets are ¥23,164 million, ¥25,848 million and ¥26,252 million in fiscal 2015, 2016 and 2017, respectively.

The estimated amortization expenses for each of five succeeding fiscal years are ¥23,594 million in fiscal 2018, ¥22,078 million in fiscal 2019, ¥20,447 million in fiscal 2020, ¥15,877 million in fiscal 2021 and ¥13,249 million in fiscal 2022, respectively.

Intangible assets subject to amortization increased during fiscal 2017 are ¥38,658 million. They mainly consist of ¥8,203 million of software and ¥13,036 million of license recognized in acquisitions. The weighted average amortization periods for the software and the license recognized in acquisitions are 7 years and 25 years, respectively.

As a result of the impairment test, the Company and its subsidiaries recognized impairment losses of ¥358 million on intangible assets included in mainly Corporate Financial Services segment, during fiscal 2015. The Company and its subsidiaries recognized an impairment loss of ¥295 million on intangible assets included in Investment and Operation segment, during fiscal 2016. The Company and its subsidiaries recognized an impairment loss of ¥411 million on intangible assets included in Overseas Business segment during fiscal 2017. These impairment losses are included in other (income) and expense, net in the consolidated statements of income. These impairment losses are recognized due to the reduction in the estimated future cash flow, which brought the fair values of the intangible assets below its carrying amount. The fair values of the intangible assets were measured using the discounted cash flow methodologies.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**ORIX Corporation and Subsidiaries**

**14. Short-Term and Long-Term Debt**

Short-term debt consists of borrowings from financial institutions and commercial paper.

The composition of short-term debt and the weighted average contract interest rate on short-term debt at March 31, 2016 and 2017 are as follows:

**March 31, 2016**

	<u>Millions of yen</u>	<u>Weighted average rate</u>
Short-term debt in Japan, mainly from banks . . . . .	¥ 80,846	0.5%
Short-term debt outside Japan, mainly from banks . . . . .	166,417	2.2
Commercial paper in Japan . . . . .	94,786	0.1
Commercial paper outside Japan . . . . .	<u>7,575</u>	4.0
	<u>¥349,624</u>	1.3

**March 31, 2017**

	<u>Millions of yen</u>	<u>Weighted average rate</u>
Short-term debt in Japan, mainly from banks . . . . .	¥ 79,494	0.8%
Short-term debt outside Japan, mainly from banks . . . . .	153,877	2.8
Commercial paper in Japan . . . . .	50,096	0.0
Commercial paper outside Japan . . . . .	<u>0</u>	0.0
	<u>¥283,467</u>	1.7

The composition of long-term debt, the weighted average contract interest rate on long-term debt and the repayment due dates at March 31, 2016 and 2017 are as follows:

**March 31, 2016**

	<u>Due (Fiscal Year)</u>	<u>Millions of yen</u>	<u>Weighted average rate</u>
Banks:			
Fixed rate . . . . .	2017~2033	¥ 521,491	1.8%
Floating rate . . . . .	2017~2033	1,599,803	0.9
Insurance companies and others:			
Fixed rate . . . . .	2018~2027	342,720	1.0
Floating rate . . . . .	2017~2026	259,306	0.8
Unsecured bonds . . . . .	2017~2025	875,575	1.1
Unsecured notes under medium-term note program . . . . .	2017~2021	62,491	2.7
Payables under securitized lease receivables . . . . .	2020~2021	129,005	0.3
Payables under securitized loan receivables and investment in securities . . . . .	2017~2039	<u>146,527</u>	2.6
		<u>¥3,936,918</u>	1.1



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**ORIX Corporation and Subsidiaries**

**March 31, 2017**

	<u>Due (Fiscal Year)</u>	<u>Millions of yen</u>	<u>Weighted average rate</u>
Banks:			
Fixed rate .....	2018~2035	¥ 481,959	1.7%
Floating rate .....	2018~2077	1,613,795	1.0
Insurance companies and others:			
Fixed rate .....	2020~2027	340,265	1.0
Floating rate .....	2019~2077	288,837	0.6
Unsecured bonds .....	2018~2027	688,488	1.0
Unsecured notes under medium-term note program .....	2019~2027	196,570	3.0
Payables under securitized lease receivables .....	2021~2023	103,212	0.4
Payables under securitized loan receivables and investment in securities .....	2018~2039	141,858	2.6
		<u>¥3,854,984</u>	1.2

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

The repayment schedule for the next five years and thereafter for long-term debt at March 31, 2017 is as follows:

<u>Years ending March 31,</u>	<u>Millions of yen</u>
2018 .....	¥ 825,026
2019 .....	634,732
2020 .....	469,448
2021 .....	465,384
2022 .....	440,728
Thereafter .....	<u>1,019,666</u>
Total .....	<u>¥3,854,984</u>

Borrowings with floating rate from banks, insurance companies and others include the amount of ¥94,000 million of subordinated syndicated loan (hybrid loan, whose maturity date is fiscal 2077), and ¥60,000 million and ¥34,000 million can be repaid after 5 years, and 7 years respectively.

For borrowings from banks, insurance companies and other financial institutions, for bonds, and for medium-term notes, principal repayments are made upon maturity of the loan contracts and interest payments are usually paid semi-annually.

During fiscal 2015, 2016 and 2017, the Company and certain subsidiaries recognized net amortization expenses of premiums and discounts of bonds and medium-term notes, and deferred issuance costs of bonds and medium-term notes in the amount of ¥367 million, ¥1,085 million and ¥924 million, respectively.

Total committed credit lines for the Company and its subsidiaries were ¥464,677 million and ¥463,643 million at March 31, 2016 and 2017, respectively, and, of these lines, ¥389,903 million and



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**ORIX Corporation and Subsidiaries**

¥393,968 million were available at March 31, 2016 and 2017, respectively. Of the available committed credit lines, ¥380,062 million and ¥356,164 million were long-term committed credit lines at March 31, 2016 and 2017, respectively.

The agreements related to debt payable to banks provide that the banks under certain circumstances may request additional security for loans and have the right to offset cash deposited against any short-term or long-term debt that becomes due and, in case of default and certain other specified events, against all other debt payable to the banks.

Other than the assets of the consolidated VIEs pledged as collateral for financing (see Note 11 “Variable Interest Entities”), the Company and certain subsidiaries provide the following assets as collateral for the short-term and long-term debt payables to financial institutions as of March 31, 2017:

	<b>Millions of yen</b>
Minimum lease payments, loans and investment in operating leases . . . . .	¥102,339
Investment in securities . . . . .	172,084
Property under facility operations . . . . .	7,532
Other assets and other . . . . .	17,643
	¥299,598

As of March 31, 2017, debt liabilities was secured by shares of subsidiaries of ¥38,562 million, which was eliminated through consolidation adjustment, and debt liabilities of affiliates was secured by investment in affiliates of ¥37,013 million. In addition, ¥40,290 million was pledged primarily by investment in securities for collateral deposits, deposit for real estate transaction, and assets for liquidation of future rent as of March 31, 2017.

Under loan agreements relating to short-term and long-term debt from commercial banks and certain insurance companies, the Company and certain subsidiaries are required to provide collateral against these debts at any time if requested by the lenders. The Company and the subsidiaries did not receive any such requests from the lenders as of March 31, 2017.

**15. Deposits**

Deposits at March 31, 2016 and 2017 consist of the following:

	<b>Millions of yen</b>	
	<b>2016</b>	<b>2017</b>
Time deposits . . . . .	¥1,093,238	¥1,200,240
Other deposits . . . . .	305,234	414,368
Total . . . . .	¥1,398,472	¥1,614,608

The balances of time deposits and certificates of deposit issued in amounts of ¥10 million or more were ¥648,697 million and ¥781,516 million at March 31, 2016 and 2017, respectively.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**ORIX Corporation and Subsidiaries**

The maturity schedule of time deposits at March 31, 2017 is as follows:

<u>Years ending March 31,</u>	<u>Millions of yen</u>
2018 .....	¥ 818,840
2019 .....	186,119
2020 .....	82,894
2021 .....	78,150
2022 .....	33,737
Thereafter .....	500
Total .....	<u>¥1,200,240</u>

**16. Income Taxes**

Income before income taxes and discontinued operations, and the provision for income taxes in fiscal 2015, 2016 and 2017 are as follows:

	<u>Millions of yen</u>		
	<u>2015</u>	<u>2016</u>	<u>2017</u>
Income before income taxes and discontinued operations:			
Japan .....	¥188,601	¥228,527	¥302,995
Overseas .....	155,416	162,775	121,970
	<u>¥344,017</u>	<u>¥391,302</u>	<u>¥424,965</u>
Provision for income taxes:			
Current—			
Japan .....	¥ 9,455	¥ 34,866	¥ 85,963
Overseas .....	38,264	42,918	32,758
	<u>47,719</u>	<u>77,784</u>	<u>118,721</u>
Deferred—			
Japan .....	36,112	34,315	20,859
Overseas .....	5,226	8,213	4,459
	<u>41,338</u>	<u>42,528</u>	<u>25,318</u>
Provision for income taxes .....	<u>¥ 89,057</u>	<u>¥120,312</u>	<u>¥144,039</u>

In fiscal 2015, the Company and its subsidiaries in Japan are subject to a National Corporation tax of approximately 26%, an Inhabitant tax of approximately 5% and a deductible Enterprise tax of approximately 8%, which in the aggregate result in a statutory income tax rate of approximately 35.9%. In fiscal 2016, the Company and its subsidiaries in Japan are subject to a National Corporation tax of approximately 25%, an Inhabitant tax of approximately 4% and a deductible Enterprise tax of approximately 6%, which in the aggregate result in a statutory income tax rate of approximately 33.5%. In fiscal 2017, the Company and its subsidiaries in Japan are subject to a National Corporation tax of approximately 24%, an Inhabitant tax of approximately 4% and a deductible Enterprise tax of approximately 4%, which in the aggregate result in a statutory income tax rate of approximately 31.7%.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**ORIX Corporation and Subsidiaries**

Reconciliations of the differences between the tax provision computed at the statutory rate and the consolidated provision for income taxes in fiscal 2015, 2016 and 2017 are as follows:

	Millions of yen		
	2015	2016	2017
Income before income taxes and discontinued operations . . . . .	¥344,017	¥391,302	¥424,965
Tax provision computed at statutory rate . . . . .	¥123,502	¥131,086	¥134,714
Increases (reductions) in taxes due to:			
Change in valuation allowance* . . . . .	1,839	(1,547)	57
Non-deductible expenses for tax purposes . . . . .	3,513	2,277	4,550
Non-taxable income for tax purposes . . . . .	(7,633)	(3,767)	(3,504)
Effect of nontaxable bargain purchase gain . . . . .	(12,953)	0	0
Effect of lower tax rates on foreign subsidiaries and a domestic life insurance subsidiary . . . . .	(8,766)	(3,593)	(2,780)
Effect of investor taxes on earnings of subsidiaries . . . . .	2,140	5,279	8,650
Effect of the tax rate change related to the new Japanese tax law . . . . .	(14,098)	(7,468)	1,219
Other, net . . . . .	1,513	(1,955)	1,133
Provision for income taxes . . . . .	¥ 89,057	¥120,312	¥144,039

\* In fiscal 2015 and 2016, increases in the valuation allowance of ¥1,819 million and decreases in the valuation allowance of ¥12 million due to the amendment to tax loss carryforward rules related to the new Japanese tax law are included in “Change in valuation allowance” in the table above.

The effective income tax rate is different from the statutory tax rate primarily because of certain nondeductible expenses for tax purposes, non-taxable income for tax purposes, changes in valuation allowance, the effect of nontaxable bargain purchase gain, the effect of lower income tax rates on foreign subsidiaries and a domestic life insurance subsidiaries, effect of investor taxes on earnings of subsidiaries, and the effect of the tax reforms as discussed in the following paragraph.

On March 31, 2015, the 2015 tax reform bill was passed by the National Diet of Japan. From fiscal years beginning on April 1, 2015, the national tax rate and the local business tax rate were reduced, and as a result, the combined statutory income tax rate for the fiscal year beginning on April 1, 2015 was reduced from approximately 35.9% to approximately 33.5%. The increase and decrease of the deferred tax assets and liabilities due to the change in the tax rates resulted in a decrease of provision for income taxes by ¥14,098 million in the consolidated statements of income in fiscal 2015, and the increase of the valuation allowance due to the amendment to tax loss carryforward rules resulted in an increase of provision for income taxes by ¥1,819 million in the consolidated statements of income in fiscal 2015.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**ORIX Corporation and Subsidiaries**

of taxable income for the year, while the tax loss carryforward period will be reduced from ten years to nine years. From the fiscal years beginning on or after April 1, 2018, the deductible limit of tax losses carried forward will remain at 50% of taxable income for the year and the tax loss carryforward period will remain at 10 years, consistent with the 2015 tax reform. The increase and decrease of the deferred tax assets and liabilities due to the change in the tax rates resulted in a decrease of provision for income taxes by ¥7,468 million in the consolidated statements of income in fiscal 2016, and the decrease of the valuation allowance due to the amendment to tax loss carryforward rules resulted in an decrease of provision for income taxes by ¥12 million in the consolidated statements of income in fiscal 2016.

On November 18, 2016, the 2016 tax reform bill was passed by the National Diet of Japan. The effect of the tax reform bill on the Company and its subsidiaries' results of operations or financial position for the fiscal 2017 was not material.

Total income taxes recognized in fiscal 2015, 2016 and 2017 are as follows:

	Millions of yen		
	2015	2016	2017
Provision for income taxes . . . . .	¥89,057	¥120,312	¥144,039
Income taxes on discontinued operations . . . . .	166	0	0
Income taxes on other comprehensive income (loss):			
Net unrealized gains (losses) on investment in securities . . . . .	6,915	(6,003)	(6,293)
Defined benefit pension plans . . . . .	(4,045)	(2,954)	2,582
Foreign currency translation adjustments . . . . .	6,880	(2,921)	(8,576)
Net unrealized gains (losses) on derivative instruments . . . . .	(255)	(1,696)	229
Direct adjustments to shareholders' equity . . . . .	(734)	(2)	(1)
Total income taxes . . . . .	<u>¥97,984</u>	<u>¥106,736</u>	<u>¥131,980</u>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**ORIX Corporation and Subsidiaries**

The tax effects of temporary differences giving rise to the deferred tax assets and liabilities at March 31, 2016 and 2017 are as follows:

	<u>Millions of yen</u>	
	<u>2016</u>	<u>2017</u>
Assets:		
Net operating loss carryforwards .....	¥ 72,994	¥ 62,953
Allowance for doubtful receivables on direct financing leases and probable loan losses .....	12,883	13,997
Investment in securities .....	15,306	13,778
Accrued expenses .....	25,537	25,973
Investment in operating leases .....	16,814	16,613
Property under facility operations .....	10,211	12,299
Installment loans .....	8,640	6,063
Other .....	<u>50,156</u>	<u>56,625</u>
	212,541	208,301
Less: valuation allowance .....	<u>(43,220)</u>	<u>(43,487)</u>
	169,321	164,814
Liabilities:		
Investment in direct financing leases .....	10,471	11,217
Investment in operating leases .....	90,074	90,310
Unrealized gains (losses) on investment in securities .....	20,734	14,554
Deferred insurance policy acquisition costs .....	35,894	42,984
Policy liabilities and policy account balances .....	41,995	57,748
Property under facility operations .....	9,256	9,610
Other intangible assets .....	103,503	107,804
Undistributed earnings .....	97,156	93,021
Prepaid benefit cost .....	9,037	9,389
Other .....	<u>39,265</u>	<u>34,325</u>
	457,385	470,962
Net deferred tax liability .....	<u>¥288,064</u>	<u>¥306,148</u>

Net deferred tax assets and liabilities at March 31, 2016 and 2017 are reflected in the accompanying consolidated balance sheets under the following captions:

	<u>Millions of yen</u>	
	<u>2016</u>	<u>2017</u>
Other assets .....	¥ 53,296	¥ 45,680
Income taxes: Deferred .....	<u>341,360</u>	<u>351,828</u>
Net deferred tax liability .....	<u>¥288,064</u>	<u>¥306,148</u>

The valuation allowance is primarily recognized for deferred tax assets of consolidated subsidiaries with net operating loss carryforwards for tax purposes. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**ORIX Corporation and Subsidiaries**

the periods in which those temporary differences become deductible and tax loss carryforwards are utilizable. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax-planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company and its subsidiaries will realize the benefits of these deductible temporary differences and tax loss carryforwards, net of the existing valuation allowances at March 31, 2017. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced. The net changes in the total valuation allowance were increases of ¥19,945 million in fiscal 2015, decreases of ¥7,295 million in fiscal 2016, and increases of ¥267 million in fiscal 2017. The adjustments to the beginning-of-the-year amount in the total valuation allowance resulting from changes in judgment about the realizability of deferred tax assets in future years were net decreases of ¥2,917 million in fiscal 2015 (increases of ¥5,447 million and decreases of ¥8,364 million on a gross basis), net increases of ¥177 million in fiscal 2016 (increases of ¥381 million and decreases of ¥204 million on a gross basis), and net increases of ¥2,215 million in fiscal 2017 (increases of ¥2,859 million and decreases of ¥644 million on a gross basis), respectively.

The Company and certain subsidiaries have net operating loss carryforwards of ¥380,147 million at March 31, 2017, which expire as follows:

<u>Year ending March 31,</u>	<u>Millions of yen</u>
2018 .....	¥ 927
2019 .....	31,796
2020 .....	18,548
2021 .....	84,046
2022 .....	19,102
Thereafter .....	193,216
Indefinite period .....	<u>32,512</u>
Total .....	<u>¥380,147</u>

The unrecognized tax benefits as of March 31, 2016 and 2017 were not material. The Company and its subsidiaries believe that it is not reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within 12 months of March 31, 2017.

The total amounts of penalties and interest expense related to income taxes recognized in the consolidated balance sheets as of March 31, 2016 and 2017, and in the consolidated statements of income for the fiscal 2015, 2016 and 2017 were not material.

The Company and its subsidiaries file tax returns in Japan and certain foreign tax jurisdictions. The Company is no longer subject to ordinary tax examination for the tax years prior to fiscal 2016, and its major domestic subsidiaries are no longer subject to ordinary tax examination for the tax years prior to fiscal 2010, respectively.

Subsidiaries in the United States remain subject to a tax examination for the tax years after fiscal 2009. Subsidiaries in the Netherlands remain subject to a tax examination for the tax years after fiscal 2011.

**17. Pension Plans**

The Company and certain subsidiaries have contributory and non-contributory pension plans covering substantially all of their employees. Those contributory funded pension plans include defined benefit pension

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**ORIX Corporation and Subsidiaries**

plans and defined contribution pension plans. Under the plans, employees are entitled to lump-sum payments at the time of termination of their employment or pension payments. Defined benefit pension plans consist of a plan of which the amounts of such payments are determined on the basis of length of service and remuneration at the time of termination and a cash balance plan.

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

The funded status of the defined benefit pension plans, which consists of Japanese plans and overseas plans, as of March 31, 2016 and 2017 are as follows:

	Millions of yen			
	Japanese plans		Overseas plans	
	2016	2017	2016	2017
Change in benefit obligation:				
Benefit obligation at beginning of year . . . . .	¥ 86,793	¥ 97,030	¥110,521	¥99,912
Service cost . . . . .	4,401	5,276	3,856	3,270
Interest cost . . . . .	995	682	1,747	1,757
Actuarial loss (gain) . . . . .	10,674	(1,656)	(12,840)	(8,893)
Foreign currency exchange rate change . . . . .	0	0	(2,262)	(6,226)
Benefits paid . . . . .	(2,705)	(2,702)	(1,336)	(1,190)
Plan participant's contributions . . . . .	0	0	88	0
Business combinations . . . . .	0	1,455	138	0
Divestitures . . . . .	(3,396)	0	0	0
Plan amendments . . . . .	268	(364)	0	0
Benefit obligation at end of year . . . . .	<u>97,030</u>	<u>99,721</u>	<u>99,912</u>	<u>88,630</u>
Change in plan assets:				
Fair value of plan assets at beginning of year . . . . .	115,864	113,056	87,009	85,180
Actual return on plan assets . . . . .	(2,043)	987	(109)	2,780
Employer contribution . . . . .	3,072	3,387	1,456	1,338
Benefits paid . . . . .	(2,227)	(2,229)	(1,265)	(1,086)
Plan participant's contributions . . . . .	0	0	88	0
Business combinations . . . . .	0	1,789	0	0
Divestitures . . . . .	(1,610)	0	0	0
Foreign currency exchange rate change . . . . .	0	0	(1,999)	(4,818)
Fair value of plan assets at end of year . . . . .	<u>113,056</u>	<u>116,990</u>	<u>85,180</u>	<u>83,394</u>
The funded status of the plans . . . . .	<u>¥ 16,026</u>	<u>¥ 17,269</u>	<u>¥(14,732)</u>	<u>¥(5,236)</u>
Amount recognized in the consolidated balance sheets consists of:				
Prepaid benefit cost included in other assets . . . . .	¥ 28,848	¥ 29,958	¥ 0	¥ 0
Accrued benefit liability included in other liabilities . . . . .	<u>(12,822)</u>	<u>¥(12,689)</u>	<u>(14,732)</u>	<u>(5,236)</u>
Net amount recognized . . . . .	<u>¥ 16,026</u>	<u>¥ 17,269</u>	<u>¥(14,732)</u>	<u>¥(5,236)</u>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**ORIX Corporation and Subsidiaries**

Amount recognized in accumulated other comprehensive income (loss), pre-tax, at March 31, 2016 and 2017 consisted of:

	Millions of yen			
	Japanese plans		Overseas plans	
	2016	2017	2016	2017
Net prior service credit .....	¥ 4,110	¥ 3,151	¥ 959	¥ 800
Net actuarial loss .....	(25,125)	(23,999)	(17,150)	(6,954)
Net transition obligation .....	(91)	(45)	(14)	(12)
Total recognized in accumulated other comprehensive loss, pre-tax .....	¥(21,106)	¥(20,893)	¥(16,205)	¥(6,166)

The estimated portions of the net prior service credit, net actuarial loss and net transition obligation above that will be recognized as a component of net pension cost (gain) of Japanese pension plans in fiscal 2018 are ¥(938) million, ¥842 million and ¥45 million, respectively, a component of net pension cost (gain) of overseas pension plans in fiscal 2018 are ¥(65) million, ¥4 million and ¥3 million, respectively.

The accumulated benefit obligations for all Japanese defined benefit pension plans were ¥86,744 million and ¥87,443 million, respectively, at March 31, 2016 and 2017. The accumulated benefit obligations for all overseas defined benefit pension plans were ¥89,425 million and ¥80,731 million, respectively, at March 31, 2016 and 2017.

In Japanese pension plans, the aggregate projected benefit obligations, aggregate accumulated benefit obligations and aggregate fair values of plan assets for the plans with the accumulated benefit obligations in excess of plan assets were ¥19,351 million, ¥18,822 million and ¥6,529 million, respectively, at March 31, 2016 and ¥19,715 million, ¥19,101 million and ¥7,026 million, respectively, at March 31, 2017. In overseas pension plans, the aggregate projected benefit obligations, aggregate accumulated benefit obligations and aggregate fair values of plan assets for the plans with the accumulated benefit obligations in excess of plan assets were ¥99,715 million, ¥89,407 million and ¥85,151 million, respectively, at March 31, 2016 and ¥6,222 million, ¥6,136 million and ¥5,111 million, respectively, at March 31, 2017.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**ORIX Corporation and Subsidiaries**

Net pension cost of the plans for fiscal 2015, 2016 and 2017 consists of the following:

	Millions of yen		
	2015	2016	2017
Japanese plans:			
Service cost	¥ 4,415	¥ 4,401	¥ 5,276
Interest cost	1,159	995	682
Expected return on plan assets	(2,351)	(2,575)	(2,566)
Amortization of prior service credit	(927)	(928)	(925)
Amortization of net actuarial loss	502	(15)	959
Amortization of transition obligation	53	49	45
Net periodic pension cost	<u>¥ 2,851</u>	<u>¥ 1,927</u>	<u>¥ 3,471</u>
Overseas plans:			
Service cost	¥ 2,460	¥ 3,856	¥ 3,270
Interest cost	2,251	1,747	1,757
Expected return on plan assets	(3,857)	(4,584)	(3,581)
Amortization of prior service credit	(51)	(113)	(96)
Amortization of net actuarial loss	215	1,336	617
Amortization of transition obligation	5	3	4
Net periodic pension cost	<u>¥ 1,023</u>	<u>¥ 2,245</u>	<u>¥ 1,971</u>

Other changes in plan assets and benefit obligations recognized in other comprehensive income (loss) for fiscal 2015, 2016 and 2017 are summarized as follows:

	Millions of yen		
	2015	2016	2017
Japanese plans:			
Current year actuarial gain (loss)	¥ 8,028	¥(15,417)	¥ 168
Amortization of net actuarial loss	502	(15)	959
Prior service credit due to amendments	0	(88)	(34)
Amortization of prior service credit	(927)	(928)	(925)
Amortization of transition obligation	53	49	45
Plan curtailments and settlements	0	(92)	0
Total recognized in other comprehensive income (loss), pre-tax	<u>¥ 7,656</u>	<u>¥(16,491)</u>	<u>¥ 213</u>
Overseas plans:			
Current year actuarial gain (loss)	¥(28,730)	¥ 7,881	¥ 8,585
Amortization of net actuarial loss	215	1,336	617
Prior service credit due to amendments	843	0	(1)
Amortization of prior service credit	(51)	(113)	(96)
Amortization of transition obligation	5	3	4
Foreign currency exchange rate change	1,065	307	930
Total recognized in other comprehensive income (loss), pre-tax	<u>¥(26,653)</u>	<u>¥ 9,414</u>	<u>¥10,039</u>

The Company and certain subsidiaries use March 31 as a measurement date for all of our material plans.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**ORIX Corporation and Subsidiaries**

Significant assumptions of Japanese pension plans and overseas pension plans used to determine these amounts are as follows:

<u>Japanese plans</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Weighted-average assumptions used to determine benefit obligations at March 31:			
Discount rate .....	1.2%	0.7%	0.8%
Rate of increase in compensation levels .....	4.8%	4.4%	4.5%
Weighted-average assumptions used to determine net periodic pension cost for years ended March 31:			
Discount rate .....	1.4%	1.2%	0.7%
Rate of increase in compensation levels .....	5.1%	4.8%	4.4%
Expected long-term rate of return on plan assets .....	2.3%	2.3%	2.2%
 <u>Overseas plans</u>	 <u>2015</u>	 <u>2016</u>	 <u>2017</u>
Weighted-average assumptions used to determine benefit obligations at March 31:			
Discount rate .....	1.5%	1.9%	2.1%
Rate of increase in compensation levels .....	2.8%	2.8%	2.4%
Weighted-average assumptions used to determine net periodic pension cost for years ended March 31:			
Discount rate .....	3.5%	1.5%	1.9%
Rate of increase in compensation levels .....	2.8%	2.8%	2.8%
Expected long-term rate of return on plan assets .....	5.2%	5.5%	4.7%

The Company and certain subsidiaries determine the expected long-term rate of return on plan assets annually based on the composition of the pension asset portfolios and the expected long-term rate of return on these portfolios. The expected long-term rate of return is designed to approximate the long-term rate of return actually earned on the plans' assets over time to ensure that funds are available to meet the pension obligations that result from the services provided by employees. The Company and certain subsidiaries use a number of factors to determine the expected rate of return, including actual historical returns on the asset classes of the plans' portfolios and independent projections of returns of the various asset classes.

The Company and certain subsidiaries' investment policies are designed to ensure adequate plan assets are available to provide future payments of pension benefits to eligible participants. The Company and certain subsidiaries formulate a policy portfolio appropriate to produce the expected long-term rate of return on plan assets and to ensure that plan assets are allocated under this policy portfolio. The Company and certain subsidiaries periodically have an external consulting firm monitor the results of actual return and revise the policy portfolio if necessary.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

ORIX Corporation and Subsidiaries

The fair value of Japanese pension plan assets at March 31, 2016 and 2017, by asset category, are as follows. The three levels of input used to measure fair value are described in Note 2 “Fair Value Measurement.”

	Millions of yen			
	March 31, 2016			
	Total Carrying Value in Consolidated Balance Sheets	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity securities:				
Japan				
Pooled funds*1	¥ 15,663	¥0	¥ 0	¥0
Other than Japan				
Pooled funds*2	17,829	0	0	0
Debt securities:				
Japan				
Pooled funds*3	22,324	0	0	0
Other than Japan				
Pooled funds*4	21,760	0	0	0
Other assets:				
Life insurance company general accounts*5	26,300	0	26,300	0
Others*6	9,180	0	9,180	0
	<u>¥113,056</u>	<u>¥0</u>	<u>¥35,480</u>	<u>¥0</u>

\*1 These funds invest in listed shares including shares of ORIX Corporation in the amounts of ¥42 million at March 31, 2016.

\*2 These funds invest in listed shares.

\*3 These funds invest approximately 70% in Japanese government bonds, approximately 10% in Japanese municipal bonds, and approximately 20% in Japanese corporate bonds. These funds include corporate bonds of ORIX Corporation in the amounts of ¥948 million at March 31, 2016.

\*4 These funds invest entirely in foreign government bonds.

\*5 Life insurance company general accounts are accounts with guaranteed capital and minimum interest rate, in which life insurance companies manage funds on several contracts.

\*6 Others include derivative instruments held for hedging change in the fair value of equity securities, and short-term instruments.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**ORIX Corporation and Subsidiaries**

At March 31, 2016, our policy for the portfolio of plans consists of three major components: approximately 30% is invested in equity securities, approximately 40% is invested in debt securities and approximately 30% is invested in other assets, primarily consisting of investments in life insurance company general accounts.

	Millions of yen			
	March 31, 2017			
	Total Carrying Value in Consolidated Balance Sheets	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity securities:				
Japan				
Pooled funds*1	¥ 16,902	¥0	¥ 0	¥0
Other than Japan				
Pooled funds*2	18,508	0	0	0
Debt securities:				
Japan				
Pooled funds*3	18,524	0	0	0
Other than Japan				
Pooled funds*4	21,127	0	0	0
Other assets:				
Life insurance company general accounts*5	26,731	0	26,731	0
Others*6	15,198	0	15,198	0
	<u>¥116,990</u>	<u>¥0</u>	<u>¥41,929</u>	<u>¥0</u>

\*1 These funds invest in listed shares including shares of ORIX Corporation in the amounts of ¥44 million at March 31, 2017.

\*2 These funds invest in listed shares.

\*3 These funds invest approximately 60% in Japanese government bonds, approximately 10% in Japanese municipal bonds, and approximately 30% in Japanese corporate bonds. These funds include corporate bonds of ORIX Corporation in the amounts of ¥4,873 million at March 31, 2017.

\*4 These funds invest entirely in foreign government bonds.

\*5 Life insurance company general accounts are accounts with guaranteed capital and minimum interest rate, in which life insurance companies manage funds on several contracts.

\*6 Others include derivative instruments held for hedging change in the fair value of equity securities, and short-term instruments.

At March 31, 2017, our policy for the portfolio of plans consists of three major components: approximately 30% is invested in equity securities, approximately 30% is invested in debt securities and approximately 40% is invested in other assets, primarily consisting of investments in life insurance company general accounts.

Level 2 assets are comprised principally of investments in life insurance company general accounts. Investments in life insurance company general accounts are valued at conversion value. Pooled funds are valued at the net asset value per share at the measurement date and they have not been classified in the fair value hierarchy.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**ORIX Corporation and Subsidiaries**

The fair value of overseas pension plan assets at March 31, 2016 and 2017, by asset category, are as follows. The three levels of input used to measure fair value are described in Note 2 “Fair Value Measurement.”

	Millions of yen			
	March 31, 2016			
	Total Carrying Value in Consolidated Balance Sheets	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity securities:				
Other than Japan				
Shares .....	¥29,367	¥29,367	¥ 0	¥0
Pooled funds*1 .....	64	0	0	0
Debt securities:				
Other than Japan				
Government bonds .....	46,280	46,280	0	0
Municipal bonds .....	4,885	0	4,885	0
Corporate bonds .....	98	98	0	0
Other assets:				
Life insurance company general accounts*2 .....	2,520	0	2,520	0
Others*3 .....	1,966	0	1,966	0
	<u>¥85,180</u>	<u>¥75,745</u>	<u>¥9,371</u>	<u>¥0</u>

\*1 These funds invest in listed shares.

\*2 Life insurance company general accounts are accounts with guaranteed capital and minimum interest rate, in which life insurance companies manage funds on several contracts.

\*3 Others include derivative instruments held for hedging change in the fair value of equity securities, and short-term instruments.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**ORIX Corporation and Subsidiaries**

At March 31, 2016, our policy for the portfolio of plans consists of three major components: approximately 30% is invested in equity securities and approximately 60% is invested in debt securities and approximately 10% is invested in other assets, primarily consisting of investments in life insurance company general accounts.

	Millions of yen			
	March 31, 2017			
	Total Carrying Value in Consolidated Balance Sheets	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity securities:				
Other than Japan				
Shares .....	¥34,905	¥34,905	¥ 0	¥0
Pooled funds*1 .....	67	0	0	0
Debt securities:				
Other than Japan				
Government bonds .....	39,969	39,969	0	0
Municipal bonds .....	4,650	0	4,650	0
Corporate bonds .....	0	0	0	0
Other assets:				
Life insurance company general accounts*2 .....	2,487	0	2,487	0
Others*3 .....	1,316	0	1,316	0
	<u>¥83,394</u>	<u>¥74,874</u>	<u>¥8,453</u>	<u>¥0</u>

\*1 These funds invest in listed shares.

\*2 Life insurance company general accounts are accounts with guaranteed capital and minimum interest rate, in which life insurance companies manage funds on several contracts.

\*3 Others include derivative instruments held for hedging change in the fair value of equity securities, and short-term instruments.

At March 31, 2017, our policy for the portfolio of plans consists of three major components: approximately 40% is invested in equity securities and approximately 50% is invested in debt securities and approximately 10% is invested in other assets, primarily consisting of investments in life insurance company general accounts.

Each level into which assets are categorized is based on inputs used to measure the fair value of the assets. Level 1 assets are comprised principally of equity securities and debt securities, which are valued using unadjusted quoted market prices in active markets with sufficient volume and frequency of transactions. Level 2 assets are comprised principally of debt securities and investments in life insurance company general accounts. Investments in life insurance company general accounts are valued at conversion value. Pooled funds are valued at the net asset value per share at the measurement date and they have not been classified in the fair value hierarchy.

The Company and certain subsidiaries expect to contribute ¥3,324 million to its Japanese pension plans and ¥1,570 million to its overseas pension plans during the year ending March 31, 2018.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**ORIX Corporation and Subsidiaries**

At March 31, 2017, the benefits expected to be paid in each of the next five fiscal years, and in the aggregate for the five years thereafter are as follows:

<u>Years ending March 31,</u>	<u>Millions of yen</u>	
	<u>Japanese plans</u>	<u>Overseas plans</u>
2018 .....	¥ 2,142	¥ 1,235
2019 .....	1,944	1,235
2020 .....	2,095	1,258
2021 .....	2,207	1,253
2022 .....	2,390	1,293
2023-2027 .....	15,151	8,096
Total .....	<u>¥25,929</u>	<u>¥14,370</u>

The cost recognized for Japanese defined contribution pension plans of the Company and certain of its subsidiaries for fiscal 2015, 2016 and 2017 were ¥1,248 million, ¥1,350 million and ¥1,422 million, respectively. The cost recognized for overseas defined contribution pension plans of the Company and certain of its subsidiaries for fiscal 2015, 2016 and 2017 were ¥2,526 million, ¥2,926 million and ¥2,077 million, respectively.

**18. Redeemable Noncontrolling Interests**

Changes in redeemable noncontrolling interests in fiscal 2015, 2016 and 2017 are as follows:

	<u>Millions of yen</u>		
	<u>2015</u>	<u>2016</u>	<u>2017</u>
Beginning Balance .....	¥53,177	¥ 66,901	¥ 7,467
Adjustment of redeemable noncontrolling interests to redemption value .....	220	(7,557)	(1,293)
Transaction with noncontrolling interests .....	2,269	(3,606)	0
Comprehensive income			
Net Income .....	4,970	819	432
Other comprehensive income (loss)			
Net change of foreign currency translation adjustments .....	9,295	919	(58)
Total other comprehensive income (loss) .....	9,295	919	(58)
Comprehensive income .....	14,265	1,738	374
Cash dividends .....	(3,030)	(11,272)	0
Property dividends .....	0	(3,776)	0
Partial sale of the parent's ownership interest in subsidiaries that results in the loss of control .....	0	(34,961)	0
Ending Balance .....	<u>¥66,901</u>	<u>¥ 7,467</u>	<u>¥ 6,548</u>

**19. Stock-Based Compensation**

The Company has a number of stock-based compensation plans as incentive plans for directors, executive officers, corporate auditors and selected employees.

**Stock-option program**

Since fiscal 2007, the Company has granted stock acquisition rights with a vesting period 1.92 years and an exercise period 9.92 years from grant date. The acquisition rights were to purchase the Company's common

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**ORIX Corporation and Subsidiaries**

stock at a specified exercise price and were distributed to directors, executive officers, corporate auditors and certain employees of the Company, subsidiaries and capital tie-up companies such as affiliated companies. The Company did not grant stock options in fiscal 2015, 2016 and 2017.

A summary of the Company's stock acquisition rights is as follows:

<u>Years ended March 31,</u>	<u>Exercise period</u>	<u>Number of shares granted*</u>	<u>Exercise price*</u> <u>Yen</u>
2007 .....	From June 21, 2008 to June 20, 2016	1,942,000	2,962
2008 .....	From July 5, 2009 to June 22, 2017	1,449,800	3,101
2009 .....	From July 18, 2010 to June 24, 2018	1,479,000	1,689

\* The number of shares and exercise price of the granted options were adjusted for the 10-for-1 stock split implemented on April 1, 2013.

For the stock-option programs, the exercise prices, which are determined by a formula linked to the price of the Company's common stock on the Tokyo Stock Exchange, are equal or greater than the fair market value of the Company's common stock at the grant dates.

The following table summarizes information about the activity of these stock options for fiscal 2017:

	<u>Number of shares*2</u>	<u>Weighted average exercise price*1*2</u> <u>Yen</u>	<u>Weighted average remaining contractual life</u> <u>Years</u>	<u>Aggregate intrinsic value</u> <u>Millions of yen</u>
Outstanding at beginning of the year . . .	3,080,500	¥2,612		
Exercised .....	(48,500)	1,689		
Forfeited or expired .....	<u>(1,348,800)</u>	2,926		
Outstanding at end of year .....	<u>1,683,200</u>	2,386	0.67	¥0
Exercisable at end of year .....	1,683,200	¥2,386	0.67	¥0

\*1 The exercise price of the granted options was adjusted in July 2009 for the issuance of new 18 million shares.

\*2 The number of shares and exercise price of the granted options were adjusted for the 10-for-1 stock split implemented on April 1, 2013.

The Company received ¥1,014 million, ¥822 million and ¥81 million in cash from the exercise of stock options during fiscal 2015, 2016 and 2017, respectively.

The total intrinsic value of options exercised during fiscal 2015, 2016 and 2017 was ¥378 million, ¥39 million and ¥6 million, respectively.

In fiscal 2015, 2016 and 2017, the Company did not recognize any stock-based compensation costs of its stock-option program. As of March 31, 2017, the Company had no unrecognized compensation costs.

**Stock compensation program**

The Company maintains a stock compensation program for directors, executive officers and group executives of the Company. In July 2014, the company changed the way of provision of the compensation for



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**ORIX Corporation and Subsidiaries**

retiree to provide these shares through “The Board Incentive Plan Trust (“the trust”)” by a resolution of the Compensation Committee. The trust purchases the Company’s common shares including future granting shares by an entrusted fund which the Company set in advance. The Company holds those shares as entrusted assets, separately from other treasury stock which the Company holds.

Under the program, points are granted annually to directors, executive officers and group executives of the Company based upon the prescribed standards of the Company. Upon retirement, eligible directors, executive officers and group executives receive a certain number of the Company’s common shares calculated by translating each point earned by that retiree to one common share.

In fiscal 2017, the Company granted 350,290 points, and 416,541 points were settled for individuals who retired during fiscal 2017. Total points outstanding under the stock compensation program as of March 31, 2017 were 1,576,708 points. The points were adjusted for the 10-for-1 stock split implemented on April 1, 2013.

During fiscal 2015, 2016 and 2017, the Company recognized stock-based compensation costs of its stock compensation program in the amount of ¥818 million, ¥646 million and ¥611 million, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

ORIX Corporation and Subsidiaries

20. Accumulated Other Comprehensive Income (Loss)

Changes in each component of accumulated other comprehensive income (loss) attributable to ORIX Corporation Shareholders in fiscal 2015, 2016 and 2017 are as follows:

	Millions of yen				
	Net unrealized gains (losses) on investment in securities	Defined benefit pension plans	Foreign currency translation adjustments	Net unrealized gains (losses) on derivative instruments	Accumulated other comprehensive income (loss)
Balance at March 31, 2014	¥ 38,651	¥ (6,230)	¥(31,949)	¥ (434)	¥ 38
Net unrealized gains on investment in securities, net of tax of ¥(15,416) million	34,914				34,914
Reclassification adjustment included in net income, net of tax of ¥8,501 million	(25,047)				(25,047)
Defined benefit pension plans, net of tax of ¥3,960 million		(14,834)			(14,834)
Reclassification adjustment included in net income, net of tax of ¥85 million		(118)			(118)
Foreign currency translation adjustments, net of tax of ¥(7,000) million			38,309		38,309
Reclassification adjustment included in net income, net of tax of ¥120 million			(1,154)		(1,154)
Net unrealized losses on derivative instruments, net of tax of ¥971 million				(2,985)	(2,985)
Reclassification adjustment included in net income, net of tax of ¥(716) million				2,424	2,424
Total other comprehensive income (loss)	9,867	(14,952)	37,155	(561)	31,509
Transaction with noncontrolling interests	0	0	96	0	96
Less: Other Comprehensive Income (loss) Attributable to the Noncontrolling Interest	(1,812)	(1,734)	(4,424)	(55)	(8,025)
Less: Other Comprehensive Income Attributable to the Redeemable Noncontrolling Interests	0	0	9,295	0	9,295
Balance at March 31, 2015	¥ 50,330	¥(19,448)	¥ 431	¥ (940)	¥ 30,373
Net unrealized gains on investment in securities, net of tax of ¥(3,579) million	14,593				14,593
Reclassification adjustment included in net income, net of tax of ¥9,582 million	(17,714)				(17,714)
Defined benefit pension plans, net of tax of ¥2,969 million		(4,440)			(4,440)
Reclassification adjustment included in net income, net of tax of ¥(15) million		317			317
Foreign currency translation adjustments, net of tax of ¥2,921 million			(27,763)		(27,763)
Reclassification adjustment included in net income, net of tax of ¥0 million			806		806
Net unrealized losses on derivative instruments, net of tax of ¥2,037 million				(4,901)	(4,901)
Reclassification adjustment included in net income, net of tax of ¥(341) million				838	838
Total other comprehensive income (loss)	(3,121)	(4,123)	(26,957)	(4,063)	(38,264)
Less: Other Comprehensive Income (loss) Attributable to the Noncontrolling Interest	24	313	(2,679)	(246)	(2,588)
Less: Other Comprehensive Income Attributable to the Redeemable Noncontrolling Interests	0	0	919	0	919
Balance at March 31, 2016	¥ 47,185	¥(23,884)	¥(24,766)	¥(4,757)	¥ (6,222)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

ORIX Corporation and Subsidiaries

	Millions of yen				
	Net unrealized gains (losses) on investment in securities	Defined benefit pension plans	Foreign currency translation adjustments	Net unrealized gains (losses) on derivative instruments	Accumulated other comprehensive income (loss)
Balance at March 31, 2016	¥ 47,185	¥(23,884)	¥(24,766)	¥(4,757)	¥ (6,222)
Net unrealized gains on investment in securities, net of tax of ¥(1,962) million	(470)				(470)
Reclassification adjustment included in net income, net of tax of ¥8,255 million	(14,456)				(14,456)
Defined benefit pension plans, net of tax of ¥(2,422) million		7,226			7,226
Reclassification adjustment included in net income, net of tax of ¥(160) million		444			444
Foreign currency translation adjustments, net of tax of ¥9,385 million			(6,570)		(6,570)
Reclassification adjustment included in net income, net of tax of ¥(809) million			602		602
Net unrealized losses on derivative instruments, net of tax of ¥(788) million				2,020	2,020
Reclassification adjustment included in net income, net of tax of ¥559 million				(1,694)	(1,694)
Total other comprehensive income (loss)	(14,926)	7,670	(5,968)	326	(12,898)
Transaction with noncontrolling interests	12	(954)	(4,245)	0	(5,187)
Less: Other Comprehensive Income (loss) Attributable to the Noncontrolling Interest	(8)	162	(3,185)	52	(2,979)
Less: Other Comprehensive Income (loss) Attributable to the Redeemable Noncontrolling Interests	0	0	(58)	0	(58)
Balance at March 31, 2017	¥ 32,279	¥(17,330)	¥(31,736)	¥(4,483)	¥(21,270)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**ORIX Corporation and Subsidiaries**

Amounts reclassified to net income from accumulated other comprehensive income (loss) for fiscal 2015, 2016 and 2017 are as follows:

<u>Details about accumulated other comprehensive income components</u>	March 31, 2015	
	Reclassification adjustment included in net income	Consolidated statements of income caption
	Millions of yen	
Net unrealized gains (losses) on investment in securities		
Sales of investment securities . . . . .	¥32,733	Gains on investment securities and dividends
Sales of investment securities . . . . .	5,599	Life insurance premiums and related investment income
Amortization of investment securities . . . . .	29	Finance revenues
Amortization of investment securities . . . . .	(1,960)	Life insurance premiums and related investment income
Others . . . . .	(2,853)	Write-downs of securities and other
	33,548	Total before tax
	(8,501)	Tax expenses or benefits
	¥25,047	Net of tax
Defined benefit pension plans		
Amortization of prior service credit . . . . .	¥ 978	See Note 17 “Pension Plans”
Amortization of net actuarial loss . . . . .	(717)	See Note 17 “Pension Plans”
Amortization of transition obligation . . . . .	(58)	See Note 17 “Pension Plans”
	203	Total before tax
	(85)	Tax expenses or benefits
	¥ 118	Net of tax
Foreign currency translation adjustments		
Sales or liquidation . . . . .	¥ 1,274	Gains on sales of subsidiaries and affiliates and liquidation losses, net
	1,274	Total before tax
	(120)	Tax expenses or benefits
	¥ 1,154	Net of tax
Net unrealized gains (losses) on derivative instruments		
Interest rate swap agreements . . . . .	¥ 32	Finance revenues/Interest expense
Foreign exchange contracts . . . . .	1,356	Other (income) and expense, net
Foreign currency swap agreements . . . . .	(4,528)	Finance revenues/Interest expense/Other (income) and expense, net
	(3,140)	Total before tax
	716	Tax expenses or benefits
	¥(2,424)	Net of tax

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

ORIX Corporation and Subsidiaries

	March 31, 2016	
Details about accumulated other comprehensive income components	Reclassification adjustment included in net income	Consolidated statements of income caption
	Millions of yen	
Net unrealized gains (losses) on investment in securities		
Sales of investment securities . . . . .	¥25,673	Gains on investment securities and dividends
Sales of investment securities . . . . .	6,453	Life insurance premiums and related investment income
Amortization of investment securities . . . . .	(182)	Finance revenues
Amortization of investment securities . . . . .	(1,584)	Life insurance premiums and related investment income
Others . . . . .	(3,064)	Write-downs of securities and other
	<u>27,296</u>	Total before tax
	<u>(9,582)</u>	Tax expenses or benefits
	<u>¥17,714</u>	Net of tax
Defined benefit pension plans		
Amortization of prior service credit . . . . .	¥ 1,041	See Note 17 “Pension Plans”
Amortization of net actuarial loss . . . . .	(1,321)	See Note 17 “Pension Plans”
Amortization of transition obligation . . . . .	(52)	See Note 17 “Pension Plans”
	<u>(332)</u>	Total before tax
	<u>15</u>	Tax expenses or benefits
	<u>¥ (317)</u>	Net of tax
Foreign currency translation adjustments		
Sales or liquidation . . . . .	¥ (806)	Gains on sales of subsidiaries and affiliates and liquidation losses, net
	<u>(806)</u>	Total before tax
	<u>0</u>	Tax expenses or benefits
	<u>¥ (806)</u>	Net of tax
Net unrealized gains (losses) on derivative instruments		
Interest rate swap agreements . . . . .	¥ (27)	Finance revenues/Interest expense
Foreign exchange contracts . . . . .	2,608	Other (income) and expense, net
Foreign currency swap agreements . . . . .	(3,760)	Finance revenues/Interest expense/Other (income) and expense, net
	<u>(1,179)</u>	Total before tax
	<u>341</u>	Tax expenses or benefits
	<u>¥ (838)</u>	Net of tax

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**ORIX Corporation and Subsidiaries**

	<b>March 31, 2017</b>	
<u>Details about accumulated other comprehensive income components</u>	<u>Reclassification adjustment included in net income</u>	<u>Consolidated statements of income caption</u>
	<u>Millions of yen</u>	
Net unrealized gains (losses) on investment in securities		
Sales of investment securities . . . . .	¥16,404	Gains on investment securities and dividends
Sales of investment securities . . . . .	14,297	Life insurance premiums and related investment income
Amortization of investment securities . . . . .	(648)	Finance revenues
Amortization of investment securities . . . . .	(1,125)	Life insurance premiums and related investment income
Others . . . . .	<u>(6,217)</u>	Write-downs of securities and other
	22,711	Total before tax
	<u>(8,255)</u>	Tax expenses or benefits
	<u>¥14,456</u>	Net of tax
Defined benefit pension plans		
Amortization of prior service credit . . . . .	¥ 1,021	See Note 17 “Pension Plans”
Amortization of net actuarial loss . . . . .	(1,576)	See Note 17 “Pension Plans”
Amortization of transition obligation . . . . .	<u>(49)</u>	See Note 17 “Pension Plans”
	(604)	Total before tax
	<u>160</u>	Tax expenses or benefits
	<u>¥ (444)</u>	Net of tax
Foreign currency translation adjustments		
Sales or liquidation . . . . .	¥ (1,411)	Gains on sales of subsidiaries and affiliates and liquidation losses, net
	<u>(1,411)</u>	Total before tax
	<u>809</u>	Tax expenses or benefits
	<u>¥ (602)</u>	Net of tax
Net unrealized gains (losses) on derivative instruments		
Interest rate swap agreements . . . . .	¥ 7	Finance revenues/Interest expense
Foreign exchange contracts . . . . .	(136)	Other (income) and expense, net
Foreign currency swap agreements . . . . .	2,382	Finance revenues/Interest expense/Other (income) and expense, net
	<u>2,253</u>	Total before tax
	<u>(559)</u>	Tax expenses or benefits
	<u>¥ 1,694</u>	Net of tax

Comprehensive income (loss) and its components attributable to ORIX Corporation and noncontrolling interests have been reported, net of tax, in the consolidated statements of changes in equity, and information about comprehensive income (loss) and its components attributable to redeemable noncontrolling interests is provided in Note 18 “Redeemable Noncontrolling Interests.” Total comprehensive income (loss) and its components have been reported, net of tax, in the consolidated statements of comprehensive income.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**ORIX Corporation and Subsidiaries**

**21. ORIX Corporation Shareholders' Equity**

Changes in the number of shares issued in fiscal 2015, 2016 and 2017 are as follows:

	Number of shares		
	2015	2016	2017
Beginning balance . . . . .	1,322,777,628	1,323,644,528	1,324,058,828
Exercise of stock options . . . . .	866,900	414,300	48,500
Ending balance . . . . .	<u>1,323,644,528</u>	<u>1,324,058,828</u>	<u>1,324,107,328</u>

The Japanese Companies Act (the "Act") provides that an amount equivalent to 10% of any dividends resulting from appropriation of retained earnings be appropriated to the legal reserve until the aggregate amount of the additional paid-in capital and the legal reserve equals 25% of the issued capital. The Act also provides that both additional paid-in capital and the legal reserve are not available for dividends but may be capitalized or may be reduced by resolution of the general meeting of shareholders. However, if specified in the Company's articles of incorporation, dividends can be declared by the Board of Directors instead of the general meeting of shareholders. In accordance with this, the Board of Directors of the Company resolved in May 2017 that a total of ¥38,162 million dividends shall be distributed to the shareholders of record as of March 31, 2017. The liability for declared dividends and related impact on total equity is accounted for in the period of such Board of Directors' resolution.

The Act provides that at least one-half of amounts paid for new shares are included in common stock when they are issued. In conformity therewith, the Company has divided the principal amount of bonds converted into common stock and proceeds received from the issuance of common stock, including the exercise of warrants and stock acquisition rights, equally between common stock and additional paid-in capital, and set off expenses related to the issuance from the additional paid-in capital.

The amount available for dividends under the Act is calculated based on the amount recorded in the Company's non-consolidated financial statements prepared in accordance with accounting principles generally accepted in Japan. As a result, the amount available for dividends is ¥597,858 million as of March 31, 2017.

Retained earnings at March 31, 2017 include ¥50,799 million relating to equity in undistributed earnings of the companies accounted for by the equity method.

As of March 31, 2017, the restricted net assets of certain subsidiaries, which include regulatory capital requirements mainly for banking operations and life insurance of ¥25,177 million, do not exceed 25% of consolidated net assets.

**22. Gains on Investment Securities and Dividends**

Gains on investment securities and dividends in fiscal 2015, 2016 and 2017 consist of the following:

	Millions of yen		
	2015	2016	2017
Net gains on investment securities . . . . .	¥50,617	¥31,134	¥27,233
Dividends income, other . . . . .	5,778	4,652	3,095
	<u>¥56,395</u>	<u>¥35,786</u>	<u>¥30,328</u>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**ORIX Corporation and Subsidiaries**

Net gains on investment securities include net trading gains of ¥2,843 million, net trading gains of ¥892 million and net trading losses of ¥65 million for fiscal 2015, 2016 and 2017, respectively.

**23. Life Insurance Operations**

Life insurance premiums and related investment income in fiscal 2015, 2016 and 2017 consist of the following:

	Millions of yen		
	2015	2016	2017
Life insurance premiums . . . . .	¥186,547	¥209,120	¥247,427
Life insurance related investment income (loss) . . . . .	164,946	(19,699)	48,513
	¥351,493	¥189,421	¥295,940

Life insurance premiums include reinsurance benefits, net of reinsurance premiums. For fiscal 2015, 2016 and 2017, reinsurance benefits and reinsurance premiums included in life insurance premiums are as follows:

	Millions of yen		
	2015	2016	2017
Reinsurance benefits . . . . .	¥ 2,483	¥ 2,298	¥ 4,023
Reinsurance premiums . . . . .	(11,430)	(11,530)	(9,657)

The benefits and expenses of life insurance operations included in life insurance costs in the consolidated statements of income are recognized so as to associate with earned premiums over the life of contracts. This association is accomplished by means of the provision for future policy benefits and the deferral and subsequent amortization of policy acquisition costs (principally commissions and certain other expenses directly relating to policy issuance and underwriting). Amortization charged to income for fiscal 2015, 2016 and 2017 amounted to ¥11,917 million, ¥12,585 million and ¥14,346 million, respectively.

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



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**ORIX Corporation and Subsidiaries**

The above mentioned gains or losses relating to variable annuity and variable life insurance contracts for fiscal 2015, 2016 and 2017 are as follows:

	Millions of yen		
	2015	2016	2017
<b>Life insurance premiums and related investment income :</b>			
Net realized and unrealized gains or losses from investment assets . . . . .	¥ 174,602	¥ (33,318)	¥ 37,016
Net gains or losses from derivative contracts : . . . . .	(28,227)	1,633	(10,568)
Futures . . . . .	(10,216)	1,116	(9,118)
Foreign exchange contracts . . . . .	(1,680)	496	220
Options held . . . . .	(16,331)	21	(1,670)
<b>Life insurance costs :</b>			
Changes in the fair value of the policy liabilities and policy account balances . . . . .	¥(510,961)	¥(459,482)	¥ (189,481)
Insurance costs recognized for insurance and annuity payouts as a result of insured events . . . . .	611,663	418,731	185,830
Changes in the fair value of the reinsurance contracts . . . . .	36,072	(1,817)	15,739

**24. Sales of Goods and Real Estate**

The following table provides information about sales of goods and real estate and costs of goods and real estate sold for fiscal 2015, 2016 and 2017:

	Millions of yen		
	2015	2016	2017
Sales of goods . . . . .	¥ 352,228	¥ 707,502	¥ 898,022
Real estate sales . . . . .	98,641	126,508	117,227
Sales of goods and real estate . . . . .	¥ 450,869	¥ 834,010	¥ 1,015,249
Costs of goods sold . . . . .	¥ 308,723	¥ 641,715	¥ 832,423
Costs of real estate sold . . . . .	93,298	106,544	96,371
Costs of goods and real estate sold . . . . .	¥ 402,021	¥ 748,259	¥ 928,794

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**ORIX Corporation and Subsidiaries**

**25. Services Income and Services Expense**

The following table provides information about services income and services expense for fiscal 2015, 2016 and 2017:

	Millions of yen		
	2015	2016	2017
Revenues from asset management and servicing . . . . .	¥214,372	¥201,470	¥190,454
Revenues from automobile related business . . . . .	70,442	76,134	73,091
Revenues from facilities management related business . . . . .	115,177	106,632	102,399
Revenues from environment and energy related business . . . . .	62,286	85,271	100,102
Revenues from real estate management and contract work . . . . .	171,562	174,170	181,088
Revenues from commissions for M&A advisory services, financing advice, financial restructuring advisory services and related services . . . . .	78,342	22,983	0
Other . . . . .	53,367	68,526	90,769
Services income . . . . .	<u>¥765,548</u>	<u>¥735,186</u>	<u>¥737,903</u>
Expenses from asset management and servicing . . . . .	¥ 52,825	¥ 55,283	¥ 47,126
Expenses from automobile related business . . . . .	43,163	46,424	44,417
Expenses from facilities management related business . . . . .	99,582	90,949	87,709
Expenses from environment and energy related business . . . . .	51,436	68,888	77,020
Expenses from real estate management and contract work . . . . .	152,447	156,075	160,917
Other . . . . .	26,223	27,768	34,088
Services expense . . . . .	<u>¥425,676</u>	<u>¥445,387</u>	<u>¥451,277</u>

**26. Write-Downs of Long-Lived Assets**

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

As of March 31, 2016 and 2017, the long-lived assets classified as held for sale in the accompanying consolidated balance sheets are as follows.

	Millions of yen	
	2016	2017
Investment in operating leases . . . . .	¥70,300	¥32,283
Property under facility operations . . . . .	2,811	1,977
Other assets . . . . .	9,959	2,508

The long-lived assets classified as held for sale as of March 31, 2016 are included in Real Estate segment, Investment and Operation segment and Overseas Business segment. The long-lived assets classified as held for sale as of March 31, 2017 are included in Corporate Financial Services segment, Maintenance Leasing segment, Real Estate segment, Investment and Operation segment and Overseas Business segment.

The Company and its subsidiaries determine the fair value using appraisals prepared by independent third party appraisers or our own staff of qualified appraisers, based on recent transactions involving sales of similar

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**ORIX Corporation and Subsidiaries**

assets or other valuation techniques such as discounted cash flows methodologies using future cash flows estimated to be generated from operation of the existing assets or completion of development projects, as appropriate.

During fiscal 2015, 2016 and 2017, the Company and its subsidiaries recognized impairment losses for the difference between carrying amounts and fair values in the amount of ¥34,887 million, ¥13,448 million and ¥9,134 million, respectively, which are reflected as write-downs of long-lived assets. Breakdowns of these amounts are as follows.

<b>Fiscal Year ended March 31, 2015</b>	<b>Write-downs of the assets held for sale</b>		<b>Write-downs due to decline in estimated future cash flows</b>	
	<b>Amount (Millions of yen)</b>	<b>The number of properties</b>	<b>Amount (Millions of yen)</b>	<b>The number of properties</b>
Office buildings . . . . .	¥4,805	3	¥ 9,172	6
Commercial facilities other than office buildings . . . . .	0	0	3,832	3
Condominiums . . . . .	0	0	621	1
Land undeveloped or under construction . . .	586	4	2,797	4
Others* . . . . .	0	—	13,074	—
Total . . . . .	<u>¥5,391</u>	<u>—</u>	<u>¥29,496</u>	<u>—</u>

<b>Fiscal Year ended March 31, 2016</b>	<b>Write-downs of the assets held for sale</b>		<b>Write-downs due to decline in estimated future cash flows</b>	
	<b>Amount (Millions of yen)</b>	<b>The number of properties</b>	<b>Amount (Millions of yen)</b>	<b>The number of properties</b>
Office buildings . . . . .	¥2,183	5	¥ 5,855	6
Commercial facilities other than office buildings . . . . .	502	2	1,559	3
Condominiums . . . . .	780	1	0	0
Land undeveloped or under construction . . .	22	1	0	0
Others* . . . . .	2,353	—	194	—
Total . . . . .	<u>¥5,840</u>	<u>—</u>	<u>¥ 7,608</u>	<u>—</u>

<b>Fiscal Year ended March 31, 2017</b>	<b>Write-downs of the assets held for sale</b>		<b>Write-downs due to decline in estimated future cash flows</b>	
	<b>Amount (Millions of yen)</b>	<b>The number of properties</b>	<b>Amount (Millions of yen)</b>	<b>The number of properties</b>
Office buildings . . . . .	¥ 68	1	¥ 1,239	5
Commercial facilities other than office buildings . . . . .	1,316	3	2,082	5
Condominiums . . . . .	317	1	69	1
Land undeveloped or under construction . . .	0	0	786	5
Others* . . . . .	2,215	—	1,042	—
Total . . . . .	<u>¥3,916</u>	<u>—</u>	<u>¥ 5,218</u>	<u>—</u>

\* For the “Others”, the number of properties are omitted. Write-downs of long-lived assets for fiscal 2015 include write-downs of ¥7,737 million of golf courses. Write-downs of long-lived assets for fiscal 2016 include write-downs of ¥2,338 million of aircraft. Write-downs of long-lived assets for fiscal 2017 include write-downs of ¥1,156 million of aircraft.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**ORIX Corporation and Subsidiaries**

Breakdowns of these amounts by segment are provided in Note 34 “Segment Information.”

**27. Discontinued Operations**

In April 2014, Accounting Standards Update 2014-08 (“Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity”—ASC 205 (“Presentation of Financial Statements”) and ASC 360 (“Property, Plant, and Equipment”)) was issued. This Update requires an entity to report a disposal or a classification as held for sale of a component of an entity or a group of components of an entity in discontinued operations if it represents a strategic shift that has (or will have) a major effect on an entity’s operations and financial results. The Company and its subsidiaries early adopted this Update on April 1, 2014. The Company and its subsidiaries report a disposal of a component or a group of components of the Company and its subsidiaries in discontinued operations if the disposal represents a strategic shift which has (or will have) a major effect on the Company and its subsidiaries’ operations and financial results when the component or group of components is disposed by sale or classified as held for sale on or after April 1, 2014.

During fiscal 2015, 2016 and 2017, there was no disposal or classification as held for sale of a component or a group of components which represents a strategic shift which has (or will have) a major effect on the Company and its subsidiaries’ operations and financial results.

Accounting Standards Update 2014-08 does not apply retrospectively to a disposal or a classification as held for sale of a component or a group of components of the Company and its subsidiaries which have previously been reported in the financial statements. Accordingly, during fiscal 2015, the Company and its subsidiaries continue to report gains on sales and the results of operations of subsidiaries and business units, which were classified as held for sale at March 31, 2014, as income from discontinued operations in the accompanying consolidated statements of income.

During fiscal 2014, the Company has determined to sell the food business unit of a subsidiary, which is composed of the food service business unit and the food business unit. During fiscal 2015, the operating income from the food business unit and the gain were ¥463 million. The Company has completed the sale of the food business unit of a subsidiary during fiscal 2015 and there are no amounts of assets or liabilities included in the accompanying consolidated balance sheets as of March 31, 2015, 2016 and 2017.

Discontinued operations in fiscal 2015 consist of the following. During fiscal 2016 and 2017, there was no income from discontinued operations.

	<b>Millions of yen</b>
	<b>2015</b>
Revenues .....	¥2,214
Income from discontinued operations, net* .....	463
Provision for income taxes .....	(166)
Discontinued operations, net of applicable tax effect .....	¥ 297

\* Income from discontinued operations, net includes aggregate gains on sales of subsidiaries, business units and rental properties and liquidation on losses. The amount of such gains or losses in fiscal 2015 was net gain of ¥362 million.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**ORIX Corporation and Subsidiaries**

**28. Per Share Data**

Reconciliation of the differences between basic and diluted earnings per share (EPS) in fiscal 2015, 2016 and 2017 is as follows:

In fiscal 2015, 2016 and 2017 the diluted EPS calculation excludes stock options for 6,499 thousand shares, 4,370 thousand shares and 2,697 thousand shares, as they were antidilutive.

	Millions of yen		
	2015	2016	2017
Net Income attributable to ORIX Corporation shareholders . . . . .	¥ 234,651	¥ 260,169	¥ 273,239
	Thousands of shares		
	2015	2016	2017
Weighted-average shares . . . . .	1,309,144	1,309,136	1,308,105
Effect of dilutive securities . . . . .			
Exercise of stock options . . . . .	1,865	1,377	1,277
Weighted-average shares for diluted EPS computation . . . . .	1,311,009	1,310,513	1,309,382
	Yen		
	2015	2016	2017
Earnings per share for net income attributable to ORIX Corporation shareholders:			
Basic . . . . .	¥ 179.24	¥ 198.73	¥ 208.88
Diluted . . . . .	178.99	198.52	208.68

Note: The Company's shares held through the Board Incentive Plan Trust are included in the number of treasury stock shares to be deducted in calculation of the weighted-average shares for EPS computation (1,159,738 shares, 1,984,512 shares and 2,092,595 shares in fiscal 2015, 2016 and 2017).

**29. Derivative Financial Instruments and Hedging**

**Risk management policy**

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

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

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

#### (a) Cash flow hedges

The Company and its subsidiaries designate interest rate swap agreements, foreign currency swap agreements and foreign exchange contracts as cash flow hedges for variability of cash flows originating from floating rate borrowings and forecasted transactions and for exchange fluctuations. Net gains (losses) before deducting applicable taxes on derivative contracts were reclassified from accumulated other comprehensive income (loss) into earnings when earnings were affected by the variability in cash flows of the designated hedged item. The amounts of these net gains (losses) after deducting applicable taxes were net losses of ¥2,424 million, ¥838 million and gains of ¥1,694 million during fiscal 2015, 2016 and 2017, respectively. The amount of net gains (losses), which represent the ineffectiveness of cash flow hedges, ¥510 million of gains, ¥111 million of gains and ¥310 million of gains were recorded in earnings for fiscal 2015, 2016 and 2017, respectively. The amount of net derivative gains, ¥3,170 million, included in accumulated other comprehensive income (loss), net of applicable income taxes at March 31, 2017 will be reclassified into earnings within fiscal 2018.

#### (b) Fair value hedges

The Company and its subsidiaries use financial instruments designated as fair value hedges to hedge their exposure to interest rate risk and foreign currency exchange risk. The Company and its subsidiaries designate foreign currency swap agreements and foreign exchange contracts to minimize foreign currency exposures on lease receivables, loan receivables, borrowings and others, denominated in foreign currency. The Company and its subsidiaries designate interest rate swap to hedge interest rate exposure of the fair values of loan receivables. The Company and certain overseas subsidiaries, which issued medium-term notes or bonds with fixed interest rates, use interest rate swap agreements to hedge interest rate exposure of the fair values of these medium-term notes or bonds. In cases where the medium-term notes were denominated in other than the subsidiaries' local currencies, foreign currency swap agreements are used to hedge foreign exchange rate exposure. A certain overseas subsidiary uses foreign currency long-term-debt to hedge foreign exchange rate exposure from unrecognized firm commitment. For fiscal 2015, 2016 and 2017, net gains of ¥21 million, net gains of ¥1 million and net losses of ¥2 million, respectively of hedge ineffectiveness associated with instruments designated as fair value hedges were recorded in earnings.

#### (c) Hedges of net investment in foreign operations

The Company uses foreign exchange contracts, borrowings and bonds denominated in the subsidiaries' local currencies to hedge the foreign currency exposure of the net investment in overseas subsidiaries. The gains and losses of these hedging instruments were recorded in foreign currency translation adjustments, which is a part of other comprehensive income (loss).

#### (d) Derivatives not designated as hedging instruments

The Company and the subsidiaries entered into interest rate swap agreements, futures and foreign exchange contracts for risk management purposes which are not qualified for hedge accounting. A certain subsidiary holds option agreements, futures and foreign exchange contracts for the purpose of economic hedges against minimum guarantee risk of variable annuity and variable life insurance contracts.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

ORIX Corporation and Subsidiaries

The effect of derivative instruments on the consolidated statements of income, pre-tax, for fiscal 2015 is as follows.

(1) Cash flow hedges

	Gains (losses) recognized in other comprehensive income on derivative (effective portion)	Gains (losses) reclassified from accumulated other comprehensive income (loss) into income (effective portion)		Gains (losses) recognized in income on derivative (ineffective portion and amount excluded from effectiveness testing)	
	Millions of yen	Consolidated statements of income location	Millions of yen	Consolidated statements of income location	Millions of yen
Interest rate swap agreements . . .	¥ (610)	Finance revenues/Interest expense	¥ 32	—	¥ 0
Foreign exchange contracts . . . .	(1,908)	Other (income) and expense, net	1,356	—	0
Foreign currency swap agreements . . . . .	(1,438)	Finance revenues/Interest expense/Other (income) and expense, net	(4,528)	Other (income) and expense, net	510

(2) Fair value hedges

	Gains (losses) recognized in income on derivative and other		Gains (losses) recognized in income on hedged item	
	Millions of yen	Consolidated statements of income location	Millions of yen	Consolidated statements of income location
Interest rate swap agreements . . . . .	¥ (1,298)	Finance revenues/Interest expense	¥ 1,318	Finance revenues/Interest expense
Foreign exchange contracts . . . . .	(26,863)	Other (income) and expense, net	26,863	Other (income) and expense, net
Foreign currency swap agreements . . .	(3,398)	Other (income) and expense, net	3,399	Other (income) and expense, net
Foreign currency long-term debt . . . .	(1,551)	Other (income) and expense, net	1,551	Other (income) and expense, net

(3) Hedges of net investment in foreign operations

	Gains (losses) recognized in other comprehensive income on derivative and others (effective portion)	Gains (losses) reclassified from accumulated other comprehensive income (loss) into income (effective portion)		Gains (losses) recognized in income on derivative and others (ineffective portion and amount excluded from effectiveness testing)	
	Millions of yen	Consolidated statements of income location	Millions of yen	Consolidated statements of income location	Millions of yen
Foreign exchange contracts . . . . .	¥(18,670)	Gains on sales of subsidiaries and affiliates and liquidation losses, net	¥1,274	—	¥0
Borrowings and bonds in local currency . . . . .	(6,968)	—	0	—	0

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**ORIX Corporation and Subsidiaries**

**(4) Derivatives not designated as hedging instruments**

	Millions of yen	Gains (losses) recognized in income on derivative	
		Consolidated statements of income location	
Interest rate swap agreements	¥ (127)	Other (income) and expense, net	
Futures	(10,262)	Gains on investment securities and dividends Life insurance premiums and related investment income*	
Foreign exchange contracts	(3,463)	Gains on investment securities and dividends Life insurance premiums and related investment income* Other (income) and expense, net	
Credit derivatives held	71	Other (income) and expense, net	
Options held/written and other	(16,175)	Other (income) and expense, net Life insurance premiums and related investment income*	

\* Futures, foreign exchange contracts and options held/written and other in the above table include losses arising from futures, foreign exchange contracts and options held to economically hedge the minimum guarantee risk of variable annuity and variable life insurance contracts for fiscal 2015 (see Note 23 "Life Insurance Operations").

The effect of derivative instruments on the consolidated statements of income, pre-tax, for fiscal 2016 is as follows.

**(1) Cash flow hedges**

	Gains (losses) recognized in other comprehensive income on derivative (effective portion)	Gains (losses) reclassified from accumulated other comprehensive income (loss) into income (effective portion)		Gains (losses) recognized in income on derivative (ineffective portion and amount excluded from effectiveness testing)	
		Consolidated statements of income location	Millions of yen	Consolidated statements of income location	Millions of yen
Interest rate swap agreements	¥ (4,463)	Finance revenues/Interest expense	¥ (27)	—	¥ 0
Foreign exchange contracts	491	Other (income) and expense, net	2,608	—	0
Foreign currency swap agreements	(2,786)	Finance revenues/Interest expense/Other (income) and expense, net	(3,760)	Other (income) and expense, net	111

**(2) Fair value hedges**

	Gains (losses) recognized in income on derivative and other		Gains (losses) recognized in income on hedged item	
	Millions of yen	Consolidated statements of income location	Millions of yen	Consolidated statements of income location
Interest rate swap agreements	¥ (608)	Finance revenues/Interest expense	¥ 608	Finance revenues/Interest expense
Foreign exchange contracts	24,746	Other (income) and expense, net	(24,746)	Other (income) and expense, net
Foreign currency swap agreements	3,261	Other (income) and expense, net	(3,260)	Other (income) and expense, net
Foreign currency long-term debt	1,648	Other (income) and expense, net	(1,648)	Other (income) and expense, net



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

ORIX Corporation and Subsidiaries

(3) Hedges of net investment in foreign operations

	Gains (losses) recognized in other comprehensive income on derivative and others (effective portion)	Gains (losses) reclassified from accumulated other comprehensive income (loss) into income (effective portion)		Gains (losses) recognized in income on derivative and others (ineffective portion and amount excluded from effectiveness testing)	
	Millions of yen	Consolidated statements of income location	Millions of yen	Consolidated statements of income location	Millions of yen
Foreign exchange contracts . . . . .	¥18,209	Gains on sales of subsidiaries and affiliates and liquidation losses, net	¥(57)	—	¥0
Borrowings and bonds in local currency . . . . .	11,626	—	0	—	0

(4) Derivatives not designated as hedging instruments

	Gains (losses) recognized in income on derivative	
	Millions of yen	Consolidated statements of income location
Interest rate swap agreements . . . . .	¥ (95)	Other (income) and expense, net
Futures . . . . .	1,092	Gains on investment securities and dividends Life insurance premiums and related investment income*
Foreign exchange contracts . . . . .	470	Gains on investment securities and dividends Life insurance premiums and related investment income* Other (income) and expense, net
Credit derivatives held . . . . .	109	Other (income) and expense, net
Options held/written and other . . . . .	(272)	Other (income) and expense, net Life insurance premiums and related investment income*

\* Futures, foreign exchange contracts and options held/written and other in the above table include losses arising from futures, foreign exchange contracts and options held to economically hedge the minimum guarantee risk of variable annuity and variable life insurance contracts for fiscal 2016 (see Note 23 “Life Insurance Operations”).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

ORIX Corporation and Subsidiaries

The effect of derivative instruments on the consolidated statements of income, pre-tax, for fiscal 2017 is as follows.

(1) Cash flow hedges

	Gains (losses) recognized in other comprehensive income on derivative (effective portion)	Gains (losses) reclassified from accumulated other comprehensive income (loss) into income (effective portion)		Gains (losses) recognized in income on derivative (ineffective portion and amount excluded from effectiveness testing)	
	Millions of yen	Consolidated statements of income location	Millions of yen	Consolidated statements of income location	Millions of yen
Interest rate swap agreements . . . . .	¥ 1,757	Finance revenues/Interest expense	¥ 7	—	¥ 0
Foreign exchange contracts . . .	(1,174)	Other (income) and expense, net	(136)	—	0
Foreign currency swap agreements . . . . .	2,225	Finance revenues/Interest expense/Other (income) and expense, net	2,382	Other (income) and expense, net	310

(2) Fair value hedges

	Gains (losses) recognized in income on derivative and other		Gains (losses) recognized in income on hedged item	
	Millions of yen	Consolidated statements of income location	Millions of yen	Consolidated statements of income location
Interest rate swap agreements . . . . .	¥ (56)	Finance revenues/Interest expense	¥ 56	Finance revenues/Interest expense
Foreign exchange contracts . . . . .	(4,463)	Other (income) and expense, net	4,463	Other (income) and expense, net
Foreign currency swap agreements . . .	595	Other (income) and expense, net	(597)	Other (income) and expense, net
Foreign currency long-term debt . . . . .	78	Other (income) and expense, net	(78)	Other (income) and expense, net

(3) Hedges of net investment in foreign operations

	Gains (losses) recognized in other comprehensive income on derivative and others (effective portion)	Gains (losses) reclassified from accumulated other comprehensive income (loss) into income (effective portion)		Gains (losses) recognized in income on derivative and others (ineffective portion and amount excluded from effectiveness testing)	
	Millions of yen	Consolidated statements of income location	Millions of yen	Consolidated statements of income location	Millions of yen
Foreign exchange contracts . . . . .	¥2,300	Gains on sales of subsidiaries and affiliates and liquidation losses, net	¥858	—	¥0
Borrowings and bonds in local currency . . . . .	8,908	—	0	—	0

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

ORIX Corporation and Subsidiaries

(4) Derivatives or derivatives not designated as hedging instruments

	Millions of yen	Gains (losses) recognized in income on derivative	
		Consolidated statements of income location	
Interest rate swap agreements	¥ 634	Other (income) and expense, net	
Futures	(9,104)	Gains on investment securities and dividends Life insurance premiums and related investment income*	
Foreign exchange contracts	4,602	Gains on investment securities and dividends Life insurance premiums and related investment income*	
Credit derivatives held	(103)	Other (income) and expense, net	
Options held/written and other	(2,324)	Other (income) and expense, net Life insurance premiums and related investment income*	

\* Futures, foreign exchange contracts and options held/written and other in the above table include losses arising from futures, foreign exchange contracts and options held to economically hedge the minimum guarantee risk of variable annuity and variable life insurance contracts for fiscal 2017 (see Note 23 "Life Insurance Operations").

Notional amounts of derivative instruments and other, fair values of derivative instruments and other before offsetting at March 31, 2016 and 2017 are as follows.

March 31, 2016

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

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**ORIX Corporation and Subsidiaries**

**March 31, 2017**

	<u>Notional amount</u>	<u>Asset derivatives</u>		<u>Liability derivatives</u>	
		<u>Millions of yen</u>	<u>Fair value</u> <u>Millions of yen</u>	<u>Consolidated balance sheets location</u>	<u>Fair value</u> <u>Millions of yen</u>
Derivatives designated as hedging instruments and other:					
Interest rate swap agreements . . . . .	¥243,197	¥ 71	Other Assets	¥4,391	Other Liabilities
Futures, foreign exchange contracts . . . . .	745,481	6,373	Other Assets	8,021	Other Liabilities
Foreign currency swap agreements . . . . .	74,482	4,545	Other Assets	1,677	Other Liabilities
Foreign currency long-term debt . . . . .	280,266	0	—	0	—
Derivatives not designated as hedging instruments:					
Interest rate swap agreements . . . . .	¥ 8,258	¥ 233	Other Assets	¥ 176	Other Liabilities
Options held/written and other* . . . . .	224,064	5,804	Other Assets	1,071	Other Liabilities
Futures, foreign exchange contracts* . . . . .	565,981	5,973	Other Assets	800	Other Liabilities
Credit derivatives held . . . . .	6,942	0	—	159	Other Liabilities

\* The notional amounts of options held/written and other and futures, foreign exchange contracts in the above table include options held of ¥46,063 million, futures contracts of ¥52,791 million and foreign exchange contracts of ¥16,690 million to economically hedge the minimum guarantee risk of variable annuity and variable life insurance contracts at March 31, 2017, respectively. Asset derivatives in the above table include fair value of the options held, futures contracts and foreign exchange contracts before offsetting of ¥1,708 million, ¥694 million and ¥57 million and liability derivatives include fair value of the futures and foreign exchange contracts before offsetting of ¥37 million and ¥45 million at March 31, 2017, respectively.

Certain of the Company's derivative instruments contain provisions that require the Company to maintain an investment grade credit rating from each of the major credit rating agencies. If the Company's credit rating were to fall below investment grade, it would be in violation of these provisions, and the counterparties to the derivative instruments could request immediate payment on derivative instruments that are in net liability positions. There are no derivative instruments with credit-risk-related contingent features that were in a net liability position on March 31, 2016 and 2017.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

ORIX Corporation and Subsidiaries

30. Offsetting Assets and Liabilities

The gross amounts recognized, gross amounts offset, and net amounts presented in the consolidated balance sheet regarding to derivative assets and liabilities and other assets and liabilities as of March 31, 2016 and 2017 are as follows.

March 31, 2016

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

March 31, 2017

	Millions of yen					
	Gross amounts recognized	Gross amounts offset in the consolidated balance sheets	Net amounts presented in the consolidated balance sheets	Gross amounts not offset in the consolidated balance sheets*1		Net amount
				Financial instruments	Collateral received/pledged	
Derivative assets	¥ 22,999	¥ (4,019)	¥ 18,980	¥ 0	¥ (3,132)	¥ 15,848
Reverse repurchase, securities borrowing, and similar arrangements*2	3,582	(3,503)	79	0	0	79
Total assets	¥ 26,581	¥ (7,522)	¥ 19,059	¥ 0	¥ (3,132)	¥ 15,927
Derivative liabilities	¥ 16,295	¥ (4,019)	¥ 12,276	¥ (1,105)	¥ (398)	¥ 10,773
Repurchase, securities lending, and similar arrangements*2	3,503	(3,503)	0	0	0	0
Total liabilities	¥ 19,798	¥ (7,522)	¥ 12,276	¥ (1,105)	¥ (398)	¥ 10,773

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

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

31. Significant Concentrations of Credit Risk

The Company and its subsidiaries have established various policies and procedures to manage credit exposure, including initial credit approval, credit limits, collateral and guarantee requirements, obtaining rights of

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

offset and continuous oversight. The Company and its subsidiaries' principal financial instrument portfolio consists of investment in direct financing leases which are secured by title to the leased assets and installment loans which are secured by assets specifically collateralized in relation to loan agreements. When deemed necessary, guarantees are also obtained. The value and adequacy of the collateral are continually monitored. Consequently, the risk of credit loss from counterparties' failure to perform in connection with collateralized financing activities is believed to be minimal. The Company and its subsidiaries have access to collateral in case of bankruptcy and other losses. However, a significant decline in real estate markets could result in a decline in fair value of the collateral real estate below the mortgage setting amount, which would expose the Company and certain subsidiaries to unsecured credit risk.

At March 31, 2016 and 2017, no concentration with a single obligor exceeded 1% of the Company's consolidated total assets. With respect to the Company and its subsidiaries' credit exposures on a geographic basis, ¥6,104 billion, or 78%, at March 31, 2016 and ¥6,072 billion, or 75%, at March 31, 2017 of the credit risks arising from all financial instruments are attributable to customers located in Japan. The largest concentration of credit risk outside of Japan is exposure attributable to obligors located in Americas. The gross amount of such exposure is ¥849 billion and ¥965 billion as of March 31, 2016 and 2017, respectively.

The Company and its subsidiaries have transportation equipment such as automobile operations and aircraft. Transportation equipment is mainly recorded in investment in direct financing leases and operating leases. In connection with investment in direct financing leases and operating leases, the percentage of investment in transportation equipment to consolidated total assets is 11.0% and 11.4% as of March 31, 2016 and 2017, respectively.

The Company and its subsidiaries provide consumers with housing loans. In connection with installment loans, the percentage of housing loans to consolidated total assets is 10.3% and 11.4% as of March 31, 2016 and 2017, respectively.

### 32. Estimated Fair Value of Financial Instruments

The following information is provided to help readers gain an understanding of the relationship between carrying amount of financial instruments reported in the Company's consolidated balance sheets and the related market or fair value. For derivative financial instruments, see Note 2 "Fair Value Measurements."

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

ORIX Corporation and Subsidiaries

March 31, 2016

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

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

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

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**ORIX Corporation and Subsidiaries**

**March 31, 2017**

	Millions of yen				
	Carrying amount	Estimated fair value	Level 1	Level 2	Level 3
<b>Assets:</b>					
Trading securities . . . . .	¥ 569,074	¥ 569,074	¥ 37,500	¥ 531,574	¥ 0
Cash and cash equivalents . . . . .	1,039,870	1,039,870	1,039,870	0	0
Restricted cash . . . . .	93,342	93,342	93,342	0	0
Installment loans (net of allowance for probable loan losses) . . . . .	2,767,016	2,783,466	0	254,708	2,528,758
<b>Investment in securities:</b>					
Practicable to estimate fair value . . .	1,307,618	1,332,941	93,995	1,086,629	152,317
Not practicable to estimate fair value*1 . . . . .	149,820	149,820	0	0	0
<b>Other Assets:</b>					
Time deposits . . . . .	9,375	9,375	0	9,375	0
Derivative assets*2 . . . . .	18,980	18,980	0	0	0
Reinsurance recoverables (Investment contracts) . . . . .	72,615	73,967	0	0	73,967
<b>Liabilities:</b>					
Short-term debt . . . . .	¥ 283,467	¥ 283,467	¥ 0	¥ 283,467	¥ 0
Deposits . . . . .	1,614,608	1,615,655	0	1,615,655	0
<b>Policy liabilities and Policy account</b>					
balances (Investment contracts) . . . . .	287,463	288,372	0	0	288,372
Long-term debt . . . . .	3,854,984	3,862,815	0	1,184,261	2,678,554
<b>Other Liabilities:</b>					
Derivative liabilities*2 . . . . .	12,276	12,276	0	0	0

\*1 The fair value of investment securities of ¥149,820 million was not estimated, as it was not practical.

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

**Input level of fair value measurement**

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



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

#### Estimation of fair value

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

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

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

**Investment in securities**—For trading securities and available-for-sale securities other than specified bonds issued by SPEs and certain other mortgage-backed and asset-backed securities, the estimated fair values, which are also the carrying amounts recorded in the balance sheets, were generally based on quoted market prices or quotations provided by dealers. As for the specified bonds issued by the SPEs and certain other mortgage-backed and asset-backed securities included in available-for-sale securities, the Company and its subsidiaries estimated the fair value by using valuation models including discounted cash flow methodologies and broker quotes (see Note 2 “Fair Value Measurements”). For held-to-maturity securities, the estimated fair values were mainly based on quoted market prices. For certain investment funds included in other securities, the fair values were estimated based on net asset value per share or discounted cash flow methodologies. With regard to other securities other than the investment funds described above, the Company and its subsidiaries have not estimated the fair value, as it is not practicable to do so. Those other securities mainly consist of non-marketable equity securities and preferred capital shares. Because there were no quoted market prices for such other securities and each security has a different nature and characteristics, reasonable estimates of fair values could not be made without incurring excessive costs.

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

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

**Derivatives**—For exchange-traded derivatives, fair value is based on quoted market prices. Fair value estimates for other derivatives generally reflect the estimated amounts that the Company and its subsidiaries would receive or pay to terminate the contracts at the balance sheet date, thereby taking into account the current

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**ORIX Corporation and Subsidiaries**

unrealized gains or losses of open contracts. In estimating the fair value of most of the Company's and its subsidiaries' derivatives, estimated future cash flows are discounted using the current interest rate.

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

**33. Commitments, Guarantees and Contingent Liabilities**

**Commitments**—As of March 31, 2017, the Company and certain subsidiaries have commitments for the purchase of equipment to be leased, having a cost of ¥706 million.

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

<u>Years ending March 31,</u>	<u>Millions of yen</u>
2018 .....	¥ 6,713
2019 .....	6,305
2020 .....	5,572
2021 .....	4,570
2022 .....	4,207
Thereafter .....	<u>37,151</u>
Total .....	<u>¥64,518</u>

The Company and certain subsidiaries lease office space under operating lease agreements, which are primarily cancelable, and made rental payments totaling ¥15,782 million, ¥14,036 million and ¥13,849 million in fiscal 2015, 2016 and 2017, respectively.

Certain computer systems of the Company and certain subsidiaries have been operated and maintained under non-cancelable contracts with third-party service providers. For such services, the Company and certain subsidiaries made payments totaling ¥4,231 million, ¥4,754 million and ¥5,068 million in fiscal 2015, 2016 and 2017, respectively. The longest contract of them will mature in fiscal 2023. As of March 31, 2017, the amounts due are as follows:

<u>Years ending March 31,</u>	<u>Millions of yen</u>
2018 .....	¥ 5,255
2019 .....	4,239
2020 .....	3,063
2021 .....	828
2022 .....	679
Thereafter .....	<u>333</u>
Total .....	<u>¥14,397</u>

The Company and certain subsidiaries have commitments to fund estimated construction costs to complete ongoing real estate development projects and other commitments, totaling ¥88,447 million as of March 31, 2017.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

ORIX Corporation and Subsidiaries

The Company and certain subsidiaries have agreements to commit to execute loans for customers, and to invest in funds, as long as the agreed-upon terms are met. As of March 31, 2017, the total unused credit and capital amount available is ¥333,540 million.

**Guarantees**—At the inception of a guarantee, the Company and its subsidiaries recognize a liability in the consolidated balance sheets at fair value for the guarantee within the scope of ASC460 (“Guarantees”). The following table represents the summary of potential future payments, book value recorded as guarantee liabilities of the guarantee contracts outstanding and maturity of the longest guarantee contracts as of March 31, 2016 and 2017:

	2016			2017		
	Millions of yen	Fiscal year		Millions of yen	Fiscal year	
<u>Guarantees</u>	<u>Potential future payment</u>	<u>Book value of guarantee liabilities</u>	<u>Maturity of the longest contract</u>	<u>Potential future payment</u>	<u>Book value of guarantee liabilities</u>	<u>Maturity of the longest contract</u>
Corporate loans . . . . .	¥396,340	¥ 5,875	2023	¥451,597	¥ 7,274	2024
Transferred loans . . . . .	174,322	1,587	2046	167,799	1,300	2047
Consumer loans . . . . .	179,225	21,748	2018	249,719	29,641	2018
Housing loans . . . . .	28,919	5,853	2051	26,448	5,362	2048
Other . . . . .	482	179	2024	935	307	2025
Total . . . . .	<u>¥779,288</u>	<u>¥35,242</u>	<u>—</u>	<u>¥896,498</u>	<u>¥43,884</u>	<u>—</u>

**Guarantee of corporate loans:** The Company and certain subsidiaries mainly guarantee corporate loans issued by financial institutions for customers. The Company and the subsidiaries are obliged to pay the outstanding loans when the guaranteed customers fail to pay principal and/or interest in accordance with the contract terms. In some cases, the corporate loans are secured by the guaranteed customers’ assets. Once the Company and the subsidiaries assume the guaranteed customers’ obligation, the Company and the subsidiaries obtain a right to claim the collateral assets. In other cases, certain contracts that guarantee corporate loans issued by financial institutions for customers include contracts that the amounts of performance guarantee are limited to a certain range of guarantee commissions. As of March 31, 2016 and 2017, total notional amount of the loans subject to such guarantees are ¥1,278,000 million and ¥1,326,000 million, respectively, and book value of guarantee liabilities are ¥1,080 million and ¥1,722 million, respectively. The potential future payment amounts for these guarantees are limited to a certain range of the guarantee commissions, which are less than the total notional amounts of the loans subject to these guarantees. The potential future payment amounts for the contract period are calculated from the guarantee limit which is arranged by financial institutions in advance as to contracts that the amounts of performance guarantee are unlimited to a certain range of guarantee commissions. For this reason, the potential future payment amounts for these guarantees include the amount of the guarantee which may occur in the future, which is larger than the balance of guarantee executed as of the end of the fiscal year. The executed guarantee balance includes defrayment by financial institutions which we bear temporarily at the time of execution, and credit risk for financial institutions until liquidation of this guarantee. Our substantial amounts of performance guarantee except credit risk for financial institutions are limited to our defrayment which is arranged by financial institutions in advance.

Payment or performance risk of the guarantees is considered based on the historical experience of credit events. There have been no significant changes in the payment or performance risk of the guarantees in fiscal 2017.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

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

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

There were no significant changes in the payment or performance risk of these guarantees in fiscal 2017.

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

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

There were no significant changes in the payment or performance risk of the guarantees in fiscal 2017.

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

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

There were no significant changes in the payment or performance risk of the guarantees in fiscal 2017.

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

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

### 34. Segment Information

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**ORIX Corporation and Subsidiaries**

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

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

Financial information of the segments for fiscal 2015, 2016 and 2017 is as follows:

Year ended March 31, 2015	Millions of yen						
	Corporate Financial Services	Maintenance Leasing	Real Estate	Investment and Operation	Retail	Overseas Business	Total
Revenues	¥ 85,502	¥263,499	¥182,321	¥ 666,120	¥ 425,977	¥ 561,893	¥2,185,312
Finance revenues	35,624	11,103	4,057	15,650	52,510	63,259	182,203
Interest expense	8,627	3,690	6,968	3,609	5,669	29,989	58,552
Depreciation and amortization	3,373	125,013	16,900	5,919	15,190	47,397	213,792
Other significant non-cash items:							
Provision for doubtful receivables and probable loan losses	597	372	(85)	(296)	3,975	8,086	12,649
Write-downs of long-lived assets	653	0	29,418	211	0	4,605	34,887
Decrease in policy liabilities and policy account balances	0	0	0	0	(506,043)	0	(506,043)
Equity in net income (loss) of affiliates and gains (losses) on sales of subsidiaries and affiliates and liquidation losses, net	740	59	9,633	11,985	633	28,433	51,483
Bargain Purchase Gain	0	0	0	0	36,082	0	36,082
Discontinued operations	0	0	0	463	0	0	463
Segment profits	25,519	40,366	3,484	42,414	120,616	104,143	336,542
Segment assets	1,132,468	662,851	835,386	660,014	3,700,635	2,178,895	9,170,249
Long-lived assets	35,470	450,099	652,524	145,153	49,838	289,097	1,622,181
Expenditures for long-lived assets	8,717	162,323	45,019	70,616	144	106,338	393,157
Investment in affiliates	20,875	2,074	91,275	51,108	3,785	209,027	378,144

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**ORIX Corporation and Subsidiaries**

<b>Year ended March 31, 2016</b>	<b>Millions of yen</b>						
	<b>Corporate Financial Services</b>	<b>Maintenance Leasing</b>	<b>Real Estate</b>	<b>Investment and Operation</b>	<b>Retail</b>	<b>Overseas Business</b>	<b>Total</b>
Revenues . . . . .	¥ 107,150	¥271,662	¥191,540	¥1,028,355	¥ 254,289	¥ 526,008	¥2,379,004
Finance revenues . . . . .	34,215	12,067	6,720	12,625	55,318	75,004	195,949
Interest expense . . . . .	7,214	3,545	4,676	3,539	4,654	33,356	56,984
Depreciation and amortization . . . . .	4,764	127,862	15,908	8,836	17,489	52,606	227,465
Other significant non-cash items:							
Provision for doubtful receivables and probable loan losses . . . . .	(701)	24	(110)	(940)	7,370	7,277	12,920
Write-downs of long-lived assets . . .	0	0	8,036	214	0	4,978	13,228
Decrease in policy liabilities and policy account balances . . . . .	0	0	0	0	(405,014)	0	(405,014)
Equity in net income (loss) of affiliates and gains (losses) on sales of subsidiaries and affiliates and liquidation losses, net . . . . .	1,064	191	6,048	18,822	796	76,747	103,668
Segment profits . . . . .	42,418	42,935	42,902	57,220	51,756	142,879	380,110
Segment assets . . . . .	1,049,867	731,329	739,592	704,156	3,462,772	2,284,733	8,972,449
Long-lived assets . . . . .	41,170	479,619	600,693	193,970	52,359	386,950	1,754,761
Expenditures for long-lived assets . . .	14,180	151,330	49,858	74,645	439	272,315	562,767
Investment in affiliates . . . . .	22,755	1,996	91,010	108,237	911	305,674	530,583

<b>Year ended March 31, 2017</b>	<b>Millions of yen</b>						
	<b>Corporate Financial Services</b>	<b>Maintenance Leasing</b>	<b>Real Estate</b>	<b>Investment and Operation</b>	<b>Retail</b>	<b>Overseas Business</b>	<b>Total</b>
Revenues . . . . .	¥ 102,979	¥270,615	¥212,050	¥1,271,973	¥ 368,665	¥ 458,912	¥2,685,194
Finance revenues . . . . .	30,153	13,029	2,319	10,680	59,177	81,251	196,609
Interest expense . . . . .	6,032	3,360	3,085	4,870	4,041	36,535	57,923
Depreciation and amortization . . . . .	6,517	130,272	15,169	13,176	18,914	50,960	235,008
Other significant non-cash items:							
Provision for doubtful receivables and probable loan losses . . . . .	(96)	210	33	(1,047)	10,109	13,959	23,168
Write-downs of long-lived assets . . .	0	46	3,353	1,569	0	3,908	8,876
Decrease in policy liabilities and policy account balances . . . . .	0	0	0	0	(103,878)	0	(103,878)
Equity in net income (loss) of affiliates and gains (losses) on sales of subsidiaries and affiliates and liquidation losses, net . . . . .	3,354	178	4,160	39,750	14	42,470	89,926
Bargain Purchase Gain . . . . .	0	0	0	5,802	0	0	5,802
Segment profits . . . . .	38,032	39,787	72,841	85,000	72,865	112,312	420,837
Segment assets . . . . .	1,032,152	752,513	657,701	768,675	3,291,631	2,454,200	8,956,872
Long-lived assets . . . . .	42,337	452,840	512,930	269,515	45,267	435,368	1,758,257
Expenditures for long-lived assets . . .	8,330	164,486	32,875	74,787	276	196,451	477,205
Investment in affiliates . . . . .	18,392	1,880	99,347	71,481	810	332,154	524,064

Segment figures reported in these tables include operations classified as discontinued operations in the accompanying consolidated statements of income.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

The accounting policies of the segments are almost the same as those described in Note 1 “Significant Accounting and Reporting Policies” except for the treatment of income tax expenses, net income attributable to the noncontrolling interests, net income attributable to the redeemable noncontrolling interests, income from discontinued operations and the consolidation of certain variable interest entities (VIEs). Income taxes are not included in segment profits or losses because the management evaluates segments’ performance on a pre-tax basis. Also, net income attributable to noncontrolling interests and redeemable noncontrolling interests are not included in segment profits or losses because the management evaluates segments’ performance based on profits or losses (pre-tax) attributable to ORIX Corporation Shareholders. On the other hand, income from discontinued operations is included in segment profits or losses because the management considers such disposal activities as part of the ordinary course of business. Net income attributable to the noncontrolling interests, net income attributable to the redeemable noncontrolling interests and income from discontinued operations, which are recognized net of tax in the accompanying consolidated statements of income, are adjusted to profit or loss before income taxes, when calculating segment profits or losses. Most of selling, general and administrative expenses, including compensation costs that are directly related to the revenue generating activities of each segment, have been accumulated by and charged to each segment. Gains and losses that management does not consider for evaluating the performance of the segments, such as write-downs of certain securities, write-downs of certain long-lived assets and certain foreign exchange gains or losses (included in other (income) and expense, net) are excluded from the segment profits or losses, and are regarded as corporate items.

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

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

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

The reconciliation of segment totals to consolidated financial statement amounts is as follows. Significant items to be reconciled are segment revenues, segment profits and segment assets. Other items do not have a significant difference between segment amounts and consolidated amounts.

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



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**ORIX Corporation and Subsidiaries**

	Millions of yen		
	2015	2016	2017
<b>Segment revenues:</b>			
Total revenues for segments	¥ 2,185,312	¥ 2,379,004	¥ 2,685,194
Revenues related to corporate assets	6,531	9,230	9,244
Revenues related to assets of certain VIEs	6,356	5,455	4,513
Revenues from inter-segment transactions	(21,702)	(24,487)	(20,292)
Revenues from discontinued operations	(2,214)	0	0
Total consolidated revenues	<u>¥ 2,174,283</u>	<u>¥ 2,369,202</u>	<u>¥ 2,678,659</u>
<b>Segment profits:</b>			
Total segment profits	¥ 336,542	¥ 380,110	¥ 420,837
Corporate losses	(15,638)	(5,261)	(3,634)
Gains related to assets or liabilities of certain VIEs	3,267	5,632	75
Discontinued operations, pre-tax	(463)	0	0
Net income attributable to the noncontrolling interests and net income attributable to the redeemable noncontrolling interests, net of applicable tax effect	20,309	10,821	7,687
Total consolidated income before income taxes and discontinued operations	<u>¥ 344,017</u>	<u>¥ 391,302</u>	<u>¥ 424,965</u>
<b>Segment assets:</b>			
Total segment assets	¥ 9,170,249	¥ 8,972,449	¥ 8,956,872
Cash and cash equivalents, restricted cash	913,079	811,399	1,133,212
Allowance for doubtful receivables on direct financing leases and probable loan losses	(72,326)	(60,071)	(59,227)
Trade notes, accounts and other receivable	348,404	294,638	283,427
Other corporate assets	785,882	700,612	672,562
Assets of certain VIEs	294,586	273,891	245,049
Total consolidated assets	<u>¥11,439,874</u>	<u>¥10,992,918</u>	<u>¥11,231,895</u>

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

	Millions of yen				
	Year Ended March 31, 2015				
	Japan	The Americas*2	Other*3*4	Difference between Geographic Total and Consolidated Amounts	Total
Total Revenues	¥1,602,610	¥209,923	¥363,964	¥(2,214)	¥2,174,283
Income before Income Taxes*1	228,063	32,382	84,035	(463)	344,017
	Millions of yen				
	Year Ended March 31, 2016				
	Japan	The Americas*2	Other*3*4	Difference between Geographic Total and Consolidated Amounts	Total
Total Revenues	¥1,827,582	¥186,186	¥355,434	¥ 0	¥2,369,202
Income before Income Taxes	241,794	74,546	74,962	0	391,302





Schedule II.—Valuation and Qualifying Accounts and Reserves

ORIX Corporation and Subsidiaries

Millions of yen						
Year Ended March 31, 2015						
Description	Balance at beginning of period	Acquisitions	Addition: Charged to costs and expenses	Deduction	Translation adjustment	Balance at end of period
<b>Restructuring cost:</b>						
Severance and other benefits to terminated employees . . . . .	¥ 1,932	¥ 0	¥ 0	¥(1,474)	¥ (66)	¥ 392
Total . . . . .	¥ 1,932	¥ 0	¥ 0	¥(1,474)	¥ (66)	¥ 392

Millions of yen						
Year Ended March 31, 2016						
Description	Balance at beginning of period	Acquisitions	Addition: Charged to costs and expenses	Deduction	Translation adjustment	Balance at end of period
<b>Restructuring cost:</b>						
Severance and other benefits to terminated employees . . . . .	¥ 392	¥ 0	¥ 0	¥ (237)	¥ 1	¥ 156
Total . . . . .	¥ 392	¥ 0	¥ 0	¥ (237)	¥ 1	¥ 156

Millions of yen						
Year Ended March 31, 2017						
Description	Balance at beginning of period	Acquisitions	Addition: Charged to costs and expenses	Deduction	Translation adjustment	Balance at end of period
<b>Restructuring cost:</b>						
Severance and other benefits to terminated employees . . . . .	¥ 156	¥ 0	¥ 86	¥ (91)	¥ (7)	¥ 144
Total . . . . .	¥ 156	¥ 0	¥ 86	¥ (91)	¥ (7)	¥ 144

Millions of yen						
Description	Balance at beginning of period	Acquisitions	Addition: Charged to costs and expenses	Deduction*1	Other*2	Balance at end of period
<b>Deferred tax assets:</b>						
<b>Valuation allowance</b>						
Year ended March 31, 2015 . . . . .	¥30,570	¥22,563	¥9,591	¥(9,944)	¥(2,265)	¥50,515
Year ended March 31, 2016 . . . . .	¥50,515	¥ 419	¥2,936	¥(4,622)	¥(6,028)	¥43,220
Year ended March 31, 2017 . . . . .	¥43,220	¥ 1,606	¥2,043	¥(2,104)	¥(1,278)	¥43,487

\*1 The amount of deduction includes benefits recognized in earnings, expiry of loss carryforwards and sales of subsidiaries.  
\*2 The amount of other includes translation adjustment, the effect of changes in statutory tax rate and the effect of the amendment to tax loss carryforward rules.

## EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description</u>
Exhibit 1.1*	Articles of Incorporation of ORIX Corporation, as amended on June 27, 2017.
Exhibit 1.2	Regulations of the Board of Directors of ORIX Corporation, as amended on June 1, 2015 (Incorporated by reference from the annual report on Form 20-F filed on June 25, 2015, commission file number 001-14856).
Exhibit 1.3	Share Handling Regulations of ORIX Corporation, as amended on October 7, 2013 (Incorporated by reference from the annual report on Form 20-F filed on June 26, 2014, commission file number 001-14856).
Exhibit 7.1*	A statement explaining in reasonable detail how ratios in the annual report were calculated.
Exhibit 8.1*	List of subsidiaries.
Exhibit 11.1	Code of Ethics, as amended on April 18, 2014 (Incorporated by reference from the annual report on Form 20-F filed on June 26, 2014, commission file number 001-14856).
Exhibit 12.1*	Certifications required by Rule 13a-14(a) (17 CFR 240.13a-14(a)) or Rule 15d-14(a) (17 CFR 240.15d 14(a)).
Exhibit 12.2	Certifications required by Rule 13a-14(a) (17 CFR 240.13a-14(a)) or Rule 15d-14(a) (17 CFR 240.15d 14(a)).
Exhibit 13.1*	Certifications required by Rule 13a-14(b) (17 CFR 240.13a-14(b)) or Rule 15d-14(b) (17 CFR 240.15d 14(b)) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350).
Exhibit 13.2	Certifications required by Rule 13a-14(b) (17 CFR 240.13a-14(b)) or Rule 15d-14(b) (17 CFR 240.15d 14(b)) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350).
Exhibit 15.1*	Consent of independent registered public accounting firm
Exhibit 15.2	Consent of independent registered public accounting firm
Exhibit 101*	Instance Document.
Exhibit 101*	Schema Document.
Exhibit 101*	Calculation Linkbase Document.
Exhibit 101*	Definition Linkbase Document.
Exhibit 101*	Labels Linkbase Document.
Exhibit 101*	Presentation Linkbase Document.

\* Filed with the Original Form 20-F and incorporated by reference therefrom

**CERTIFICATIONS PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT**

I, Makoto Inoue, certify that:

1. I have reviewed this annual report on Form 20-F/A of ORIX KABUSHIKI KAISHA (the “company”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report; and
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report.

Date: July 5, 2017

By: \_\_\_\_\_ /s/ MAKOTO INOUE  
Name: Makoto Inoue  
Title: Chief Executive Officer





**Consent of Independent Registered Public Accounting Firm**

The Board of Directors  
ORIX Corporation:

We consent to the incorporation by reference in the registration statements (No. 333-197721) on Form F-3 of ORIX Corporation of our reports dated June 29, 2017, with respect to the consolidated balance sheets of ORIX Corporation and its subsidiaries as of March 31, 2016 and 2017, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the years in the three-year period ended March 31, 2017, and the related financial statement schedule, and the effectiveness of internal control over financial reporting as of March 31, 2017, which reports appear in the March 31, 2017 annual report on Form 20-F/A of ORIX Corporation. Our report dated June 29, 2017, on the consolidated financial statements, contains an explanatory paragraph that states that the share repurchase based on the resolution at the Board of Directors meeting held on October 26, 2016 and February 16, 2017 was completed.

KPMG AZSA LLC  
Tokyo, Japan  
July 5, 2017